

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-31721

**AXIS CAPITAL HOLDINGS LIMITED**

(Exact name of registrant as specified in its charter)

**BERMUDA**

(State or other jurisdiction of incorporation or organization)

**98-0395986**

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

**92 Pitts Bay Road, Pembroke, Bermuda HM 08**

(Address of principal executive offices and zip code)

**(441) 496-2600**

(Registrant's telephone number, including area code)

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common shares, par value \$0.0125 per share	New York Stock Exchange
6.875% Series C preferred shares	New York Stock Exchange
5.50% Series D preferred shares	New York Stock Exchange

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

**None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2013, was approximately \$5.1 billion.

As of February 10, 2014, there were outstanding 112,059,576 common shares, \$0.0125 par value per share, of the registrant.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to the annual meeting of shareholders to be held on May 9, 2014 are incorporated by reference in response to items 10, 11, 12, 13 and 14 in Part III of this Form 10-K. The definitive proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2013.

# AXIS CAPITAL HOLDINGS LIMITED

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## Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the United States securities laws. In some cases, these statements can be identified by the use of forward-looking words such as “may”, “should”, “could”, “anticipate”, “estimate”, “expect”, “plan”, “believe”, “predict”, “potential” and “intend”. Forward-looking statements contained in this report may include information regarding our estimates of losses related to catastrophes and other large losses, measurements of potential losses in the fair value of our investment portfolio and derivative contracts, our expectations regarding pricing and other market conditions, our growth prospects, and valuations of the potential impact of movements in interest rates, equity prices, credit spreads and foreign currency rates. Forward-looking statements only reflect our expectations and are not guarantees of performance.

These statements involve risks, uncertainties and assumptions. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. We believe that these factors include, but are not limited to, those described under Item 1A, *'Risk Factors'* in this report, as those factors may be updated from time to time in our periodic filings with the Securities and Exchange Commission (the "SEC"), which are accessible on the SEC's website at <http://www.sec.gov>.

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

## PART I

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### ITEM 1. BUSINESS

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

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#### GENERAL

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

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

At December 31, 2013, we had common shareholders’ equity of \$5.2 billion, total capital of \$6.8 billion and total assets of \$19.6 billion.

#### OUR BUSINESS STRATEGY

We are a global insurer and reinsurer, with our mission being to provide our clients and distribution partners with a broad range of risk transfer products and services and meaningful capacity, backed by excellent financial strength. We manage our portfolio holistically, aiming to construct the optimum consolidated portfolio of funded and unfunded risks, consistent with our risk appetite and the development of our franchise. We nurture an ethical, entrepreneurial and disciplined culture that promotes outstanding client service, intelligent risk taking and the achievement of superior risk-adjusted returns for our shareholders. We believe that the achievement of our objectives will position us as a leading global, diversified specialty insurance and reinsurance company, as measured by quality, sustainability and profitability.

We aim to execute on the following six-point strategy:

*We offer a diversified range of products and services across market segments and geographies:* Our position as a well-balanced hybrid insurance and reinsurance company gives us insight into the opportunities and challenges in a variety of markets. With our origins in Bermuda, today we have locations across the U.S. and in Canada, while in Europe we have offices in Dublin, London, Zurich, Barcelona, Madrid and Paris. We are addressing opportunities throughout Latin America and have a reinsurance office in Sao Paulo. We also operate a number of offices in Australia and our Singapore branch serves as our gateway to Asia.

*We underwrite a balanced portfolio of risks, including complex and volatile lines, moderating overall volatility with risk limits, diversification and risk management:* Risk management is a strategic priority embedded in our organizational structure and we are continuously monitoring, reviewing and refining our enterprise risk management practices. We combine judgment and experience with data-driven analysis, enhancing our overall risk selection process.

*We modulate our risk appetite and deployment of capital across the underwriting cycle, commensurate with available market opportunities and returns:* Closely attuned to market dynamics, we recognize opportunities as they develop and react quickly as new trends emerge. Our risk analytics provide important and continuous feedback, further assisting with the ongoing assessment of our risk appetite and strategic capital deployment. We have been successful in extending our product lines, finding new distribution channels and entering new geographies. When we do not find sufficiently attractive uses for our capital, we return excess capital back to our shareholders through share repurchases or dividends.

*We develop and maintain deep and trustful relationships with clients and distribution partners, offering high-levels of service and effective solutions for risk management needs:* Our management team has extensive industry experience, deep product knowledge and long-standing market relationships. We primarily transact in specialty markets, where risks are complex. Our intellectual capital and proven client-service capability attract clients and distribution partners looking for solutions.

*We maintain excellent financial strength, characterized by financial discipline and transparency:* Our total capital of \$6.8 billion at December 31, 2013, our high-quality and liquid investment portfolio and our operating subsidiary ratings of "A+" ("Strong") by Standard & Poor's and "A+" ("Superior") by A.M. Best are key indicators of our financial strength.

*We attract, develop, retain and motivate an excellent team:* We aim to attract and retain the best people in the industry and to motivate our employees to make decisions that are in the best interest of both our customers and shareholders. We nurture an ethical, risk-aware, achievement-oriented culture that promotes professionalism, responsibility, integrity, discipline and entrepreneurialism. As a result, we believe that our staff is well-positioned to make the best underwriting and strategic decisions for the Company.

Our key metrics for performance measurement include return on average common equity ("ROACE") and diluted book value per common share adjusted for dividends. We recognize that the nature of underwriting cycles and the frequency or severity of large loss events in any one year may make it difficult to achieve a profitability target in any specific period and, therefore, we set a ROACE target of 15% over the full underwriting cycle.

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## **SEGMENT INFORMATION**

Our underwriting operations are organized around two global underwriting platforms, AXIS Insurance and AXIS Reinsurance. Therefore we have two reportable segments, insurance and reinsurance. We do not allocate our assets by segment, with the exception of goodwill and intangible assets, as we evaluate the underwriting results of each segment separately from the results of our investment portfolio. For additional information relating to our reportable segments, see Note 3 to our Consolidated Financial Statements presented under Item 8, 'Financial Statements and Supplementary Data' and 'Management's Discussion and Analysis of Financial Condition and Results of Operations' under Item 7.

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

<b>Year ended December 31,</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Insurance	\$ 2,559,138	\$ 2,309,481	\$ 2,121,829
Reinsurance	2,137,903	1,830,162	1,974,324
<b>Total</b>	<b>\$ 4,697,041</b>	<b>\$ 4,139,643</b>	<b>\$ 4,096,153</b>

## Insurance Segment

### Lines of Business and Distribution

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

- *Property*: provides physical loss or damage, business interruption and machinery breakdown coverage for virtually all types of property, including commercial buildings, residential premises, construction projects and onshore energy installations. This line of business consists of both primary and excess risks, some of which are catastrophe-exposed.
- *Marine*: provides coverage for traditional marine classes, including offshore energy, cargo, liability, recreational marine, fine art, specie, hull and war. Offshore energy coverage includes physical damage, business interruption, operators extra expense and liability coverage for all aspects of offshore upstream energy, from exploration and construction through the operation and distribution phases.
- *Terrorism*: provides coverage for physical damage and business interruption of an insured following an act of terrorism.
- *Aviation*: provides hull and liability and specific war coverage primarily for passenger airlines but also for cargo operations, general aviation operations, airports, aviation authorities, security firms and product manufacturers.
- *Credit and political risk*: provides credit and political risk insurance products for banks and corporations. Coverage is provided for a range of risks including sovereign default, credit default, political violence, currency inconvertibility and non-transfer, expropriation, aircraft non-repossession and contract frustration due to political events. The credit insurance coverage is primarily for lenders seeking to mitigate the risk of non-payment from their borrowers in emerging markets. For the credit insurance contracts, it is necessary for 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.
- *Professional lines*: provides coverage for directors' and officers' liability, errors and omissions liability, employment practices liability, fiduciary liability, crime, professional indemnity and other financial insurance related coverages for commercial enterprises, financial institutions and not-for-profit organizations. This business is predominantly written on a claims-made basis.
- *Liability*: primarily targets primary and low/mid-level excess and umbrella commercial liability risks in the U.S. excess and surplus lines markets. Target industry sectors include construction, manufacturing, transportation and trucking and other services. We also target middle to high excess liability business in the London and Bermuda wholesale markets and primary and excess business in the Canadian marketplace.
- *Accident & health*: includes accidental death, travel insurance and specialty health products for employer and affinity groups, as well as accident & health reinsurance for catastrophic or per life events on a quota share and/or excess of loss basis, with aggregate and/or per person deductibles.

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

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

Year ended December 31,	2013		2012		2011				
Aon	\$	451,158	18%	\$	413,471	18%	\$	397,189	19%
Marsh		422,627	17%		427,565	19%		388,834	18%
Willis		223,131	9%		217,631	9%		203,011	10%
Other brokers		1,230,165	48%		1,060,864	46%		881,285	41%
Managing general agencies and underwriters		232,057	8%		189,950	8%		251,510	12%
<b>Total</b>	<b>\$</b>	<b>2,559,138</b>	<b>100%</b>	<b>\$</b>	<b>2,309,481</b>	<b>100%</b>	<b>\$</b>	<b>2,121,829</b>	<b>100%</b>

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

### Competitive Environment

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

### Reinsurance Segment

#### Lines of Business and Distribution

Our reinsurance segment operates through offices in Bermuda, the United States, Switzerland, Singapore, Brazil, and Canada. We write business on an excess of loss basis, whereby we typically provide an indemnification to the reinsured entity for a portion of losses, both individually and in the aggregate, in excess of a specified individual or aggregate loss deductible. We also write business on a proportional basis, receiving an agreed percentage of the underlying premium and accepting liability for the same percentage of incurred losses. Our business is written on a treaty basis and primarily produced through reinsurance brokers worldwide.

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

- *Catastrophe*: provides protection for most catastrophic losses that are covered in the underlying insurance policies written by our cedants. The exposure in the underlying policies is principally property exposure but also covers other exposures including workers compensation and personal accident. The principal perils in this portfolio are hurricane and windstorm, earthquake, flood, tornado, hail and fire. In some instances, terrorism may be a covered peril or the only peril. We underwrite catastrophe reinsurance principally on an excess of loss basis.
- *Property*: provides coverage for property damage and related losses resulting from natural and man-made perils contained in underlying personal and commercial policies. While our predominant exposure is to property damage, other risks, including business interruption and other non-property losses, may also be covered when arising from a covered peril. While our most significant exposures typically relate to losses from windstorms, tornadoes and earthquakes, we are exposed to other perils such as freezes, riots, floods, industrial explosions, fires, hail and a number of other loss events. We assume business on both a proportional and excess of loss basis.
- *Professional Lines*: covers directors' and officers' liability, employment practices liability, medical malpractice, professional indemnity, environmental liability and miscellaneous errors and omissions insurance risks. The underlying business is predominantly written on a claims-made basis. Business is written on both a proportional and excess of loss basis.

- *Credit and Surety*: consists of reinsurance of trade credit insurance products and includes both proportional and excess of loss structures. The underlying insurance indemnifies sellers of goods and services in the event of a payment default by the buyer of those goods and services. Also included in this line of business is coverage for losses arising from a broad array of surety bonds issued by insurers to satisfy regulatory demands or contract obligation in a variety of jurisdictions around the world. Bonding is also known as surety insurance.
- *Motor*: provides coverage to cedants for motor liability and property damage losses arising out of any one occurrence. The occurrence can involve one or many claimants where the ceding insurer aggregates the claims from the occurrence.
- *Liability*: provides coverage to insurers of standard casualty business, excess and surplus casualty business and specialty casualty programs. The primary focus of the underlying business is general liability, although workers compensation and auto liability are also written.
- *Engineering*: provides coverage for all types of construction risks and risks associated with erection, testing and commissioning of machinery and plants during the construction stage. This line of business also includes coverage for losses arising from operational failures of machinery, plant and equipment and electronic equipment as well as business interruption.
- *Agriculture*: provides coverage for risks associated with the production of food and fiber on a global basis for primary insurance companies writing multi-peril crop insurance, crop hail, and named peril covers, as well as custom risk transfer mechanisms for agricultural dependent industries with exposures to crop yield and/or price deviations. We provide both proportional and aggregate stop loss reinsurance.
- *Other*: includes aviation, marine, and personal accident reinsurance.

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

Year ended December 31,	2013		2012		2011	
Aon	\$ 749,751	35%	\$ 712,588	39%	\$ 727,102	37%
Marsh	643,292	30%	468,993	26%	566,451	29%
Willis	339,761	16%	299,097	16%	311,241	16%
Other brokers	271,458	13%	212,941	12%	185,632	9%
Direct	133,641	6%	136,543	7%	183,898	9%
<b>Total</b>	<b>\$ 2,137,903</b>	<b>100%</b>	<b>\$ 1,830,162</b>	<b>100%</b>	<b>\$ 1,974,324</b>	<b>100%</b>

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

#### Competitive Environment

In our reinsurance segment where competition tends to be focused on availability, service, financial strength and, increasingly, price, we compete with major U.S. and non-U.S. reinsurers as well as reinsurance departments of numerous multi-line insurance organizations. Our clients may also acquire reinsurance protection through capital market products such as catastrophe bonds and insurance loss warranties. We believe that we achieve a competitive advantage through our strong capital position, as well as our technical expertise that allows us to respond quickly to customer needs and provide quality and innovative underwriting solutions. In addition, our customers highly value our exemplary service (including excellent claims management, promptly paying valid claims) and financial strength ratings.

#### RESERVE FOR UNPAID LOSSES AND LOSS EXPENSES

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



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

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

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

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

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

Also included in the table is the impact of foreign exchange rate movements during each year presented. Portions of our loss reserves relate to claims expected to be paid in currencies other than our reporting currency, the U.S. dollar. Movements in foreign exchange rates, therefore, result in variations in our estimated net loss reserves. Such variations are recognized as they arise, in our Consolidated Statements of Operations. For example, during the year ended December 31, 2013, appreciation in the rates of exchange between the Sterling and the euro against the U.S. dollar drove a \$6 million increase in our net loss reserves established prior to and during 2013. To minimize the impact of foreign exchange driven volatility associated with our loss reserves denominated in foreign currencies, we generally hold cash and investments and/or derivative instruments denominated in the same currencies.

At the bottom of the table is a reconciliation of our re-estimated gross loss reserves with our re-estimated net unpaid loss reserves as of December 31, 2013. As our ceded reinsurance programs cover different lines of business and accident years, net and gross loss experience will not necessarily develop proportionately.

To facilitate an understanding of the information provided in the table, the following is an example using net loss reserves established at December 31, 2006. It can be seen from the top section of the table that at December 31, 2006, our estimate of loss reserves, net of unpaid reinsurance recoverable, was \$3,704 million.

The next section of the table shows that our current estimate of net unpaid loss reserves for events occurring on or before December 31, 2006 is \$2,290 million. The cumulative redundancy from our initial estimate of \$1,414 million was recognized over the course of the following seven calendar years: \$337 million in 2007, \$291 million in 2008, \$303 million in 2009, \$197 million in 2010, \$131 million in 2011, \$68 million in 2012 and the remaining \$87 million in 2013.

The following section of the table presents our cumulative claims paid at the end of each subsequent year. Of the net \$1,772 million we have paid subsequent to December 31, 2006, \$636 million was paid in 2007, \$363 million was paid in 2008, \$357 million in 2009, \$158 million in 2010, \$112 million in 2011, \$81 million in 2012 and the remaining \$66 million in 2013.

In summary, at December 31, 2006, we estimated our net loss reserves payable for claims arising from loss events occurring on or before that date were \$3,704 million. At December 31, 2013, we have paid \$1,772 million towards settlement of these claims and now believe that we will ultimately pay \$2,290 million for full settlement.

It is important to note that the redundancies in our loss reserves noted in the table are cumulative and, therefore, should not be added together. In 2013, we revised our cumulative December 31, 2006 estimate of net loss reserves from \$2,377 million to

\$2,290 million. This favorable development is also included in each column to the right of the December 31, 2006 column, recognizing that the redundancy was also embedded in our estimated loss reserves at December 31 of each of the following years.

	Year ended December 31,										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gross reserves for losses and loss expenses	\$ 992,846	\$ 2,404,560	\$ 4,743,338	\$ 5,015,113	\$ 5,587,311	\$ 6,244,783	\$ 6,564,133	\$ 7,032,375	\$ 8,425,045	\$ 9,058,731	\$ 9,582,140
Reinsurance recoverable	(124,899)	(564,314)	(1,473,241)	(1,310,904)	(1,297,539)	(1,314,551)	(1,381,058)	(1,540,633)	(1,736,823)	(1,825,617)	(1,900,112)
Net reserves for unpaid losses and loss expenses	867,947	1,840,246	3,270,097	3,704,209	4,289,772	4,930,232	5,183,075	5,491,742	6,688,222	7,233,114	7,682,028
Net reserves re-estimated as of:											
1 Year later	\$ 686,235	\$ 1,457,250	\$ 3,053,561	\$ 3,367,232	\$ 3,913,485	\$ 4,507,061	\$ 4,870,020	\$ 5,234,281	\$ 6,443,382	\$ 7,013,678	
2 Years later	539,110	1,179,851	2,938,734	3,076,025	3,533,313	4,235,219	4,623,109	5,018,121	6,226,591		
3 Years later	434,221	1,080,083	2,750,476	2,773,158	3,281,011	4,007,046	4,440,229	4,797,981			
4 Years later	386,029	962,910	2,529,259	2,576,226	3,074,010	3,841,717	4,285,709				
5 Years later	347,544	889,190	2,429,724	2,445,150	2,957,939	3,685,823					
6 Years later	326,729	863,225	2,365,515	2,376,807	2,820,852						
7 Years later	315,548	839,214	2,328,729	2,290,277							
8 Years later	312,628	823,131	2,278,338								
9 Years later	303,022	799,502									
10 Years later	299,957										
Cumulative redundancy on net reserves	\$ 567,990	\$ 1,040,744	\$ 991,759	\$ 1,413,932	\$ 1,468,920	\$ 1,244,409	\$ 897,366	\$ 693,761	\$ 461,631	\$ 219,436	
Cumulative net paid losses as of:											
1 Year later	\$ 108,547	\$ 291,695	\$ 880,120	\$ 636,266	\$ 615,717	\$ 982,036	\$ 1,042,890	\$ 953,035	\$ 1,299,384	\$ 1,373,459	
2 Years later	169,853	432,963	1,292,738	999,280	1,147,990	1,539,713	1,592,741	1,601,082	2,187,024		
3 Years later	202,136	511,325	1,500,652	1,355,821	1,461,494	1,936,555	2,002,373	2,061,667			
4 Years later	221,644	574,874	1,771,039	1,513,350	1,655,688	2,221,221	2,301,915				
5 Years later	245,978	615,920	1,873,052	1,625,423	1,807,075	2,424,791					
6 Years later	254,676	650,110	1,930,682	1,705,987	1,928,489						
7 Years later	263,412	677,351	1,979,439	1,772,037							
8 Years later	269,909	698,846	2,026,100								
9 Years later	276,406	706,010									
10 Years later	276,614										
Impact of foreign exchange and other	\$ 3,240	\$ 4,664	\$ (13,329)	\$ 23,581	\$ 28,588	\$ (133,345)	\$ 82,018	\$ (25,282)	\$ (16,462)	\$ 71,084	\$ 6,184
Gross reserve for losses and loss expenses re-estimated	\$ 399,394	\$ 1,309,725	\$ 3,624,917	\$ 3,384,444	\$ 3,840,572	\$ 4,826,626	\$ 5,555,183	\$ 6,208,102	\$ 7,808,233	\$ 8,788,740	
Reinsurance recoverable re-estimated	(99,437)	(510,223)	(1,346,579)	(1,094,167)	(1,019,720)	(1,140,803)	(1,269,474)	(1,410,121)	(1,581,642)	(1,775,062)	
Net reserve for unpaid losses and loss expenses re-estimated	299,957	799,502	2,278,338	2,290,277	2,820,852	3,685,823	4,285,709	4,797,981	6,226,591	7,013,678	
Cumulative redundancy on gross reserve	\$ 593,452	\$ 1,094,835	\$ 1,118,421	\$ 1,630,669	\$ 1,746,739	\$ 1,418,157	\$ 1,008,950	\$ 824,273	\$ 616,812	\$ 269,991	

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## **CASH AND INVESTMENTS**

We seek to balance the investment portfolios' objectives of (1) increasing book value with (2) the generation of relatively stable investment income, while providing sufficient liquidity to meet our claims and other obligations. Liquidity needs arising from potential claims are of primary importance and are considered in asset class participation and the asset allocation process. Intermediate maturity investment grade fixed income securities have duration characteristics similar to our expected claim payouts and are, therefore, central to our investment portfolio's asset allocation. At December 31, 2013, the duration of our fixed maturities portfolio was approximately 3 years, which approximates the estimated duration of our net insurance liabilities.

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

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

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

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

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## RISK AND CAPITAL MANAGEMENT

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### **Risk management framework – Overview**

#### ***Mission and objectives***

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

- Protect our capital base and earnings by monitoring our risks against our stated risk tolerances;
- Promote a sound risk management culture through disciplined and informed risk taking;
- Enhance value creation and contribute to an optimal risk-return profile by providing the basis for efficient capital deployment;
- Support our group-wide decision making process by providing reliable and timely risk information; and
- Safeguard AXIS's reputation.

#### ***Risk governance***

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

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

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

#### ***Internal capital model***

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

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

#### ***Risk diversification***

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

measure concentration risk consistently across our business units in terms of pre and post diversified internal risk capital requirements.

### ***Risk appetite and limit framework***

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

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

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

### **External perspectives**

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

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

### **Risk governance and risk management organization**

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

#### ***Board of Directors’ Level***

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

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

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

### ***Group executive level***

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

- Our Risk Management Committee (RMC) has responsibility for reviewing the allocation of capital, approving individual risk limits and determining changes to our internal risk capital methodology. The RMC also reviews new business plans in the context of our risk framework and defined risk appetite. Further, the RMC reviews and advises management with respect to certain individual transactions in accordance with the quantitative and qualitative criteria outlined in our business referral guidelines.
- Our Investment & Finance Committee oversees the Group's investment activities by, among other things, monitoring market risks, the performance of our investment managers and the Group's asset-liability management, liquidity positions and investment policies and guidelines. The Investment & Finance Committee also prepares the Group's strategic asset allocation and presents it to the Finance Committee of the Board for approval.
- Our Reinsurance Security Committee (RSC) sets out the financial security requirements of our reinsurance counterparties and recommends tolerance levels for different types of ceded business.

### ***Group risk management organization***

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

Our Chief Risk Officer leads our independent Group Risk function, which is responsible for oversight of risk taking activity across the Group and providing guidance and support for risk management practices. Group Risk is responsible for developing methods and processes for identifying, measuring, managing and reporting risk. This forms the basis for informing the Risk Committee and RMC of the Group's risk profile. Group Risk develops our risk management framework and oversees the adherence to this framework at the Group and operating entity level. Our Chief Risk Officer regularly reports risk matters to the Chief Executive Officer, management Executive Committee and the Risk Committee.

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

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

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

### **Risk Landscape**

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

## **Strategic Risk**

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

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

We specifically evaluate the risks of potential merger and acquisition transactions both from a quantitative and qualitative perspective. We conduct risk assessments of merger and acquisition transactions to evaluate risks specifically related to the integration of acquiring a business. Additionally, we have governance procedures in place to review and approve potential new initiatives within our existing businesses in order to evaluate whether the risks are well understood and justified by the potential rewards.

## **Insurance Risk**

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

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

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

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

## ***Reinsurance purchasing***

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

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

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



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

We have a centralized Ceded Reinsurance department which coordinates external treaty reinsurance purchasing across the Group and is overseen by our Reinsurance Purchasing Group (RPG), in conjunction with the RSC. The RPG, which includes among others, our Chief Executive, Chief Financial, Chief Actuarial and Chief Risk Officers as well as business unit leadership, approves each treaty placement, and aims to ensure that appropriate diversification exists within our counterparty panels.

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

### *Natural peril catastrophe risk*

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

The table below shows our mean PML net estimates for certain defined single zones which correspond to peak industry catastrophe exposures at January 1, 2014 and 2013:

At January 1, (in millions of U.S. dollars)		2014			2013		
		50 Year Return Period	100 Year Return Period	250 Year Return Period	50 Year Return Period	100 Year Return Period	250 Year Return Period
Single zone/single event	Perils						
Southeast	U.S. Hurricane	\$ 502	\$ 705	\$ 887	\$ 500	\$ 714	\$ 955
Northeast	U.S. Hurricane	60	206	403	53	200	446
Mid-Atlantic	U.S. Hurricane	107	361	772	123	400	875
Gulf of Mexico	U.S. Hurricane	338	507	786	336	500	831
California	Earthquake	352	479	558	412	590	889
Europe	Windstorm	264	371	479	308	414	520
Japan	Earthquake	216	284	482	246	336	547
Japan	Windstorm	68	126	172	75	144	201

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

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

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

We have developed our PML estimates using multiple commercially available vendor models, including AIR and RMS (which we also use for pricing catastrophe risk). These models cover the major peril regions where we face potential exposure. We perform ongoing model validation on the vendor models, both within our business units and through our catastrophe model validation unit. These validation procedures include sensitivity testing of models to understand their key variables and, where possible, back testing model outputs to actual results. We combine the outputs of catastrophe models with our estimate of non-modeled perils and other factors which we believe, from our experience, provides us with a more complete view of catastrophe risk.

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

Our estimated net losses from peak zone catastrophes may change from period to period as a result of several factors, which include but are not limited to, updates to vendor catastrophe models, changes in our own modeling, changes in our underwriting portfolios, changes to our reinsurance purchasing strategy and changes in foreign exchange rates. Our natural catastrophe PMLs in major zones have generally reduced in the last twelve months as we reshaped our overall natural catastrophe portfolio through both underwriting decisions and reinsurance/retrocession purchases including the issuance of a catastrophe bond (see 'Underwriting Results – Group' under Item 7).

#### ***Man-made catastrophe risk***

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

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

#### ***Reserving risk***

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

Reserving for long-tail lines of business represents a significant component of reserving risk. When loss trends prove to be higher than those underlying our reserving assumptions, the risk is greater because of a stacking-up effect: we carry reserves to cover claims arising from several years of underwriting activity and these reserves are likely to be adversely affected by unfavorable loss trends. We manage and mitigate reserving risk on long-tail business in a variety of ways. First, we limit the amount of long-tail business we write in line with maintaining a well-balanced and diversified global portfolio of business. In 2013, our long-tail net premiums written (namely liability and motor business) represented 17% of our total premium

written. We also purchase reinsurance on the liability business written in our insurance segment to reduce our net positions. Secondly, we follow a disciplined underwriting process that utilizes available information, including industry trends.

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

### ***Claims handling risk***

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

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

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

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

### **Credit Risk**

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

### ***Credit risk aggregation***

We monitor and control the aggregation of credit risk on a group-wide basis by assigning limits on the maximum credit exposure we are willing to assume by single obligors and groups, industry sector, country, region or other inter-dependencies. Our credit exposures are aggregated based on the origin of risk. Limits are based and adjusted on a variety of factors including the prevailing economic environment and the nature of the underlying credit exposures.

Our credit aggregation measurement and reporting process is facilitated by our credit risk exposure database, which contains relevant information on counterparty details and credit risk exposures. The database is accessible by management throughout the Group, thus providing transparency to allow for the implementation of active exposure management strategies. We also license third party databases to provide credit risk assessments. We monitor all our credit aggregations and, where appropriate, adjust our internal risk limits and/or take specific actions to reduce our risk exposures.

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

### ***Credit risk relating to investing activities***

With our fixed maturity investment portfolio, which represents approximately \$12 billion or 61% of our total assets, we are exposed to potential losses arising from the diminished creditworthiness of issuers of bonds as well as third party counterparties such as custodians. We limit such credit risk through diversification, issuer exposure limitation graded by ratings and, with respect to custodians, through contractual and other legal remedies. Excluding U.S. Treasury and Agency securities, we limit our concentration of credit risk to any single corporate issuer to 2% or less of our fixed maturities portfolio for securities rated A- or above and 1% or less of our fixed maturities portfolio for securities rated below A-.

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

### ***Credit risk relating to reinsurance recoverable assets***

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

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

### ***Credit risk relating to receivables***

Our largest credit risk exposure to receivables is from brokers and other intermediaries; the risk arises where they collect premiums from customers to be paid to us or pay claims to customers on our behalf. We have policies and standards in place to manage and monitor credit risk from intermediaries with a focus on day-to-day monitoring of the largest positions.

### ***Credit risk relating to our underwriting portfolio***

In our insurance segment, we provide credit insurance primarily for lenders (financial institutions) seeking to mitigate the risk of non-payment from their borrowers primarily in emerging markets. 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. We insure sovereign non-payment and corporate non-payment; for corporate non-payment the vast majority of the credit insurance provided is for single-name illiquid risks, primarily in the form of senior bank loans that can be individually analyzed and underwritten. As part of this underwriting process, an evaluation of creditworthiness and reputation of the obligor is critical and forms the cornerstone of the underwriting process. We generally require that our clients retain a share of each transaction that we insure. A key element to our underwriting analysis is the assessment of recovery in the event of default and, accordingly, for senior secured loans, the strength of the collateral and the enforceability of rights to the collateral are paramount. We avoid insurance for structured finance products defined by pools of risks and insurance for synthetic products that would expose us to mark-to-market losses. We also seek to avoid terms in our credit insurance contracts which introduce liquidity risk, most notably, in the form of a collateralization requirement upon a ratings downgrade. We also provide protection against sovereign default or sovereign actions that result in impairment of cross-border investments for banks and corporations. Our contracts generally include conditions precedent to our liability relating to the enforceability of the insured transaction and restricting amendments to the transaction documentation, obligations on the insured to prevent and minimize losses, subrogation rights (including rights to have the insured asset transferred to us) and waiting periods. Under most of our policies, a loss payment is made in the event the debtor failed to pay our client when payment is due subject to a waiting period of up to 90 days.

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

## **Market Risk**

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

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

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

We stress test our investment portfolios using historical and hypothetical scenarios to analyze the impact of unusual market conditions and to ensure potential investment losses remain within our risk appetite. At an annual aggregated level, we manage the total risk exposure to our investment portfolio so that the ‘total return’ investment loss in any one year is unlikely to exceed a defined percentage of our common equity at a defined return period.

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

## **Operational Risk**

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

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

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

- Major failures and disasters which could cause a severe disruption to working environments, facilities and personnel, represent a significant operational risk to us. Our Business Continuity Management framework strives to protect critical business functions from these effects to enable us to carry out our core tasks in time and at the quality required. During 2013, we continued to review our Business Continuity Planning procedures through cyclical planned tests.
- We have developed a number of IT platforms, applications and security controls to support our business activities worldwide. Dedicated security standards are in place for our IT systems to ensure the proper use, availability and protection of our information assets.
- Our use of third party vendors exposes us to a number of increased operational risks, including the risk of security breaches, fraud, non-compliance with laws and regulations or internal guidelines and inadequate service. We manage material third party vendor risk, by, among other things, performing a thorough risk assessment on potential large vendors, reviewing a vendor’s financial stability, ability to provide ongoing service and business continuity planning.

## **Liquidity Risk**

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

- We maintain cash and cash equivalents and high quality, liquid investment portfolios to meet expected outflows, as well as those that could result from a range of potential stress events. We place internal limits on the maximum percentage of cash and investments which may be in a restricted form as well as a minimum percentage of our investment portfolio to mature within a defined timeframe.
- We maintain committed borrowing facilities, as well as access to diverse funding sources to cover contingencies. Funding sources include asset sales, external debt issuances and lines of credit.

## **Capital Management**

Our capital management strategy is to maximize long-term shareholder value by, among other things, optimizing capital allocation and minimizing our cost of capital. We also manage our capital in accordance with our desired financial strength rating, as well as regulatory and solvency requirements.

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

### ***Internal capital adequacy***

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

### ***Regulatory capital requirements***

In each country in which we operate, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in support of their liabilities. We target to hold, in addition to the minimum capital required to comply with the solvency requirements, an adequate buffer to ensure that each of our operating entities meets its local capital requirements. See Note 20 of the Consolidated Financial Statements, under Item 8 for further information.

### ***Rating agency capital requirements***

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

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## REGULATION

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### *General*

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

### *Bermuda*

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

In November 2013, AXIS Capital formed AXIS Ventures Limited and its direct subsidiary AXIS Ventures Reinsurance Limited ("Ventures Re"). Ventures Re was licensed as a Class 3A insurer under the Insurance Act and registered as a segregated accounts company under the Bermuda Segregated Accounts Companies Act 2000, as amended. Pursuant to a Direction under Section 56 of the Insurance Act issued by the BMA, Ventures Re is exempt from certain solvency and liquidity standards and reporting requirements.

The BMA acts as group supervisor of AXIS Capital and has designated AXIS Specialty Bermuda as the 'designated insurer' of the AXIS Capital group of insurance companies. In accordance with the group supervision and insurance group solvency rules, AXIS Capital is required to prepare and submit annual audited group GAAP financial statements, annual group statutory financial statements, an annual group statutory financial return, an annual group capital and solvency return and quarterly group unaudited financial returns. Enhanced group capital requirements ("ECR") are being phased in beginning with the financial year ending December 31, 2013, when the applicable ECR was 50% of the amount prescribed by the BMA, with an additional 10% applicable each subsequent year through 2018, when the full ECR will be required.

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

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

Effective January 1, 2014, AXIS Syndicate 1686 ("AXIS Syndicate"), a Lloyd's Syndicate, is licensed through Lloyd's to write insurance and reinsurance in or from Bermuda, except for long-term business.

## *United States*

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

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

### *State Insurance Regulation*

AXIS Reinsurance Company is licensed to transact insurance and reinsurance in all 50 of the United States, the District of Columbia and Puerto Rico. AXIS Reinsurance Company is also authorized to transact insurance and reinsurance throughout Canada through its Canadian branch and has reinsurance permissions in Brazil, India and Mexico. AXIS Insurance Company is licensed to transact insurance and reinsurance in all 50 of the United States and in the District of Columbia. AXIS Specialty Insurance Company is licensed to transact insurance and reinsurance throughout the United States, except California, Iowa, Maine, New Mexico, New York, Wyoming. AXIS Surplus Insurance Company is eligible to write insurance on a surplus lines basis in all 50 of the United States, the District of Columbia and Puerto Rico.

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

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

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

Although the insurance industry generally is not directly regulated by the federal government, federal legislation and initiatives can affect the industry and our business. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank") was signed into law. Certain sections of that act pertain to the regulation and business of insurance. Specifically, the Federal Insurance Office was created ("FIO"). Initially, the FIO will have limited authority and mainly collect information and report on the business of insurance to Congress. In addition, Dodd-Frank contained the Nonadmitted and Reinsurance Reform Act of 2010 ("NRRRA"). NRRRA attempts to coordinate the payment of surplus lines taxes, simplify the granting of alien insurers to become surplus lines authorized and coordinates the credit for certain reinsurance. Various sections of Dodd-Frank become effective over time and regulations have yet to be drafted for certain provisions. AXIS does not anticipate that Dodd-Frank will have any material effect on its operations or finances this year, but will continue to monitor its implementation.



## *U.S. Operations of our Non-U.S. Insurance Subsidiaries*

The insurance laws of each state of the United States and of many other countries regulate or prohibit the sale of (re) insurance within their jurisdictions by (re)insurers that are not admitted to do business within such jurisdictions, or conduct business pursuant to exemptions. AXIS Specialty Europe is eligible to write surplus lines business in all 50 of the United States, the District of Columbia and Puerto Rico. AXIS Syndicate is eligible to write surplus lines business throughout the United States, except for Kentucky, in the District of Columbia and in all U.S. territories. AXIS Syndicate is authorized to write insurance business, except life insurance business, in the states of Illinois, Kentucky and in the U.S. Virgin Islands under licenses held in the name of “Lloyd’s underwriters” or “Underwriters at Lloyd’s, London”. AXIS Syndicate is authorized to write non-life reinsurance business in all 50 of the United States, the District of Columbia and in all U.S. territories, except for accident and health reinsurance in New York. AXIS Specialty Bermuda, AXIS Re SE and Ventures Re are not licensed or eligible to write business in the United States. AXIS Specialty Bermuda, AXIS Re SE, AXIS Specialty Europe and Ventures Re do not maintain offices, solicit, advertise, underwrite, settle claims or conduct any insurance activities in any jurisdiction in the United States where the conduct of such activities would require these companies to be admitted or authorized.

In addition to the regulatory requirements imposed by the jurisdictions in which they are licensed, reinsurers’ business operations are affected by regulatory requirements in various states of the U.S. governing “credit for reinsurance” that are imposed on their ceding companies. In general, a ceding company obtaining reinsurance from a reinsurer that is licensed, accredited or approved by the jurisdiction or state in which the ceding company files statutory financial statements is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the ceding company’s liability for unearned premiums (which are that portion of premiums written which applies to the unexpired portion of the policy period), loss reserves and loss expense reserves ceded to the reinsurer. Neither AXIS Re SE, AXIS Specialty Europe, nor Ventures Re are licensed, accredited or approved in any state in the U.S. The great majority of states, however, permit a credit to statutory surplus resulting from reinsurance obtained from a non-licensed or non-accredited reinsurer to be recognized to the extent that the reinsurer provides a letter of credit, trust fund or other acceptable security arrangement. A few states do not allow credit for reinsurance ceded to non-licensed reinsurers except in certain limited circumstances and others impose additional requirements that make it difficult to become accredited. During 2013, in connection with establishment of a Multi-Beneficiary Reinsurance Trust, AXIS Specialty Bermuda obtained accredited or trustee reinsurer status in all U.S. jurisdictions except for California and New York.

### ***Ireland***

#### *AXIS Specialty Europe*

AXIS Specialty Europe is a European public limited liability company incorporated as a non-life insurer under the laws of Ireland. AXIS Specialty Europe is authorized and regulated by the Central Bank of Ireland (“CBI”) pursuant to the Insurance Acts 1909 to 2000, as amended, repealed or replaced, the Central Bank Acts 1942 – 2013, as amended, repealed or replaced and European Union regulation relating to general insurance and statutory instruments made thereunder. AXIS Specialty Europe is authorized to conduct business in 16 non-life insurance classes of business. AXIS Specialty Europe may also write reinsurance business within the classes of insurance business for which it is authorized. Significant additional regulation that applies to AXIS Specialty Europe includes the CBI’s 2010 Corporate Governance Code for Credit Institutions and Insurance Undertakings and the CBI’s Fit and Proper requirements.

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

The Third Non-Life Directive also permits AXIS Specialty Europe to carry on insurance business in any other EEA member state under the principle of “Freedom of Establishment.” In May 2003, AXIS Specialty Europe established a U.K. branch known as AXIS Specialty London. The CBI remains responsible for the prudential supervision of the U.K. branch, however,

AXIS Specialty London is also regulated by the United Kingdom Prudential Regulation Authority and Financial Conduct Authority for United Kingdom business.

In July 2008, AXIS Specialty Europe established AXIS Specialty Australia, a branch in Australia to transact general insurance business. While the CBI continues to be the responsible supervisory authority, the Australia Prudential Regulation Authority (“APRA”) is also responsible for the authorization of and the ongoing prudential supervision of the branch in accordance with the Insurance Act 1973, as amended, as well as regulations applicable to general insurers. AXIS Specialty Europe is also registered as a foreign company with the Australia Securities Investment Commission in accordance with Australia’s Corporations Act 2001, as amended. Significant additional regulation that applies to AXIS Specialty Australia includes branch capital adequacy, assets in Australia, risk management, reinsurance management, governance, audit and actuarial requirements.

AXIS Specialty Europe has obtained local regulatory permission to carry on insurance business in Jersey and to write cross-border reinsurance business into India.

#### *AXIS Re SE*

AXIS Re SE is a European public limited liability company incorporated as a reinsurer under the laws of Ireland. AXIS Re SE is authorized by the CBI as a composite reinsurer (non-life and life) in accordance with the Insurance Acts 1909 to 2000, as amended, repealed or replaced, the Central Bank Acts 1942 - 2013 as amended, repealed or replaced and EU regulation applicable to reinsurance and statutory instruments made thereunder. The European Communities (Reinsurance) Regulations 2006 (the “Regulations”), as amended, which gave effect to the EU Reinsurance Directive, provide a comprehensive framework for the authorization and supervision of reinsurers in Ireland. Significant additional regulation that applies to AXIS Re SE includes the CBI’s 2010 Corporate Governance Code for Credit Institutions and Insurance Undertakings and the CBI’s 2011 Fit and Proper requirements.

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

In September 2003, AXIS Re SE established a branch in Zurich, Switzerland, known as AXIS Re Europe. The Swiss Financial Market Supervisory Authority does not impose additional regulation upon a Swiss branch of an EEA reinsurer.

AXIS Re SE has obtained local regulatory permissions to reinsure companies in Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, India, Mexico, Panama, Paraguay, Peru and Venezuela.

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

#### *AXIS Specialty Holdings Ireland Limited*

AXIS Specialty Holdings Ireland Limited is the limited liability holding company for AXIS Specialty Europe and AXIS Re SE, incorporated under the laws of Ireland. In its capacity as a holding company of EU regulated (re)insurance companies, AXIS Specialty Holdings Ireland Limited is subject to certain of the CBI’s consolidated solvency requirements.

Our European legal entities will be subject to Solvency II regulation once Omnibus II, which will include a commencement date, is approved by the European Parliament. Solvency II is a risk based capital regime that consolidates and modernizes European (re)insurance regulation and supervision. Under Solvency II, European (re)insurers will calculate capital in accordance with a new standard formula, once finalized, or an internal model provided it has been approved by the CBI as lead regulator of our European legal entities, implement a risk management framework and governance measures and fulfill enhanced disclosure requirements.

AXIS Syndicate has permission to write insurance and reinsurance business on a Freedom of Services basis in Ireland. AXIS Specialty Bermuda, Ventures Re and the U.S. Insurance Subsidiaries are not authorized to conduct insurance and/or reinsurance business in Ireland.

### ***United Kingdom***

Under the law of England and Wales, a company may only conduct insurance and/or reinsurance business in the United Kingdom upon authorization. AXIS Re SE is authorized to transact U.K. business on a Freedom of Services basis pursuant to the reinsurance directive, and AXIS Specialty Europe is authorized to transact U.K. business on a Freedom of Services basis pursuant to the Third Non-Life Insurance Directive and to conduct business in the U.K. on a Freedom of Establishment basis through its branch, AXIS Specialty London.

In November 2013, AXIS Syndicate was established having a single corporate member, AXIS Corporate Capital UK Limited, with approval to commence business at Lloyd's from January 1, 2014. AXIS Syndicate 1686 is managed by Asta Managing Agency Ltd. Lloyd's has licenses and authorizations to trade in 75 countries across Europe, the Middle East and Africa, North and South America, Asia and Australasia and AXIS Syndicate may write business where Lloyd's has authorized status. Lloyd's is governed by U.K. law and regulation. The Lloyd's Act 1982 defines the governance structure and rules under which Lloyd's operates. Under the Lloyd's Act 1982, the Council of Lloyd's is responsible for the management and supervision of the Lloyd's market. Lloyd's is dual-regulated by the UK Prudential Regulation Authority (the "PRA") and Financial Conduct Authority ("FCA"). Lloyd's Managing Agents are also dual regulated by the PRA and FCA.

AXIS Syndicate will be subject to Solvency II regulation once Omnibus II, which will include a commencement date, is approved by the European Parliament.

AXIS Syndicate is authorized to conduct U.K. insurance and reinsurance business.

The U.K. is a member of the EEA, which comprises each of the countries of the EU with the exception of Croatia, and Iceland, Lichtenstein and Norway. AXIS Syndicate is permitted to provide insurance and reinsurance services on a Freedom of Services basis subject to compliance with any "general good requirements" as may be established by the applicable EEA member state regulators.

AXIS Specialty Bermuda, Ventures Re and the U.S. Insurance Subsidiaries are not authorized to conduct insurance and/or reinsurance business in the United Kingdom.

### ***Switzerland***

AXIS Re SE conducts reinsurance business from its branch, AXIS Re Europe, in Zurich, Switzerland, subject to the supervision of the CBI.

AXIS Syndicate is authorized to conduct all classes of insurance business, except life, sickness and legal expenses and is authorized to write all classes of reinsurance business in Switzerland.

AXIS Specialty Bermuda, AXIS Specialty Europe, Ventures Re and the U.S. Insurance Subsidiaries are not authorized to conduct insurance or reinsurance business in Switzerland.

### ***Singapore***

AXIS Specialty Bermuda conducts (re)insurance business from its branch in Singapore, AXIS Specialty Limited (Singapore Branch), subject to the supervision of the BMA and the Monetary Authority of Singapore (the "MAS").

AXIS Syndicate is licensed to write insurance from Singapore with the exception of certain compulsory classes and life business. Lloyd's underwriters are permitted to write reinsurance from Singapore, with the exception of life business. Singaporean business may also be written from outside of Singapore in certain circumstances where it is placed with a Singapore intermediary licensed by the MAS to place business at Lloyd's or by dealing directly with the insured.

AXIS Re SE, AXIS Specialty Europe, Ventures Re and the U.S. Insurance Subsidiaries are not authorized to conduct insurance or reinsurance business in Singapore.

## ***Canada***

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

AXIS Syndicate is, subject to the laws and regulations of each of the provinces and territories in which it is licensed, authorized to write insurance in or from Canada, with the following exceptions: hail insurance in respect of crop in the province of Quebec; home warranty insurance in the province of British Columbia; life insurance; credit protection insurance; title insurance; and mortgage default insurance. AXIS Syndicate is authorized to write reinsurance in or from Canada subject to certain restrictions relating to life reinsurance.

AXIS Specialty Bermuda, AXIS Re SE, AXIS Specialty Europe, Ventures Re and the other U.S. Insurance Subsidiaries are not authorized to conduct insurance or reinsurance business in Canada.

## ***Australia***

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

AXIS Syndicate is authorized to write insurance in or from Australia with certain exceptions. AXIS Syndicate is authorized to write reinsurance in or from Australia.

AXIS Specialty Bermuda, AXIS Re SE, Ventures Re and the U.S. Insurance Subsidiaries are not authorized to conduct insurance or reinsurance business in Australia.

## ***Other Countries***

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

AXIS Syndicate may write insurance and reinsurance business where Lloyd's underwriters have authorized status.

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## **EMPLOYEES**

As of February 21, 2014 we had approximately 1,200 employees. We believe that our employee relations are excellent.

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## **AVAILABLE INFORMATION**

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

We make available free of charge, including through our internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to

Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Current copies of the charter for each of our Audit Committee, Corporate Governance and Nominating Committee, Compensation Committee, Finance Committee, Executive Committee and Risk Committee, as well as our Corporate Governance Guidelines and Code of Business Conduct, are available on our internet website at <http://www.axiscapital.com>.

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## **ITEM 1A. RISK FACTORS**

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

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

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

Increases in the values and concentrations of insured property may increase the severity of these occurrences in the future. Also, changes in global climate conditions may further increase the frequency and severity of catastrophe activity and losses in the future. Examples of the impact of catastrophe events include our recognition of the net losses and loss expenses of:

- \$201 million, in aggregate, relating to various worldwide natural catastrophe and weather-related events in 2013;
- \$331 million in relation to Storm Sandy in 2012;
- \$789 million, in aggregate, in relation to the February and June earthquakes near Christchurch, New Zealand, the Japanese earthquake and tsunami, first quarter Australian weather events and the Thai floods in 2011;
- \$256 million, in aggregate, in relation to the Chilean and September New Zealand earthquakes in 2010; and
- \$408 million, in aggregate, in relation to Hurricanes Ike and Gustav in 2008.

These events materially reduced our net income in the years noted above. Although we attempt to manage our exposure to such events through the use of underwriting controls and the purchase of third-party reinsurance, catastrophe events are inherently unpredictable and the actual nature of such events when they occur could be more frequent or severe than contemplated in our pricing and risk management expectations. As a result, the occurrence of one or more catastrophe events could have a material adverse effect on our results of operations or financial condition.

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

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

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

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

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

Our fixed maturities, which represent 87% of our total investments and 80% of total cash and investments at December 31, 2013, may be adversely impacted by changes in interest rates. Increases in interest rates could cause the fair value of our investment portfolio to decrease, resulting in a lower book value (refer to Item 7A *'Quantitative and Qualitative Disclosure About Market Risk'* for a related sensitivity analysis).

In addition, a low interest rate environment, such as the current environment, can result in reductions in our investment yield as new funds and proceeds from sales and maturities of fixed income securities are invested at lower rates. This reduces our overall profitability. Interest rates are highly sensitive to many factors, including governmental monetary policies, inflation, domestic and international economic and political conditions and other factors beyond our control.

Our portfolios of "other investments" and equity securities expose us to market price variability, driven by a number of factors outside our control including, but not limited to, global equity market performance.

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

Our derivative instrument counterparties may default on amounts owed to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Even if we are entitled to collateral in circumstances of default, such collateral may be illiquid or proceeds from such collateral when liquidated may not be sufficient to recover the full amount of the obligation.

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

In recent years, worldwide financial markets experienced unprecedented volatility and disruption including, among other things, dislocation in the mortgage and asset-backed securities markets, deleveraging and decreased liquidity generally, widening of credit spreads, bankruptcies and government intervention in a number of large financial institutions. These events resulted in extraordinary responses by governments worldwide, including the enactment of the Emergency Economic Stabilization Act of 2008 and the U.S. Recovery and Reinvestment Act in 2009 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd Frank"). This market turmoil affected (among other aspects of our business) the demand for and claims made under our products, the ability of customers, counterparties and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources and our investment performance. Although there have been indicators of stability returning to the financial markets, there continues to be significant uncertainty regarding the timeline for a full global economic recovery. As such, evolving market conditions may continue to affect our results of operations, financial position and capital resources. In the event that there is additional deterioration or volatility in financial markets or general economic conditions, our results of operations, financial position and/or liquidity, and competitive landscape could be materially and adversely affected.

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

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

We have limited terrorism coverage in our own reinsurance program for our exposure to catastrophe losses related to acts of terrorism. Furthermore, although the Terrorism Risk Insurance Extension Act of 2005 ("TRIEA") provides benefits in the event of certain acts of terrorism, those benefits are subject to a deductible and to other limitations. Under TRIEA, once our losses attributable to certain acts of terrorism exceed 20% of our direct commercial property and liability insurance premiums

for the preceding calendar year, the federal government will reimburse us for 85% of such losses in excess of this deductible. Notably, TRIEA does not provide coverage for reinsurance losses. Given the unpredictable frequency and severity of terrorism losses, as well as the limited terrorism coverage in our own reinsurance program, future losses from acts of terrorism could materially and adversely affect our results of operations, financial condition and/or liquidity in future periods. TRIEA may not be extended beyond 2014.

Our credit and political risk insurance line of business protects insureds with interests in foreign jurisdictions in the event governmental action prevents them from exercising their contractual rights and may also protect their assets against physical damage perils. The insurance provided may include cover for loss arising from expropriation, forced abandonment, license cancellation, trade embargo, contract frustration, non-payment, war on land or political violence (including terrorism, revolution, insurrection and civil unrest).

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

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

While we believe that our loss reserves at December 31, 2013 are adequate, new information, events or circumstances, unknown at the original valuation date, may lead to future developments in our ultimate losses being significantly greater or less than the reserves currently provided. The actual final cost of settling claims outstanding at December 31, 2013 as well as claims expected to arise from the unexpired period of risk is uncertain. There are many other factors that would cause our reserves to increase or decrease, which include, but are not limited to, changes in claim severity, changes in the expected level of reported claims, judicial action changing the scope and/or liability of coverage, changes in the legislative, regulatory, social and economic environment and unexpected changes in loss inflation.

Our twelve-year operating history, which includes periods of rapid growth, means that our loss reserve estimate places more reliance on industry benchmarks than may be the case for companies with longer operating histories; as a result, the potential for volatility in our estimated loss reserves may be more pronounced. When establishing our single point best estimate of loss reserves at December 31, 2013, our management considered actuarial estimates and applied informed judgment regarding qualitative factors that may not be fully captured in actuarial estimates. Such factors included, but were not limited to: the timing of the emergence of claims, volume and complexity of claims, social and judicial trends, potential severity of individual claims and the extent of internal historical loss data versus industry information.

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

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

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

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

We seek to mitigate our loss exposure by writing a number of our (re)insurance contracts on an excess of loss basis. Excess of loss (re)insurance indemnifies the insured against losses in excess of a specified amount. We generally limit the program size for each client on our insurance business and purchase reinsurance for many of our lines of business. In the case of proportional reinsurance treaties, we seek per occurrence limitations or loss and loss expense ratio caps to limit the impact of losses from any one event. In proportional reinsurance, the reinsurer shares a proportional part of the premiums and losses of the reinsured. We also seek to limit our loss exposure through geographic diversification. Geographic zone limitations involve significant underwriting judgments, including the determination of the area of the zones and the inclusion of a particular policy within a particular zone's limits. In addition, various provisions of our insurance policies and reinsurance contracts, such as limitations or exclusions from coverage or choice of forum negotiated to limit our risks may not be enforceable in the manner we intend. We cannot be sure that any of these loss limitation methods will be effective and mitigate our loss exposure. As a result of these risks, one or more catastrophe or other events could result in claims that substantially exceed our expectations, which could have a material adverse effect on our results of operations or financial condition.

**We utilize models to assist our decision making in key areas such as underwriting, reserving, reinsurance purchasing and the evaluation of our catastrophe risk but actual results could differ materially from model output.**

We employ various modeling techniques (e.g. scenarios, predictive, stochastic and/or forecasting) to analyze and estimate exposures, loss trends and other risks associated with our assets and liabilities. We utilize modeled outputs and related analyses to assist us in decision-making, for example related to underwriting and pricing, reserving, reinsurance purchasing and the evaluation of our catastrophe risk through estimates of probable maximum losses, or "PMLs". The modeled outputs and related analyses are subject to various assumptions, uncertainties and the inherent limitations of any statistical analysis, including the use of historical internal and industry data. Consequently, our actual losses from natural catastrophes, whether from individual components (e.g. wind, flood, earthquake, etc.) or in the the aggregate, may differ materially from our modeled results. If, based upon these models or other factors, we misprice our products or underestimate the frequency and/or severity of loss events, our results of operations or financial condition may be adversely affected.

With respect to the evaluation of our catastrophe risk, our modeling utilizes a mix of historical data, scientific theory and mathematical methods. Output from multiple commercially available vendor models serves as a key input in our PML estimation process. We believe that there is considerable uncertainty in the data and parameter inputs for these vendor models. In that regard, there is no universal standard in the preparation of insured data for use in the models and the running of modeling software. In our view, the accuracy of the models depends heavily on the availability of detailed insured loss data from actual recent large catastrophes. Due to the limited number of events, there is significant potential for substantial differences between the modeled loss estimate and actual company experience for a single large catastrophe event. This potential difference could be even greater for perils with limited or no modeled annual frequency. We perform our own vendor model validation (including sensitivity analysis and backtesting, where possible) and supplement model output with historical loss information and analysis and management judgment. In addition, we derive our own estimates for non-modeled perils. Despite this, our PML estimates are subject to a high degree of uncertainty and our actual losses from catastrophe events may differ materially.

**The risk associated with reinsurance underwriting could adversely affect us.**

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

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

In program business conducted by our insurance segment, following our underwriting, financial, claims and information technology due diligence reviews, we authorize managing general agents, general agents and other producers to write business on our behalf within underwriting authorities prescribed by us. Once a program commences, we must rely on the underwriting controls of these agents to write business within the underwriting authorities provided by us. Although we monitor our programs on an ongoing basis, our monitoring efforts may not be adequate or our agents may exceed their



underwriting authorities or otherwise breach obligations owed to us. To the extent that our agents exceed their authorities or otherwise breach obligations owed to us in the future, our results of operations and financial condition could be materially adversely affected.

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

We purchase reinsurance for our (re)insurance operations in order to mitigate the volatility of losses upon our financial results.

From time to time, market conditions have limited, and in some cases have prevented, (re)insurers from obtaining the types and amounts of reinsurance that they consider adequate for their business needs. There is no guarantee that our desired amounts of reinsurance or retrocessional reinsurance will be available in the marketplace in the future. In addition to capacity risk, the remaining capacity may not be on terms we deem appropriate or acceptable or with companies with whom we want to do business.

A reinsurer's insolvency, or inability or refusal to make payments under the terms of its reinsurance agreement with us, could have a material adverse effect on our business because we remain liable to the insured. We face counterparty risk whenever we purchase reinsurance or retrocessional reinsurance. Consequently, the insolvency, inability or unwillingness of any of our present or future reinsurers to make timely payments to us under the terms of our reinsurance or retrocessional agreements could have an adverse effect on us.

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

While technology can streamline many business processes and ultimately reduce the cost of operations, technology initiatives present certain risks. Our business is dependent upon our employees' and outsourcers' ability to perform, in an efficient and uninterrupted fashion, necessary business functions such as processing policies and paying claims. A shutdown or inability to access one or more of our facilities, a power outage, or a failure of one or more of our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis. If sustained or repeated, such a business interruption, system failure or service denial could result in a deterioration of our ability to write and process business, provide customer service, pay claims in a timely manner or perform other necessary business functions. Computer viruses, hackers and other external hazards including catastrophe events could expose our data systems to security breaches. These risks could expose us to data loss and damages. As a result, our ability to conduct our business might be adversely affected. To date, we have not experienced a material breach of cybersecurity. While administrative and technical controls, along with other preventative actions, reduce the risk of cyber incidents and protect our information technology, they may be insufficient to prevent cyber attacks and/or other security breaches to our computer systems.

**Our business may be adversely affected if third-party outsourced service providers fail to satisfactorily perform certain technology and business process functions.**

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

**Our operating results may be adversely affected by currency fluctuations.**

Our reporting currency is the U.S. dollar. However, a portion of our gross premiums are written in currencies other than the U.S. dollar and a portion of our loss reserves are in non-U.S. currencies. In addition, a portion of our investment portfolio is denominated in currencies other than the U.S. dollar. From time to time, we may experience losses resulting from fluctuations in the values of these non-U.S. currencies, which could adversely affect our operating results. Although we attempt to manage our foreign currency exposure through matching of our major foreign-denominated assets and liabilities, as well as

through use of currency derivatives, there is no guarantee that we will successfully mitigate our exposure to foreign exchange losses.

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

Our future capital requirements depend on many factors, including regulatory requirements, our ability to write new business successfully, the frequency and severity of catastrophe events and our ability to establish premium rates and reserves at levels sufficient to cover losses. We may need to raise additional funds through financings. If we are unable to do so, it may curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Equity financings could be dilutive to our existing shareholders and could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our other securities. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition could be adversely affected.

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

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

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

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

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

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

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

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

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

In recent years certain U.S. and non-U.S. judicial and regulatory authorities, including U.S. Attorney's Offices and certain state attorneys general, have commenced investigations into other business practices in the insurance industry. In addition, although the U.S. federal government has not historically regulated insurance, there have been proposals from time to time, and especially after the recent global financial crisis, to impose federal regulation on the insurance industry. For example, in 2010, Dodd-Frank established a Federal Insurance Office ("FIO") within the U.S. Treasury. The FIO initially has limited regulatory authority and is empowered to gather data and information regarding the insurance industry, and has conducted and submitted a study to the U.S. Congress on how to modernize and improve insurance regulation in the U.S. This study's findings are not expected to have a significant impact on the Company. Further, Dodd-Frank gives the Federal Reserve supervisory authority over a number of financial services companies, including insurance companies, if they are designated by a two-thirds vote of a Financial Stability Oversight Council as 'systemically important'. While we do not believe that we are systemically important, as defined in Dodd-Frank, Dodd-Frank or additional federal regulation that is adopted in the future could impose significant burdens on us, impact the ways in which we conduct our business, increase compliance costs, duplicate state regulation and/or could result in a competitive disadvantage.

Further, once the European Parliament approves Omnibus II, which will include a commencement date, our European legal entities will be subject to Solvency II regulations. Solvency II will replace the existing European Commission ("E.C.") (re)insurance legislation and has three pillars: (i) a risk based capital assessment, including the approval of internal capital models, (ii) a principles-based risk governance framework, and (iii) external regulatory disclosure obligations. Our European subsidiaries AXIS Specialty Europe and AXIS Re SE are working towards becoming Solvency II compliant. The Bermuda Monetary Authority ("BMA") is seeking "equivalence" under the Solvency II directive and the E.C. has completed a preliminary equivalence assessment, identifying certain areas for improvement prior to granting full equivalence. AXIS Specialty Limited is working towards meeting all BMA requirements. Many of the detailed requirements are still being finalized by the E.C. The final implementation of the Solvency II directive may require us to incur considerable expense in order to comply with the requirements and the adoption of new capital modeling rules could impact the levels of capital required to operate our Bermuda and European subsidiaries. Solvency II could also increase our compliance costs and impact the way in which we conduct our business and govern our subsidiaries.

While we cannot predict the exact nature, timing or scope of possible governmental initiatives, such proposals could adversely affect our business by, among other things:

- Providing reinsurance capacity in markets and to consumers that we target;
- Requiring our further participation in industry pools and guaranty associations;
- Expanding the scope of coverage under existing policies; e.g., following large disasters;
- Further regulating the terms of (re)insurance contracts; or
- Disproportionately benefiting the companies of one country over those of another.

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

We market our (re)insurance worldwide primarily through (re)insurance brokers and derive a significant portion of our business from a limited number of brokers. Marsh & McLennan Companies, Inc., including its subsidiary Guy Carpenter & Company, Inc., Aon Corporation and Willis Group Holdings Ltd., provided a total of 61% of our gross premiums written during 2013. Our relationships with these brokers are based on the quality of our underwriting and claim services, as well as our financial strength ratings. Any deterioration in these factors could result in the brokers advising our clients to place their business with other (re)insurers. In addition, these brokers also have, or may in the future acquire, ownership interests in insurance and reinsurance companies that may compete with us and these brokers may favor their own (re)insurers over other

companies. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.

**Our reliance on brokers subjects us to credit risk.**

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

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

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

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

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

Developments in accounting practices may require us to incur considerable additional expenses to comply with such developments, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements cannot be predicted but may affect the calculation of net income, shareholders' equity and other relevant financial statement line items.

In particular, the U.S. Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB", and together with the FASB, the "Boards") continue to work jointly on an insurance contract project, although the Boards acknowledge that the resulting standards will not converge. The FASB and IASB both issued Exposure Drafts during 2013 proposing accounting and reporting guidance for insurance contracts which could result in a material change from the current insurance accounting models toward more fair value-based models. Subsequently, during February 2014, the FASB decided that the core accounting framework will remain essentially unchanged for property and casualty (re)insurers although the financial statements disclosures will likely need to be enhanced.

Additionally, the Boards continue to develop a comprehensive model for accounting for and reporting of financial instruments, which may lead to further recognition of fair value changes through net income and changes in the way impairments are measured. Changes resulting from these two projects could have a significant impact on the earnings of (re) insurance industry participants. There remains uncertainty with respect to the final outcome of these two projects.

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

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

Under Bermuda law, non-Bermudians, with some limited exceptions, may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government only upon showing that, after proper public advertisement in most cases, no Bermudian or spouse of a Bermudian, holder of a

permanent resident certificate or holder of a working resident certificate who meets the minimum standard requirements for the advertised position has applied for the position. Work permits may be requested for one, three, five, six or, in certain circumstances for key executives, ten years. In January 2013, the Bermuda government abolished term limits. This removed the immigration policy put in place in 2001, which limited the duration of work permits for between six to nine years. All executive officers who work in our Bermuda office that require work permits have obtained them.

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

The (re)insurance industry is highly competitive. We compete on an international and regional basis with major U.S., Bermuda, European and other international (re)insurers and with Lloyd's underwriting syndicates, some of which have greater financial, marketing and management resources than we do. We also compete with new companies that continue to be formed to enter the (re)insurance markets. In addition, capital market participants have recently created alternative products that are intended to compete with reinsurance products. Increased competition could result in fewer submissions, lower premium rates, less favorable policy terms and conditions and greater costs of customer acquisition and retention. In addition, if industry pricing does not meet our hurdle rate, we may reduce our future underwriting activities. These factors could have a material adverse effect on our growth and profitability.

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

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

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

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

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

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

AXIS Capital is incorporated pursuant to the laws of Bermuda and our business is based in Bermuda. In addition, some of our directors and officers reside outside the United States, and all or a substantial portion of our assets and the assets of such persons are located in jurisdictions outside the United States. As a result, it may be difficult or impossible to effect service of process within the United States upon those persons or to recover against us or them on judgments of U.S. courts, including

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

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

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

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

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

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

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

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

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

The CBI has three months from the date of submission of a notification within which to oppose the proposed transaction if the CBI is not satisfied as to the suitability of the acquirer in view of the necessity "to ensure prudent and sound management

of the insurance undertaking concerned.” Any person owning 10% or more of the capital or voting rights or an amount that makes it possible to exercise a significant influence over the management of AXIS Capital would be considered to have a “qualifying holding” in AXIS Specialty Europe.

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

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

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

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

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

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

We intend to manage our business so that each of our non-U.S. companies will operate in such a manner that none of these companies should be subject to U.S. tax (other than U.S. excise tax on (re)insurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income), because none of these companies should be treated as engaged in a trade or business within the United States. However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, we cannot be certain that the U.S. Internal Revenue Service will not contend successfully that any of its non-U.S. companies is/are engaged in a trade or business in the United States. If any of our non-U.S. companies were considered to be engaged in a trade or business in the United States, it could be subject to U.S. corporate income and additional branch profits taxes on the portion of its earnings effectively connected to such U.S. business. If this were to be the case, our results of operations could be materially adversely affected.

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

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

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

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

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

Our U.K. resident companies and AXIS Specialty Europe should be treated as taxable in the United Kingdom. Any change in the basis or rate of U.K. corporation tax could materially adversely affect the operations of these companies.

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

We intend to operate our non-Irish resident companies in such a manner so that none of our non-Irish resident companies, should be resident in Ireland for tax purposes and that they should not be treated as carrying on a trade through a branch or agency in Ireland.

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

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

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

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

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



**Globally there are increasing efforts to modify the taxation of multi-national companies which may impact us.**

In the U.S., legislation has been introduced in the U.S. Congress intended to eliminate some perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United States, but have certain U.S. connections. Legislation had been introduced in Congress to limit the deductibility of reinsurance premiums paid by U.S. companies to non-U.S. affiliates. It is possible that this or similar legislation could be enacted by the current Congress or future Congresses that could have an adverse impact on us. In addition, existing interpretations of U.S. federal income tax laws could change and any such changes could likewise impact us adversely. Internationally, the Organization of Economic Cooperation and Development (“The OECD”) has initiated a consultation on Base Erosion and Profit Shifting. There is a risk that the final recommendations of the OECD could be implemented by certain jurisdictions in which we operate and such changes could impact us adversely.

**The price of our common shares may be volatile.**

There has been significant volatility in the market for equity securities. During 2013, 2012, and 2011 the price of our common shares fluctuated from a low of \$34.95 to a high of \$49.75, a low of \$30.35 to a high of \$38.80 and from a low of \$24.80 to a high of \$37.81, respectively. On February 20, 2014, our common shares closed at a price of \$43.66. The price of our common shares may not remain at or exceed current levels. The following factors, in addition to those described in other risk factors above, may have an adverse impact on the market price of our common stock:

- actual or anticipated variations in our quarterly results, including as a result of catastrophes or our investment performance;
- our share repurchase program;
- changes in market valuation of companies in the insurance and reinsurance industry;
- changes in expectations of future financial performance or changes in estimates of securities analysts;
- fluctuations in stock market processes and volumes;
- issuances or sales of common shares or other securities in the future;
- the addition or departure of key personnel; and
- announcements by us or our competitors of acquisitions, investments or strategic alliances.

Stock markets in the U.S. continue to experience volatile price and volume fluctuations. Such fluctuations, as well as the general political situation, current economic conditions or interest rate or currency rate fluctuations, could adversely affect the market price of our stock.

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**ITEM 1B. UNRESOLVED STAFF COMMENTS**

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We have no outstanding, unresolved comments from the SEC staff at December 31, 2013.

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**ITEM 2. PROPERTIES**

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

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**ITEM 3. LEGAL PROCEEDINGS**

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From time to time, we are subject to routine legal proceedings, including arbitrations, arising in the ordinary course of business. These legal proceedings generally relate to claims asserted by or against us in the ordinary course of insurance or reinsurance operations; estimated amounts payable under such proceedings are included in the reserve for losses and loss expenses in our Consolidated Balance Sheets.

We are not party to any material legal proceedings arising outside the ordinary course of business.

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**ITEM 4. MINE SAFETY DISCLOSURES**

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Not Applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

	2013			2012		
	High	Low	Dividends Declared	High	Low	Dividends Declared
1st Quarter	\$ 41.98	\$ 34.95	\$ 0.25	\$ 33.52	\$ 30.35	\$ 0.24
2nd Quarter	\$ 46.88	\$ 41.29	\$ 0.25	\$ 35.12	\$ 30.60	\$ 0.24
3rd Quarter	\$ 48.39	\$ 41.87	\$ 0.25	\$ 36.45	\$ 32.03	\$ 0.24
4th Quarter	\$ 49.75	\$ 43.42	\$ 0.27	\$ 38.80	\$ 33.65	\$ 0.25

On January 13, 2014, the number of holders of record of our common shares was 26. This figure does not represent the actual number of beneficial owners of our common shares because shares are frequently held in "street name" by securities dealers and others for the benefit of beneficial owners who may vote the shares.

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

#### ISSUER PURCHASES OF EQUITY SECURITIES

The following table provides information regarding the number of common shares we repurchased in the quarter ended December 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(a)</sup>	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Announced Plans or Programs <sup>(b)</sup>
October 1-31, 2013	1,678	\$44.99	—	\$408.9 million
November 1-30, 2013	1,572,891	\$48.56	1,564,889	\$332.9 million
December 1-31, 2013	753,670	\$48.15	749,101	\$750.0 million
<b>Total</b>	<b>2,328,239</b>		<b>2,313,990</b>	<b>\$750.0 million</b>

- (a) From time to time, we purchase shares in connection with the vesting of restricted stock awards granted to our employees under our 2007 Long-Term Equity Compensation Plan. The purchase of these shares is separately authorized and is not part of our Board-authorized share repurchase program, described below.
- (b) On September 24, 2010, our Board of Directors approved a share repurchase plan to repurchase up to \$750 million of our common shares until December 31, 2012. On December 17, 2012, our Board of Directors authorized a new share repurchase plan to repurchase \$750 million of our common shares through to December 31, 2014. On December 9, 2013, our Board of Directors authorized a new share repurchase plan for up to \$750 million of our common shares through December 31, 2015. The new share repurchase authorization, effective January 1, 2014, replaced the previous plan which had \$308.9 million available until the end of 2013. Share repurchases may be effected from time to time in open market or privately negotiated transactions, depending on market conditions.

## ITEM 6. SELECTED FINANCIAL DATA

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

	At and For the year Ended December 31,				
	2013	2012	2011	2010	2009
(in thousands, except per share amounts)					
<b>Selected Statement of Operations Data:</b>					
Gross premiums written	\$ 4,697,041	\$ 4,139,643	\$ 4,096,153	\$ 3,750,536	\$ 3,587,295
Net premiums earned	3,707,065	3,415,463	3,314,961	2,947,410	2,791,764
Net investment income	409,312	380,957	362,430	406,892	464,478
Net realized investment gains (losses)	75,564	127,469	121,439	195,098	(311,584)
Net losses and loss expenses	2,134,195	2,096,028	2,675,052	1,677,132	1,423,872
Acquisition costs	664,191	627,653	587,469	488,712	420,495
General and administrative expenses	575,390	560,981	459,151	449,885	370,157
Interest expense and financing costs	61,979	61,863	62,598	55,876	32,031
Preferred share dividends	40,474	38,228	36,875	36,875	36,875
Net income available to common shareholders	\$ 683,910	\$ 495,004	\$ 9,430	\$ 819,848	\$ 461,011
<b>Per Common Share Data:</b>					
Basic earnings per common share	\$ 6.02	\$ 4.05	\$ 0.08	\$ 6.74	\$ 3.36
Diluted earnings per common share	5.93	4.00	0.07	6.02	3.07
Cash dividends declared per common share	\$ 1.02	\$ 0.97	\$ 0.93	\$ 0.86	\$ 0.81
Basic weighted average common shares outstanding	113,636	122,148	122,499	121,728	137,279
Diluted weighted average common shares outstanding	115,328	123,654	128,122	136,199	150,371
<b>Operating Ratios:<sup>(1)</sup></b>					
Net loss and loss expense ratio	57.6%	61.4%	80.7%	56.9%	51.0%
Acquisition cost ratio	17.9%	18.4%	17.7%	16.6%	15.1%
General and administrative expense ratio	15.5%	16.4%	13.9%	15.2%	13.2%
Combined ratio	91.0%	96.2%	112.3%	88.7%	79.3%
<b>Selected Balance Sheet Data:</b>					
Investments	\$ 13,780,336	\$ 13,546,894	\$ 12,466,889	\$ 11,524,166	\$ 10,622,104
Cash and cash equivalents	987,876	850,550	1,082,838	1,045,355	864,054
Reinsurance recoverable on unpaid and paid losses	1,929,988	1,863,819	1,770,329	1,577,547	1,424,172
Total assets	19,634,784	18,852,344	17,806,059	16,445,731	15,306,524
Reserve for losses and loss expenses	9,582,140	9,058,731	8,425,045	7,032,375	6,564,133
Unearned premiums	2,683,849	2,454,692	2,454,462	2,333,676	2,209,397
Senior notes	995,855	995,245	994,664	994,110	499,476
Total shareholders' equity attributable to AXIS Capital	\$ 5,817,962	\$ 5,779,761	\$ 5,444,079	\$ 5,624,970	\$ 5,500,244
Book value per common share <sup>(2)</sup>	\$ 47.40	\$ 44.75	\$ 39.37	\$ 45.60	\$ 37.84
Diluted book value per common share <sup>(2)</sup>	\$ 45.80	\$ 42.97	\$ 38.08	\$ 39.37	\$ 33.65
Common shares outstanding	109,485	117,920	125,588	112,393	132,140
Common shares outstanding - diluted	113,325	122,793	129,818	130,189	148,596

(1) Operating ratios are calculated by dividing the respective operating expenses by net premiums earned.

(2) Book value per common share and diluted book value per common share are based on total common shareholders' equity divided by common shares and diluted common share equivalents outstanding, respectively.

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

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The following is a discussion and analysis of our results of operations for the years ended December 31, 2013, 2012 and 2011 and our financial condition at December 31, 2013 and 2012. This should be read in conjunction with the Consolidated Financial Statements and related notes included in Item 8 of this report. Tabular dollars are in thousands, except per share amounts. Amounts in tables may not reconcile due to rounding differences.

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## 2013 FINANCIAL HIGHLIGHTS

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### 2013 Consolidated Results of Operations

- Net income available to common shareholders of \$684 million, or \$6.02 per common share and \$5.93 per diluted common share
- Operating income of \$633 million, or \$5.49 per diluted common share<sup>(1)</sup>
- Gross premiums written of \$4.7 billion
- Net premiums written of \$3.9 billion
- Net premiums earned of \$3.7 billion
- Net favorable prior year reserve development of \$219 million
- Estimated aggregate natural catastrophe and weather-related pre-tax net losses (net of related reinstatement premiums) of \$198 million
- Underwriting income of \$428 million and combined ratio of 91.0%
- Net investment income of \$409 million
- Net realized investment gains of \$76 million

### 2013 Consolidated Financial Condition

- Total cash and investments of \$14.8 billion; fixed maturities, cash and short-term securities comprise 88% of total cash and investments and have an average credit rating of AA-
- Total assets of \$19.6 billion
- Reserve for losses and loss expenses of \$9.6 billion and reinsurance recoverable of \$1.9 billion
- Total debt of \$996 million and a debt to total capital ratio of 14.6%
- Repurchased 10.8 million common shares for total cost of \$472 million; remaining authorization under the repurchase program approved by our Board of Directors of \$723 million at February 20, 2014
- Common shareholders' equity of \$5.2 billion; diluted book value per common share of \$45.80

(1) Operating income (loss) is a non-GAAP financial measure as defined in SEC Regulation G. See 'Non-GAAP Financial Measures' for reconciliation to nearest GAAP financial measure (net income available to common shareholders).

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## EXECUTIVE SUMMARY

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### **Business Overview**

We are a Bermuda-based global provider of specialty lines insurance and treaty reinsurance products with operations in Bermuda, the United States, Europe, Singapore, Canada, Australia and Latin America. Our underwriting operations are organized around our two global underwriting platforms, AXIS Insurance and AXIS Reinsurance.

Our mission is to provide our clients and distribution partners with a broad range of risk transfer products and services and meaningful capacity, backed by significant financial strength. We manage our portfolio holistically, aiming to construct the optimum consolidated portfolio of funded and unfunded risks, consistent with our risk appetite and development of our franchise. We nurture an ethical, entrepreneurial and disciplined culture that promotes outstanding client service, intelligent risk taking and the achievement of superior risk-adjusted returns for our shareholders. We believe that the achievement of our objectives will position us as a leading global, diversified specialty insurance and reinsurance company, as measured by quality, sustainability and profitability. Our execution on this mission in 2013 included:

- expansion of our agriculture reinsurance business;
- continued expansion of our accident and health line, which launched in 2010 and is focused on specialty accident and health products;
- the addition of a number of underwriting and support staff, including growth in specialized areas such as surety, primary casualty, weather and commodity markets and third party capital, as we continue to build-out the Company's global platform, explore opportunities in new and existing lines of business and grow our business internationally;
- the expansion of the Company's global underwriting platform, facilitated through the establishment of a new syndicate at Lloyd's which commenced operations on January 1, 2014 and provides us with access to Lloyd's worldwide licenses and an extensive distribution network; and
- the continued focus on lines of business with attractive rates.

In addition, we issued \$225 million of 5.50% Series D preferred shares and used a portion of the net proceeds to redeem the \$100 million of 7.25% Series A preferred shares outstanding. The execution of these transactions reduced the weighted average annual dividend rate on our preferred equity capital base by 57 basis points to 6.385%, with a minimal impact on our financial leverage.

During September 2013, A.M. Best upgraded the financial strength rating of each of our principal operating insurance and reinsurance subsidiaries to a financial strength rating of A+ (Stable) (see *'Liquidity and Capital Resources - Financial Strength Ratings'* for more detail).

## Results of Operations

Year ended December 31,	2013	% Change	2012	% Change	2011
Underwriting income (loss):					
Insurance	\$ 84,749	29%	\$ 65,477	87%	\$ 35,034
Reinsurance	343,220	74%	197,660	nm	(362,260)
Net investment income	409,312	7%	380,957	5%	362,430
Net realized investment gains	75,564	(41%)	127,469	5%	121,439
Other expenses, net	(185,380)	(17%)	(224,322)	103%	(110,338)
Net income	727,465	33%	547,241	nm	46,305
Preferred share dividends	(40,474)	6%	(38,228)	4%	(36,875)
Loss on repurchase of preferred shares	(3,081)	(78%)	(14,009)	—%	—
<b>Net income available to common shareholders</b>	<b>\$ 683,910</b>	<b>38%</b>	<b>\$ 495,004</b>	<b>nm</b>	<b>\$ 9,430</b>
<b>Operating income (loss)</b>	<b>\$ 633,072</b>	<b>50%</b>	<b>\$ 421,523</b>	<b>nm</b>	<b>\$ (153,912)</b>

nm – not meaningful

### Underwriting Results

**2013 versus 2012:** The \$165 million improvement in our underwriting result during 2013 was primarily due to a reduction in the frequency and severity of natural catastrophe and weather-related losses. In 2012 we recognized pre-tax net losses (net of related reinstatement premiums) of \$331 million for Storm Sandy and an aggregate \$105 million for the impact of severe drought conditions on U.S. crops, Hurricane Isaac and first and second quarter 2012 U.S. weather events. Comparatively, in 2013, we recognized pre-tax net aggregate losses (net of related reinstatement premiums) of \$198 million related to worldwide natural catastrophe and weather-related events. Growth in net premiums earned across both segments also contributed favorably. These improvements were partially offset by increases in the current accident year loss ratios, exclusive of the natural catastrophe and weather-related losses, for both segments and a \$25 million reduction in net favorable prior year reserve development.

Our insurance segment's underwriting income increased by \$19 million in 2013. Underwriting income for 2012 included pre-tax net losses (inclusive of related premiums to reinstate reinsurance protection) of \$178 million for Storm Sandy and an aggregate \$44 million for Hurricane Isaac and first and second quarter 2012 U.S. weather events. Comparatively, in 2013, we incurred \$93 million of pre-tax aggregate net losses related to worldwide natural catastrophe and weather-related events. Growth in net premiums earned (driven by the expansion of our business over the past year) also benefited the segment's results. The increases were partially offset by a \$72 million decrease in net favorable prior year reserve development and the increase in the current accident year loss ratio, exclusive of natural catastrophe and weather-related losses.

Our reinsurance segment's underwriting result improved by \$146 million in 2013. The increase was primarily attributable to the significantly lower level of natural catastrophe and weather-related losses. In 2012, we recognized pre-tax net losses (net of related reinstatement premiums) of \$153 million for Storm Sandy and an aggregate \$60 million for the impact of severe drought conditions on U.S. crops, Hurricane Isaac and first and second quarter 2012 U.S. weather events. Comparatively, in 2013, we incurred \$105 million of pre-tax aggregate net losses (net of related reinstatement premiums) related to worldwide natural catastrophe and weather-related events. Other positive factors included a \$46 million increase in net favorable prior year reserve development and an increase in net premiums earned. These were partially offset by an increase in the current accident year loss ratio, exclusive of the natural catastrophe and weather-related losses, and an increase in general and administrative expenses.

**2012 versus 2011:** The \$590 million improvement in our underwriting result during 2012 was largely due to a reduction in the frequency and severity of natural catastrophe and weather-related losses. During 2011, we recognized aggregate pre-tax net losses (net of related reinstatement premiums) of \$931 million for numerous catastrophe and weather events, including: the 2011 New Zealand earthquakes, the Japanese earthquake and tsunami, the series of severe U.S. storms and tornadoes in April/May 2011, Australian weather events (January floods and Cyclone Yasi), floods in Thailand and Denmark, Hurricane Irene and Tropical Storm Lee. Comparatively, in 2012, we recognized pre-tax aggregate natural catastrophe and weather-related net losses (net of related reinstatement premiums) of \$436 million. Growth in net premiums earned in our insurance segment and improvements in the current accident year loss ratios, exclusive of the natural catastrophe and weather-related losses, for both segments further contributed; this was partially offset by a \$13 million reduction in net favorable prior year reserve development and growth in general and administrative expenses.



Our insurance segment's underwriting income for 2011 included aggregate pre-tax net losses (inclusive of premiums to reinstate reinsurance protection) of \$157 million related to the 2011 natural catastrophe and weather-related events noted above. Comparatively, underwriting income for 2012 included pre-tax net losses (inclusive of related premiums to reinstate reinsurance protection) of \$222 million for 2012 natural catastrophe and weather-related events. Despite increased catastrophe and weather-related losses in 2012, underwriting income for the segment improved due to growth in net premiums earned, an improvement in the current accident year loss ratio, exclusive of catastrophe and weather activity and a \$19 million increase in net favorable prior year reserve development. This was partially offset by commensurate growth in acquisition costs and general and administrative expenses.

The improvement in the reinsurance segment's underwriting result of \$560 million was primarily attributable to the significantly lower level of natural catastrophe and weather-related losses. The segment's underwriting loss for 2011 included aggregate pre-tax natural catastrophe and weather-related net losses (net of related reinstatement premiums) of \$774 million for the 2011 events noted above. Comparatively, in 2012, we recognized pre-tax natural catastrophe and weather-related net losses (net of related reinstatement premiums) of \$214 million. An improvement in the current accident year loss ratio, exclusive of these catastrophe and weather-related losses, further contributed to the improvement in 2012. Partially offsetting these improvements was a \$32 million reduction in net favorable prior year reserve development, a reduction in net premiums earned and increases in acquisition costs and general and administrative expenses.

### ***Net Investment Income***

The net investment income increase in 2013 compared to 2012 and in 2012 compared 2011, respectively, was primarily due to the performance of our Other investments. Income from this portfolio increased by \$41 million in 2013 compared to 2012, driven by the continued strong performance of our hedge funds, which reflected the strong performance of both global equities and bank loans. Similarly, income from other investments increased \$56 million in 2012 compared to 2011, due to improved performance of both global equities and bank loans over the prior year.

Excluding income from our other investments, net investment income decreased by \$13 million and \$37 million in 2013 and 2012, respectively. These decreases were largely attributable to our fixed maturity portfolio, where lower reinvestment yields drove reductions in income despite higher investment balances.

### ***Net Realized Investment Gains***

During each period presented, we realized net investment gains. During 2013, sales of equities were the largest contributor to the net realized gains while sales of fixed maturities were the primary driver in 2012 and 2011. Other-than-temporary impairment ("OTTI") charges were \$9 million, \$24 million and \$16 million in 2013, 2012 and 2011, respectively.

### ***Other Expenses, Net***

Appreciation in the euro and the Sterling against the U.S. dollar drove foreign exchange losses of \$26 million and \$30 million in 2013 and 2012, related to the remeasurement of our foreign-denominated net insurance-related liabilities. The 2013 loss was partially offset by the depreciation in the Australian dollar. In 2011, depreciation in the euro and the Sterling resulted in foreign exchange gains of \$45 million.

Excluding these foreign exchange-related amounts, other expenses were \$159 million, \$195 million and \$155 million in 2013, 2012 and 2011 respectively. A \$53 million increase in corporate expenses impacted other expenses in 2012. Separation payments and accelerated and incremental share-based compensation costs related to our second quarter 2012 senior leadership transition totaled \$34 million and were the primary driver of this increase. Partially offsetting the increase in corporate expenses was a \$12 million reduction in tax expense, as the impact of Storm Sandy led to minimal taxable income in the U.S. for 2012.

The \$36 million decrease in 2013 was primarily driven by the reduction in corporate expenses and reflected the impact of the senior leadership transition costs discussed above on 2012.

## ***Preferred Share Dividends and Loss on Repurchase of Preferred Shares***

The increase in preferred share dividends in 2013 and 2012 was driven by the increase in preferred equity capital.

During the first half of 2013 we issued \$225 million of 5.50% Series D preferred shares. The increase in preferred share dividends for 2013 includes the accrual and payment of dividends relating to the new Series D issue and is partially offset by the reduction in the weighted average annual dividend rate on our preferred equity capital base described above (see 'Business Overview'). The Series D preferred share proceeds were partially used to redeem the \$100 million of 7.25% Series A preferred shares outstanding. The redemption of the Series A preferred shares resulted in a recognition of a loss on repurchase of preferred shares, reflecting initial issue costs of \$3 million.

During 2012, in conjunction with the issuance of our 6.875% Series C preferred shares in the first quarter of 2012, we redeemed \$150 million of our 7.25% Series A preferred shares and repurchased \$247 million of our 7.50% Series B preferred shares via tender offer. The Series B tender offer resulted in the recognition of a \$9 million loss, with \$7 million of the loss relating to the premium paid to repurchase the shares in advance of the first eligible redemption date. The remaining \$2 million loss, as well as a \$5 million loss associated with the Series A redemption, related to the recognition of the proportionate share of issue costs as an expense; as these issue costs were recognized in shareholders' equity in the period of issuance, these amounts did not impact book value.

See Item 8, note 13 to the Consolidated Financial Statements for further details.

### **Outlook**

Management expects gross premiums written to increase across both of our segments in 2014 with a continued focus on diversification and pursuit of opportunities to expand our reach in areas where we believe returns are most attractive.

In the primary insurance market we observed a slowdown in the favorable pricing momentum observed in the recent years. Despite the reduction in pricing trends, we continue to observe good fundamentals in many of our insurance lines and markets. Noting variations between different lines of business, we believe that the United States market will continue to provide opportunities for growth, with the international markets coming under increasing pricing pressures.

We believe that the global reinsurance market is currently showing signs of a supply and demand imbalance with an increase in new alternative capacity entering the market, coupled with strong capital positions of established reinsurers having a negative impact on both pricing and terms and conditions. While we believe that established insurers maintain an advantage in the access to attractively-priced business, it will be the focus on targeted lines of business such as agriculture that will provide the key drivers for premium growth. Management expects the competitive market conditions to remain for the rest of the year.

### **Financial Measures**

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

<b>Year ended and at December 31,</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
ROACE <sup>(1)</sup>	<b>13.1%</b>	9.7%	0.2%
Operating ROACE <sup>(2)</sup>	<b>12.1%</b>	8.2%	(3.1%)
Diluted book value per common share <sup>(3)</sup>	<b>\$ 45.80</b>	\$ 42.97	\$ 38.08
Cash dividends declared per common share	<b>1.02</b>	0.97	0.93
Increase (decrease) in diluted book value per common share adjusted for dividends	<b>\$ 3.85</b>	\$ 5.86	\$ (0.36)

- (1) Return on average common equity ("ROACE") is calculated by dividing net income available to common shareholders for the period by the average shareholders' equity determined by using the common shareholders' equity balances at the beginning and end of the period.
- (2) Operating ROACE is calculated by dividing operating income (loss) for the period by the average common shareholders' equity determined by using the common shareholders' equity balances at the beginning and end of the period. Operating ROACE is a non-GAAP financial measure, as defined in SEC Regulation G. See 'Non-GAAP Financial Measures' for additional information and a reconciliation to the nearest GAAP financial measure (ROACE).
- (3) Diluted book value per common share represents total common shareholders' equity divided by the number of common shares and diluted common share equivalents outstanding, determined using the treasury stock method.

## **Return on equity**

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

The improvement in our underwriting result, driven by the lower level of natural catastrophe and weather-related losses previously discussed, was the primary contributor to the improved operating ROACE in 2013 compared to 2012, and in 2012 compared to 2011. The increases in both periods were also aided by growth in net investment income. A decrease in corporate expenses contributed favorably to the increase in the ROACE for 2013. In contrast, in 2012, the increase in corporate expenses discussed above had a negative impact on the ROACE.

In addition to the items noted above for operating ROACE, ROACE is also impacted by net realized investment gains, foreign exchange losses (gains) and the loss on repurchase of preferred shares. The magnitude of our net realized investment gains resulted in these amounts contributing favorably, in aggregate, to our results for both 2013 and 2012; thus ROACE exceeded operating ROACE.

Our underwriting loss, driven by natural catastrophe and weather-related losses, was the primary driver of the negative operating ROACE for 2011. Our combined net realized investment gains and foreign exchange gains for 2011 were sufficient for us to recognize net income for the period; as such, our ROACE for the year was marginally positive.

## **Diluted book value per common share**

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

During 2013, our diluted book value per common share appreciated by 7%, driven by \$684 million in net income available to common shareholders. This was partially offset by the reduction in the unrealized gains on investments included in accumulated other comprehensive income due to the rise in sovereign yield curves during the year. During 2012, our diluted book value per common share appreciated by 13%, driven by \$495 million in net income available to common shareholders, an overall improvement in valuations for our available-for-sale securities and, to a lesser extent, the execution of common share repurchases at a discount to book value.

## **Cash dividends per common share**

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

## **Diluted book value per common share adjusted for dividends**

Taken together, we believe that growth in diluted book value per common share and common share dividends declared represent the total value created for our common shareholders. Despite the impact of catastrophe events, 2013 and 2012 reflected positive value creation for our shareholders. In 2013 our net income, in addition to the dividends declared, more than offset the impact of the upward shift in the sovereign yield curves. In 2012 our net income, combined with valuation improvements on our available-for-sale securities and common share repurchases executed at a discount to book value led the increases in diluted book value per common share; dividends declared provided additional value for our common shareholders. The global frequency and severity of catastrophe activity in 2011 drove a small reduction in shareholder value for that year.

## UNDERWRITING RESULTS – GROUP

The following table provides our group underwriting results for the periods indicated. Underwriting income (loss) is a pre-tax measure of underwriting profitability that takes into account net premiums earned and other insurance related income as revenues and net losses and loss expenses, acquisition costs and underwriting-related general and administrative costs as expenses.

Year ended December 31,	2013	% Change	2012	% Change	2011
<b>Revenues:</b>					
Gross premiums written	\$ 4,697,041	13%	\$ 4,139,643	1%	\$ 4,096,153
Net premiums written	3,928,200	18%	3,337,456	(2%)	3,419,434
Net premiums earned	3,707,065	9%	3,415,463	3%	3,314,961
Other insurance related income	4,424		2,676		2,396
<b>Expenses:</b>					
Current year net losses and loss expenses	(2,353,631)		(2,340,868)		(2,932,513)
Prior year reserve development	219,436		244,840		257,461
Acquisition costs	(664,191)		(627,653)		(587,469)
Underwriting-related general and administrative expenses <sup>(1)</sup>	(485,134)		(431,321)		(382,062)
<b>Underwriting income (loss)<sup>(2)</sup></b>	<b>\$ 427,969</b>	<b>63%</b>	<b>\$ 263,137</b>	<b>nm</b>	<b>\$ (327,226)</b>
<b>General and administrative expenses<sup>(1)</sup></b>	<b>\$ 575,390</b>		<b>\$ 560,981</b>		<b>\$ 459,151</b>
<b>Income before income taxes<sup>(2)</sup></b>	<b>\$ 734,467</b>		<b>\$ 550,528</b>		<b>\$ 61,538</b>

nm - not meaningful

- (1) Underwriting-related general and administrative expenses is a non-GAAP measure as defined in SEC Regulation G. Our total general and administrative expenses also included \$90,256, \$129,660 and \$77,089 of corporate expenses for 2013, 2012 and 2011, respectively; refer to 'Other Expenses, Net' for additional information related to these corporate expenses. Also, refer to 'Non-GAAP Financial Measures' for further information.
- (2) Group (or consolidated) underwriting income (loss) is a non-GAAP financial measure as defined in SEC Regulation G. See Item 8, Note 3 to the Consolidated Financial Statements, for a reconciliation of consolidated underwriting income (loss) to the nearest GAAP financial measures (income before income taxes) for the periods indicated above. Also, refer to 'Non-GAAP Financial Measures' for additional information related to the presentation of consolidated underwriting income (loss).

## UNDERWRITING REVENUES

### *Premiums Written:*

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

Year ended December 31,	Gross Premiums Written				
	2013	% Change	2012	% Change	2011
Insurance	\$ 2,559,138	11%	\$ 2,309,481	9%	\$ 2,121,829
Reinsurance	2,137,903	17%	1,830,162	(7%)	1,974,324
<b>Total</b>	<b>\$ 4,697,041</b>	<b>13%</b>	<b>\$ 4,139,643</b>	<b>1%</b>	<b>\$ 4,096,153</b>
<b>% ceded</b>					
Insurance	29%	(5) pts	34%	3 pts	31%
Reinsurance	1%	— pts	1%	— pts	1%
<b>Total</b>	<b>16%</b>	<b>(3) pts</b>	<b>19%</b>	<b>2 pts</b>	<b>17%</b>
<b>Net Premiums Written</b>					
	<b>2013</b>	<b>% Change</b>	<b>2012</b>	<b>% Change</b>	<b>2011</b>
Insurance	\$ 1,813,538	19%	\$ 1,522,245	4%	\$ 1,466,134
Reinsurance	2,114,662	16%	1,815,211	(7%)	1,953,300
<b>Total</b>	<b>\$ 3,928,200</b>	<b>18%</b>	<b>\$ 3,337,456</b>	<b>(2%)</b>	<b>\$ 3,419,434</b>

**2013 versus 2012:** Gross premiums written growth of 13% was driven by increases in both segments. Increase of 11% in the insurance segment was driven by the accident & health, liability and professional lines. The accident & health line continued to reflect new business expansion. Liability growth was driven by select new business opportunities and, to a lesser extent, rate increases in the U.S wholesale excess casualty market. Growth in the professional lines was largely due to new business as we continue our global expansion.

Reinsurance segment gross premiums written grew by 17% reflecting increases across most lines of business and these increases were most pronounced in agriculture, professional and property lines. The increase in the agriculture line reflected the continuing initiative to grow this line of business and related primarily to growth on the proportional U.S. business with a contribution from global excess of loss business. The professional lines increase primarily reflected new business opportunities. The property line increased primarily due to new business and the expansion of worldwide client relationships.

The five point decrease in the ceded premium ratio for our insurance segment was driven by changes in our reinsurance purchasing and business mix changes. Reductions related to changes in our reinsurance purchasing included excess of loss treaty reductions driven by both retention and rate, and proportional changes related to reductions in the cession rates on our professional lines and liability programs on renewal during 2013. Changes in business mix related to growth in our accident and health business for which we did not purchase significant reinsurance.

In 2013, the Company obtained catastrophe protection for both our segments through a reinsurance agreement with Northshore Re Limited ("Northshore"). In connection with the reinsurance agreement, Northshore issued notes to unrelated investors in an amount equal to the full \$200 million of coverage provided under the reinsurance agreement covering a three year period. The Company performed an evaluation of Northshore to determine if it meets the definition of a variable interest entity ("VIE"). The Company concluded that Northshore is a VIE, however, the Company does not have a variable interest in the entity, as the variability in results is expected to be absorbed entirely by the investors in Northshore. Accordingly, Northshore is not consolidated in the Company's consolidated financial statements. The premium ceded to Northshore during 2013 was \$14 million.

**2012 versus 2011:** Gross premiums written growth was driven by a \$188 million increase in our insurance segment. The increase was driven by professional and liability lines reflecting new business opportunities and rate improvements. Our recently established accident & health line also continued to generate new business. Partially offsetting this growth was a reduction in gross premiums written in our reinsurance segment, primarily related to the repositioning of our catastrophe reinsurance portfolio throughout 2012. Other reductions were noted in the property line due to reduced purchasing by certain

of our clients and our evaluation of risk/return characteristics, and trade credit and bond line, as we managed our European exposure base in light of existing economic conditions and changes in contract terms.

The three point increase in the ceded premium ratio for our insurance segment was driven by changes in our reinsurance purchasing, primarily higher cession rates on our professional lines quota share reinsurance program. Business mix changes, driven by growth in our liability business, also contributed.

### ***Net Premiums Earned:***

Net premiums earned by segment were as follows:

Year ended December 31,	2013		2012		2011		% Change	
							12 to 13	11 to 12
Insurance	\$ 1,722,762	46%	\$ 1,558,058	46%	\$ 1,429,687	43%	11%	9%
Reinsurance	1,984,303	54%	1,857,405	54%	1,885,274	57%	7%	(1%)
<b>Total</b>	<b>\$ 3,707,065</b>	<b>100%</b>	<b>\$ 3,415,463</b>	<b>100%</b>	<b>\$ 3,314,961</b>	<b>100%</b>	<b>9%</b>	<b>3%</b>

Changes in net premiums earned reflect period to period changes in net premiums written and business mix, together with normal variability in premium earning patterns.

**2013 versus 2012:** Growth in net premiums earned of 9% reflects increases in both segments. Growth in the insurance segment was primarily driven by the recent growth in gross premiums written in our accident & health line. Net premiums earned for property, liability and professional lines also increased driven by growth in gross written premiums and reductions in premiums ceded discussed above. The increase in the gross premiums written in the agriculture line during 2013, described above, was the primary driver of the increase in net premiums earned for our reinsurance segment.

**2012 versus 2011:** Growth in net premiums earned for our insurance segment was primarily driven by growth in gross premiums written in our accident & health line. Growth in our professional lines business also contributed, although this was tempered by an increase in premiums ceded. The reduction in catastrophe gross premiums written during 2012 was the primary driver of the decline in net premiums earned for our reinsurance segment.

### **UNDERWRITING EXPENSES**

The following table provides a breakdown of our combined ratio:

Year ended December 31,	2013	% Point Change	2012	% Point Change	2011
Current accident year loss ratio	63.5%	(5.0)	68.5%	(20.0)	88.5%
Prior year reserve development	(5.9%)	1.2	(7.1%)	0.7	(7.8%)
Acquisition cost ratio	17.9%	(0.5)	18.4%	0.7	17.7%
General and administrative expense ratio <sup>(1)</sup>	15.5%	(0.9)	16.4%	2.5	13.9%
<b>Combined ratio</b>	<b>91.0%</b>	<b>(5.2)</b>	<b>96.2%</b>	<b>(16.1)</b>	<b>112.3%</b>

(1) The general and administration expense ratio includes corporate expenses not allocated to underwriting segments of 2.4%, 3.8% and 2.4% for 2013, 2012 and 2011, respectively. These costs are further discussed in the 'Other Expenses, Net' section.

### **Current Accident Year Loss Ratio:**

**2013 versus 2012:** A lower level of natural catastrophe and weather-related losses in 2013 was the primary driver of the 5.0 point reduction in our current accident year loss ratio. 2013 includes \$198 million (net of reinstatement premiums) or 5.4 points of aggregate pre-tax net losses related to worldwide natural catastrophe and weather-related events. These natural catastrophe and weather-related losses impacted both our segments, with the insurance segment reporting \$93 million of pre-tax net losses (including reinstatement premiums) and reinsurance segment incurring pre-tax net losses of \$105 million (net of reinstatement premiums). Comparatively, 2012 includes \$436 million (net of reinstatements) or 12.7 points of natural catastrophe and weather-related losses. The most significant natural catastrophe event of 2012 was Storm Sandy with pre-tax net losses (net of reinstatement premiums) of \$331 million, with approximately half of this amount recognized in each of our

insurance and reinsurance segments. In addition, during 2012 we recognized pre-tax net losses of \$37 million in relation to the impact of severe drought conditions on U.S. crops and an aggregate \$68 million (net of reinstatement premiums) for first and second quarter U.S. weather events and Hurricane Isaac. While the crop-related losses were exclusive to our reinsurance segment, the other events impacted both of our segments.

After adjusting for the impact of the natural catastrophe and weather-related losses noted above, the current accident year loss ratio increased in 2013 driven primarily by a change in the mix of business written. In addition, during the second half of 2013 we experienced an increased level of loss activity in our insurance professional lines which led to an associated strengthening of the professional lines' current year loss ratio. The strengthening in our professional lines was largely driven by the loss experience in certain parts of our D&O business written in the United States. An increase in the level of losses in our reinsurance agriculture line also contributed to the current year ratio increase.

**2012 versus 2011:** A decrease in the natural catastrophe and weather-related losses was the primary driver of the 20 point reduction in the 2012 current accident year loss ratio, although the ratios for both years were significantly impacted by natural catastrophe events. In 2012, we recognized aggregate pre-tax net losses (net of related reinstatement premiums) of \$436 million primarily related to Storm Sandy. Comparatively, numerous notable natural catastrophe and significant weather events impacted our results in 2011, including earthquakes in New Zealand, the Japanese earthquake and tsunami, a series of severe U.S. storms and tornadoes, various Australian weather events, floods in Thailand and Denmark, Hurricane Irene and Tropical Storm Lee. In aggregate, we recognized pre-tax net losses (net of related reinstatement premiums) of \$931 million in relation to these events during 2011.

Exclusive of the impact of the natural catastrophe and weather-related losses noted above, the current accident year loss ratio improved during 2012 driven by improvements in both segments:

- Reduced exposure and loss experience related to aggregate property reinsurance of regional insurance companies in the U.S. drove an improvement in the reinsurance segment, though this was partially offset by a higher ratio for the trade credit and bond reinsurance business and business mix changes; and
- A lower level of loss activity in our property and marine lines of business and a reduction in the ratio for our credit and political risk business were the primary drivers of the improvement in our insurance segment.

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

### **Estimates for Significant Catastrophe Events**

Our estimated net losses in relation to the natural catastrophe events described above were derived from ground-up assessments of our in-force contracts and treaties providing coverage in the affected regions. These assessments take into account the latest information available from clients, brokers and loss adjusters. In addition, we consider industry insured loss estimates, market share analyses and catastrophe modeling analyses, when appropriate. Our estimates remain subject to change as additional loss data becomes available.

We continue to monitor paid and incurred loss development for catastrophe events of prior years and update our estimates of ultimate losses accordingly. Relating to the aggregate estimate for catastrophe events of 2010 to 2012, updated information received during 2013 resulted in revisions to our estimated ultimate losses for the 2010 and 2011 New Zealand earthquakes; our estimate for the 2010 accident year event increased by \$27 million and our estimates for the 2011 accident year events increased by \$32 million. These increases were largely offset by favorable development on other 2010 to 2012 natural catastrophe events.

The frequency and severity of natural catastrophe and weather-related activity was high in recent years and our December 31, 2013 net reserve for losses and loss expenses continues to include estimated amounts for numerous events. We caution that the magnitude and/or complexity of losses arising from certain of these events, in particular Storm Sandy, the Japanese earthquake and tsunami and the three New Zealand earthquakes, inherently increase the level of uncertainty and, therefore, the level of management judgment involved in arriving at our estimated net reserves for losses and loss expenses. As a result, our actual losses for these events may ultimately differ materially from our current estimates.

### Prior Year Reserve Development:

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

<b>Year ended December 31,</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Insurance	\$ 50,355	\$ 122,209	\$ 103,014
Reinsurance	169,081	122,631	154,447
<b>Total</b>	<b>\$ 219,436</b>	<b>\$ 244,840</b>	<b>\$ 257,461</b>

### Overview

Overall, the majority of the net favorable prior year reserve development related to short-tail lines of business. Net favorable prior year reserve development for liability reinsurance also contributed significantly in 2013 with professional lines contributing notably in 2012 and 2011. Favorable development in 2013 was partially offset by adverse development in the insurance professional and liability lines.

The underlying exposures in our property, marine and aviation reserving classes within our insurance segment and the property reserving class within our reinsurance segment largely relate to short-tail business. Development from these classes contributed \$162 million, \$186 million and \$178 million of the total net favorable prior year reserve development in 2013, 2012 and 2011, respectively, and primarily reflected the recognition of better than expected loss emergence.

In the first quarter of 2013, we began to give weight to actuarial methods that reflect our actual experience for liability reinsurance business, as we believe that our older accident years are now at a stage of expected development where such methods will produce meaningful actuarial indications. During 2013, we recognized \$85 million of net favorable prior year development, primarily reflecting the greater weight management is giving to experience based indications and our experience which has been favorable for the 2004 through 2008 accident years.

Our professional lines business recognized \$29 million of net adverse development in 2013. This increase in the reserves was due to a \$51 million adverse development in the insurance segment, reflecting worse than expected loss experience for the 2011-2012 accident years, due to worse than expected loss experience on certain parts of our U.S. D&O business, and the 2008-2009 accident years, due to developments on certain global financial crisis-related claims. Comparably in 2012 and 2011 professional lines contributed net favorable prior year reserve developments of \$54 million and \$105 million, respectively. The 2012 and 2011 favorable prior year reserve developments were driven by increased weight being given to experience-based actuarial methods in selecting our ultimate loss estimates for accident years 2009 and prior. During 2013, the transition to the experience-based actuarial methods had a favorable impact on 2010 and prior years, which partially offset the adverse development discussed above.

See 'Critical Accounting Estimates – Reserve for Losses and Loss Expenses' section for further details. We caution that conditions and trends that impacted the development of our reserve for losses and loss expenses in the past may not recur in the future.

The following sections provide further details on prior year reserve development by segment, reserving class and accident year.

### Insurance Segment:

<b>Year ended December 31,</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Property and other	\$ 47,780	\$ 63,919	\$ 55,779
Marine	48,482	37,322	21,910
Aviation	15,349	5,017	9,842
Credit and political risk	13,136	(143)	(13,764)
Professional lines	(50,882)	19,458	49,868
Liability	(23,510)	(3,364)	(20,621)
<b>Total</b>	<b>\$ 50,355</b>	<b>\$ 122,209</b>	<b>\$ 103,014</b>



In 2013, we recognized \$50 million of net favorable prior year reserve development, the principal components of which were:

- \$48 million of net favorable prior year reserve development on our property and other business, largely related to the 2010 and 2011 accident years and driven by better than expected loss emergence.
- \$48 million of net favorable prior year reserve development on marine business, spanning a number of accident years and largely related to better than expected loss emergence.
- \$15 million of net favorable prior year reserve development on aviation business, spanning a number of accident years and largely related to better than expected loss emergence.
- \$13 million of net favorable prior year reserve development on our credit and political risk business, largely related to the 2012 accident year and driven by better than expected loss emergence.
- \$51 million of net adverse prior year reserve development on professional lines business, primarily related to strengthening of certain parts of our U.S. D&O lines in the 2011 and 2012 accident years and development on global financial crisis-related claims in our 2008 and 2009 accident years, as discussed in the overview.
- \$24 million of net adverse prior year reserve development on liability business, related to developments on two particular claims and pertained to the 2009 and 2011 accident years.

In 2012, we recognized \$122 million of net favorable prior year reserve development, the principal components of which were:

- \$64 million of net favorable prior year reserve development on our property and other business, the majority of which related to the 2009 through 2011 accident years (\$42 million) and the 2008 accident year (\$17 million). While development was primarily driven by better than expected loss emergence, \$7 million of the 2008 accident year amount was due to the final settlement of two Hurricane Ike claims.
- \$37 million of net favorable prior year reserve development on marine business, spanning a number of accident years and largely related to better than expected loss emergence. The majority of this, \$21 million, related to offshore energy business.
- \$19 million of net favorable prior year reserve development on professional lines business, primarily related to the 2006 through 2008 accident years for the reasons discussed in the overview.

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

- \$56 million of net favorable prior year reserve development on our property and other business, the majority of which related to the 2010 (\$27 million), 2009 (\$9 million) and 2008 (\$10 million) accident years. While the 2010 and 2009 amounts primarily related to better than expected loss emergence, the 2008 amount largely related to updated information from a client with respect to one large loss event.
- \$22 million of net favorable prior year reserve development on marine business, spanning a number of accident years and related to better than expected loss emergence. The majority of this, \$21 million, related to offshore energy business.
- \$10 million of net favorable prior year reserve development on aviation business, spanning a number of accident years and driven by better than expected loss emergence.
- \$14 million of net adverse prior year reserve development on credit and political risk business, primarily driven by \$21 million in adverse development on the 2009 accident year as we reduced our recovery estimates based on the latest available information. Partially offsetting this amount was \$8 million in net favorable development on the 2007 and 2008 accident years.

- \$50 million of net favorable prior year reserve development on professional lines business. We recognized a total of \$60 million of net favorable development for 2004 through 2007 accident years, largely due to the reasons discussed in the overview. Partially offsetting this was the recognition of \$8 million of net adverse development on the 2010 accident year.
- \$21 million of net adverse prior year reserve development on liability business, primarily emanating from the 2010 accident year and related to the receipt of two notable claims.

**Reinsurance Segment:**

<b>Year ended December 31,</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Property and other	\$ 50,017	\$ 79,802	\$ 90,437
Credit and surety	6,328	12,254	39,806
Professional lines	21,845	34,291	55,628
Motor	6,260	(4,328)	(31,802)
Liability	84,631	612	378
<b>Total</b>	<b>\$ 169,081</b>	<b>\$ 122,631</b>	<b>\$ 154,447</b>

In 2013, we recognized \$169 million of net favorable prior year reserve development, the principal components of which were:

- \$50 million of net favorable prior year reserve development on property and other business, largely driven by better than expected loss emergence on the 2006 through 2009 and the 2012 accident years.
- \$22 million of net favorable prior year reserve development on professional lines reinsurance business, primarily related to the 2007 through 2009 accident years and driven by better than expected loss emergence, for the reasons discussed in the overview.
- \$85 million of net favorable prior year reserve development on liability reinsurance business for the reasons discussed in the overview.

In 2012, we recognized \$123 million of net favorable prior year reserve development, the principal components of which were:

- \$80 million of net favorable prior year reserve development on property and other business largely consisting of:
  - \$63 million of net favorable prior year reserve development on catastrophe and property business. Net favorable development was evident across all accident years, with the exception of 2011, and was largely due to better than expected loss emergence. We recognized net adverse development of \$18 million on the 2011 accident year, driven by the revision in our estimates for the New Zealand earthquakes.
  - \$16 million of net favorable prior year reserve development on crop business, largely related to the 2011 accident year and due to better than expected loss emergence. Of this amount, \$6 million related to updated information for one particular claim; the remainder was due to better than expected loss emergence.
- \$12 million of net favorable prior year reserve development on trade credit and bond reinsurance business, primarily related to the 2010 and 2011 accident years, in recognition of better than expected loss emergence and updated information from our cedants.
- \$34 million of net favorable prior year reserve development on professional lines reinsurance business, primarily related to the 2007, and to a lesser extent 2006, accident years for the reasons discussed in the overview.

Aggregate net prior year reserve development for our liability reserving class was insignificant during 2012; however, there were underlying favorable and adverse movements by accident year, driven by an underwriting to accident year reallocation for claims associated with a particular group of treaties.

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

- \$90 million of net favorable prior year reserve development on property and other business largely consisting of:
  - \$71 million of net favorable prior year reserve development on catastrophe and property business. This development primarily related to the 2007 through 2009 accident years and reflected better than expected loss emergence.
  - \$11 million of net favorable prior year reserve development on crop business, largely related to the 2010 accident year and due to better than expected loss emergence.
  - \$8 million in net favorable prior year reserve development on engineering business, primarily related to the 2007 through 2009 accident years and due to better than expected loss emergence.
- \$40 million of net favorable prior year reserve development on trade credit and bond reinsurance business, largely related to the 2009 and 2010 accident years, in recognition of better than expected loss emergence and updated information from our cedants.
- \$56 million of net favorable prior year reserve development on professional lines reinsurance business, primarily related to the 2005 through 2007 accident years for the reasons discussed in the overview.
- \$32 million of net adverse prior year reserve development on motor reinsurance business, primarily related to 2008 through 2010 accident year non-proportional business and due to changes in assumptions relating to settlement practices in the U.K. motor market (namely, Periodic Payment Orders, or “PPOs”).

**Acquisition Cost Ratio:** Our acquisition cost ratio decreased from 18.4% in 2012 to 17.9% during 2013, driven by decreases in both segments. In the insurance segment a reduction in acquisition cost ratio is generated by a reduction in the business written through MGAs and higher ceding commissions earned partially offset by a change in business mix. For the reinsurance segment the decrease is driven by variances in accruals for loss-sensitive features in underlying contracts, partially offset by higher acquisition costs paid on certain lines of business. The increase in the ratio in 2012 compared to 2011 was primarily driven by changes in the business mix.

**General and Administrative Expense Ratio:** The general and administrative expenses increase during 2013 was primarily due to an increase in headcount and the costs related to various growth initiatives across the Company and was partially offset by senior leadership transition costs incurred during 2012. The impact of the increase in general and administrative expenses during 2013 was more than offset by the growth in net premiums earned reducing the overall general and administrative cost ratio. The general and administrative expense ratio increase in 2012 compared to 2011, reflected the senior leadership transition costs noted above, as well as an increase in performance-based compensation expenses and staff increases.

## RESULTS BY SEGMENT

### INSURANCE SEGMENT

Results from our insurance segment were as follows:

Year ended December 31,	2013	% Change	2012	% Change	2011
<b>Revenues:</b>					
Gross premiums written	\$ 2,559,138	11%	\$ 2,309,481	9%	\$ 2,121,829
Net premiums written	1,813,538	19%	1,522,245	4%	1,466,134
Net premiums earned	1,722,762	11%	1,558,058	9%	1,429,687
Other insurance related income	2,436		2,676		2,396
<b>Expenses:</b>					
Current year net losses and loss expenses	(1,100,757)		(1,075,773)		(1,022,333)
Prior year reserve development	50,355		122,209		103,014
Acquisition costs	(242,363)		(226,859)		(199,583)
General and administrative expenses	(347,684)		(314,834)		(278,147)
<b>Underwriting income</b>	<b>\$ 84,749</b>	<b>29%</b>	<b>\$ 65,477</b>	<b>87%</b>	<b>\$ 35,034</b>
		<b>% Point Change</b>		<b>% Point Change</b>	
<b>Ratios:</b>					
Current year loss ratio	63.9%	(5.1)	69.0%	(2.5)	71.5%
Prior year reserve development	(2.9%)	4.9	(7.8%)	(0.6)	(7.2%)
Acquisition cost ratio	14.1%	(0.5)	14.6%	0.6	14.0%
General and administrative expense ratio	20.1%	(0.1)	20.2%	0.8	19.4%
<b>Combined ratio</b>	<b>95.2%</b>	<b>(0.8)</b>	<b>96.0%</b>	<b>(1.7)</b>	<b>97.7%</b>

### Gross Premiums Written:

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

Year ended December 31,	2013		2012		2011		% Change	
							12 to 13	11 to 12
Property	\$ 671,970	27%	\$ 651,188	27%	\$ 635,278	30%	3%	3%
Marine	229,493	9%	252,434	11%	240,481	11%	(9%)	5%
Terrorism	38,373	1%	37,186	2%	34,313	2%	3%	8%
Aviation	43,326	2%	65,143	3%	70,792	3%	(33%)	(8%)
Credit and political risk	60,203	2%	39,405	2%	35,734	2%	53%	10%
Professional lines	900,071	35%	836,634	36%	764,205	36%	8%	9%
Liability	347,227	14%	266,696	12%	213,256	10%	30%	25%
Accident & health	268,475	10%	160,795	7%	127,770	6%	67%	26 %
<b>Total</b>	<b>\$ 2,559,138</b>	<b>100%</b>	<b>\$ 2,309,481</b>	<b>100%</b>	<b>\$ 2,121,829</b>	<b>100%</b>	<b>11%</b>	<b>9%</b>

**2013 versus 2012:** Growth of 11% was primarily driven by our accident & health, liability, professional and property lines of business which were partially offset by decreases in marine and aviation. Our accident & health business has shown continued growth driven by new business opportunities. Liability growth was driven by select new business opportunities and, to a lesser extent, rate increases in the U.S. wholesale excess casualty market. Growth in the professional lines was largely due to continued expansion globally with new business and certain rate increases in the U.S. also contributing. Property premiums also contributed, as growth driven by new business and select rate increases more than offset reductions due to the non-renewal of certain catastrophe-exposed business written through MGAs. The segment's premium increases were partially offset by decreases in marine, which was impacted by non-renewal of certain business written through MGAs, and aviation which was primarily impacted by timing of renewals and certain rate decreases.

**2012 versus 2011:** Growth in gross premiums written was evident in the majority of our lines of business, with professional lines, liability and accident & health contributing most significantly. Geographic expansion (including our European operations) and newer initiatives were the primary drivers of the growth in professional lines; an improving rate environment also contributed. Liability growth was attributable to select new business opportunities and, to a lesser extent, rate increases in our U.S. excess and surplus lines umbrella business. Our recently established accident & health line continued to generate new business. Property premiums were also up, as growth driven by rate increases and new business opportunities more than offset a reduction due to the non-renewal of certain business written through MGAs.

**Premiums Ceded:**

**2013 versus 2012:** Premiums ceded in 2013 were \$746 million, or 29%, of gross premiums written, compared to \$787 million, or 34%, in 2012. The year on year reductions in the premiums ceded and the related ceded ratio primarily related to changes in our reinsurance purchasing and business mix changes. Reductions related to changes in our reinsurance purchasing included excess of loss treaty reductions driven by both retention and rate, and proportional changes related to reductions in the cession rates on our professional lines and liability programs on renewal during 2013. Changes in business mix related to growth in our accident & health business for which we did not purchase significant reinsurance.

**2012 versus 2011:** Premiums ceded in 2012 were \$787 million, or 34%, of gross premiums written, compared to \$656 million, or 31%, in 2011. The increase in the ceded premium ratio was largely due to changes in our reinsurance purchasing, most notably a higher cession rate on our professional lines quota share reinsurance program on renewal during the second quarter. Business mix changes also contributed to the increase, most notably in relation to the growth in our liability business, for which we purchase significant reinsurance.

**Net Premiums Earned:**

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

Year ended December 31,	2013		2012		2011		% Change	
							12 to 13	11 to 12
Property	\$ 462,364	28%	\$ 408,943	26%	\$ 385,291	27%	13%	6%
Marine	179,057	10%	171,165	11%	152,123	11%	5%	13%
Terrorism	39,298	2%	38,605	2%	35,213	2%	2%	10%
Aviation	48,489	3%	60,363	4%	70,681	5%	(20%)	(15%)
Credit and political risk	68,192	4%	87,103	6%	97,680	7%	(22%)	(11%)
Professional lines	586,200	34%	563,500	36%	536,238	38%	4%	5%
Liability	110,623	6%	86,873	6%	89,555	6%	27%	(3%)
Accident & health	228,539	13%	141,506	9%	62,906	4%	62%	125%
<b>Total</b>	<b>\$ 1,722,762</b>	<b>100%</b>	<b>\$ 1,558,058</b>	<b>100%</b>	<b>\$ 1,429,687</b>	<b>100%</b>	<b>11%</b>	<b>9%</b>

**2013 versus 2012:** Our accident & health line was the primary contributor to the year on year increase, commensurate with gross premiums written growth discussed above, and accounted for 53% of the overall growth in net premiums earned. Our property, liability and professional lines also contributed to the increase following growth in the gross premiums written and the reductions in premiums ceded discussed above.

**2012 versus 2011:** Growth in the accident & health line was the primary driver for the increase. Growth in professional lines business in recent quarters, arising from geographic expansion (including our European, Australian and Canadian operations) and targeted initiatives, also contributed to the increases; however, the impact of this growth was tempered in the second half of 2012 by the increase in quota share premium cessions.

**Loss Ratio:**

The table below shows the components of our loss ratio:

Year ended December 31,	2013	% Point Change	2012	% Point Change	2011
Current accident year	63.9%	(5.1)	69.0%	(2.5)	71.5%
Prior year reserve development	(2.9%)	4.9	(7.8%)	(0.6)	(7.2%)
<b>Loss ratio</b>	<b>61.0%</b>	<b>(0.2)</b>	<b>61.2%</b>	<b>(3.1)</b>	<b>64.3%</b>

**Current Accident Year Loss Ratio**

**2013 versus 2012:** Natural catastrophe and weather-related losses impacted the current accident year loss ratios for both periods.

In 2013, we incurred \$93 million of aggregate pre-tax net losses (inclusive of related premiums to reinstate our reinsurance protection) related to worldwide natural catastrophe and weather-related events. During 2012, we recognized estimated pre-tax net losses (inclusive of related premiums to reinstate our reinsurance protection) of \$178 million for Storm Sandy. In addition, we recognized aggregate pre-tax net losses of \$44 million for Hurricane Isaac and first and second quarter 2012 U.S. weather events.

After adjusting for these natural catastrophe and weather-related losses, our 2013 current accident year loss ratio increased relative to 2012 primarily due to:

- strengthening in our professional lines, relating to certain parts of our D&O business written in the United States, following recent loss experience; and
- a change in the business mix.

**2012 versus 2011:** Natural catastrophe and weather-related losses impacted the current accident year loss ratios for both periods. During 2012, we recognized estimated pre-tax net losses (inclusive of related premiums to reinstate our reinsurance protection) of \$222 million for Storm Sandy and other U.S. natural catastrophe and weather-related events. Comparatively, during 2011, we recognized estimated pre-tax net losses (inclusive of related premiums to reinstate our reinsurance protection) of \$156 million relating to a series of severe U.S. storms; floods in Thailand; the Japanese earthquake and tsunami; New Zealand earthquake; and Hurricane Irene and Tropical Storm Lee. Exclusive of these natural catastrophe and weather-related losses, our 2012 current accident year loss ratio improved relative to 2011 primarily due to:

- a lower level of loss activity in our property and marine lines of business; and
- a reduction in the loss ratio for our credit & political risk line of business.

See 'Prior Year Reserve Development' section for further details.

**Acquisition Cost Ratio:** The current year acquisition cost ratio decreased from 14.6% in 2012 to 14.1% in 2013. The majority of the variance is being generated by property and marine lines and is due to the aforementioned MGA reductions. Higher ceding commissions earned relative to 2012 also contributed. This was partially offset by a change in the business mix with the accident & health business incurring a higher acquisition cost ratio. The change in the business mix was the primary driver of the increase in the 2012 acquisition cost ratio compared to 2011.

**General and Administrative Expense Ratio:** The general and administrative expense ratio was comparable at 20.1% in 2013 versus 20.2% in 2012. The increase in general and administrative costs was driven by increased salaries and related costs following an increase in staff compared to last year, as we continue to build-out the segment's global platform. The impact on the general and administrative expense ratio was fully offset by the growth in net premiums earned. The increase in the

general and administrative expense ratio in 2012 compared to 2011, was driven by performance-based compensation expenses and staff increases.

## REINSURANCE SEGMENT

Results from our reinsurance segment were as follows:

Year ended December 31,	2013	% Change	2012	% Change	2011
<b>Revenues:</b>					
Gross premiums written	\$ 2,137,903	17%	\$ 1,830,162	(7%)	\$ 1,974,324
Net premiums written	2,114,662	16%	1,815,211	(7%)	1,953,300
Net premiums earned	1,984,303	7%	1,857,405	(1%)	1,885,274
Other insurance related income	1,988		—		—
<b>Expenses:</b>					
Current year net losses and loss expenses	(1,252,874)		(1,265,095)		(1,910,180)
Prior year reserve development	169,081		122,631		154,447
Acquisition costs	(421,828)		(400,794)		(387,886)
General and administrative expenses	(137,450)		(116,487)		(103,915)
<b>Underwriting income (loss)</b>	<b>\$ 343,220</b>	<b>74%</b>	<b>\$ 197,660</b>	<b>nm</b>	<b>\$ (362,260)</b>
		<b>% Point Change</b>		<b>% Point Change</b>	
<b>Ratios:</b>					
Current year loss ratio	63.1%	(5.0)	68.1%	(33.2)	101.3%
Prior year reserve development	(8.5%)	(1.9)	(6.6%)	1.6	(8.2%)
Acquisition cost ratio	21.3%	(0.3)	21.6%	1.0	20.6%
General and administrative expense ratio	6.9%	0.6	6.3%	0.8	5.5%
<b>Combined ratio</b>	<b>82.8%</b>	<b>(6.6)</b>	<b>89.4%</b>	<b>(29.8)</b>	<b>119.2%</b>

nm – not meaningful

### Gross Premiums Written:

The following table provides gross premiums written by line of business for the periods indicated:

Year ended December 31,	2013		2012		2011		% Change	
							12 to 13	11 to 12
Catastrophe	\$ 393,652	18%	\$ 368,314	21%	\$ 471,822	24%	7%	(22%)
Property	364,315	17%	315,758	17%	359,987	18%	15%	(12%)
Professional lines	380,355	18%	301,863	16%	281,394	14%	26%	7%
Credit and surety	268,494	13%	264,572	14%	299,923	15%	1%	(12%)
Motor	242,046	11%	235,648	13%	238,365	12%	3%	(1%)
Liability	268,673	13%	242,817	13%	229,728	12%	11%	6%
Agriculture	132,780	6%	19,326	1%	15,201	1%	nm	27%
Engineering	64,258	3%	70,597	4%	65,219	3%	(9%)	8%
Other	23,330	1%	11,267	1%	12,685	1%	107%	(11%)
<b>Total</b>	<b>\$ 2,137,903</b>	<b>100%</b>	<b>\$ 1,830,162</b>	<b>100%</b>	<b>\$ 1,974,324</b>	<b>100%</b>	<b>17%</b>	<b>(7%)</b>

**2013 versus 2012:** Gross premiums written increased by \$308 million, with growth across most lines of business. Our agriculture initiative was the primary driver of the expansion in gross premiums written, contributing \$113 million to the increase; quota share business in the United States comprised the majority of the increase, with excess of loss business in Asia also contributing. The main driver of growth in our professional lines was new business growth, primarily in the United States, which was partially offset by non-renewals and cancellations. Our property line of business increased primarily due to new business and the expansion of our worldwide client relationships. The increase in our catastrophe line of business was due to the expansion of our European portfolio, while growth in our liability line of business primarily reflected expansion in the U.S. including increased participations with existing clients.

**2012 versus 2011:** The decrease in gross premiums written was primarily driven by reduction in catastrophe business. We repositioned our catastrophe portfolio throughout 2012, reducing exposure in certain zones; this was partially offset by exposure increases in selected other areas, where we believe risk and return characteristics are more attractive. The decline in property premiums was driven by reductions in reinsurance purchasing by certain of our clients, as well as our evaluation of risk/return characteristics. Our trade credit and bond reinsurance premiums also decreased, driven by management of our European exposure base in light of existing economic conditions and changes in contract terms. While motor premiums were down slightly for the year, there was an underlying shift in business mix; we reduced our participation in certain excess of loss business in light of recent settlement trends, which was partially offset by an increase in proportional business.

See 'Critical Accounting Estimates – Premiums' section for a further discussion of related estimates.

**Net Premiums Earned:**

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

Year ended December 31,	2013		2012		2011		% Change	
							12 to 13	11 to 12
Catastrophe	\$ 380,199	20%	\$ 375,088	19%	\$ 456,858	24%	1%	(18%)
Property	350,970	18%	351,470	19%	356,022	19%	—%	(1%)
Professional lines	304,754	15%	297,726	16%	281,025	15%	2%	6%
Credit and surety	279,943	14%	277,185	15%	263,912	14%	1%	5%
Motor	221,844	11%	237,006	13%	202,830	11%	(6%)	17%
Liability	234,736	12%	220,874	12%	230,872	12%	6%	(4%)
Agriculture	126,490	6%	17,116	1%	15,031	1%	nm	14%
Engineering	66,243	3%	68,402	4%	65,727	3%	(3%)	4%
Other	19,124	1%	12,538	1%	12,997	1%	53%	(4%)
<b>Total</b>	<b>\$ 1,984,303</b>	<b>100%</b>	<b>\$ 1,857,405</b>	<b>100%</b>	<b>\$ 1,885,274</b>	<b>100%</b>	<b>7%</b>	<b>(1%)</b>

**2013 versus 2012:** Expansion of our agriculture business in 2013, described above, was the primary driver of the increase in net premiums earned.

**2012 versus 2011:** The reduction in catastrophe business written during 2012, described above, drove the decrease in net premiums earned. Partially offsetting this was an increase for motor reinsurance, driven by the recent increases in proportional writings previously noted.



## Loss Ratio:

The table below shows the components of our loss ratio:

Year ended December 31,	2013	% Point Change	2012	% Point Change	2011
Current accident year	63.1%	(5.0)	68.1%	(33.2)	101.3%
Prior year reserve development	(8.5%)	(1.9)	(6.6%)	1.6	(8.2%)
<b>Loss ratio</b>	<b>54.6%</b>	<b>(6.9)</b>	<b>61.5%</b>	<b>(31.6)</b>	<b>93.1%</b>

### Current Accident Year Loss Ratio

**2013 versus 2012:** The significant decrease in the level of natural catastrophe and weather-related activity was the primary driver of the decrease in the current accident year loss ratio.

During 2013, we recognized estimated aggregate pre-tax net losses (net of related reinstatement premiums) of \$105 million for worldwide natural catastrophe and weather-related events. Comparatively, in 2012, we recognized pre-tax net losses (net of related reinstatement premiums) of \$153 million related to the impact of Storm Sandy. In addition, we recognized aggregate pre-tax net losses (net of related reinstatement premiums) of \$60 million for the impact of severe drought conditions on U.S. crops, Hurricane Isaac and first and second quarter 2012 U.S. weather events.

Exclusive of these natural catastrophe and weather-related losses, our 2013 current accident year loss ratio increased relative to 2012 primarily due to changes in the business mix and an increase in losses incurred in our agriculture line.

**2012 versus 2011:** While natural catastrophe and weather-related losses contributed to the current accident year loss ratios for both periods, the impact was less significant in 2012.

During 2012, we recognized aggregate pre-tax net losses (net of related reinstatement premiums) of \$213 million for the impact of Storm Sandy, severe drought conditions on U.S. crops, Hurricane Isaac and various U.S. weather events. Comparatively, during 2011, we recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$775 million in relation to earthquakes in New Zealand, the Japanese earthquake and tsunami, Australian weather events, U.S. storms and tornadoes, floods in Thailand and Denmark, and Hurricane Irene.

Exclusive of these natural catastrophe and weather-related losses, the 2012 current accident year loss ratio improved relative to 2011 largely due to reduced exposure and loss experience related to aggregate property reinsurance of regional insurance companies in the U.S. This was partially offset by a higher loss ratio for our trade credit and bond reinsurance business and business mix changes.

See 'Prior Year Reserve Development' section for further details.

**Acquisition Cost Ratio:** The decrease in the reinsurance segment's acquisition cost ratio in 2013 was driven by accruals related to loss-sensitive features in reinsurance contracts that reduced the segment's acquisition cost ratio; conversely, such accruals increased the acquisition cost ratio in 2012. This decrease in the current year was partially offset by higher acquisition costs incurred due to higher acquisition costs in certain lines of business.

**General and Administrative Expense Ratio:** General and administrative expenses increased in 2013, primarily driven by staffing increases, as we continue to build-out the segment's global platform. The impact of the increases on the general and administrative expense ratio was partially tempered by the growth in net premiums earned. The increase in the general and administrative expense ratio in 2012 compared to 2011, was driven by performance-based compensation expenses and staff increases.

## OTHER EXPENSES, NET

The following table provides a breakdown of our other expenses, net:

Year ended December 31,	2013	% Change	2012	% Change	2011
Corporate expenses	\$ 90,256	(30%)	\$ 129,660	68%	\$ 77,089
Foreign exchange losses (gains)	26,143	(11%)	29,512	nm	(44,582)
Interest expense and financing costs	61,979	—%	61,863	(1%)	62,598
Income tax expense	7,002	113%	3,287	(78%)	15,233
<b>Total</b>	<b>\$ 185,380</b>	<b>(17%)</b>	<b>\$ 224,322</b>	<b>103%</b>	<b>\$ 110,338</b>

nm – not meaningful

**Corporate Expenses:** Our corporate expenses include holding company costs necessary to support our worldwide insurance and reinsurance operations and costs associated with operating as a publicly-traded company. As a percentage of net premiums earned, corporate expenses were 2.4%, 3.8% and 2.4% for 2013, 2012 and 2011, respectively. The increase in corporate expenses during 2012 was reflective of costs associated with our second quarter 2012 senior leadership transition; these costs included accelerated and incremental share-based compensation expenses of \$20 million and separation payments of \$14 million. Excluding these senior leadership transition amounts, corporate expenses were 2.8% of net premiums earned for 2012.

**Foreign Exchange Losses (Gains):** Some of our business is written in currencies other than the U.S. dollar. The foreign exchange losses (gains) for all periods presented were largely driven by the re-measurement of net insurance related liabilities. Appreciation in the euro and Sterling against the U.S. dollar resulted in foreign exchange losses during 2013 and 2012, with depreciation in the Australian dollar partially offsetting the 2013 loss. Depreciation in the euro and Sterling had the opposite effect in 2011.

**Income Tax Expense:** Income tax expense primarily results from income generated by our foreign operations in the United States and Europe. Our effective tax rate, which is calculated as income tax expense divided by income before tax, was 1.0%, 0.6% and 24.8% in 2013, 2012 and 2011, respectively. This effective rate can vary between periods depending on the distribution of net income (loss) amongst tax jurisdictions, as well as other factors.

The majority of the higher tax rate in 2013 compared to 2012 is attributable to an increase in pre-tax income in the U.S. A significant portion of our losses and loss expenses for Storm Sandy in 2012 related to insurance risks written by our U.S. subsidiaries, driving a low effective tax rate. Comparatively, a large proportion of the 2011 catastrophe and weather-related losses previously described arose from reinsurance risks written in Bermuda; these losses reduced income before tax without a corresponding tax benefit.

Further increasing income tax expense for 2011 was the establishment of a \$13 million valuation allowance related to 2011 operating loss tax-carryforwards generated from branch operations in Singapore and Australia. Partially offsetting these increases was a further \$10 million reduction in income tax expense due to the elimination of the remaining valuation allowance associated with our U.S. capital loss carryforwards. During 2011, we concluded an allowance was no longer required, as there were sufficient net unrealized gains that could be realized in order to generate capital gains in the remaining carryforward period.

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## NET INVESTMENT INCOME AND NET REALIZED INVESTMENT GAINS/LOSSES

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### Net Investment Income

The following table provides a breakdown of income earned from our cash and investment portfolio by major asset class:

Year ended December 31,	2013	% Change	2012	% Change	2011
Fixed maturities	\$ 293,609	(4%)	\$ 304,400	(10%)	\$ 337,616
Other investments	128,814	47%	87,660	175%	31,856
Equities	10,897	(8%)	11,904	6%	11,186
Cash and cash equivalents	6,337	40%	4,528	(21%)	5,697
Short-term investments	1,181	98%	596	(63%)	1,592
<b>Gross investment income</b>	<b>440,838</b>	<b>8%</b>	<b>409,088</b>	<b>5%</b>	<b>387,947</b>
Investment expense	(31,526)	12%	(28,131)	10%	(25,517)
<b>Net investment income</b>	<b>\$ 409,312</b>	<b>7%</b>	<b>\$ 380,957</b>	<b>5%</b>	<b>\$ 362,430</b>
<b>Pre-tax yield:<sup>(1)</sup></b>					
Fixed maturities	<u>2.5%</u>		<u>2.7%</u>		<u>3.2%</u>

(1) Pre-tax yield is annualized and calculated as net investment income divided by the average month-end amortized cost balances for the periods indicated.

### **Fixed Maturities:**

**2013 versus 2012:** The 4% reduction in investment income from fixed maturities reflected lower reinvestment yields as book yields continue to decline towards market yields. This decline was partially offset by the 5% growth in our average fixed maturities balances during 2013 as additional investments in fixed maturities were funded primarily by reinvestment of net investment income.

**2012 versus 2011:** The 10% reduction in investment income from fixed maturities reflected lower reinvestment yields primarily due to the downward shift in U.S. and European risk-free yield curves. Spread tightening, primarily on investment-grade and high yield corporate debt, also contributed to lower reinvestment yields. The reduction was partially offset by growth of 6% in our average fixed maturities balances during 2012 as additional investments in fixed maturities were funded primarily by reinvestment of net investment income.

### **Other Investments:**

Other investments include hedge funds, direct lending funds and both direct and indirect (through a fund structure) investments in equity tranches of collateralized loan obligations (“CLO Equities”). These investments are recorded at fair value, with the change in fair value and income distributions reported in net investment income. Consequently, the pre-tax return on other investments may vary materially period over period, particularly during volatile equity and credit markets.

The following table provides a breakdown of net investment income (loss) from other investments:

Year ended December 31,	2013	2012	2011
Hedge funds	\$ 100,915	\$ 56,551	\$ (13,015)
CLO - Equities	27,899	31,109	44,871
<b>Total net investment income from other investments</b>	<b>\$ 128,814</b>	<b>\$ 87,660</b>	<b>\$ 31,856</b>
<b>Pre-tax return on other investments<sup>(1)</sup></b>	<b>13.3%</b>	11.1%	5.3%

(1) The pre-tax return on other investments is calculated by dividing total income from other investments by the average month-end fair value balances held for the periods indicated.

**2013 versus 2012:** The improvement in the pre-tax return on our other investments portfolio was primarily driven by the returns generated by our hedge funds as a result of the continued strong performance of both global equities and bank loans. Our direct investments in CLO Equities provided strong returns again in 2013, driven by lower than anticipated default rates and higher than anticipated recovery rates for the underlying collateral (refer to the ‘*Critical Accounting Estimates – Fair Value Measurements*’ for further details on the fair value measurement). The decline in income from CLO Equities in dollar terms was primarily due to a reduction in our direct investments as two holdings have entered the liquidation phase of their investment cycle and have begun returning capital to equity tranche holders.

**2012 versus 2011:** The improvement in the pre-tax return on our other investments portfolio was primarily driven by the rally in global equity markets and its impact on our hedge funds. Although CLO Equities provided less income in 2012, their continued strong performance was still a significant positive contributor to 2012 performance. The increase in fair value of our CLO Equities was driven primarily by lower than anticipated default rates and higher than anticipated recovery rates for the underlying collateral.

***Investment Expenses:***

**2013 versus 2012:** The increase was primarily due to higher third party investment manager fees, resulting from the increased use of managers in specialized fixed income strategies that have higher management fees than core fixed income.

**2012 versus 2011:** The increase was primarily due to increased third party investment manager fees relating to higher investment balances created by improved valuations and additional allocations to specialized fixed income strategies and common stocks, both of which have higher management fees than core fixed income.

**Net Realized Investment Gains/Losses**

Our fixed maturities and equities are classified as available for sale and reported at fair value. The effect of market movements on our available for sale investment portfolio impacts net income (through net realized investment gains/losses) only when securities are sold, hedged, or impaired. Additionally, changes in the fair value of investment derivatives, mainly foreign exchange forward contracts and interest rate swaps, are recorded in net realized investment gains/losses.

The following table provides a breakdown of net realized investment gains:

Year ended December 31,	2013	2012	2011
<i>On sale of investments:</i>			
Fixed maturities and short-term investments	\$ 33,038	\$ 140,238	\$ 134,804
Equities	44,157	12,881	2,468
	<u>77,195</u>	<u>153,119</u>	<u>137,272</u>
OTTI charges recognized in earnings	(9,362)	(24,234)	(15,861)
Change in fair value of investment derivatives	7,731	(9,170)	4,431
Fair value hedges	—	7,754	(4,403)
<b>Net realized investment gains</b>	<b>\$ 75,564</b>	<b>\$ 127,469</b>	<b>\$ 121,439</b>

***On sale of investments:***

Generally, sales of individual securities occur when there are changes in the relative value, credit quality, or duration of a particular issuer. We may also sell to rebalance our investment portfolio in order to change exposure to particular sectors or asset classes.

**2013 versus 2012:** Lower net realized gains during 2013 are reflective of the significant declines in the pricing for our fixed maturities during 2013. The primary source of the net realized gains on fixed maturities in 2013 was corporate debt (mainly investment-grade but high yield also contributed). The strong performance of global equity markets during 2013 and 2012 enabled us to realize net gains on sales of common stock during 2013. The proceeds of common stock sales were used to fund incremental investments in hedge funds.

**2012 versus 2011:** The improvements in global equity markets throughout 2012 enabled us to realize some net gains on our equity holdings during 2012. The primary sources of the net realized gains on fixed maturities in 2012 were investment-grade corporate debt, agency MBS and non-U.S. governments compared to the primary sources of investment-grade corporate debt, agency MBS and U.S. government and agencies in 2011.

***OTTI charges:***

Refer to the ‘*Critical Accounting Estimates – OTTI*’ section for details on our impairment review process.

The following table provides a summary of the OTTI recognized in earnings by asset class:

Year ended December 31,	2013	2012	2011
<i>Fixed maturities:</i>			
Non-U.S. government	\$ 120	\$ 3,281	\$ —
Corporate debt	5,802	1,821	1,954
Non-Agency RMBS	57	2,016	717
ABS	129	795	61
Municipals	639	—	483
	<u>6,747</u>	<u>7,913</u>	<u>3,215</u>
<i>Equities:</i>			
Common stocks	2,092	7,318	12,646
Exchange traded funds	523	9,003	—
	<u>2,615</u>	<u>16,321</u>	<u>12,646</u>
<b>Total OTTI recognized in earnings</b>	<b>\$ 9,362</b>	<b>\$ 24,234</b>	<b>\$ 15,861</b>

The level of OTTI losses decreased in 2013 compared to 2012 due mainly to losses recorded on equity exchange traded funds ("ETFs") in 2012, where we were no longer able to assert that we had the intent to hold the securities until full recovery of cost due to the anticipated future reallocation to other asset classes.

***Change in Fair Value of Investment Derivatives:***

From time to time, we may economically hedge the foreign exchange exposure of non-U.S. denominated securities by entering into foreign exchange forward contracts. During 2013, our foreign exchange hedges resulted in \$11 million of net gains which related primarily to securities denominated in the Australian dollar, Canadian dollar and Mexican peso. The Australian dollar declined 14% against the U.S. dollar during 2013 while the Canadian dollar and Mexican peso experienced significant intra-year volatility.

During 2013, we introduced the use of interest rate swaps to reduce duration risk of our fixed income portfolio. During the year, we recorded \$3 million of net losses relating to our interest rate swaps.

Hedge accounting was not applied to any of these derivatives so the corresponding net unrealized gains/losses on the hedged securities are recorded as part of accumulated other comprehensive income in shareholders' equity.

***Fair Value Hedges:***

In 2012 and prior, we entered into foreign exchange forward contracts to hedge the foreign currency exposure of certain available for sale fixed maturity portfolios denominated in euros. These hedges were designated and qualified as fair value hedges, resulting in the net impact of the hedges recognized in net realized investment gains (losses). During 2012, we sold all available for sale fixed maturities in the portfolios that qualified for hedge accounting and settled all of the associated foreign exchange forward contracts.

Foreign denominated assets and liabilities will continue to be substantially matched, in order to minimize any foreign exchange impact on book value.

***Total Return***

Our investment strategy is to take a long-term view by actively managing our investment portfolio to maximize total return within certain guidelines and constraints. In assessing returns under this approach, we include net investment income, net realized investment gains and losses and the change in unrealized gains and losses generated by our investment portfolio. The following table provides a breakdown of the total return on cash and investments, inclusive of foreign exchange impact, for the periods indicated:

<b>Year ended December 31,</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net investment income	\$ 409,312	\$ 380,957	\$ 362,430
Net realized investments gains	75,564	127,469	121,439
Change in net unrealized gains/losses, net of currency hedges	(245,429)	250,212	(34,320)
<b>Total</b>	<b>\$ 239,447</b>	<b>\$ 758,638</b>	<b>\$ 449,549</b>
<b>Average cash and investments<sup>(1)</sup></b>	<b>\$ 14,660,012</b>	<b>\$ 14,098,888</b>	<b>\$ 13,309,143</b>
<b>Total return on average cash and investments, pre-tax<sup>(2)</sup></b>	<b>1.6%</b>	<b>5.4%</b>	<b>3.4%</b>

(1) The average cash and investments balance is calculated by taking the average of the month-end fair value balances held for the periods indicated.

(2) Excluding the impact of foreign currencies due to matching with foreign denominated insurance liabilities, the total return would be 1.6% for 2013 (2012: 4.9%, 2011: 3.7%).

## CASH AND INVESTMENTS

The table below provides a breakdown of our cash and investments:

	December 31, 2013		December 31, 2012	
	Amortized Cost or Cost	Fair Value	Amortized Cost or Cost	Fair Value
Fixed maturities	\$ 11,987,146	\$ 11,986,327	\$ 11,605,672	\$ 11,928,049
Equities	566,219	701,987	608,306	666,548
Other investments	839,177	1,045,810	730,101	843,437
Short-term investments	46,212	46,212	108,860	108,860
<b>Total investments</b>	<b>\$ 13,438,754</b>	<b>\$ 13,780,336</b>	<b>\$ 13,052,939</b>	<b>\$ 13,546,894</b>
Cash and cash equivalents <sup>(1)</sup>	\$ 987,876	\$ 987,876	\$ 850,550	\$ 850,550

(1) Includes restricted cash and cash equivalents of \$65 million and \$91 million for 2013 and 2012, respectively.

### Overview

The cost of our total investments increased by \$386 million from December 31, 2012, primarily due to investing a portion of our operating cash flows.

The fair value of our total investments increased \$233 million from December 31, 2012, primarily due to net contributions to our fixed maturities and other investments as well as the strong performance of global equity markets during 2013 which led to improved valuations for our equities and other investments. The increases attributable to these factors were partially offset by lower valuations on our fixed maturities as a result of the upward shift in sovereign yield curves.

The following provides a further analysis on our investment portfolio.

### **Fixed Maturities**

The following provides a breakdown of our investment in fixed maturities:

	December 31, 2013		December 31, 2012	
	Fair Value	% of Total	Fair Value	% of Total
<b>Fixed maturities:</b>				
U.S. government and agency	\$ 1,388,698	11%	\$ 1,422,885	13%
Non-U.S. government	1,176,382	10%	1,104,576	9%
Corporate debt	3,608,238	30%	3,876,382	32%
Agency RMBS	2,448,827	20%	2,659,908	22%
CMBS	797,414	7%	840,084	7%
Non-Agency RMBS	67,567	1%	95,199	1%
ABS	953,451	8%	643,206	5%
Municipals <sup>(1)</sup>	1,545,750	13%	1,285,809	11%
<b>Total</b>	<b>\$ 11,986,327</b>	<b>100%</b>	<b>\$ 11,928,049</b>	<b>100%</b>
<b>Credit ratings:</b>				
U.S. government and agency	\$ 1,388,698	11%	\$ 1,422,885	13%
AAA <sup>(2)</sup>	4,160,744	35%	4,791,455	39%
AA	1,795,291	15%	1,175,205	10%
A	2,220,263	19%	2,215,326	19%
BBB	1,468,669	12%	1,473,388	12%
Below BBB <sup>(3)</sup>	952,662	8%	849,790	7%
<b>Total</b>	<b>\$ 11,986,327</b>	<b>100%</b>	<b>\$ 11,928,049</b>	<b>100%</b>

(1) Includes bonds issued by states, municipalities, and political subdivisions.

(2) Includes U.S. government-sponsored agency RMBS and CMBS.

(3) Non-investment grade and non-rated securities.

At December 31, 2013, fixed maturities had a weighted average credit rating of AA- (2012: AA-), a book yield of 2.5% (2012: 2.6%) and an average duration of 3.3 years (2012: 3.0 years). The interest rate swap position introduced in 2013 reduced duration to 3.2 years. When incorporating short-term investments and cash and cash equivalents into this calculation (bringing the total to \$13 billion), the weighted average credit rating would be AA- (2012: AA-) and duration (including interest rate swaps) would be 2.9 years (2012: 2.8 years).

Our methodology for assigning credit ratings to our fixed maturities is in line with the methodology used for the Barclays U.S. Aggregate Bond index. This methodology uses the middle of Standard & Poor's (S&P), Moody's and Fitch ratings. When ratings from only two of these agencies are available, the lower rating is used. When a rating from only one agency is available, it is used.

To calculate the weighted average credit rating for fixed maturities, we assign points to each rating with 29 points for the highest rating (AAA) and 2 points for the lowest rating (D) and then calculate the weighted average based on the fair values of the individual securities. Securities that are not rated by S&P, Moody's or Fitch are excluded from weighted average calculations. At December 31, 2013, the fair value of fixed maturities not rated was \$1 million (2012: \$7 million).

In addition to managing our credit risk exposure within our fixed maturity portfolio we also monitor the aggregation of country risk exposure on a group-wide basis (refer to Item 1 'Risk and Capital Management' for further details). Country risk exposure is the risk that events within a country, such as currency crises, regulatory changes and other political events, will adversely affect the ability of obligors within the country to honor their obligations to us. For corporate debt and



structured securities, we measure the country of risk exposure based on a number of factors including, but not limited to, location of management, principal operations and country of revenues.

In light of global concerns during recent years over the creditworthiness of certain countries, particularly within the eurozone, we have actively managed our exposure to sovereign debt issued by these countries. Our current non-U.S. government holdings include exposure to only three countries within the eurozone - Germany, Netherlands and Austria - all of which are rated AAA. At December 31, 2013, we held no sovereign debt issued by the peripheral European countries of Greece, Ireland, Italy, Portugal and Spain.

The following table provides a breakdown of the fair value of our eurozone exposure within our fixed maturity portfolio:

	Non-U.S. Government	Corporate	Non-Agency RMBS	ABS	Total	% of Total
<b>At December 31, 2013</b>						
<i>Eurozone countries:</i>						
Germany	\$ 22,833	\$ 90,916	\$ —	\$ 5,176	\$ 118,925	28%
Supranationals <sup>(1)</sup>	115,777	—	—	—	115,777	28%
Netherlands	20,776	50,472	227	4,838	76,313	18%
France	—	45,366	—	3,225	48,591	11%
Luxembourg	—	17,494	—	—	17,494	4%
Spain	—	17,255	—	—	17,255	4%
Ireland	—	4,065	—	5,668	9,733	2%
Italy	—	8,112	—	—	8,112	2%
Belgium	—	6,454	—	—	6,454	2%
Austria	1,272	2,922	—	—	4,194	1%
<b>Total eurozone</b>	<b>\$ 160,658</b>	<b>\$ 243,056</b>	<b>\$ 227</b>	<b>\$ 18,907</b>	<b>\$ 422,848</b>	<b>100%</b>
<b>At December 31, 2012</b>						
<i>Eurozone countries:</i>						
Germany	\$ 107,291	\$ 105,712	\$ —	\$ 11,585	\$ 224,588	42%
Netherlands	23,988	62,170	1,866	22,497	110,521	20%
Supranationals <sup>(1)</sup>	79,534	—	—	—	79,534	15%
France	—	40,693	—	8,567	49,260	9%
Luxembourg	—	30,352	—	—	30,352	6%
Belgium	—	24,950	—	—	24,950	5%
Ireland	—	7,989	—	—	7,989	1%
Spain	—	7,627	—	—	7,627	1%
Austria	6,108	—	—	—	6,108	1%
Italy	—	—	—	—	—	—%
<b>Total eurozone</b>	<b>\$ 216,921</b>	<b>\$ 279,493</b>	<b>\$ 1,866</b>	<b>\$ 42,649</b>	<b>\$ 540,929</b>	<b>100%</b>

(1) Includes supranationals only within the eurozone.

We also have an indirect eurozone exposure through our investment of \$125 million in non-U.S. bond mutual funds.

The following is an analysis of our fixed maturity portfolio by major asset classes.

*Non-U.S. Government:*

Our holdings in non-U.S. government securities consisted of fixed income obligations of non-U.S. sovereigns, including government agencies, local governments and supranationals. The table below summarizes our aggregate fixed maturity exposures to governments in the eurozone and other non-U.S. government concentrations by fair value at December 31, 2013 and 2012:

Country	December 31, 2013			December 31, 2012		
	Fair Value	% of Total	Weighted Average Credit Rating	Fair Value	% of Total	Weighted Average Credit Rating
<i>Eurozone countries:</i>						
Supranationals <sup>(1)</sup>	\$ 115,777	10%	AAA	\$ 79,534	7%	AAA
Germany	22,833	2%	AAA	107,291	10%	AAA
Netherlands	20,776	2%	AAA	23,988	2%	AAA
Austria	1,272	—%	AAA	6,108	1%	AAA
<b>Total eurozone</b>	<b>\$ 160,658</b>	<b>14%</b>	<b>AAA</b>	<b>\$ 216,921</b>	<b>20%</b>	<b>AAA</b>
<i>Other concentrations:</i>						
United Kingdom	\$ 182,230	15%	AA+	\$ 201,658	18%	AAA
Canada	165,013	14%	AAA	132,938	12%	AA+
Australia	158,056	13%	AAA	193,259	17%	AAA
Brazil	94,796	8%	BBB	49,987	5%	BBB
Mexico	66,987	6%	A-	35,656	3%	BBB+
Other	348,642	30%	A-	274,157	25%	A-
<b>Total other concentrations</b>	<b>\$ 1,015,724</b>	<b>86%</b>	<b>AA-</b>	<b>\$ 887,655</b>	<b>80%</b>	<b>AA-</b>
<b>Total non-U.S. government</b>	<b>\$ 1,176,382</b>	<b>100%</b>	<b>AA-</b>	<b>\$ 1,104,576</b>	<b>100%</b>	<b>AA</b>

(1) Includes supranationals only within the eurozone.

During 2013, we continued to reduce our exposure to eurozone sovereign debt. The primary driver of the increase in "other concentrations" is the additional allocation to our local currency emerging market debt portfolio during 2013. At December 31, 2013, this portfolio had a weighted average credit rating of A- (2012: BBB+), a duration of 5.0 years (2012: 3.9 years) and a yield-to-worst of 7.2% (2012: 5.2%).

At December 31, 2013, our non-U.S. government debt had net unrealized losses of \$32 million (2012: \$28 million net unrealized gains) which included gross unrealized foreign exchange losses of \$29 million (2012: \$3 million), mainly on emerging market debt securities.

Corporate Debt:

The composition of our corporate debt securities by sector was as follows:

	December 31, 2013			December 31, 2012		
	Fair Value	% of Total	Weighted Average Credit Rating	Fair Value	% of Total	Weighted Average Credit Rating
<i>Financial institutions:</i>						
U.S. banking	\$ 942,437	26%	A-	\$ 986,723	25%	A-
Corporate/commercial finance	209,074	6%	BBB	247,633	6%	BBB+
Insurance	166,987	5%	A	208,149	5%	A
Foreign banking	45,320	1%	A+	31,924	1%	A-
Consumer finance	16,345	—%	BB	25,522	1%	BBB-
Investment brokerage	15,750	—%	BB	10,110	—%	BB+
<b>Total financial institutions</b>	<b>1,395,913</b>	<b>38%</b>	<b>A-</b>	<b>1,510,061</b>	<b>38%</b>	<b>A-</b>
Communications	450,490	12%	BBB-	470,013	12%	BBB-
Consumer cyclical	400,798	11%	BBB-	414,058	11%	BBB-
Consumer non-cyclicals	345,114	10%	BBB-	355,117	9%	BBB-
Industrials	298,159	8%	BB+	335,017	9%	BB+
Utilities	263,615	7%	BBB	287,693	7%	BBB
Energy	196,991	6%	BB+	207,881	6%	BBB-
Non-U.S. government guaranteed	64,982	2%	AA+	94,987	2%	AAA
Other	192,176	6%	BBB-	201,555	6%	BBB-
<b>Total</b>	<b>\$ 3,608,238</b>	<b>100%</b>	<b>BBB</b>	<b>\$ 3,876,382</b>	<b>100%</b>	<b>BBB</b>
<i>Credit quality summary:</i>						
Investment grade	\$ 2,707,591	75%	A-	\$ 3,094,744	80%	A-
Non-investment grade	900,647	25%	B+	781,638	20%	B+
<b>Total</b>	<b>\$ 3,608,238</b>	<b>100%</b>	<b>BBB</b>	<b>\$ 3,876,382</b>	<b>100%</b>	<b>BBB</b>

During 2013, proceeds from sales of certain investment grade corporate holdings were reinvested primarily in ABS and municipal debt securities. The increase in non-investment grade holdings is due to additional funds being allocated to our short duration high yield strategy during 2013. At December 31, 2013, our short duration high yield portfolio had a fair value of \$916 million (2012: \$793 million), a weighted average credit rating of B+ (2012: B+) and duration of 1.6 years (2012: 1.7 years). At December 31, 2013, our total corporate debt portfolio, including short duration high yield securities, had a duration of 2.4 years (2012: 2.9 years).

Mortgage-Backed Securities:

The following table provides a breakdown of the fair value of our RMBS and CMBS portfolios by credit rating:

	December 31, 2013		December 31, 2012	
	RMBS	CMBS	RMBS	CMBS
Government agency	\$ 2,448,827	\$ —	\$ 2,659,908	\$ —
AAA	12,261	411,811	27,266	603,001
AA	370	233,360	5,631	150,508
A	5,891	73,932	6,687	65,520
BBB	8,095	76,493	7,638	21,055
Below BBB <sup>(1)</sup>	40,950	1,818	47,977	—
<b>Total</b>	<b>\$ 2,516,394</b>	<b>\$ 797,414</b>	<b>\$ 2,755,107</b>	<b>\$ 840,084</b>

(1) Non-investment grade securities

*Residential MBS:*

Our RMBS portfolio consists primarily of AAA-rated U.S. agency issues and is supported by loans that are diversified across geographical areas. Due to a change in prepayment speed assumptions caused by rising interest rates, the duration of our agency MBS holdings expanded from 2.6 years at December 31, 2012 to 4.9 years at December 31, 2013.

During 2013, our holdings of non-agency RMBS declined due to paydowns and a reallocation to other asset classes. At December 31, 2013, the average duration and weighted average life was 0.5 years (2012: 0.3 years) and 4.0 years (2012: 3.5 years), respectively, for non-agency RMBS.

*Commercial MBS:*

Our CMBS portfolio continues to be rated highly, with approximately 81% rated AA or better (2012: 90%). Additionally, the weighted average estimated subordination percentage for the portfolio was 30% at December 31, 2013 (2012: 30%), which represents the current weighted average estimated percentage of the capital structure subordinated to the investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. At December 31, 2013, the average duration and weighted average life was 2.5 years (2012: 2.8 years) and 2.6 years (2012: 3.1 years), respectively.

Asset-Backed Securities:

The following table provides a breakdown of the fair value of our ABS by underlying collateral and credit rating:

	Asset-backed securities					Total
	AAA	AA	A	BBB	Below BBB <sup>(3)</sup>	
<b><u>At December 31, 2013</u></b>						
CLO - debt tranches	\$ 399,736	\$ 179,318	\$ 5,575	\$ 8,902	\$ 484	\$ 594,015
Auto	82,982	41,911	29,828	23,394	—	178,115
Student loan	67,767	15,156	—	—	—	82,923
Credit card	7,110	—	—	—	—	7,110
Other	79,316	1,496	2,979	4,756	2,741	91,288
<b>Total</b>	<b>\$ 636,911</b>	<b>\$ 237,881</b>	<b>\$ 38,382</b>	<b>\$ 37,052</b>	<b>\$ 3,225</b>	<b>\$ 953,451</b>
<b>% of total</b>	<b>67%</b>	<b>25%</b>	<b>4%</b>	<b>4%</b>	<b>—%</b>	<b>100%</b>
<b><u>At December 31, 2012</u></b>						
Auto	\$ 157,932	\$ 5,221	\$ 30,743	\$ 28,402	\$ —	\$ 222,298
Student loan	152,653	6,862	—	—	—	159,515
Credit card	52,984	—	—	—	—	52,984
CLO - debt tranches	37,774	17,222	8,853	14,749	12,648	91,246
Other	99,876	4,237	5,487	4,860	2,703	117,163
<b>Total</b>	<b>\$ 501,219</b>	<b>\$ 33,542</b>	<b>\$ 45,083</b>	<b>\$ 48,011</b>	<b>\$ 15,351</b>	<b>\$ 643,206</b>
<b>% of total</b>	<b>78%</b>	<b>5%</b>	<b>7%</b>	<b>8%</b>	<b>2%</b>	<b>100%</b>

The increase in the total fair value during 2013 was primarily due to incremental investments in CLO Debt securities. The CLO Debt is anticipated to reduce the impact of potential future increases in interest rates while not compromising the high credit quality of our fixed maturities portfolio. These securities were purchased primarily as new issues and all had ratings of AA- or better. The average duration and weighted average life of our ABS portfolio at December 31, 2013 was 0.6 years (2012: 0.9 years) and 4.0 years (2012: 3.6 years), respectively.

Municipals:

Our holdings in municipal debt are primarily held within the taxable portfolios of our U.S. subsidiaries and include debt issuance from states, municipalities and political subdivisions. The following table provides a breakdown of the fair value of our municipal debt portfolio by state and between Revenue and General Obligation (“G.O.”) bonds:

	G.O.	Revenue	Total	% of Total Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Weighted Average Credit Rating
<b><u>At December 31, 2013</u></b>							
New York	\$ 68,633	\$ 199,160	\$ 267,793	17%	\$ 4,973	\$ (3,406)	AA
California	70,302	134,786	205,088	13%	7,390	(1,871)	AA-
Texas	50,685	125,201	175,886	11%	2,707	(1,690)	AA
Florida	13,307	78,903	92,210	6%	2,982	(170)	AA-
Illinois	15,523	68,095	83,618	5%	1,947	(533)	A
Other	162,231	558,924	721,155	48%	12,433	(6,846)	A
	<u>\$ 380,681</u>	<u>\$ 1,165,069</u>	<u>\$ 1,545,750</u>	<u>100%</u>	<u>\$ 32,432</u>	<u>\$ (14,516)</u>	<u>AA-</u>
<b><u>At December 31, 2012</u></b>							
New York	\$ 46,597	\$ 163,859	\$ 210,456	16%	\$ 10,644	\$ (301)	AA
California	65,477	139,239	204,716	16%	11,929	(250)	A+
Texas	37,576	86,795	124,371	10%	5,584	(8)	AA
Florida	7,797	70,000	77,797	6%	4,444	—	AA-
Illinois	19,572	55,116	74,688	6%	3,267	(33)	A+
Other	154,958	438,823	593,781	46%	22,902	(133)	AA
	<u>\$ 331,977</u>	<u>\$ 953,832</u>	<u>\$ 1,285,809</u>	<u>100%</u>	<u>\$ 58,770</u>	<u>\$ (725)</u>	<u>AA-</u>

During 2013, we continued to add municipal debt securities, primarily within our taxable U.S. portfolios due to the attractive relative valuations available within this asset class.

G.O. bonds are backed by the full faith and credit of the authority that issued the debt and are secured by the taxing powers of those authorities. Revenue bonds are backed by the revenue stream generated by the services provided by the issuer (e.g. sewer, water or utility projects). As issuers of revenue bonds do not have the ability to draw from tax revenues or levy taxes to fund obligations, revenue bonds may carry a greater risk of default than G.O. bonds. At December 31, 2013, the top three revenue streams related to transportation (25%), school (11%) and power (11%) (2012: transportation (22%), school (12%) and power (11%)).

Additionally, certain of our holdings in municipal debt are insured by financial guarantee companies. At December 31, 2013, we held insurance enhanced municipal bonds in the amount of \$150 million (2012: \$202 million), with a weighted average credit rating of AA- (2012: AA-). In the event the financial guarantors are unable to make good on their guarantee on a defaulted security, we would then be exposed to the credit loss. Excluding the insurance benefit from the financial guarantee companies, the weighted average credit quality of our insured bond holdings would be AA- (2012: AA-). At December 31, 2013, our largest exposures to financial guarantors were Assured Guaranty Corp. for \$65 million (2012: \$90 million) and National Public Finance Guarantee Corporation for \$43 million (2012: \$58 million). We had no direct investments in either of these companies at December 31, 2013 and 2012.

### Gross Unrealized Losses:

At December 31, 2013, the gross unrealized losses on our fixed maturities portfolio were \$180 million (2012: \$18 million).

The following table provides information on the severity of the unrealized loss position as a percentage of amortized cost for all investment grade fixed maturities in an unrealized loss position and includes any impact of foreign exchange:

Severity of Unrealized Loss	December 31, 2013			December 31, 2012		
	Fair Value	Gross Unrealized Losses	% of Total Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	% of Total Gross Unrealized Losses
0-10%	\$ 4,689,773	\$ (117,975)	66%	\$ 1,547,790	\$ (13,192)	92%
10-20%	290,477	(40,494)	23%	9,533	(1,171)	8%
20-30%	35,503	(10,713)	6%	—	—	—%
30-40%	17,317	(8,673)	5%	—	—	—%
40-50%	—	—	—%	—	—	—%
> 50%	—	—	—%	—	—	—%
<b>Total</b>	<b>\$ 5,033,070</b>	<b>\$ (177,855)</b>	<b>100%</b>	<b>\$ 1,557,323</b>	<b>\$ (14,363)</b>	<b>100%</b>

The increase in gross unrealized losses on investment-grade securities is primarily due to the upward shift in sovereign yield curves. The severity range from 20-40% consists of emerging market debt securities which experienced a decline in pricing due to rising interest rates as well as adverse movements in foreign exchange rates.

The following table provides information on the severity of the unrealized loss position as a percentage of amortized cost for all non-investment grade fixed maturities in an unrealized loss position at December 31, 2013 and 2012:

Severity of Unrealized Loss	December 31, 2013			December 31, 2012		
	Fair Value	Gross Unrealized Losses	% of Total Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	% of Total Gross Unrealized Losses
0-10%	\$ 125,663	\$ (1,880)	86%	\$ 143,396	\$ (3,223)	79%
10-20%	2,349	(302)	14%	4,302	(714)	17%
20-30%	—	—	—%	583	(185)	4%
30-40%	—	—	—%	—	—	—%
40-50%	—	—	—%	—	—	—%
> 50%	—	—	—%	—	—	—%
<b>Total</b>	<b>\$ 128,012</b>	<b>\$ (2,182)</b>	<b>100%</b>	<b>\$ 148,281</b>	<b>\$ (4,122)</b>	<b>100%</b>

Despite increasing our allocation to our short duration high yield strategy during 2013, both the amount and severity of gross unrealized losses on our non-investment grade fixed maturities declined, primarily due to significant tightening of credit spreads.

### **Equities**

During 2013, we decreased our allocation to global equities, mainly through sales of common stocks. The proceeds of these sales were used to fund incremental investments in hedge funds. At December 31, 2013, our equities portfolio had net unrealized gains of \$136 million (2012: \$58 million); the increase of \$78 million was a result of the strong performance of global equity markets during 2013.

## Other Investments

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

	December 31, 2013		December 31, 2012	
<u>Hedge funds</u>				
Long/short equity funds	\$ 425,444	41%	\$ 302,680	36%
Multi-strategy funds	285,155	27%	244,075	29%
Event-driven funds	190,458	18%	171,479	20%
Leveraged bank loan funds	48,753	5%	62,768	8%
Total hedge funds	<u>949,810</u>	<u>91%</u>	<u>781,002</u>	<u>93%</u>
Direct lending funds	\$ 22,134	2%	—	—%
Total hedge and direct lending funds	<u>971,944</u>	<u>93%</u>	<u>781,002</u>	<u>93%</u>
CLO - Equities	73,866	7%	62,435	7%
<b>Total other investments</b>	<u>\$ 1,045,810</u>	<u>100%</u>	<u>\$ 843,437</u>	<u>100%</u>

The \$169 million increase in the fair value of our total hedge funds in 2013 was driven by \$68 million of net subscriptions as well as \$101 million of increased valuations as our hedge funds tracked the strong performance of the global equity and credit markets. Certain of these funds may be subject to restrictions on redemptions which may limit our ability to liquidate these investments in the short term. See Item 8, Note 5(b) of our Consolidated Financial Statements for further details on these restrictions.

We have made total commitments of \$110 million to managers of direct lending funds. To date, \$22 million of this commitment has been called. During 2013, we made a \$60 million commitment as a limited partner in a multi-strategy hedge fund, of which \$6 million has been called to date. Further, during 2013, we made a \$60 million commitment as a limited partner in a fund that invests primarily in CLO equities ("CLO fund"), of which \$33 million has been called to date. See Item 8, Note 5(b) of our Consolidated Financial Statements for further details on the investment terms relating to these commitments.

At December 31, 2013, \$33 million of the CLO fund commitment had been called. This is the primary reason for the increase in the fair value of our CLO - Equities during the year. In addition, our direct investments in CLO - Equities provided \$27 million of net investment income during the year, offset by the receipt of \$50 million of cash distributions. Included in these distributions were \$24 million from two of our holdings which have entered the liquidation phase of their investment cycle and have begun returning capital to equity tranche holders.



### ***Restricted Investments***

In order to support our obligations in regulatory jurisdictions where we operate as a non-admitted carrier, we provide collateral in the form of assets held in trust and, to a lesser extent, letters of credit. Refer to Item 8, Note 10(b) to our Consolidated Financial Statements for further information on our collateral requirements upon issuance of certain letters of credit. The fair value of our restricted investments primarily relates to these items, as noted in the table below. Our restricted investments primarily consist of high-quality fixed maturity and short-term investment securities. During 2013, we established AXIS Syndicate to write insurance and reinsurance business. The collateral pledged in connection with this new Lloyd's syndicate was the main driver of the year-over-year increase in total restricted investments.

<b>At December 31,</b>	<b>2013</b>	<b>2012</b>
Collateral in Trust for inter-company agreements	\$ 2,261,081	\$ 2,134,931
Collateral for secured letter of credit facility	777,828	470,062
Collateral in Trust for third party agreements	276,839	245,539
Securities on deposit with regulatory authorities	58,327	59,456
<b>Total restricted investments</b>	<b>\$ 3,374,075</b>	<b>\$ 2,909,988</b>

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## LIQUIDITY AND CAPITAL RESOURCES

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### LIQUIDITY

Liquidity is a measure of a company's ability to generate cash flows sufficient to meet the short-term and long-term cash requirements of its business operations. We manage our liquidity at both the holding company and operating subsidiary level.

#### *Holding Company*

As a holding company, AXIS Capital has no operations of its own and its assets consist primarily of investments in its subsidiaries. Accordingly, AXIS Capital's future cash flows depend on the availability of dividends or other statutorily permissible distributions, such as returns of capital, from its subsidiaries. The ability to pay such dividends and/or distributions is limited by the applicable laws and regulations of the various countries and states in which AXIS Capital's subsidiaries operate (refer to Item 8, Note 20, to the Consolidated Financial Statements for further information), as well as the need to maintain capital levels to adequately support (re)insurance operations and to preserve financial strength ratings issued by independent rating agencies. During 2013, AXIS Capital received \$566 million (2012: \$525 million; 2011: \$385 million) of distributions from its subsidiaries. AXIS Capital's primary uses of funds are dividend payments to both common and preferred shareholders, share repurchases, interest and principal payments on debt, capital investments in subsidiaries and payment of corporate operating expenses. We believe the dividend/distribution capacity of AXIS Capital's subsidiaries, which was over \$1 billion at December 31, 2013, will provide AXIS Capital with sufficient liquidity for the foreseeable future.

#### *Operating Subsidiaries*

AXIS Capital's operating subsidiaries primarily derive cash from the net inflow of premiums less claim payments related to underwriting activities and from net investment income. Historically, these cash receipts have been sufficient to fund the operating expenses of these subsidiaries, as well as to fund dividend payments to AXIS Capital. The subsidiaries' remaining cash flows are generally reinvested in our investment portfolio, although they have also been used to fund common share repurchases in recent periods.

The (re)insurance business of our operating subsidiaries inherently provides liquidity, as premiums are received in advance (sometimes substantially in advance) of the time claims are paid. However, the amount of cash required to fund claim payments can fluctuate significantly from period to period, due to the low frequency/high severity nature of certain types of business we write.

The following table summarizes our consolidated cash flows from operating, investing and financing activities in the last three years:

Total cash provided by (used in) <sup>(1)</sup>	2013	2012	2011
Operating activities	\$ 1,096,968	\$ 1,120,617	\$ 1,190,142
Investing activities	(489,287)	(862,381)	(832,718)
Financing activities	(441,094)	(481,811)	(302,480)
Effect of exchange rate changes on cash	(3,078)	1,543	(2,610)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>\$ 163,509</b>	<b>\$ (222,032)</b>	<b>\$ 52,334</b>

(1) See Consolidated Statements of Cash Flows included in Item 8, 'Financial Statements and Supplementary Data', of this report for additional information.

- Net cash provided by operating activities was \$1.1 billion in 2013 and 2012 compared to \$1.2 billion in 2011. The Company's insurance and reinsurance operations typically receive principal cash inflows from premiums and reinsurance recoverables. Our principal cash outflows are for the payment of claims and loss adjustment expenses, premium payments to reinsurers, policy acquisition costs and operating expenses. Cash provided by operating activities can fluctuate due to timing differences in the collection of premium receivable and reinsurance recoverables and the payment of losses and premiums payable. The small reductions in cash flows in 2013 and 2012 were driven by an

increase in net paid losses as we continued to settle losses related to prior years' natural catastrophe and weather-related events, partially offset by an increase in premium receipts driven by growth in net written premiums.

- The cash outflows from investing activities for 2013 related principally to the net purchase of fixed maturities of \$0.6 billion (2012: \$0.9 billion, 2011: \$0.3 billion). This was a result of reinvesting net investment income across a variety of fixed income asset classes. The decrease in the investing cash flows compared to prior years relates to an increased allocation to cash and cash equivalents during the year. During 2012, fixed income purchases included increased allocations to TIPS, short duration high yield corporate debt and CMBS. During 2011, we increased our allocation to global equities and hedge funds, driving combined net purchases of equities and other investments of \$0.5 billion.
- Dividends paid to common and preferred shareholders are the primary source of recurring cash flows used in financial activities and totaled \$158 million in 2013 (2012: \$159 million, 2011: \$243 million); this amount was higher for 2011 relative to the succeeding years largely due to the payment of deferred dividends to certain warrant holders upon exercise (refer to Item 8, Note 13 to our Consolidated Financial Statements). Financing cash outflows also included common share repurchases totaling \$472 million, \$318 million and \$66 million in 2013, 2012 and 2011, respectively. We note that market share repurchases are completely discretionary; the timing and amount of the additional repurchase transactions will depend on a variety of factors including, but not limited to, global (re)insurance and financial market conditions and opportunities, capital management and regulatory considerations (see '*Capital Resources – Share Repurchases*' below). During 2013 and 2012, financing cash flows also included a net \$118 million inflow and \$11 million outflow, respectively, related to the preferred share transactions discussed under '*Capital Resources - Preferred Shares*' below. During 2013, cash outflows were partially offset by a \$50 million third party investment in shares issued by Ventures Re (See noncontrolling interests discussion in Item 8, Note 14 of the Consolidated Financial Statements).

Our diversified underwriting portfolio has demonstrated an ability to withstand catastrophic losses. Since 2003, with the only exception being 2009, our annual cash flows from operations were in excess of \$1 billion with 2009 being adversely impacted by claims arising from the global financial crisis. Besides 2009, these positive cash flows were generated notwithstanding the impacts of the global financial crisis on other financial years and the recognition of significant natural catastrophe-related losses during the period: our net losses and loss expenses included \$266 million for Hurricanes Charley, Frances, Ivan and Jeanne in 2004; \$1,019 million for Hurricanes Katrina, Rita and Wilma in 2005; \$408 million for Hurricanes Gustav and Ike in 2008; \$256 million for the Chilean and New Zealand earthquakes in 2010; \$944 million for numerous natural catastrophe and weather events in 2011; and \$331 million for Storm Sandy in 2012. There remains significant uncertainty associated with our estimates of net losses for certain of these events (see '*Underwriting Results – Group – Underwriting Expenses*' for further details), as well as the timing of the associated cash outflows.

Should claim payment obligations accelerate beyond our ability to fund payments from operating cash flows, we would utilize our cash and cash equivalent balances and/or liquidate a portion of our investment portfolio. Our investment portfolio is heavily weighted towards conservative, high quality and highly liquid securities. We expect that, if necessary, approximately \$13.1 billion of cash and invested assets at December 31, 2013 could be available in one to three business days under normal market conditions; of this amount, \$3.1 billion relates to restricted assets, which primarily support our obligations in regulatory jurisdictions where we operate as a non-admitted carrier (see Item 8, Note 5(e) to the Consolidated Financial Statements for further details). For context, our largest 1-in-250 year return period, single occurrence, single-zone modeled probable maximum loss (Southeast U.S. Hurricane) is approximately \$887 million, net of reinsurance; our claim payments pertaining to such an event would be paid out over a period spanning many months. Our internal risk tolerance framework aims to limit both the loss of capital due to a single event, and the loss of capital that would occur from multiple but perhaps smaller events, in any year. Refer to the '*Risk and Capital Management*' section of Item 1 for further information.

We continue to expect that cash flows generated from our operations, combined with the liquidity provided by our investment portfolio, will be sufficient to cover our required cash outflows and other contractual commitments through the foreseeable future. Refer to the '*Contractual Obligations and Commitments*' section below for further information about the anticipated amounts and timing of our contractual obligations and commitments.

## CAPITAL RESOURCES

In addition to common equity, we have utilized other external sources of financing, including debt, preferred shares and letters of credit to support our business operations. We believe that we hold sufficient capital to allow us to take advantage of market opportunities and to maintain our financial strength ratings, as well as to comply with various local statutory regulations. We monitor our capital adequacy on a regular basis and will seek to adjust our capital base (up or down) according to the needs of our business (see *'Risk and Capital Management'* in Item 1).

The following table summarizes our consolidated capital position for the periods indicated:

<b>At December 31,</b>	<b>2013</b>	<b>2012</b>
Long-term debt	\$ 995,855	\$ 995,245
Preferred shares	627,843	502,843
Common equity	5,190,119	5,276,918
Shareholders' equity attributable to AXIS Capital	5,817,962	5,779,761
<b>Total capital</b>	<b>\$ 6,813,817</b>	<b>\$ 6,775,006</b>
<b>Ratio of debt to total capital</b>	<b>14.6%</b>	14.7%
<b>Ratio of debt and preferred equity to total capital</b>	<b>23.8%</b>	22.1%

We finance our operations with a combination of debt and equity capital. Our debt to total capital and debt and preferred equity to total capital ratios provide an indication of our capital structure, along with some insight into our financial strength. A company with higher ratios in comparison to industry average may show weak financial strength because the cost of its debts may adversely affect results of operations and/or increase its default risk. We believe that our financial flexibility remains strong.

**Long-term Debt:** Long-term debt represents the senior notes we issued during 2004 and 2010, which mature in 2014 and 2020, respectively. For further information, refer to Item 8, Note 10(a) of the Consolidated Financial Statements.

**Preferred Shares:** During 2005, we issued \$250 million of 7.25% Series A and \$250 million of 7.50% Series B non-cumulative preferred shares.

During March 2012, we issued 16 million newly designated 6.875% Series C preferred shares with a liquidation preference of \$25.00 per share for gross proceeds of \$400 million. Dividends on the Series C preferred shares are non-cumulative; to the extent declared, dividends will accumulate, with respect to each dividend period, in an amount per share equal to 6.875% of the liquidation preference per annum. We may redeem the shares on or after April 15, 2017 at a redemption price of \$25.00 per share.

Concurrent with the closing of the Series C preferred share issuance, we redeemed 6 million of our previously outstanding Series A preferred shares at the \$25.00 per share redemption price, for a total redemption of \$150 million. Following this redemption, 4 million Series A preferred shares, representing \$100 million in aggregate liquidation preference, remained outstanding.

During April 2012, we closed a cash tender offer for any and all of our outstanding Series B preferred shares at a price of \$102.81 per share. As a result, we repurchased 2,471,570 Series B Preferred shares, for \$254 million. At December 31, 2012, 28,430 Series B preferred shares, representing \$3 million in aggregate liquidation preference, remained outstanding. We may redeem these shares on or after December 1, 2015, at a redemption price of \$100.00 per share.

During May 2013, we issued 9 million newly designated 5.50% Series D preferred shares with a liquidation preference of \$25.00 per share for gross proceeds of \$225 million. Dividends on the Series D preferred shares are non-cumulative; to the extent declared, dividends will accumulate, with respect to each dividend period, in an amount per share equal to 5.50% of the liquidation preference per annum. We may redeem these shares on or after June 1, 2018 at a redemption price of \$25.00 per share.

Concurrent with the closing of the Series D preferred share issuance, we redeemed the remaining 4 million of 7.25% Series A preferred shares outstanding at a \$25.00 per share redemption price for a total of \$100 million.

On a combined basis, these five transactions resulted in a 99 basis point reduction in the weighted average annual dividend rate on our preferred equity.

**Common Equity:** Underlying movements in the value of our common equity over the past two years are outlined in the following table:

Year ended December 31,	2013	2012
<b>Common equity - opening</b>	<b>\$ 5,276,918</b>	<b>\$ 4,944,079</b>
Net income	727,465	547,241
Change in unrealized appreciation on available for sale investments, net of tax	(223,383)	232,232
Share repurchases	(472,263)	(317,687)
Common share dividends <sup>(1)</sup>	(118,993)	(152,607)
Preferred share dividends	(40,474)	(38,228)
Share-based compensation	48,475	67,912
Premium on repurchase of Series B preferred shares	—	(6,916)
Series C and D preferred share issue costs (included in additional paid-in capital)	(6,551)	(6,456)
Other	(1,075)	7,348
<b>Common equity - closing</b>	<b>\$ 5,190,119</b>	<b>\$ 5,276,918</b>

(1) Common share dividends were historically recognized as a reduction of retained earnings when paid. During the fourth quarter of 2012, we recognized a \$31 million adjustment in order to recognize dividends when declared. See Item 8, Note 13(c) of the Consolidated Financial Statements for further details.

### ***Credit and Letter of Credit Facilities***

We routinely enter into agreements with financial institutions to obtain secured and unsecured credit facilities. These facilities are primarily used for the issuance of letters of credit, in the normal course of operations, to certain (re)insurance operations that purchase reinsurance protection from us. These letters of credit allow those operations to take credit, under local insurance regulations, for reinsurance obtained in jurisdictions where AXIS Capital's subsidiaries are not licensed or otherwise admitted as an insurer. The value of our letters of credit outstanding is driven by, amongst other factors, loss development on existing reserves, the payment patterns of such reserves, the expansion of our business and the loss experience of such business. A portion of these facilities may also be used for liquidity purposes.

Each of our existing facilities is described further below; refer to Item 8, Note 10(b) to our Consolidated Financial Statements for additional information.

#### ***Secured Letter of Credit Facilities***

We maintain a secured \$750 million letter of credit facility (the "LOC Facility"). This facility is subject to certain covenants, including the requirement to maintain sufficient collateral to cover all of our obligations under the facility. Such obligations include contingent reimbursement obligations for outstanding letters of credit and fees payable to the lender. In the event of default, the lender may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the facility to any or all of the participating operating subsidiaries.

During 2013, we entered into a \$170 million secured letter of credit facility (the "Lloyd's LOC Facility") pursuant to a Letter of Credit Facility Agreement and Security Agreement (collectively, the "Lloyd's Facility Documents"). The Lloyd's LOC Facility is fully utilized and meets the Funds at Lloyd's requirements for the Company's subsidiary, AXIS Corporate Capital UK Limited to support the underwriting capacity of the Company's Lloyd's syndicate, AXIS Syndicate 1686, for the 2014 underwriting year of account. The Letter of Credit issued under the Lloyd's LOC Facility will expire no later than July 31, 2018. The Lloyd's Facility Documents contain customary covenants with which the Company must comply, including a requirement to maintain sufficient collateral to fully secure any issued Letter of Credit. In case of an event of default under

the Lloyd's Facility Documents, the lender may exercise certain remedies, including the exercise of sole and exclusive control over pledged collateral.

#### *Credit Facility*

During 2013, we terminated and replaced our previously existing credit facility that was scheduled for expiration. We are now party to a \$250 million credit facility (the "Credit Facility"), which provides us with combined borrowing and letter of credit issuance capacity up to the aggregate amount of the facility. At our request, and subject to certain conditions, the aggregate commitment of this facility may be increased by up to \$150 million. Interest on loans issued under this facility is payable based on underlying market rates at the time of loan issuance. While any loans are unsecured, we have the option to issue letters of credit on a secured basis in order to reduce associated fees. This facility is subject to certain non-financial covenants that we believe are customary for facilities of this type, including limitations on fundamental changes, the incurrence of additional indebtedness and liens and certain transactions with affiliates and investments, as defined in the facility documents.

Compliance with certain financial covenants that we believe are customary for (re)insurance companies in credit facilities of this type is also required. These covenants include:

- (i) Maintenance of a minimum consolidated net worth, with the minimum being equal to the sum of \$3.802 billion plus 25% of consolidated net income (if positive) for each semi-annual fiscal period ending on or after June 30, 2013 plus 25% of the net cash proceeds received by AXIS Capital from the issuance of its capital stock during each such semi-annual fiscal period. For the purposes of this covenant, consolidated net worth excludes unrealized appreciation (depreciation) on our available for sale investments.
- (ii) Maintenance of a maximum debt to total capital ratio of 0.35 to 1. For the purposes of this covenant, unrealized appreciation (depreciation) on our available for sale investments is excluded from total capital.
- (iii) Maintenance of an A.M. Best Company, Inc. ("A.M. Best") financial strength rating of at least B++ for each of AXIS Capital's material insurance/reinsurance subsidiaries that are party to the Credit Facility.

At December 31, 2013, this facility required a minimum consolidated net worth of \$4.019 billion and our actual consolidated net worth, as calculated under the provisions of the Credit Facility, was \$5.693 billion. We had a consolidated debt to total capital ratio, calculated in accordance with the Credit Facility provisions, of 0.15 to 1 and each of our material insurance/reinsurance subsidiaries party to the agreement had an A.M. Best financial strength rating of A+.

In the event of default, including a breach of the covenants outlined above, the lenders may exercise certain remedies including the termination of the facility, the declaration of all principal and interest amounts related to facility loans to be immediately due and the requirement that any outstanding letters of credit that we opted to obtain on an unsecured basis be collateralized.

Additionally, the facility allows for an adjustment to the level of pricing should AXIS Capital experience a change in its senior unsecured debt ratings.

In addition to replacing our expiring credit facility in 2013, we also entered into an amendment to the Credit Facility in order to permit AXIS Capital and its subsidiaries to enter into swap contracts and other arrangements related to weather derivative transactions. All other material terms and conditions remained unchanged.

#### *Available Capacity*

At December 31, 2013, we had \$501 million, \$170 million and \$nil letters of credit outstanding under the LOC Facility, Lloyd's LOC Facility and Credit Facility, respectively. The remaining available capacity under these three facilities was \$499 million, not taking into consideration the \$150 million potential increase in the amount available under the Credit Facility. There was no debt outstanding under the Credit Facility. We were in compliance with all covenants of the facilities at December 31, 2013.

#### *Share Repurchases*

As part of our capital management strategy, our Board of Directors authorizes common share repurchase programs. On December 9, 2013, our Board of Directors authorized a new \$750 million share common share repurchase plan, which

replaced the existing plan set to expire at the end of 2014. At February 20, 2014, the remaining authorization under the program was \$723 million (see to Item 5 'Market for Registrant's Common Equity, Related Stockholder Matters and Issue Purchases of Equity Securities'). As noted above, repurchases under this program are entirely discretionary; the timing and amount of the additional repurchase transactions will depend on a variety of factors including, but not limited to, global (re) insurance and financial market conditions and opportunities, capital management and regulatory considerations.

### ***Shelf Registrations***

On January 16, 2014, we filed an unallocated universal shelf registration statement with the SEC, which became effective upon filing. Pursuant to the shelf registration, we may issue an unlimited amount of equity, debt, warrants, purchase contracts or a combination of those securities. Our intent and ability to issue securities pursuant to this registration statement will depend on market conditions at the time of any proposed offering.

### ***Financial Strength Ratings***

Our principal (re)insurance operating subsidiaries are assigned financial strength ratings from internationally recognized rating agencies, including Standard & Poor's, A.M. Best and Moody's Investors Service. These ratings are publicly announced and are available directly from the agencies, as well as on our website.

Such financial strength ratings represent the opinions of the rating agencies on the overall financial strength of a company and its capacity to meet the obligations of its (re)insurance contracts. Independent ratings are one of the important factors that establish our competitive position in (re)insurance markets. The rating agencies consider many factors in determining the financial strength rating of an insurance company, including the relative level of statutory surplus necessary to support the business operations of the company. These ratings are based upon factors considered by the rating agencies to be relevant to policyholders, agents and intermediaries and are not directed toward the protection of investors. Such ratings are not recommendations to buy, sell or hold securities.

During 2013, A.M. Best upgraded the financial strength rating of each of our principal operating insurance and reinsurance subsidiaries to a financial strength rating of A+ (Stable). This rating as defined by A.M. Best is assigned to companies that have, in their opinion, a "superior ability to meet ongoing insurance obligations." The 'A+' grouping is the second highest ratings category out of fifteen. Rating outlooks ('Positive', 'Negative' and 'Stable') are assigned to indicate a rating's potential direction over an intermediate term, generally defined as 12 - 36 months.

The following are the most recent financial strength ratings from internationally recognized agencies in relation to our principal (re)insurance operating subsidiaries:

<b>Rating agency</b>	<b>Agency's description of rating</b>	<b>Rating</b>	<b>Agency's rating definition</b>	<b>Ranking of rating</b>
Standard & Poor's	An "opinion about the financial security characteristics of an insurance organization, with respect to its ability to pay under its insurance policies and contracts, in accordance with their terms".	A+ (Stable)	"Strong financial security characteristics"	The 'A' grouping is the third highest out of ten major rating categories. The first seven major rating categories may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.
A.M. Best	An "opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations".	A+ (Stable)	"Superior ability to meet ongoing insurance obligations"	The 'A+' grouping is the second highest ratings category out of fifteen. Ratings outlooks ('Positive', 'Negative' and 'Stable') are assigned to indicate a rating's potential direction over an intermediate term, generally defined as 12 - 36 months.
Moody's Investors Service	"Opinions of the ability of insurance companies to pay punctually senior policyholder claims and obligations."	A2 (Stable)	"Upper-medium grade and subject to low credit risk"	The 'A' grouping is the third highest out of nine rating categories. Each of the second through seventh categories are subdivided into three subcategories, as indicated by an appended numerical modifier of '1', '2' and '3'. The '1' modifier indicates that the obligation ranks in the higher end of the rating category, the '2' modifier indicates a mid-category ranking and the '3' modifier indicates a ranking in the lower end of the rating category.



## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table provides a breakdown of our contractual obligations and commitments at December 31, 2013 by period due:

Contractual Obligations and Commitments	Payment Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
<b>Operating activities</b>					
Estimated gross loss and loss expense payments <sup>(1)</sup>	\$ 9,582,140	\$ 2,725,390	\$ 3,018,142	\$ 1,549,959	\$ 2,288,649
Operating lease obligations <sup>(2)</sup>	174,308	31,207	51,216	38,836	53,049
Reinsurance purchase commitments <sup>(3)</sup>	79,501	64,330	15,171	—	—
<b>Investing activities</b>					
Unfunded investment commitments <sup>(4)</sup>	168,165	168,165	—	—	—
<b>Financing activities</b>					
Senior notes (including interest payments) <sup>(5)</sup>	1,219,688	558,125	58,750	58,750	544,063
<b>Total</b>	<b>\$ 11,223,802</b>	<b>\$ 3,547,217</b>	<b>\$ 3,143,279</b>	<b>\$ 1,647,545</b>	<b>\$ 2,885,761</b>

- (1) We are obligated to pay claims for specified loss events covered by the (re)insurance contracts we write. Such loss payments represent our most significant future payment obligation. In contrast to our other contractual obligations, our cash payments are not determinable from the terms specified within the underlying contracts. The total amount in the table above reflects our best estimate of our reserve for losses and loss expenses. However, the actual amounts and timing may differ materially; refer to the 'Critical Accounting Estimates – Reserve for Losses and Loss Expenses' for further information. We have not taken into account corresponding reinsurance recoverable amounts that would be due to us. Given the limited loss development pattern information specific to our experience, we have generally estimated the timing of payment by applying industry benchmark payout patterns to each underlying reserving class.
- (2) We lease office space under operating leases which expire at various dates. We renew and enter into new leases in the ordinary course of business, as required.
- (3) We purchase reinsurance protection for our insurance lines of business. The minimum premiums are contractually due in advance on a quarterly basis.
- (4) We have unfunded investment commitments related to our investments in hedge and credit funds, which are callable by our investment managers. We have assumed that such investments will be called in the next year but such funding may occur over a longer period of time, due to market conditions and other factors. For further details, see Item 8, Note 5(b) to the Consolidated Financial Statements.
- (5) For further details on the terms of our senior unsecured debt, see Item 8, Note 10(a) to the Consolidated Financial Statements.

## CRITICAL ACCOUNTING ESTIMATES

Our Consolidated Financial Statements include certain amounts that are inherently uncertain and judgmental in nature. As a result, we are required to make assumptions and best estimates in order to determine the reported values. We consider an accounting estimate to be critical if: (1) it requires that significant assumptions be made in order to deal with uncertainties and (2) changes in the estimate could have a material impact on our results of operations, financial condition or liquidity.

We believe that the material items requiring such subjective and complex estimates are our:

- reserves for losses and loss expenses;
- reinsurance recoverable balances;
- premiums;
- fair value measurements for our financial assets and liabilities; and
- assessments of other-than-temporary impairments.

Nevertheless, other significant accounting policies are important to understanding our Consolidated Financial Statements. See Item 8, Note 2 'Significant Accounting Policies' to the Consolidated Financial Statements for further information.

We believe that the amounts included in our Consolidated Financial Statements reflect our best judgment. However, factors such as those described in Item 1A 'Risk Factors' could cause actual events or results to differ materially from our underlying assumptions and estimates; this could lead to a material adverse impact on our results of operations, financial condition and/or liquidity.

## **RESERVE FOR LOSSES AND LOSS EXPENSES**

### **Overview**

We believe the most significant accounting judgment we make is the estimate of our reserve for losses and loss expenses (“loss reserves”). Our loss reserves represent management’s estimate of the unpaid portion of our ultimate liability for losses and loss expenses (“ultimate losses”) for (re)insured events that have occurred at or before the balance sheet date. Our loss reserves reflect both claims that have been reported to us (“case reserves”) and claims that have been incurred but not yet reported to us (“IBNR”). Our loss reserves represent our best estimate of what the ultimate settlement and administration of claims will cost, based on our assessment of facts and circumstances known at that particular point in time.

Loss reserves are not an exact calculation of liability but instead are complex estimates. The process of estimating loss reserves involves a number of variables (see ‘*Selection of Reported Reserves (Management’s Best Estimate)*’) below for further details). We review our estimate of loss reserves each reporting period and consider all significant facts and circumstances then known. As additional experience and other data become available and/or laws and legal interpretations change, we may adjust our previous estimates of loss reserves; these adjustments are recognized in the period they are determined and, therefore, can impact that period’s underwriting results either favorably (when reserves established in prior years prove to be redundant) or adversely (when reserves established in prior years prove to be deficient).

### **Case Reserves**

With respect to our insurance operations, we are generally notified of insured losses by our insureds and/or their brokers. Based on this information, our claims personnel estimate our ultimate losses arising from the claim, including the cost of administering the claims settlement process. These estimates reflect the judgment of our claims personnel based on general reserving practices, the experience and knowledge of such personnel regarding the nature of the specific claim and, where appropriate, the advice of legal counsel, loss adjusters and other relevant consultants.

For our reinsurance business, case reserves for reported claims are generally established based on reports received from ceding companies and/or their brokers. For excess of loss contracts, we are typically notified of insured losses on specific contracts and record a case reserve for the estimated ultimate liability arising from the claim. With respect to contracts written on a proportional basis, we typically receive aggregated claims information and record a case reserve based on that information. However, our proportional reinsurance contracts typically require that losses in excess of pre-defined amounts be separately notified so that we can adequately evaluate them. Our claims department evaluates each specific loss notification we receive and records additional case reserves when a ceding company’s reserve for a claim is not considered adequate.

In deciding whether to provide treaty reinsurance, we carefully review and analyze a cedant’s underwriting and risk management practices to ensure appropriate underwriting, data capture and reporting procedures. We also undertake an extensive program of cedant audits, using outsourced legal and industry experience where necessary. This allows us to review cedants’ claims administration practices to ensure that reserves are consistent with exposures, adequately established and properly reported in a timely manner and also allows us to verify that claims are appropriately handled.

### **IBNR**

The estimation of IBNR is necessary due to the time lags between when a loss event occurs and when it is actually reported to us, referred to as the reporting lag. Reporting lags may arise from a number of factors, including but not limited to the nature of the loss, the use of intermediaries and complexities in the claims adjusting process. By definition, we do not have specific information on IBNR so it must be estimated. IBNR is calculated by deducting incurred losses (i.e. paid losses and case reserves) from management’s best estimate of ultimate losses. In contrast to case reserves, which are established at the contract level, IBNR reserves are generally estimated at an aggregate level and cannot be identified as reserves for a particular loss event or contract. Refer to the ‘*Reserving For Significant Catastrophic Events*’ section below for additional information on reserving for such events.

## **Reserving Process**

### *Sources of Information*

Our quarterly reserving process begins with the collection and analysis of paid and incurred claim data for each of our segments. The segmental data is disaggregated by reserving class and further disaggregated by accident year (i.e. the year in which the loss event occurred). We use underwriting year information (i.e. the year in which the contract inception) to analyze some of our proportional reinsurance business and subsequently allocate reserves to the respective accident years. Our reserving classes are selected to ensure that the underlying contracts have homogeneous loss development characteristics, while remaining large enough to make the estimation of trends credible. We review our reserving classes on a regular basis and adjust them over time as our business evolves. This data, in addition to industry benchmarks, serves as a key input to many of the methods employed by our actuaries. The relative weights assigned to our own historical loss data versus industry data vary according to the length of the development profile for the reserving class being evaluated. At present, we generally give more weight to our own experience (and, correspondingly, less weight to industry data) for reserving classes with short and medium claim tails; the converse is true for reserving classes with longer claim tails. (See 'Claim Tail Analysis' below for more detailed information by claim tail class.)

### *Actuarial Analysis*

Multiple actuarial methods are available to estimate ultimate losses. Each method has its own assumptions and its own advantages and disadvantages, with no single estimation method being better than the others in all situations and no one set of assumption variables being meaningful for all reserving classes. The relative strengths and weaknesses of the particular estimation methods when applied to a particular group of claims can also change over time.

The following is a brief description of the reserve estimation methods commonly employed by our actuaries and a discussion of their particular strengths and weaknesses:

- Expected Loss Ratio Method ("ELR"): This method estimates ultimate losses for an accident year by applying an expected loss ratio to the earned premium for that accident year. Generally, expected loss ratios are based on one or more of (a) an analysis of historical loss experience to date, (b) pricing information and (c) industry data, adjusted as appropriate, to reflect changes in rates and terms and conditions. This method is insensitive to actual incurred losses for the accident year in question and is, therefore, often useful in the early stages of development when very few losses have been incurred. Conversely, the lack of sensitivity to incurred/paid losses for the accident year in question means that this method is usually inappropriate in later stages of an accident year's development.
- Loss Development Method (also referred to as the Chain Ladder Method or Link Ratio Method): This method assumes that the losses incurred/paid for each accident year at a particular development stage follow a relatively similar pattern. It assumes that on average, every accident year will display the same percentage of ultimate losses incurred/paid at the same point in time after the inception of the accident year. The percentages incurred/paid are established for each development stage (e.g. 12 months, 24 months, etc.) after examining historical averages from historical loss development data and/or external industry benchmark information. Ultimate losses are then estimated by multiplying the actual incurred/paid losses by the reciprocal of the established incurred/paid percentage. The strengths of this method are that it reacts to loss emergence/payments and that it makes full use of historical claim emergence/payment experience. However, this method has weaknesses when the underlying assumption of stable loss development/payment patterns is not valid. This could be the consequence of changes in business mix, claim inflation trends or claim reporting practices and/or the presence of large claims, amongst other things. Furthermore, this method tends to produce volatile estimates of ultimate losses where there is volatility in the underlying incurred/paid patterns. In particular, where the expected percentage of incurred/paid losses is low, small deviations between actual and expected claims can lead to very volatile estimates of ultimate losses. As a result, this method is often unsuitable at early development stages for an accident year.
- Bornhuetter-Ferguson Method ("BF"): This method can be seen as a combination of the ELR and Loss Development Methods, under which the Loss Development Method is given progressively more weight as an accident year matures. The main advantage of the BF Method is that it provides a more stable estimate of ultimate losses than the Loss Development Method at earlier stages of development, while remaining more sensitive to emerging loss development than the ELR Method. In addition, the BF Method allows for the incorporation of external market information through the use of expected loss ratios, whereas the Loss Development Method does not incorporate such information.

As part of our quarterly loss reserve review process, our actuaries employ the estimation method(s) that they believe will produce the most reliable estimate of ultimate losses, at that particular evaluation date, for each reserving class and accident year combination. Often, this is a blend (i.e. weighted average) of the results of two or more appropriate actuarial methods. These ultimate loss estimates are generally utilized to evaluate the adequacy of our ultimate loss estimates for previous accident years, as established in the prior reporting period. For the initial estimate of the current accident year, the available claim data is typically insufficient to produce a reliable estimate of ultimate losses. As a result, our initial estimate for an accident year is generally based on the ELR Method. The initial ELR for each reserving class is established collaboratively by our actuaries, underwriters and management at the start of the accident year as part of the planning process, taking into consideration prior accident years' experience and industry benchmarks, adjusted after considering factors such as exposure trends, rate differences, changes in contract terms and conditions, business mix changes and other known differences between the current accident year and prior accident years. The initial expected loss ratios for a given accident year may be modified over time if the underlying assumptions, such as loss development or premium rate changes, differ from the original assumptions.

#### *Reserving for Credit and Political Risk Business*

Our credit and political risk insurance business consists primarily of credit insurance and confiscation, expropriation, nationalization and deprivation coverages ("CEND"). Claims for this business tend to be characterized by their severity risk, as opposed to their frequency risk. Therefore, claim payment and reporting patterns are anticipated to be volatile. Under the notification provisions of our credit insurance, we anticipate being advised of an insured event within a relatively short time period. As a result, we generally estimate ultimate losses based on a contract-by-contract analysis which considers the contracts' terms, the facts and circumstances of underlying loss events and qualitative input from claims managers.

An important and distinguishing feature of many of these contracts, though, is our contractual right, subsequent to payment of a claim to our insured, to be subrogated to, or otherwise have an interest in, the insured's rights of recovery under an insured loan or facility agreement. These estimated recoveries are recorded as an offset to our credit and political risk loss reserves. The lag between the date of a claim payment and our ultimate recovery from the corresponding security can result in negative case reserves at a point in time (as was the case at December 31, 2013 and 2012). The nature of the underlying collateral is specific to each transaction and we also estimate the value of this collateral on a contract-by-contract basis. This valuation process is inherently subjective and involves the application of management's judgment because active markets for the collateral often do not exist. Our estimates of value are based on numerous inputs, including information provided by our insureds, as well as third party sources including rating agencies, asset valuation specialists and other publicly available information. We also assess any post-event circumstances, including restructurings, liquidations and possession of asset proposals/agreements.

In some instances, upon becoming aware of a loss event related to our credit and political risk business, we negotiate a final settlement of all of our policy liabilities for a fixed amount. In most circumstances, this occurs when the insured moves to realize the benefit of the collateral that underlies the insured loan or facility and presents us with a net settlement proposal that represents a full and final payment by us under the terms of the policy. In consideration for this payment, we secure a cancellation of the policy, or a release of all claims, and waive our right to pursue a recovery of these settlement payments against the security that may have been available to us under the insured loan or facility agreement. In certain circumstances, cancellation by way of net settlement or full payment can result in an adjustment of the net premium to be received and earned on the policy.

#### *Reserving For Significant Catastrophic Events*

We cannot estimate losses from widespread catastrophic events, such as hurricanes and earthquakes, using the traditional actuarial methods described above. Rather, loss reserves for such events are estimated by management after a catastrophe occurs by completing an in-depth analysis of individual contracts which may potentially be impacted by the catastrophic event. This in-depth analysis may rely on several sources of information, including: (1) estimates of the size of insured industry losses from the catastrophic event and our corresponding market share; (2) a review of our portfolio of contracts performed to identify those contracts which may be exposed to the catastrophic event; (3) a review of modeled loss estimates based on information previously reported by customers and brokers, including exposure data obtained during the underwriting process; (4) discussions of the impact of the event with our customers and brokers and (5) catastrophe bulletins published by various independent statistical reporting agencies. We generally use a blend of these information sources to arrive at our aggregate estimate of the ultimate losses arising from the catastrophic event. In subsequent reporting periods, we review changes in paid and incurred losses in relation to each significant catastrophe and adjust our estimates of ultimate

losses for each event if there are developments that are different from our previous expectations; such adjustments are recorded in the period in which they are identified.

There are additional risks affecting our ability to accurately estimate ultimate losses for catastrophic events. For example, the estimation of loss reserves related to hurricanes and earthquakes can be affected by factors including, but not limited to: the inability to access portions of impacted areas, infrastructure disruptions, the complexity of factors contributing to losses, legal and regulatory uncertainties, complexities involved in estimating business interruption losses and additional living expenses, the impact of demand surge, fraud and the limited nature of information available. For hurricanes, additional complex coverage factors may include determining whether damage was caused by flooding versus wind, evaluating general liability and pollution exposures, and mold damage. The timing of a catastrophe, for example near the end of a reporting period, can also affect the level of information available to us to estimate reserves for that reporting period.

Our results of operations for each of 2013, 2012 and 2011 were significantly impacted by natural catastrophe activity. See Item 7 'Underwriting Results – Group, Underwriting Expenses' for a discussion of these events and the remaining associated uncertainties.

#### *Key Actuarial Assumptions*

The use of the above actuarial methods requires us to make certain explicit assumptions, the most significant of which are: (1) expected loss ratios and (2) loss development patterns.

We began operations in late 2001. In our earlier years, we placed significant reliance on industry benchmarks in establishing our expected loss ratios. Over time, we have placed more reliance on our historical loss experience in establishing these ratios where we believe the weight of our own actual experience has become sufficiently credible for consideration. The weight given to our experience differs for each of our three claim tail classes and is discussed further in the 'Claim Tail Analysis' section below. In establishing expected loss ratios for our insurance segment, we give consideration to a number of other factors, including exposure trends, rate adequacy on new and renewal business, ceded reinsurance costs, changes in claims emergence and our underwriters' view of terms and conditions in the market environment. For our reinsurance segment, expected loss ratios are based on a contract-by-contract review, which considers information provided by clients together with estimates provided by our underwriters and actuaries about the impact of changes in pricing, terms and conditions and coverage. We also consider the market experience of an independent actuarial firm, as appropriate.

Similarly, we also placed significant reliance on industry benchmarks in selecting our loss development patterns in earlier years. Over time, we have given varying degrees of weight to our own historical loss experience, as further discussed in the 'Claim Tail Analysis' section.

#### *Selection of Reported Reserves (Management's Best Estimate)*

Our quarterly reserving process involves the collaboration of our underwriting, claims, actuarial, legal and finance departments, includes various segmental committee meetings and culminates with the approval of a single point best estimate by our Group Reserving Committee, which comprises senior management. In selecting this best estimate, management considers actuarial estimates and applies informed judgment regarding qualitative factors that may not be fully captured in these actuarial estimates. Such factors include, but are not limited to: the timing of the emergence of claims, volume and complexity of claims, social and judicial trends, potential severity of individual claims and the extent of internal historical loss data versus industry information. While these qualitative factors are considered in arriving at the point estimate, no specific provisions for qualitative factors are established.

The quarterly evaluation process also includes consultation with an independent actuarial firm. The work performed by the actuarial firm is an important part of the reserving process. We compare our recorded loss reserves to those estimated by the actuarial firm to determine whether our single point best estimate is reasonable. On an annual basis, the independent actuarial firm provides an actuarial opinion on the reasonableness of our loss reserves for each of our operating subsidiaries; such actuarial opinions are required to meet various insurance regulatory requirements. The actuarial firm discusses its conclusions with management and presents its findings to our Board of Directors.

## Claim Tail Analysis

The following table shows our total loss reserves for each of our reportable segments, segregated between case reserves and IBNR and by significant reserving class. This table is presented on a gross basis and, therefore, does not include the benefit of reinsurance recoveries.

At December 31,	2013			2012		
	Case Reserves	IBNR	Total	Case Reserves	IBNR	Total
<b>Insurance segment:</b>						
Property and other	\$ 565,930	\$ 292,067	\$ 857,997	\$ 551,831	\$ 297,389	\$ 849,220
Marine	143,126	136,452	279,578	218,523	174,780	393,303
Aviation	16,159	31,940	48,099	18,511	40,775	59,286
Credit and political risk	(59,101)	72,860	13,759	(82,006)	84,811	2,805
Professional lines	716,279	1,796,205	2,512,484	489,662	1,641,635	2,131,297
Liability	171,923	989,344	1,161,267	190,464	866,178	1,056,642
<b>Total Insurance</b>	<b>1,554,316</b>	<b>3,318,868</b>	<b>4,873,184</b>	<b>1,386,985</b>	<b>3,105,568</b>	<b>4,492,553</b>
<b>Reinsurance segment:</b>						
Property and other	809,384	496,881	1,306,265	917,614	449,056	1,366,670
Credit and surety	141,255	209,485	350,740	104,537	173,259	277,796
Professional lines	314,827	840,683	1,155,510	280,386	802,605	1,082,991
Motor	428,453	464,048	892,501	386,528	407,610	794,138
Liability	251,582	752,358	1,003,940	196,632	847,951	1,044,583
<b>Total Reinsurance</b>	<b>1,945,501</b>	<b>2,763,455</b>	<b>4,708,956</b>	<b>1,885,697</b>	<b>2,680,481</b>	<b>4,566,178</b>
<b>Total</b>	<b>\$ 3,499,817</b>	<b>\$ 6,082,323</b>	<b>\$ 9,582,140</b>	<b>\$ 3,272,682</b>	<b>\$ 5,786,049</b>	<b>\$ 9,058,731</b>

The overall increase in our gross loss reserves during 2013 was driven by growth in our business and the continued accumulation of reserves for medium and longer-tailed lines.

In order to capture the key dynamics of our loss reserve development and potential volatility, our reserving classes should be considered according to their potential expected length of loss emergence and settlement, generally referred to as the “tail”. We consider our business to consist of three claim tail classes: short-tail, medium-tail and long-tail. Below is a discussion of the specifics of our loss reserve process as they apply to each claim tail class, as well as commentary on the factors contributing to our historical loss reserve development for each class. Favorable development on prior accident year reserves indicates that our current estimates are lower than our previous estimates, while adverse development indicates that our current estimates are higher than our previous estimates.

### *Short-Tail Business*

Our short-tail business generally includes exposures for which losses are usually known and paid within a relatively short period of time after the underlying loss event has occurred. Our short-tail business primarily relates to property coverages and includes the majority of our property, terrorism and marine business and certain aviation business within our insurance segment, together with the property, catastrophe and crop business within our reinsurance segment.

The key actuarial assumptions for our short-tail business in our early accident years were primarily developed with reference to industry benchmarks for both expected loss ratios and loss development patterns. As our own historical loss experience amassed, it gained credibility and became relevant for consideration in establishing these key actuarial assumptions. As a result, we gradually increased the weighting assigned to our own historical experience in selecting the expected loss ratios and loss development patterns utilized to establish our estimates of ultimate losses for an accident year.

Due to the relatively short reporting and settlement patterns for our short-tail business, we generally place more weight upon experience-based methods and other qualitative considerations in establishing reserves for our most recent accident years. Our estimates for more mature accident years are generally based on actuarial methods that are more responsive to actual

experience, such as the Loss Development Method. As our experience developed more favorably than our initial expectations, we recognized favorable prior year development on short-tail business in recent years. See 'Underwriting Results - Group - Prior Year Reserve Development' for a discussion of the net favorable reserve development recognized when re-estimating our ultimate losses for short-tail business during the past three years.

Although our estimates of ultimate losses for our short-tail business are inherently less uncertain than for our medium and long-tail business, significant judgment is still required. For example, because much of our excess insurance and excess of loss reinsurance business has high attachment points, it is often difficult to estimate whether claims will exceed those attachment points. Also, the inherent uncertainties relating to catastrophe events previously discussed, together with our typically large line sizes, further add to the complexity of estimating our potential exposure. In addition, we use MGAs and other producers for certain business within our insurance segment; this can delay the reporting of loss information to us. We expect that the majority of development for an accident year will be recognized in the subsequent one to three years.

#### *Medium-Tail Business*

Our medium-tail business primarily consists of professional lines (re)insurance and trade credit and surety reinsurance business. Certain other classes of business, including aviation hull and offshore energy insurance and engineering reinsurance, are also considered to have a medium-tail. Claim reporting and settlement periods on these classes are generally longer than those of our short-tail reserving classes. We also consider our credit and political risk insurance business to have a medium tail, due to the complex nature of claims and the potential additional time that may be required to realize our subrogation assets.

For our earliest accident years, our initial key actuarial expected loss ratio and loss development assumptions were established utilizing industry benchmarks. Due to the longer claim tail, the length of time required to develop our own credible loss history for use in the reserving process is greater for our medium-tail business than for our short-tail business. As a result, the number of accident years where we relied heavily on industry benchmarks to establish our key actuarial assumptions is greater for our medium-tail business. Our reserving approach for medium-tail business is tailored by line of business, with our significant lines being specifically addressed below.

#### Professional Lines (Re)insurance

For our professional lines business, claim payment and reporting patterns are typically medium to long-tail in nature. The underlying business is predominantly written on a claims-made basis, with the majority of reinsurance treaties being written on a risks attaching basis. With respect to our key actuarial assumptions, we are progressively giving more weight to our own experience when establishing our expected loss ratios; our assumed loss development patterns continue to be based primarily on industry benchmarks.

Loss reporting patterns for professional lines business tend to be volatile, causing instability in actuarial indications based on incurred loss data until an accident year matures for a number of years. Consequently, our initial loss reserves for an accident year are generally based upon an ELR method and the consideration of relevant qualitative factors. As accident years mature, we increasingly give more weight to methods that reflect our actual experience until our selections are based almost exclusively on experience-based methods. We evaluate the appropriateness of the transition to experience-based methods at the reserving class level, commencing this transition when we believe that our incurred loss development is sufficient to produce meaningful actuarial indications. The rate at which we transition fully to sole reliance on experience-based methods can vary by reserving class and by accident year, depending on our assessment of the stability and relevance of such indications. For professional lines in our insurance segment, we also rely upon the evaluation of the open claim inventory in addition to the commonly employed actuarial methods when establishing reserves.

Our transition from the ELR method to experience-based methods began during 2008, when we commenced gradual transition for the 2004 and prior accident years. As our loss history continued to develop, the transition was expanded to include additional accident years. At the end of 2013, the transition had begun for the 2010 and prior accident years for certain underlying reserve classes. With the exception of the experience in the insurance professional lines during 2013, our actual loss experience has generally been more favorable than initial expectations and the transition led to the recognition of net favorable prior year reserve development in recent years. During 2013, the insurance professional lines actual loss development was worse than expected for accident years 2011 and 2012. Management recognized this experience by relying upon experience-based methods, an evaluation of the open claims inventory and other qualitative factors, resulting in a higher ultimate loss estimate than initial expected loss ratios. See 'Underwriting Results - Group - Prior Year Development' for a discussion of the development recognized during the last three years.

We believe that there continues to be a relatively higher level of uncertainty around ultimate loss estimates for the business classes impacted by the global financial crisis in the 2007 to 2009 accident years. As a result, we continue to rely upon the evaluation of the open claims inventory in addition to the consideration of the actuarial indications, while exercising a greater degree of caution in recognizing potential favorable loss emergence, when establishing loss reserves for these accident years.

#### Trade Credit and Surety Reinsurance

For our trade credit and surety reinsurance business, our initial and most recent accident year loss reserves are generally based on the ELR method, with consideration given to qualitative factors. Given that there is a more stable reporting pattern for trade credit business, we generally commence the transition to experience-based methods sooner than for the surety business.

#### Credit and Political Risk Insurance

Refer to the previous discussions of this business under ‘*Reserving Process – Actuarial Analysis*’ and ‘*Reserving Process – Reserving for Credit and Political Risk Business*’ above for a discussion of specific loss reserve issues related to this business. When considering prior accident year reserve development for this line of business, it is important to note that the multi-year nature of the credit business distorts loss ratios when a single accident year is considered in isolation. In recent years, the average term of these contracts has been four to five years. The premiums we receive are generally earned evenly over the contract term, thus spanning multiple accident years. In contrast, losses incurred on these contracts, which can be characterized as low in frequency and high in severity, are reflected in a single accident year.

As previously described, the estimation of the value of our recoveries on credit and political risk business requires significant management judgment. At December 31, 2013, our total estimated recoveries on credit insurance business were \$84 million, while comparatively, at December 31, 2012, our estimated recoveries were \$106 million. The reduction in 2013 largely reflected the reduction in recovery estimates for three claims based on updated information.

#### *Long-Tail Business*

In contrast to our short and medium-tail business, the claim tail for our long-tail business is expected to be notably longer, as claims are often reported and ultimately paid or settled years, or even decades, after the related loss events occur. Our long-tail business primarily relates to liability business written in our insurance and reinsurance segments, as well as our motor reinsurance business.

As a general rule, our estimates of accident year ultimate losses for our long-tail business are notably more uncertain than those for our short and medium-tail business. Factors that contribute additional uncertainty to estimates for our long-tail business include, but are not limited to:

- The more significant weight given to industry benchmarks in forming our key actuarial assumptions;
- The potential volatility of actuarial estimates, given the number of years of development it takes to produce a meaningful incurred loss as a percentage of ultimate losses;
- Inherent uncertainties about loss trends, claims inflation (e.g. medical, judicial, social) and general economic conditions; and
- The possibility of future litigation, legislative or judicial change that may impact future loss experience relative to the prior industry loss experience relied upon in reserve estimation.

To date, our key actuarial assumptions for our long-tail business have been derived almost exclusively from industry benchmarks, rather than our own historical experience. Given our relatively short operating history in comparison to the development tail for this business, we do not believe that our own historical loss development for our long-tail business has amassed an appropriate volume to serve as a credible input into the key actuarial assumptions previously outlined. While we utilize industry benchmarks that we believe reflect the nature and coverage of our business, our actual loss experience may differ from the benchmarks based on industry averages.

Due to the length of the development tail for this business, our reserve estimates for all accident years are predominantly based on the ELR method and the consideration of qualitative factors. As part of our quarterly reserving process, we monitor actual paid and incurred loss emergence relative to expected loss emergence based on industry-benchmark loss development patterns. The drivers of any unfavorable loss emergence are investigated and, as a result, have led to an immediate recognition of adverse development in some instances. Prior to the fourth quarter of 2012 (see additional details below), we



did not recognize any favorable loss emergence. As a result, during each of the past three years, we recognized net adverse development for our liability insurance business in light of unfavorable loss emergence for certain reserving class and accident year combinations.

In addition, during 2011, we recognized net adverse development on our motor reinsurance business, mainly as a result of a change in our assumptions surrounding U.K. settlement practices. Specifically, we increased our assumptions relating to the frequency and cost of claims that are expected to settle using Periodic Payment Orders ("PPOs"), which are annuities designed to cover items such as the ongoing cost of care and loss of earnings for injured claimants. We do not discount our loss reserves in order to adjust for the time value of money associated with such annuity awards.

See '*Underwriting Results Group - Prior Year Reserve Development*' for further details on the recognition of adverse development for our long-tail business during the last three years.

Commencing with our fourth quarter 2012 reserving process, we began to give weight to actuarial methods that reflect our actual experience for liability business as we believed that our oldest accident years were at a stage of expected development where such methods would produce meaningful actuarial indications. In 2013, we began to give weight to experience-based methods for the insurance liability classes for accident years 2006 and prior, which did not have a significant impact on our results. For the reinsurance liability lines, we began to give weight to experience-based methods for accident years 2008 and prior, resulting in the the recognition of \$87 million of net favorable prior year reserve development for these years.

### **Sensitivity Analysis**

While we believe that our loss reserves at December 31, 2013 are adequate, new information, events or circumstances may result in ultimate losses that are materially greater or less than provided for in our loss reserves. As previously noted, there are many factors that may cause our reserves to increase or decrease, particularly those related to catastrophe losses and long-tail lines of business.

Our expected loss ratios are a key assumption in our estimate of ultimate losses for business at an early stage of development. All else remaining equal, a higher expected loss ratio would result in a higher ultimate loss estimate, and vice versa. Our assumed loss development patterns are another significant assumption in estimating our loss reserves. All else remaining equal, accelerating a loss reporting pattern (i.e. shortening the claim tail) would result in lower ultimate losses, as the estimated proportion of losses already incurred would be higher. The uncertainty in the timing of the emergence of claims (i.e. the length of the development pattern) is generally greater for a company like ours with a limited operating history which, therefore, must rely on industry benchmarks to a certain extent when establishing loss reserve estimates.

The following tables show the effect on our estimate of gross loss reserves of reasonably likely changes in the two key assumptions used to estimate our gross loss reserves at December 31, 2013.

The results show the cumulative increase (decrease) in our loss reserves across all accident years. For example, if our assumed loss development pattern for our property and other insurance business was three months shorter with no accompanying change in our ELR assumption, our loss reserves may decrease by approximately \$24 million. Each of the impacts set forth in the tables is estimated individually, without consideration for any correlation among key assumptions or among reserving classes. Therefore, it would be inappropriate to take each of the amounts and add them together in an attempt to estimate total volatility. While we believe the variations in the expected loss ratios and loss development patterns presented could be reasonably expected, our own historical data regarding variability is generally limited and actual variations may be greater or less than these amounts. It is also important to note that the variations are not meant to be a "best-case" or "worst-case" series of scenarios and, therefore, it is possible that future variations in our loss reserves may be more or less than the amounts presented. While we believe that these are reasonably likely scenarios, we do not believe this sensitivity analysis should be considered an actual reserve range.

<b>INSURANCE</b>				
<b>Development Pattern</b>	<b>Expected Loss Ratio</b>			
<b><i>Property and Other</i></b>	<b>5% lower</b>	<b>Unchanged</b>	<b>5% higher</b>	
3 months shorter	\$ (48,498)	\$ (23,626)	\$	1,247
Unchanged	(26,054)	—		26,054
3 months longer	12,480	40,563		68,645
<b><i>Marine</i></b>	<b>5% lower</b>	<b>Unchanged</b>	<b>5% higher</b>	
3 months shorter	\$ (25,954)	\$ (17,127)	\$	(8,299)
Unchanged	(9,671)	—		9,698
3 months longer	10,235	20,967		31,700
<b><i>Aviation</i></b>	<b>5% lower</b>	<b>Unchanged</b>	<b>5% higher</b>	
3 months shorter	\$ (4,603)	\$ (3,305)	\$	(2,007)
Unchanged	(1,463)	—		1,463
3 months longer	2,841	4,531		6,221
<b><i>Credit and Political Risk</i></b>	<b>10% lower</b>	<b>Unchanged</b>	<b>10% higher</b>	
3 months shorter	\$ (12,236)	\$ —	\$	12,236
Unchanged	(12,236)	—		12,236
3 months longer	(12,236)	—		12,236
<b><i>Professional Lines</i></b>	<b>10% lower</b>	<b>Unchanged</b>	<b>10% higher</b>	
6 months shorter	\$ (331,415)	\$ (104,559)	\$	123,631
Unchanged	(242,679)	—		242,704
6 months longer	(147,592)	105,553		362,931
<b><i>Liability</i></b>	<b>10% lower</b>	<b>Unchanged</b>	<b>10% higher</b>	
6 months shorter	\$ (133,474)	\$ (18,305)	\$	96,865
Unchanged	(117,000)	—		117,000
6 months longer	(96,370)	22,923		142,215

<b>REINSURANCE</b>			
<b>Development Pattern</b>	<b>Expected Loss Ratio</b>		
<i>Property and Other</i>	<b>5% lower</b>	<b>Unchanged</b>	<b>5% higher</b>
3 months shorter	\$ (89,597)	\$ (36,748)	\$ 27,280
Unchanged	(60,103)	—	60,103
3 months longer	(21,373)	40,880	103,133
<i>Credit and Surety</i>	<b>10% lower</b>	<b>Unchanged</b>	<b>10% higher</b>
6 months shorter	\$ (55,698)	\$ (15,932)	\$ 23,833
Unchanged	(41,724)	—	41,724
6 months longer	(17,712)	26,720	71,151
<i>Professional Lines</i>	<b>10% lower</b>	<b>Unchanged</b>	<b>10% higher</b>
6 months shorter	\$ (107,356)	\$ (23,928)	\$ 59,501
Unchanged	(83,966)	—	83,966
6 months longer	(59,960)	24,691	109,342
<i>Motor</i>	<b>10% lower</b>	<b>Unchanged</b>	<b>10% higher</b>
6 months shorter	\$ (107,002)	\$ (16,427)	\$ 74,148
Unchanged	(92,218)	—	92,218
6 months longer	(68,394)	26,471	121,336
<i>Liability</i>	<b>10% lower</b>	<b>Unchanged</b>	<b>10% higher</b>
6 months shorter	\$ (141,487)	\$ (13,471)	\$ 114,546
Unchanged	(129,437)	—	129,437
6 months longer	(116,743)	14,191	145,124

## REINSURANCE RECOVERABLE

In the normal course of business, we purchase reinsurance to protect our business from losses due to exposure aggregation and to limit ultimate losses from catastrophic events. The purchase of reinsurance does not discharge our liabilities under contracts written by us. Consequently, an exposure exists with respect to reinsurance recoverable to the extent that any of our reinsurers are unwilling or unable to pay our claims.

The following table shows the composition of our reinsurance recoverable on unpaid losses for each of our reportable segments, segregated between those related to case reserves and those related to IBNR and by significant line of business:

At December 31,	2013			2012		
	Case Reserves	IBNR	Total	Case Reserves	IBNR	Total
Insurance segment:						
Property and other	\$ 163,228	\$ 80,175	\$ 243,403	\$ 146,478	\$ 77,535	\$ 224,013
Marine	63,097	36,830	99,927	116,806	49,535	166,341
Aviation	264	1,311	1,575	243	861	1,104
Credit and political risk	—	—	—	—	—	—
Professional lines	268,318	575,625	843,943	197,308	534,332	731,640
Liability	92,036	609,948	701,984	100,708	537,231	637,939
Total Insurance	<u>586,943</u>	<u>1,303,889</u>	<u>1,890,832</u>	<u>561,543</u>	<u>1,199,494</u>	<u>1,761,037</u>
Reinsurance segment:						
Property and other	—	4,543	4,543	—	—	—
Credit and surety	—	—	—	—	—	—
Professional lines	—	231	231	—	329	329
Motor	—	—	—	—	—	—
Liability	—	4,506	4,506	—	64,251	64,251
Total Reinsurance	<u>—</u>	<u>9,280</u>	<u>9,280</u>	<u>—</u>	<u>64,580</u>	<u>64,580</u>
<b>Total</b>	<b><u>\$ 586,943</u></b>	<b><u>\$ 1,313,169</u></b>	<b><u>\$ 1,900,112</u></b>	<b><u>\$ 561,543</u></b>	<b><u>\$ 1,264,074</u></b>	<b><u>\$ 1,825,617</u></b>

Reinsurance recoverable on unpaid losses as a percentage of gross loss reserves was 20% at December 31, 2013 and 2012. At December 31, 2013 and 2012, 98.8% of our gross reinsurance recoverable (i.e. excluding the provision for uncollectible amounts) was collectible from reinsurers rated A- or better by A.M. Best. For an analysis of the credit risk associated with our reinsurance recoverable balances at December 31, 2013, refer to Item 8, Note 11 to the Consolidated Financial Statements.

The recognition of reinsurance recoverable on unpaid losses and loss expenses requires two key estimates. The first estimate is the amount of loss reserves to be ceded to our reinsurers. This amount consists of two elements, those related to our gross case reserves and those related to our gross IBNR. Reinsurance recoveries related to our gross case reserves are estimated on a case-by-case basis by applying the terms of any applicable reinsurance coverage to our individual case reserve estimates. Our estimate of ceded IBNR is generally developed as part of our loss reserving process and, consequently, its estimation is subject to similar risks and uncertainties as the estimation of gross IBNR. Estimates of amounts to be ceded under non-proportional reinsurance contracts also take into account pricing information for those contracts and require greater judgment than estimates for proportional contracts.

The second estimate is the amount of reinsurance recoverable on unpaid and paid losses that we will ultimately be unable to recover from reinsurers. The majority of our reinsurance recoverable on unpaid losses will not be due for collection until some point in the future. As a result, the amount we ultimately collect may differ from our estimate due to the ability and willingness of reinsurers to pay our claims, which may be negatively impacted by factors such as insolvency, contractual disputes over contract language or coverage and/or other reasons. Additionally, over the period of time before the amounts become due to us, economic conditions and/or operational performance of a particular reinsurer may deteriorate and this could also affect the willingness and ability of a reinsurer to meet their contractual obligations to us. Accordingly, we review

our reinsurance recoverable on a quarterly basis and estimate and record an offsetting provision for uncollectible amounts. Any changes in this provision are reflected in net income. We are selective in choosing our reinsurers, placing reinsurance principally with reinsurers with a strong financial condition and industry ratings.

We apply case-specific provisions against certain recoveries that we deem unlikely to be collected in full. In addition, we use a default analysis to estimate our provision for uncollectible amounts on the remainder of the balance. The principal components of the default analysis are reinsurance recoverable by reinsurer and default factors applied to estimate uncollectible amounts based on our reinsurers' credit ratings. The default factors are based on a model developed by a major rating agency. The provision recorded against reinsurance recoverable was \$18 million and \$16 million at December 31, 2013 and 2012, respectively. We have not written off any significant reinsurance recoverable balances in the last three years. At December 31, 2013, the use of different assumptions within our approach could have a material effect on our provision for uncollectible reinsurance recoverable. To the extent the creditworthiness of our reinsurers was to deteriorate due to an adverse event affecting the reinsurance industry, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than our provision. Given the various considerations used to estimate our uncollectible provision, we cannot precisely quantify the effect a specific industry event may have on our provision.

## **PREMIUMS**

Our revenues are primarily generated from gross premiums written originating from our underwriting operations. The basis for our recognized gross premiums written varies by contract type.

### **Insurance Segment**

For the majority of our insurance business, we receive a fixed premium which is identified in the policy and recorded as unearned premium on the inception date of the contract. This premium will be adjusted only if the underlying insured values ultimately differ. Accordingly, we actively monitor underlying insured values and record adjustment premiums in the period in which amounts are reasonably determinable. Gross premiums written on a fixed premium basis accounted for approximately 90%, 93% and 92% of the segment's total for the years ended December 31, 2013, 2012 and 2011, respectively. A portion of this business is written through MGAs, third parties granted authority to bind risks on our behalf in accordance with our underwriting guidelines. For this business, we record premiums based on monthly statements received from the MGAs. Due to inherent reporting delays, we generally record premiums written via MGAs one month in arrears. In the event that a significant individual statement is not received, we record our best estimate based upon our historical experience.

A limited portion of our insurance business is written on a line slip or proportional basis, under which we assume a fixed percentage of the premiums and losses on a particular risk or group of risks along with numerous other unrelated insurers. Although premiums on this business are not contractually stated, we recognize gross premiums written based on an estimate provided by the client via the broker. For further details on the estimation process, see the discussion provided for the reinsurance segment below. We review these estimates on a quarterly basis and record significant adjustments in premium estimates when identified. Gross premiums written on a line slip/proportional basis comprised 10%, 7% and 8% of the segment's total for the years ended December 31, 2013, 2012 and 2011, respectively, and therefore the associated impact of these estimates on our pre-tax net income was immaterial. The proportionate increase in 2013 and 2012, when compared to 2011, was driven by growth in our accident & health line, a large portion of which related to proportional business.

In our credit and political risk line of business, we write certain policies on a multi-year basis with premiums generally payable in installments. We record premiums at the inception of the policy based on our best estimate of total premiums, including assumptions relating to prepayments/refinancings. Furthermore, certain contracts within this line of business meet the U.S. GAAP definition of a financial guarantee insurance contract. Premiums for such contracts are recognized as the present value of the contractual premiums due or expected to be collected using a discount rate that reflects the risk-free rate at the inception of contract. Due to the scope exemption for insurance contracts that are similar to financial guarantee insurance contracts, the determination of whether certain of our credit and political risk contracts fall within the scope of the U.S. GAAP definition for financial guarantee contracts requires significant management judgment. For the years ended December 31, 2013 and 2012, our total premiums from financial guarantee insurance contracts were immaterial in the context of total gross premiums written for the segment. At December 31, 2013, the average duration of the outstanding unearned premiums written for our credit and political risk line of business was 4.4 years (2012: 4.0 years).

## Reinsurance Segment

We provide excess of loss and proportional coverage to cedants (i.e. insurance companies). In most cases, cedants seek protection from us for business that they have not yet written at the time they enter into agreements with us. As a result, cedants must estimate their underlying premiums when purchasing reinsurance coverage from us.

For multi-year contracts where reinsurance premiums are payable in annual installments, premiums are recorded at the inception of the contract based on management's best estimate of total premiums to be received. However, premiums are recognized on an annual basis for multi-year contracts where the cedant has the ability to unilaterally commute or cancel coverage within the term of the policy. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term.

Our excess of loss reinsurance contracts with cedants typically include provisions for a deposit or minimum premiums payable to us, which are generally considered to be the best estimate of the excess of loss reinsurance written premium at inception. The minimum/deposit premium is normally adjusted at the end of the contract period to reflect changes in the underlying risks in force during the contract period. We record adjustments to the deposit/minimum premiums in the period during which they become determinable. Excess of loss contracts accounted for 42%, 47% and 53% of our reinsurance segment's total gross premiums written for the years ended December 31, 2013, 2012 and 2011, respectively. The decrease during 2013 and 2012, when compared to 2011, was primarily driven by the growth in our agriculture line and repositioning of our catastrophe portfolio.

Many of our excess of loss contracts also include provisions that require an automatic reinstatement of coverage in the event of a loss. In a year of large loss events, reinstatement premiums will be higher than in a year in which there are no such events. Reinstatement premiums are recognized when a triggering loss event occurs and losses are recorded by us. While the reinstatement premium amount is defined by contract terms, our recognition of reinstatement premiums is dependent on our estimate of losses and loss expenses, which reflect management's best judgment as described above in '*Critical Accounting Estimates – Reserves for Losses and Loss Expenses*'.

For business written under proportional contracts, our initial recognition of gross premiums written is based on estimates of premiums written at contract inception. We review these premium estimates on a quarterly basis and evaluate their reasonability in light of actual premiums reported to date by cedants. Factors contributing to changes from the initial premium estimates may include:

- changes in renewal rates or rates of new business accepted by cedants (such changes could result from changes in the relevant insurance market that could affect more than one of our cedants or could be a consequence of changes in the marketing strategy or risk appetite of an individual cedant);
- changes in underlying exposure values; and/or
- changes in rates being charged by cedants.

As a result of this review process, any adjustments to estimates are recognized in gross premiums written during the period they are determined. Such changes in premium estimates could be material to gross premiums written and the resulting adjustments may directly and significantly impact net premiums earned favorably or unfavorably in the period they are determined because the adjustment may be substantially or fully earned. Gross premiums written for proportional contracts, including amounts related to the adjustment of premium estimates established in prior years, accounted for 58%, 53% and 47% of our reinsurance segment's gross premiums written for the years ended December 31, 2013, 2012 and 2011, respectively.

We made estimates on proportional treaties incepting during the year as follows:

Year ended December 31,	2013	2012	2011
Catastrophe	\$ 3,896	\$ 2,264	\$ 4,595
Property	195,435	169,214	200,823
Professional lines	280,242	199,732	165,297
Credit and surety	222,486	232,998	254,548
Motor	177,834	158,230	128,164
Liability	152,790	116,208	111,454
Agriculture	103,869	3,800	—
Engineering	47,295	55,846	60,576
Other	11,582	7,118	8,405
<b>Total estimated premiums</b>	<b>\$ 1,195,429</b>	<b>\$ 945,410</b>	<b>\$ 933,862</b>
<b>Gross premiums written (reinsurance segment)</b>	<b>2,137,903</b>	<b>1,830,162</b>	<b>1,974,324</b>
<b>As a % of total gross premiums written</b>	<b>56%</b>	<b>52%</b>	<b>47%</b>

Since inception, our historical experience has shown that cumulative adjustments to our annual initial premium estimates on proportional reinsurance contracts have ranged from a negative revision of 4% to a favorable revision of 9%. Giving more weight to recent years where premium volume was comparable to current levels, we believe that a reasonably likely change in our 2013 proportional reinsurance gross premiums written estimate would be 5% in either direction. Such a change would result in a variance in our gross premiums written of approximately \$60 million and an immaterial impact on our pre-tax net income. However, larger variations, both positive and negative, are possible.

### Earning Basis

Our premiums are earned over the period during which we are exposed to the underlying risk. Changes in circumstance subsequent to contract inception can impact the earning period. For example, when our exposure limit for a contract is reached, we fully earn any associated unearned premium. This can have a significant impact on net premiums earned, particularly for multi-year contracts such as those in our credit and political risk line of business.

Our fixed premium insurance and excess of loss reinsurance contracts are generally written on a “losses occurring” or “claims made” basis over the term of the contract. Accordingly, we earn the premium evenly over the contract term, which is generally 12 months.

Line slip and proportional (re)insurance contracts are generally written on a “risks attaching” basis, covering claims that relate to the underlying policies written during the terms of such contracts. As the underlying business incepts throughout the contract term (typically one year) and typically has a one-year coverage period, we generally earn these premiums evenly over a 24-month period.

### FAIR VALUE MEASUREMENTS

Our estimates of fair value for financial assets and financial liabilities are based on the framework established in U.S. GAAP. This framework is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect our significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

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

Refer to Item 8, Note 6 of the Consolidated Financial Statements for further details on the valuation techniques and assumptions used in estimating the fair value of our financial instruments.

Our estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale, e.g., a forced transaction. Additionally, the valuation of fixed maturities is more subjective when markets are less liquid due to the lack of market based inputs, as was the case during the global financial market crisis in late 2008 and early 2009. This may lead us to change the selection of our valuation technique (from market to income approach) or may cause us to use multiple valuation techniques to estimate the fair value of a financial instrument. This circumstance may require significant management judgment and could cause an instrument to be reclassified between levels of the fair value hierarchy.

### **Fixed Maturities and Equities**

Since 2009, significant liquidity has returned to the financial markets, resulting in an increase in observable market prices for our financial instruments. At December 31, 2013, the fair value for 94% (2012: 96%) of our total fixed maturities and equities was based on prices provided by globally recognized independent pricing services where we have a current and detailed understanding of how their prices were derived. The remaining securities were priced by either non-binding broker quotes or internal valuation models.

Generally, we obtain quotes directly from broker-dealers who are active in the corresponding markets when prices are unavailable from independent pricing services. This may also be the case if the pricing from pricing services is not reflective of current market levels, as detected by our pricing control tolerance procedures. Generally, broker-dealers value securities through their trading desks based on observable market inputs. Their pricing methodologies include mapping securities based on trade data, bids or offers, observed spreads and performance on newly issued securities. They may also establish pricing through observing secondary trading of similar securities.

At December 31, 2013 and 2012, we have not adjusted any pricing provided by independent pricing services (see ‘*Management Pricing Validation*’ below). Additionally, our total Level 3 fixed maturities and equities amounted to \$34 million (2012: \$71 million), less than 1% of total fixed maturities and equities. Refer to Item 8, Note 6 to our Consolidated Financial Statements for further information.

#### *Management Pricing Validation*

While we obtain pricing from pricing services and/or broker-dealers, management is ultimately responsible for determining the fair value measurements for all securities. To ensure fair value measurement is applied consistently and in accordance with U.S. GAAP, we periodically update our understanding of the pricing methodologies used by the pricing services and broker-dealers.

We also challenge any prices we believe may not be representative of fair value under current market conditions. Our review process includes, but is not limited to: (i) initial and ongoing evaluation of the pricing methodologies and valuation models used by outside parties to calculate fair value; (ii) quantitative analysis; (iii) a review of multiple quotes obtained in the pricing process and the range of resulting fair values for each security, if available, and (iv) randomly selecting purchased or sold securities and comparing the executed prices to the fair value estimates provided by the independent pricing sources and broker-dealers.

### **Other Investments**

#### *Hedge Funds, Direct Lending Funds and CLO Equity Funds*

We measure the fair value for hedge, direct lending and CLO equity funds by obtaining the net asset value (NAV) as advised by our external fund manager or third party administrator. For any funds for which we did not receive a December 31, 2013 net asset value, we have recorded an estimate of the change in fair value for the latest period based on return estimates obtained from the fund managers. Accordingly, we do not typically have a reporting lag in our fair value measurements for these funds. Historically, our estimated NAVs have not significantly diverged from the subsequent final audited NAVs. Where



we have the ability to liquidate our holdings at the reported NAV in the near term, these holdings are classified as Level 2 within the fair value hierarchy while the remaining holdings are classified as Level 3.

#### *CLO – Equity Securities*

We have also invested directly in CLO Equities, also known as “cash flow CLOs” in the industry. In 2013, the CLO – Equity market continues to be mostly inactive with only a small number of transactions being observed in the market and even fewer still involving deals we hold. Accordingly, we continue to rely on the use of our internal discounted cash flow model (income approach) to estimate the fair value of CLO – Equities. At December 31, 2013, the estimated fair value for CLO – Equities was \$40 million (2012: \$62 million), based on the following significant inputs used in our valuation model.

<b>At December 31,</b>	<b>2013</b>	<b>2012</b>
Default rates	<b>4.0% - 5.0%</b>	4.0% - 5.0%
Loss severity rate	<b>53.5%</b>	53.5%
Collateral spreads	<b>2.6% - 3.4%</b>	2.6% - 4.2%
Estimated maturity dates	<b>2.1 - 4.6 years</b>	1.8 - 5.7 years

Of these significant inputs, the default and loss severity rates are the most judgmental unobservable market inputs to which the valuation of CLO – Equities is most sensitive.

Actual default rates at November 30, 2013 for our CLO – Equities varied from 0.5% to 3.0% (November 30, 2012: 0.2% to 4.5%) on the remaining underlying collateral. While, on average, these default rates are much lower than our default rate assumptions noted above, we remain cautious on this favorable development given the continuing global economic uncertainty. Due to the use of significant unobservable inputs in our discounted cash flow model, we continue to classify the CLO – Equities as Level 3.

#### **OTHER-THAN-TEMPORARY IMPAIRMENTS (“OTTI”)**

Because our available-for-sale (“AFS”) investment portfolio is the largest component of our consolidated assets and a multiple of shareholders’ equity, OTTI could be material to our financial condition and operating results particularly during periods of dislocation in the financial markets. During 2013, we recorded a total OTTI charge in earnings of \$9 million (2012: \$24 million; 2011: \$16 million). Refer to the ‘*Net Investment Income and Net Realized Investment Gains/Losses*’ section above for further details.

A security is “impaired” when its fair value is below its amortized cost (for fixed maturities) or cost (for equities). On a quarterly basis, we review all impaired AFS securities to determine if the impairment is other-than-temporary. The OTTI assessment is inherently judgmental, especially where securities have experienced severe declines in fair value in a short period. Our review process begins with a quantitative analysis to identify securities to be further evaluated for potential OTTI. For all identified securities, further fundamental analysis is performed that considers the following quantitative and qualitative factors:

- The length of time and extent to which the fair value has been less than the amortized cost for fixed maturities or cost for equity securities.
- The financial condition, near-term and long-term prospects for the issuer of the security, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.
- The historical and implied volatility of the fair value.
- The collateral structure and credit support.

The following provides further details regarding our OTTI recognition and processes for AFS fixed maturities and equity securities.

### **Fixed Maturities**

For an impaired fixed maturity, we recognize an OTTI in earnings when we:

- 1) have the intent to sell the security,
- 2) more likely than not will be required to sell the security before its anticipated recovery, or
- 3) do not anticipate to recover fully the amortized cost based on projected cash flows to be collected (i.e. a credit loss exists).

For the first two criteria above, the OTTI charge is the entire difference between the security's fair value and its amortized cost. However, if the impairment arises due to an anticipated credit loss on the security (third criterion above), we recognize only the credit loss component of the OTTI amount in earnings with a corresponding adjustment to amortized cost (new cost basis). The non-credit component (e.g. interest rates, market conditions, etc.) of the OTTI amount is recognized in other comprehensive income in our shareholders' equity.

From time to time, we may sell fixed maturities subsequent to the balance sheet date that we did not intend to sell at the balance sheet date. Conversely, we may not sell fixed maturities that we previously asserted that we intended to sell at the balance sheet date. Such changes in intent may arise due to events occurring subsequent to the balance sheet date. The types of events that may result in a change in intent include, but are not limited to, significant changes in the economic facts and circumstances related to the specific issuer, changes in liquidity needs, or changes in tax laws or the regulatory environment.

For impaired investment-grade securities (i.e. rated BBB- or above) that we do not intend to sell and it is more likely than not that we will not be required to sell, we have established some parameters for identifying securities with potential credit impairments. Our parameters focus primarily on the extent and duration of the decline, including but not limited to:

- declines in value greater than 20% for nine consecutive months, and
- declines in value greater than 10% for twelve consecutive months.

For impaired securities held within our high yield portfolios (i.e. managed under a mandate to invest primarily in non-investment grade securities), we have established separate parameters for our credit loss assessment. Due to the additional volatility inherent in high yield securities relative to investment-grade securities, we focus on the severity of the impairment and work closely with our external high yield investment managers to identify securities with significant potential credit impairments.

If a security meets one of the above criteria, we then perform a fundamental analysis by considering the qualitative factors noted above. Our OTTI review process for credit impairment excludes all fixed maturities guaranteed by the U.S. government and its agencies because we anticipate these securities will not be settled below amortized costs. However, these securities are still evaluated for intention to sell at a loss.

The credit loss component of OTTI recognized in earnings is calculated based on the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to the impairment. The significant inputs and the methodology used to estimate the credit losses are disclosed in Item 8, Note 5(d) to the Consolidated Financial Statements.

### **Equities**

We consider our ability and intent to hold an equity security in an unrealized loss position for a reasonable period of time to allow for a full recovery. As an equity security does not have a maturity date, the forecasted recovery for an equity security is inherently more judgmental than for a fixed maturity security.

In light of the volatile global equity markets we have experienced in recent years, we generally impair any equities for which we do not forecast a recovery to cost within three years. Further, we generally impair an equity security if its value has been below its cost by 30% or more for nine consecutive months or by 20% or more for twelve consecutive months. We have also

established parameters for identifying potential impaired equity securities for fundamental analysis based on the severity, in either percentage or absolute dollar terms, of the unrealized loss position.

From time to time, we may sell our AFS equities subsequent to the balance sheet date that were considered temporarily impaired at the balance sheet date. This may occur due to events occurring subsequent to the balance sheet date that result in a change in our intent or ability to hold an equity security. Such subsequent events that may result in a sale include significant deterioration in the financial condition of the issuer, significant unforeseen changes in our liquidity needs, or changes in tax laws or the regulatory environment.

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## **RECENT ACCOUNTING PRONOUNCEMENTS**

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At December 31, 2013, there were no recently issued accounting pronouncements where our adoption of such guidance was pending.

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## **OFF-BALANCE SHEET AND SPECIAL PURPOSE ENTITY ARRANGEMENTS**

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At December 31, 2013, the Company is not party to any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K to which an entity unconsolidated with the Company is a party that management believes is reasonably likely to have a current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that the Company believes is material to investors.

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## **NON-GAAP FINANCIAL MEASURES**

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In this report, we present operating income (loss), consolidated underwriting income (loss) and underwriting-related general and administrative expenses, which are “non-GAAP financial measures” as defined in Regulation G.

Operating income (loss) represents after-tax operational results without consideration of after-tax net realized investment gains (losses), foreign exchange losses (gains) and losses on repurchase of preferred shares. We also present diluted operating income (loss) per common share and operating return on average common equity (“operating ROACE”), which are derived from the non-GAAP operating income (loss) measure.

Consolidated underwriting income (loss) is a pre-tax measure of underwriting profitability that takes into account net premiums earned and other insurance related income as revenues and net losses and loss expenses, acquisition costs and underwriting-related general and administrative costs as expenses. Underwriting-related general and administrative expenses include those general and administrative expenses that are incremental and/or directly attributable to our individual underwriting operations. While these measures are presented in Item 8, Note 3 to our Consolidated Financial Statements, they are considered non-GAAP financial measures when presented elsewhere on a consolidated basis.

Operating income (loss), diluted operating income (loss) per common share and operating ROACE can be reconciled to the nearest GAAP financial measures as follows:

Year ended December 31,	2013	2012	2011
Net income available to common shareholders	\$ 683,910	\$ 495,004	\$ 9,430
Net realized investment gains, net of tax <sup>(1)</sup>	(77,603)	(115,854)	(119,736)
Foreign exchange losses (gains), net of tax <sup>(2)</sup>	23,684	28,364	(43,606)
Loss on repurchase of preferred shares, net of tax <sup>(3)</sup>	3,081	14,009	—
Operating income (loss)	\$ 633,072	\$ 421,523	\$ (153,912)
Earnings per common share - diluted	\$ 5.93	\$ 4.00	\$ 0.07
Net realized investment gains, net of tax	(0.68)	(0.94)	(0.93)
Foreign exchange losses (gains), net of tax	0.21	0.24	(0.34)
Loss on repurchase of preferred shares, net of tax	0.03	0.11	—
Adjustment for anti-dilutive securities <sup>(4)</sup>	—	—	(0.06)
Operating income (loss) per common share - diluted	\$ 5.49	\$ 3.41	\$ (1.26)
Weighted average common shares and common share equivalents - diluted, for net income <sup>(5)</sup>	115,328	123,654	128,122
Weighted average common shares and common share equivalents - diluted, for operating income (loss)	115,328	123,654	122,499
Average common shareholders' equity	\$ 5,233,519	\$ 5,110,449	\$ 5,034,525
ROACE	13.1%	9.7%	0.2%
Operating ROACE	12.1%	8.2%	(3.1%)

(1) Tax cost (benefit) of (\$2,039), \$11,615 and \$1,703 for 2013, 2012 and 2011, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the ability to utilize capital losses.

(2) Tax benefit (cost) of \$2,459, \$1,148 and (\$976) for 2013, 2012 and 2011, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the tax status of specific foreign exchange transactions.

(3) Tax impact is nil.

(4) For operating loss per share purposes, we have excluded the impact of otherwise anti-dilutive securities.

(5) Refer to Note 12 to the Consolidated Financial Statements for further details on the dilution calculation.

A reconciliation of consolidated underwriting income (loss) to income before income taxes (the nearest GAAP financial measure) can be found in Item 8, Note 3 to the Consolidated Financial Statements. Underwriting-related general and administrative are reconciled to general and administrative expenses (the nearest GAAP financial measure) within 'Underwriting Results - Group'.

We present our results of operations in the way we believe will be most meaningful and useful to investors, analysts, rating agencies and others who use our financial information to evaluate our performance. This includes the presentation of "operating income (loss)" (in total and on a per share basis), "annualized operating return on average common equity" (which is based on the "operating income (loss)" measure) and "consolidated underwriting income (loss)", which incorporates "underwriting-related general and administrative expenses".

#### Operating Income (Loss)

Although the investment of premiums to generate income and realized investment gains (or losses) is an integral part of our operations, the determination to realize investment gains (or losses) is independent of the underwriting process and is heavily influenced by the availability of market opportunities. Furthermore, many users believe that the timing of the realization of investment gains (or losses) is somewhat opportunistic for many companies.

Foreign exchange losses (gains) in our Consolidated Statements of Operations are primarily driven by the impact of foreign exchange rate movements on net insurance related-liabilities. However, this movement is only one element of the overall impact of foreign exchange rate fluctuations on our financial position. In addition, we recognize unrealized foreign exchange losses (gains) on our available-for-sale investments in other comprehensive income and foreign exchange losses (gains) realized upon the sale of these investments in net realized investments gain (losses). These unrealized and realized foreign exchange rate movements generally offset a large portion of the foreign exchange losses (gains) reported separately in earnings, thereby minimizing the impact of foreign exchange rate movements on total shareholders' equity. As such, the Statement of Operations foreign exchange losses (gains) in isolation are not a fair representation of the performance of our business.

Losses on repurchase of preferred shares arise from capital transactions and, therefore, are not reflective of underlying business performance.

In this regard, certain users of our financial statements evaluate earnings excluding after-tax net realized investment gains (losses), foreign exchange losses (gains) and losses on repurchase of preferred shares to understand the profitability of recurring sources of income.

We believe that showing net income available to common shareholders exclusive of net realized gains (losses), foreign exchange losses (gains) and losses on repurchase of preferred shares reflects the underlying fundamentals of our business. In addition, we believe that this presentation enables investors and other users of our financial information to analyze performance in a manner similar to how our management analyzes the underlying business performance. We also believe this measure follows industry practice and, therefore, facilitates comparison of our performance with our peer group. We believe that equity analysts and certain rating agencies that follow us, and the insurance industry as a whole, generally exclude these items from their analyses for the same reasons.

#### Consolidated Underwriting Income (Loss)/Underwriting-Related General and Administrative Expenses

Corporate expenses include holding company costs necessary to support our worldwide (re)insurance operations and costs associated with operating as a publicly-traded company. As these costs are not incremental and/or directly attributable to our individual underwriting operations, we exclude them from underwriting-related general and administrative expenses and, therefore, consolidated underwriting income (loss). Interest expense and financing costs primarily relate to interest payable on our senior notes and are excluded from consolidated underwriting income (loss) for the same reason.

We evaluate our underwriting results separately from the performance of our investment portfolio. As such, we believe it appropriate to exclude net investment income and net realized investment gains (losses) from our underwriting profitability measure.

As noted above, foreign exchange losses (gains) in our Consolidated Statement of Operations primarily relate to our net insurance-related liabilities. However, we manage our investment portfolio in such a way that unrealized and realized foreign exchange rate gains (losses) on our investment portfolio generally offset a large portion of the foreign exchange losses (gains) arising from our underwriting portfolio. As a result, we believe that foreign exchange losses (gains) are not a meaningful contributor to our underwriting performance and, therefore, exclude them from consolidated underwriting income (loss).

We believe that presentation of underwriting-related general and administrative expenses and consolidated underwriting income (loss) provides investors with an enhanced understanding of our results of operations, by highlighting the underlying pre-tax profitability of our underwriting activities.

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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

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Market risk represents the potential for an economic loss due to adverse changes in the fair value of financial instruments. Refer to *'Risk and Capital Management'* section under Item 1 for further details on how we manage market risk relating to our financial instruments.

Our Balance Sheets include a substantial amount of assets whose fair values are subject to market risks. Our fixed income and equity securities are classified as available-for-sale and, as such, changes in fair value caused by changes in interest rates, equity prices and foreign currency exchange rates will have an immediate impact on our comprehensive income, shareholders' equity and book value but may not have an immediate impact on consolidated net income. Changes in these market risks will only impact our consolidated net income when, and if, securities are sold or an OTTI charge is recorded. Further, we have alternative investments including hedge funds, direct lending funds and CLO – Equities at December 31, 2013 and 2012. These investments are also exposed to market risks, with the change in fair value reported immediately in earnings.

The following is a sensitivity analysis of our primary market risk exposures at December 31, 2013 and 2012. Our policies to address these risks in 2013 were not materially different from 2012. We do not currently anticipate significant changes in our primary market risk exposures or in how those exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

**SENSITIVITY ANALYSIS****Interest Rate and Credit Spread Risk**

Interest rate risk includes fluctuations in interest rates and credit spreads that have a direct impact on the fair value of our fixed maturities. As interest rates rise and credit spreads widen, the fair value of fixed maturities falls, and the converse is also true.

We monitor our sensitivity to interest rate changes and credit spread changes by revaluing our fixed maturities using a variety of different interest rates (inclusive of credit spreads). We use duration and convexity at the security level to estimate the change in fair value that would result from a change in each security's yield. Duration measures the price sensitivity of an asset to changes in yield rates. Convexity measures how the duration of the security changes with interest rates. The duration and convexity analysis takes into account changes in prepayment expectations for MBS and ABS securities. The analysis is performed at the security level and aggregated up to the asset category levels for reporting in the tables below.

The following table presents the estimated pre-tax impact on the fair value of our fixed maturities at December 31, 2013 and 2012 due to an instantaneous increase in the U.S. yield curve of 100 basis points and an additional 100 basis point credit spread widening for corporate debt, non-agency residential and commercial MBS, ABS and municipal bond securities.

	Fair Value	Potential Adverse Change in Fair Value		
		Increase in interest rate by 100 basis points	Widening of credit spreads by 100 basis points	Total
<b><u>At December 31, 2013</u></b>				
U.S. government and agency	\$ 1,388,698	\$ (56,590)	\$ —	\$ (56,590)
Non-U.S. government	1,176,382	(37,274)	—	(37,274)
Agency MBS	2,448,827	(119,533)	—	(119,533)
<i>Securities exposed to credit spreads:</i>				
Corporate debt	3,608,238	(87,210)	(96,590)	(183,800)
CMBS	797,414	(19,710)	(19,931)	(39,641)
Non agency RMBS	67,567	(343)	(2,398)	(2,741)
ABS	953,451	(5,827)	(34,255)	(40,082)
Municipals	1,545,750	(68,785)	(69,610)	(138,395)
	<u>\$ 11,986,327</u>	<u>\$ (395,272)</u>	<u>\$ (222,784)</u>	<u>\$ (618,056)</u>
<b><u>At December 31, 2012</u></b>				
U.S. government and agency	\$ 1,422,885	\$ (55,856)	\$ —	\$ (55,856)
Non-U.S. government	1,104,576	(34,088)	—	(34,088)
Agency MBS	2,659,908	(68,821)	—	(68,821)
<i>Securities exposed to credit spreads:</i>				
Corporate debt	3,876,382	(111,035)	(116,763)	(227,798)
CMBS	840,084	(23,773)	(24,037)	(47,810)
Non agency RMBS	95,199	(1,897)	(2,959)	(4,856)
ABS	643,206	(5,525)	(14,331)	(19,856)
Municipals	1,285,809	(54,567)	(55,134)	(109,701)
	<u>\$ 11,928,049</u>	<u>\$ (355,562)</u>	<u>\$ (213,224)</u>	<u>\$ (568,786)</u>

U.S. government agencies have a limited range of spread widening, therefore, 100 basis points of spread widening for these securities is highly improbable in normal market conditions. As previously noted, our non-U.S. government debt obligations are highly-rated, with no remaining exposure to the European peripheral countries. Accordingly, we believe the potential for future widening of credit spreads would also be limited for these securities. Further, certain of our holdings in non-agency RMBS and ABS have floating interest rates, which mitigate our interest rate risk exposure.

The above sensitivity analysis reflects our view of changes that are reasonably possible over a one-year period. Note this should not be construed as our prediction of future market events, but rather an illustration of the impact of such events.

As the performance of our investment in leveraged bank loan funds are driven by the valuation of the underlying bank loans, these funds are also exposed to credit spreads movement. At December 31, 2013, the impact of an instantaneous 15% decline in the fair value of our investment in leveraged bank loan funds would be \$7 million (2012: \$13 million), on a pre-tax basis. Our investment in CLO – Equities is also exposed to interest rate risk, but it would have an insignificant impact to its fair value in the event the risk free yield curve increase by 100 basis points.

Additionally, our investment in foreign bond mutual funds is exposed to interest rate risk; however, this exposure is largely mitigated by the short duration of the underlying securities.

### Equity Price Risk

Our portfolio of equity securities, excluding the foreign bond mutual funds, has exposure to equity price risk. This risk is defined as the potential loss in fair value resulting from adverse changes in stock prices. Our global equity portfolio is correlated with a blend of the S&P 500 and MSCI World indices and changes in this blend of indices would approximate the impact on our portfolio. The fair value of our equity securities at December 31, 2013 was \$577 million (2012: \$563 million). At December 31, 2013, the impact of a 20% decline in the overall market prices of our equity exposures would be \$115 million (2012: \$113 million), on a pre-tax basis.

Our investment in hedge funds has significant exposure to equity strategies with net long positions. At December 31, 2013, the impact of an instantaneous 15% decline in the fair value of our investment in hedge funds would be \$142 million (2012: \$104 million), on a pre-tax basis.

### Foreign Currency Risk

The table below provides a sensitivity analysis of our total net foreign currency exposures.

	AUD	NZD	CAD	EUR	GBP	JPY	Other	Total
<b>At December 31, 2013</b>								
Net managed assets (liabilities), excluding derivatives	\$ (6,661)	\$ (195,714)	\$ 72,846	\$ (99,409)	\$ (132,980)	\$ 35,115	\$ (41,504)	\$ (368,307)
Foreign currency derivatives, net	(22,315)	172,144	(56,455)	42,735	16,567	(32,301)	(4,011)	116,364
Net managed foreign currency exposure	(28,976)	(23,570)	16,391	(56,674)	(116,413)	2,814	(45,515)	(251,943)
Other net foreign currency exposure	4,203	—	779	31,225	12,497	12,838	308,446	369,988
<b>Total net foreign currency exposure</b>	<b>\$ (24,773)</b>	<b>\$ (23,570)</b>	<b>\$ 17,170</b>	<b>\$ (25,449)</b>	<b>\$ (103,916)</b>	<b>\$ 15,652</b>	<b>\$ 262,931</b>	<b>\$ 118,045</b>
Net foreign currency exposure as a percentage of total shareholders' equity	(0.4%)	(0.4%)	0.3%	(0.4%)	(1.8%)	0.3%	4.5%	2.0%
Pre-tax impact of net foreign currency exposure on shareholders' equity given a hypothetical 10% rate movement <sup>(1)</sup>	\$ (2,477)	\$ (2,357)	\$ 1,717	\$ (2,545)	\$ (10,392)	\$ 1,565	\$ 26,293	\$ 11,804
<b>At December 31, 2012</b>								
Net managed assets (liabilities), excluding derivatives	\$ (51,247)	\$ (278,388)	\$ 78,242	\$ (25,315)	\$ (21,525)	\$ (8,387)	\$ (15,020)	\$ (321,640)
Foreign currency derivatives, net	25,961	245,801	(58,297)	39,588	—	15,329	—	268,382
Net managed foreign currency exposure	(25,286)	(32,587)	19,945	14,273	(21,525)	6,942	(15,020)	(53,258)
Other net foreign currency exposure	5,454	—	211	22,257	15,199	14,224	201,062	258,407
<b>Total net foreign currency exposure</b>	<b>\$ (19,832)</b>	<b>\$ (32,587)</b>	<b>\$ 20,156</b>	<b>\$ 36,530</b>	<b>\$ (6,326)</b>	<b>\$ 21,166</b>	<b>\$ 186,042</b>	<b>\$ 205,149</b>
Net foreign currency exposure as a percentage of total shareholders' equity	(0.3%)	(0.6%)	0.3%	0.6%	(0.1%)	0.4%	3.2%	3.5%
Pre-tax impact of net foreign currency exposure on shareholders' equity given a hypothetical 10% rate movement <sup>(1)</sup>	\$ (1,983)	\$ (3,259)	\$ 2,016	\$ 3,653	\$ (633)	\$ 2,117	\$ 18,604	\$ 20,515

(1) Assumes 10% change in underlying currencies relative to the U.S. dollar.



### Net Managed Foreign Currency Exposure

Our net managed foreign currency exposure is subject to our internal risk tolerance standards. For significant foreign currency exposures, defined as those where our net asset/liability position exceeds the greater of 1% of our shareholders' equity or \$50 million, the value of assets denominated in those currencies should fall within a range of 90 - 110% of liabilities denominated in the same currency. In addition, our aggregate foreign currency exposure is subject to the same tolerance range. We may use derivative instruments to maintain net managed foreign currency exposures within our risk tolerance levels.

New business written as part of the January 2014 renewal season is expected to serve as a natural offset versus the \$252 million net short managed foreign currency exposure at December 31, 2013. Remaining un-matched foreign currency exposure will be economically hedged with foreign currency derivatives to ensure our net exposure remains within our risk tolerances.

### Other Net Foreign Currency Exposure

Other net foreign currency exposure includes those assets managed by specific investment managers who have the discretion to hold foreign currency exposures as part of their total return strategy. The continued funding of our emerging market debt securities portfolio was the primary driver for the increase in other net foreign currency exposures during 2013. See '*Cash and Investments - Fixed Maturities - Non-U.S. Government*' in Item 7 for further details on this portfolio.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
AXIS Capital Holdings Limited

We have audited the accompanying consolidated balance sheets of AXIS Capital Holdings Limited and subsidiaries (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of AXIS Capital Holdings Limited and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2014 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ Deloitte & Touche Ltd.

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Hamilton, Bermuda  
February 21, 2014

**AXIS CAPITAL HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2013 AND 2012**

	2013	2012
	(in thousands)	
<b>Assets</b>		
Investments:		
Fixed maturities, available for sale, at fair value (Amortized cost 2013: \$11,987,146; 2012: \$11,605,672)	\$ 11,986,327	\$ 11,928,049
Equity securities, available for sale, at fair value (Cost 2013: \$566,219; 2012: \$608,306)	701,987	666,548
Other investments, at fair value	1,045,810	843,437
Short-term investments, at fair value and amortized cost	46,212	108,860
<b>Total investments</b>	<b>13,780,336</b>	<b>13,546,894</b>
Cash and cash equivalents	923,326	759,817
Restricted cash and cash equivalents	64,550	90,733
Accrued interest receivable	97,132	97,220
Insurance and reinsurance premium balances receivable	1,688,957	1,474,821
Reinsurance recoverable on unpaid and paid losses	1,929,988	1,863,819
Deferred acquisition costs	456,122	389,248
Prepaid reinsurance premiums	330,261	315,676
Receivable for investments sold	1,199	1,254
Goodwill and intangible assets	89,528	97,493
Other assets	273,385	215,369
<b>Total assets</b>	<b>\$ 19,634,784</b>	<b>\$ 18,852,344</b>
<b>Liabilities</b>		
Reserve for losses and loss expenses	\$ 9,582,140	\$ 9,058,731
Unearned premiums	2,683,849	2,454,692
Insurance and reinsurance balances payable	234,412	270,739
Senior notes	995,855	995,245
Payable for investments purchased	21,744	64,553
Other liabilities	248,822	228,623
<b>Total liabilities</b>	<b>13,766,822</b>	<b>13,072,583</b>
<b>Commitments and Contingencies</b>		
<b>Shareholders' equity</b>		
Preferred shares	627,843	502,843
Common shares (2013: 174,134; 2012: 171,867 shares issued and 2013: 109,485; 2012: 117,920 shares outstanding)	2,174	2,146
Additional paid-in capital	2,240,125	2,179,034
Accumulated other comprehensive income	117,825	362,622
Retained earnings	5,062,706	4,497,789
Treasury shares, at cost (2013: 64,649; 2012: 53,947 shares)	(2,232,711)	(1,764,673)
<b>Total shareholders' equity attributable to AXIS Capital</b>	<b>5,817,962</b>	<b>5,779,761</b>
Noncontrolling interests	50,000	—
<b>Total shareholders' equity</b>	<b>5,867,962</b>	<b>5,779,761</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 19,634,784</b>	<b>\$ 18,852,344</b>

See accompanying notes to Consolidated Financial Statements.

**AXIS CAPITAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011**

	2013	2012	2011
	(in thousands, except for per share data)		
<b>Revenues</b>			
Net premiums earned	\$ 3,707,065	\$ 3,415,463	\$ 3,314,961
Net investment income	409,312	380,957	362,430
Other insurance related income	4,424	2,676	2,396
Net realized investment gains			
Other-than-temporary impairment (OTTI) losses	(9,362)	(24,234)	(16,446)
Non-credit portion of OTTI losses recognized in other comprehensive income	—	—	585
Other net realized investment gains	84,926	151,703	137,300
Total net realized investment gains	75,564	127,469	121,439
<b>Total revenues</b>	<b>4,196,365</b>	<b>3,926,565</b>	<b>3,801,226</b>
<b>Expenses</b>			
Net losses and loss expenses	2,134,195	2,096,028	2,675,052
Acquisition costs	664,191	627,653	587,469
General and administrative expenses	575,390	560,981	459,151
Foreign exchange losses (gains)	26,143	29,512	(44,582)
Interest expense and financing costs	61,979	61,863	62,598
<b>Total expenses</b>	<b>3,461,898</b>	<b>3,376,037</b>	<b>3,739,688</b>
<b>Income before income taxes</b>	<b>734,467</b>	<b>550,528</b>	<b>61,538</b>
Income tax expense	7,002	3,287	15,233
<b>Net income</b>	<b>727,465</b>	<b>547,241</b>	<b>46,305</b>
Preferred share dividends	40,474	38,228	36,875
Loss on repurchase of preferred shares	3,081	14,009	—
<b>Net income available to common shareholders</b>	<b>\$ 683,910</b>	<b>\$ 495,004</b>	<b>\$ 9,430</b>
<b>Per share data</b>			
Net income per common share			
Basic net income	\$ 6.02	\$ 4.05	\$ 0.08
Diluted net income	\$ 5.93	\$ 4.00	\$ 0.07
Weighted average number of common shares outstanding - basic	113,636	122,148	122,499
Weighted average number of common shares outstanding - diluted	115,328	123,654	128,122

See accompanying notes to Consolidated Financial Statements.

**AXIS CAPITAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011**

	2013	2012	2011
	(in thousands)		
<b>Net income</b>	<b>\$ 727,465</b>	<b>\$ 547,241</b>	<b>\$ 46,305</b>
<b>Other comprehensive income (loss), net of tax:</b>			
Available for sale investments:			
Unrealized investment gains (losses) arising during the period	(161,832)	348,510	74,297
Adjustment for re-classification of net realized investment gains and OTTI losses recognized in net income	(61,551)	(116,278)	(119,548)
Unrealized investment gains (losses) arising during the period, net of reclassification adjustment	(223,383)	232,232	(45,251)
Non-credit portion of OTTI losses	—	—	(455)
Foreign currency translation adjustment	(21,414)	510	(3,045)
Net change in benefit plan assets and obligations recognized in equity and reclassification adjustment	—	1,718	92
<b>Total other comprehensive income (loss), net of tax</b>	<b>(244,797)</b>	<b>234,460</b>	<b>(48,659)</b>
<b>Comprehensive income (loss)</b>	<b>\$ 482,668</b>	<b>\$ 781,701</b>	<b>\$ (2,354)</b>

See accompanying notes to Consolidated Financial Statements.

**AXIS CAPITAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011**

	2013	2012	2011
	(in thousands)		
<b>Preferred shares</b>			
Balance at beginning of period	\$ 502,843	\$ 500,000	\$ 500,000
Shares issued	225,000	400,000	—
Shares repurchased	(100,000)	(397,157)	—
<b>Balance at end of period</b>	<b>627,843</b>	<b>502,843</b>	<b>500,000</b>
<b>Common shares (par value)</b>			
Balance at beginning of period	2,146	2,125	1,934
Shares issued	28	21	191
<b>Balance at end of period</b>	<b>2,174</b>	<b>2,146</b>	<b>2,125</b>
<b>Additional paid-in capital</b>			
Balance at beginning of period	2,179,034	2,105,386	2,059,708
Shares issued - common shares	3,422	2,582	1,769
Treasury stock reissued	(4,225)	—	—
Issue costs on newly issued preferred shares	(6,551)	(6,456)	—
Reversal of issue costs on repurchase of preferred shares	3,081	7,093	—
Stock options exercised	16,889	2,517	4,775
Share-based compensation expense	48,475	67,912	39,134
<b>Balance at end of period</b>	<b>2,240,125</b>	<b>2,179,034</b>	<b>2,105,386</b>
<b>Accumulated other comprehensive income</b>			
Balance at beginning of period	362,622	128,162	176,821
Unrealized appreciation on available for sale investments, net of tax:			
Balance at beginning of period	348,328	116,096	161,802
Unrealized gains (losses) arising during the period, net of reclassification adjustment	(223,383)	232,232	(45,251)
Non-credit portion of OTTI losses	—	—	(455)
Balance at end of period	124,945	348,328	116,096
Cumulative foreign currency translation adjustments, net of tax:			
Balance at beginning of period	14,294	13,784	16,829
Foreign currency translation adjustment	(21,414)	510	(3,045)
Balance at end of period	(7,120)	14,294	13,784
Supplemental Executive Retirement Plans (SERPs):			
Balance at beginning of period	—	(1,718)	(1,810)
Net change in benefit plan assets and obligations recognized in equity	—	1,718	92
Balance at end of period	—	—	(1,718)
<b>Balance at end of period</b>	<b>117,825</b>	<b>362,622</b>	<b>128,162</b>
<b>Retained earnings</b>			
Balance at beginning of period	4,497,789	4,155,392	4,267,608
Net income	727,465	547,241	46,305
Preferred share dividends	(40,474)	(38,228)	(36,875)
Loss on repurchase of preferred shares	(3,081)	(14,009)	—
Common share dividends	(118,993)	(152,607)	(121,646)
<b>Balance at end of period</b>	<b>5,062,706</b>	<b>4,497,789</b>	<b>4,155,392</b>
<b>Treasury shares, at cost</b>			
Balance at beginning of period	(1,764,673)	(1,446,986)	(1,381,101)
Shares repurchased for treasury	(472,263)	(317,687)	(65,885)
Treasury shares reissued	4,225	—	—
<b>Balance at end of period</b>	<b>(2,232,711)</b>	<b>(1,764,673)</b>	<b>(1,446,986)</b>
<b>Total shareholders' equity attributable to AXIS Capital</b>	<b>5,817,962</b>	<b>5,779,761</b>	<b>5,444,079</b>
Noncontrolling interests	50,000	—	—
<b>Total shareholders' equity</b>	<b>\$ 5,867,962</b>	<b>\$ 5,779,761</b>	<b>\$ 5,444,079</b>

See accompanying notes to Consolidated Financial Statements.

**AXIS CAPITAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011**

	2013	2012	2011
	(in thousands)		
<b>Cash flows from operating activities:</b>			
Net income	\$ 727,465	\$ 547,241	\$ 46,305
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Net realized investment gains	(75,564)	(127,469)	(121,439)
Net realized and unrealized gains on other investments	(128,814)	(87,623)	(31,013)
Amortization of fixed maturities	139,667	135,297	93,356
Other amortization and depreciation	23,272	13,821	16,905
Share-based compensation expense	57,168	67,912	39,134
<i>Changes in:</i>			
Accrued interest receivable	88	1,126	(1,982)
Reinsurance recoverable balances	(66,169)	(93,490)	(192,782)
Deferred acquisition costs	(66,874)	18,279	(48,227)
Prepaid reinsurance premiums	(14,585)	(77,053)	(17,227)
Reserve for loss and loss expenses	523,409	633,686	1,392,670
Unearned premiums	229,157	230	120,786
Insurance and reinsurance balances, net	(250,463)	3,218	(28,562)
Other items	(789)	85,442	(77,782)
<b>Net cash provided by operating activities</b>	<b>1,096,968</b>	<b>1,120,617</b>	<b>1,190,142</b>
<b>Cash flows from investing activities:</b>			
Purchases of:			
Fixed maturities	(12,230,274)	(13,513,143)	(15,472,001)
Equity securities	(240,926)	(377,749)	(603,746)
Other investments	(166,835)	(110,084)	(220,000)
Short-term investments	(198,168)	(383,981)	(841,124)
Proceeds from the sale of:			
Fixed maturities	10,261,256	11,144,351	13,754,436
Equity securities	323,423	468,473	222,506
Other investments	93,277	53,590	70,988
Short-term investments	197,690	354,924	710,178
Proceeds from redemption of fixed maturities	1,407,676	1,456,553	1,422,171
Proceeds from redemption of short-term investments	61,715	69,751	151,216
Purchase of other assets	(24,304)	(35,322)	(42,193)
Change in restricted cash and cash equivalents	26,183	10,256	14,851
<b>Net cash used in investing activities</b>	<b>(489,287)</b>	<b>(862,381)</b>	<b>(832,718)</b>
<b>Cash flows from financing activities:</b>			
Net proceeds from issuance of preferred shares	218,449	393,544	—
Repurchase of preferred shares	(100,000)	(404,073)	—
Repurchase of common shares	(472,263)	(317,687)	(65,885)
Dividends paid - common shares	(118,426)	(120,487)	(206,455)
Dividends paid - preferred shares	(39,193)	(38,228)	(36,875)
Proceeds from issuance of common shares	20,339	5,120	6,735
Sale of shares to noncontrolling interests	50,000	—	—
<b>Net cash used in financing activities</b>	<b>(441,094)</b>	<b>(481,811)</b>	<b>(302,480)</b>
Effect of exchange rate changes on foreign currency cash and cash equivalents	(3,078)	1,543	(2,610)
Increase (decrease) in cash and cash equivalents	163,509	(222,032)	52,334
Cash and cash equivalents - beginning of period	759,817	981,849	929,515
<b>Cash and cash equivalents - end of period</b>	<b>\$ 923,326</b>	<b>\$ 759,817</b>	<b>\$ 981,849</b>
<b>Supplemental disclosures of cash flow information:</b>			
Income taxes paid	\$ 22,472	\$ 10,897	\$ 23,853
Interest paid	\$ 58,125	\$ 58,125	\$ 58,125

See accompanying notes to Consolidated Financial Statements.



**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013, 2012 AND 2011**

**1. HISTORY**

AXIS Capital Holdings Limited (“AXIS Capital”) is the Bermuda-based holding company for the AXIS group of companies, collectively the “Company”. AXIS Capital was incorporated on December 9, 2002, under the laws of Bermuda. Through its subsidiaries and branches organized in Bermuda, the United States, Europe, Singapore, Canada, Australia and Latin America, AXIS Capital provides a broad range of (re)insurance products on a worldwide basis under two distinct global underwriting platforms, AXIS Insurance and AXIS Reinsurance. In these notes, the terms “we,” “us,” “our,” or the “Company” refer to AXIS Capital and its direct and indirect subsidiaries.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and include the accounts of AXIS Capital, its wholly-owned subsidiaries, and variable interest entities (“VIEs”) in which the Company is considered the primary beneficiary. All inter-company accounts and transactions have been eliminated.

A VIE is an entity that either: (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. We are the primary beneficiary of a VIE if we have a controlling financial interest in the VIE, based on the following two characteristics: a) the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE, and b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Tabular dollar and share amounts are in thousands, with the exception of per share amounts. All amounts are reported in U.S. dollars. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year’s presentation.

**Use of Estimates**

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes that the amounts included in the consolidated financial statements reflect its best estimates and assumptions, actual results could differ from those estimates. The Company’s principal estimates include:

- reserve for losses and loss expenses;
- reinsurance recoverable on unpaid losses, including the provision for uncollectible amounts;
- gross and net premiums written and net premiums earned;
- other-than-temporary impairments (“OTTI”) in the carrying value of available-for-sale investment securities; and
- fair value measurements for our financial assets and liabilities.

**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013, 2012 AND 2011**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Our significant accounting policies are:

**a) Investments**

***Investments available for sale***

Our fixed maturities and equities classified as “available for sale” are reported at fair value at the balance sheet date. See Note 6 – Fair Value Measurements for additional information regarding the determination of fair value. The change in fair value (net unrealized gain or loss) on our available for sale investments, net of tax, is included as a separate component of accumulated other comprehensive income (loss) (“AOCI”) in shareholders’ equity.

Net investment income includes interest and dividend income and the amortization of market premiums and discounts and is presented net of investment expenses. Investment income is recognized when earned. Purchases and sales of investments are recorded on a trade-date basis and realized gains/losses on sales of investments are determined based on the specific identification method.

We recognize investment income from fixed maturities based on the constant effective yield method, which includes an adjustment for estimated principal repayments, if any. The effective yield used to determine the amortization for fixed maturities subject to prepayment risk (e.g. asset-backed, loan-backed and other structured securities) is recalculated and adjusted periodically based upon actual historical and/or projected future cash flows. The adjustments to the yield for highly-rated prepayable fixed maturities are accounted for using the retrospective method. The adjustments to the yield for other prepayable fixed maturities are accounted for using the prospective method.

On a quarterly basis, we assess whether unrealized losses on available for sale investments represent impairments that are other than temporary. Several factors are considered in this assessment including, but not limited to: (i) the extent and duration of the decline, (ii) the reason for the decline (e.g. credit spread widening, credit event, foreign exchange rate movements), (iii) the historical and implied future volatility of the fair value, (iv) the financial condition and near-term prospects of the issuer and (v) the collateral structure and credit support of the security, if applicable.

A fixed maturity is impaired when the fair value is below its amortized cost. For an impaired fixed maturity where we intend to sell the security or it is more likely than not that we will be required to sell the security before its anticipated recovery, the full amount of the impairment is charged to earnings and is included in net realized investment gains (losses). Where we intend to hold the impaired fixed maturity, we estimate the anticipated credit loss of the security and recognize only this portion of the impairment in earnings, with the remaining non-credit related balance of the impairment (i.e. related to interest rates, market conditions, etc.) recognized in AOCI.

We impair an equity security in an unrealized loss position when we do not have the ability and intent to hold the security for a reasonable period of time to allow for a full recovery. The full impairment is charged to earnings and is included in net realized investment gains (losses).

Upon recognition of an OTTI, the new cost basis for the security is the previous amortized cost for a fixed maturity or cost for an equity security less the OTTI recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value; except for fixed maturities whereby the difference between the new cost basis and the expected cash flows is accreted on a quarterly basis to net investment income over the remaining life of the fixed maturity.

***Other investments***

We record other investments at fair value (see Note 6 – Fair Value Measurements), with both changes in fair value and realized gains/losses reported in net investment income.

**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013, 2012 AND 2011**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Short-term investments***

Short-term investments primarily comprise highly-liquid debt securities with maturities greater than three months but less than one year from the date of purchase. These investments are carried at amortized cost, which approximates fair value.

**b) Cash and cash equivalents**

Cash equivalents include money-market funds and fixed interest deposits placed with a maturity of under 90 days when purchased. Cash and cash equivalents are recorded at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities. Our restricted cash balance primarily relates to funds held in trust in support of our obligations in regulatory jurisdictions where we operate as a non-admitted carrier.

**c) Premiums and Acquisition Costs**

***Premiums***

Insurance premiums written are recorded in accordance with the terms of the underlying policies. Reinsurance premiums are recorded at the inception of the contract and are estimated based upon information received from ceding companies. For multi-year contracts where (re)insurance premiums are payable in annual installments, premiums are recorded at the inception of the contract based on management's best estimate of total premiums to be received. However, premiums are normally recognized on an annual basis for multi-year contracts where the cedant has the ability to unilaterally commute or cancel coverage within the term of the policy. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term.

Any subsequent differences arising on insurance and reinsurance premium estimates are recorded in the period they are determined.

(Re)insurance premiums are earned evenly over the period during which we are exposed to the underlying risk, which is generally one to two years with the exception of multi-year contracts. Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force.

Reinstatement premiums are recognized and earned at the time a loss event occurs, where the coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms. The accrual of reinstatement premiums is based on our estimate of losses and loss adjustment expenses, which reflects management's judgment, as described in Note 2(d) – Losses and Loss Expenses below.

Premiums receivable balances are reviewed for impairment at least quarterly and an allowance is established for amounts considered uncollectible. The need for charge-off of any amounts previously reserved as uncollectible is assessed on a quarterly basis.

***Acquisition Costs***

Acquisition costs vary with and are directly related to the acquisition of (re)insurance contracts and consist primarily of fees and commissions paid to brokers and premium taxes. Premiums receivable are presented net of applicable acquisition costs when contract terms provide for the right of offset. Acquisition costs are shown net of commissions earned on ceded reinsurance. Our net acquisition costs are deferred and charged to expense as the related premium is earned.

Anticipated losses and loss expenses, other costs and investment income related to these premiums are considered in assessing the recoverability of our deferred acquisition costs. If deferred amounts are estimated to be unrecoverable, they are expensed. Compensation expenses for personnel involved in contract acquisition, as well as advertising costs, are expensed as incurred.

**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013, 2012 AND 2011**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**d) Losses and Loss Expenses**

Our reserve for losses and loss expenses represents an estimate of the unpaid portion of our ultimate liability for losses and loss expenses for (re)insured events that have occurred at or before the balance sheet date. The balance reflects both claims that have been reported to us (“case reserves”) and claims that have been incurred but not yet reported to us (“IBNR”). These amounts are reduced for estimated amounts of salvage and subrogation recoveries.

We review our reserve for losses and loss expenses on a quarterly basis. Case reserves are primarily established based on amounts reported from insureds and/or their brokers. Management estimates IBNR after reviewing detailed actuarial analyses and applying informed judgment regarding qualitative factors that may not be fully captured in the actuarial estimates. A variety of actuarial methods are utilized in this process, including the Expected Loss Ratio, Bornhuetter-Ferguson and Chain Ladder methods. Our estimate is highly dependent on management’s judgment as to which method(s) are most appropriate for a particular accident year and class of business. Our historical claims data is often supplemented with industry benchmarks when applying these methodologies.

Any adjustments to our previous reserve for losses and loss expenses estimates are recognized in the period they are determined. While we believe that our reserves for losses and loss expenses are adequate, this estimate requires significant judgment and new information, events or circumstances may result in ultimate losses that are materially greater or less than provided for in the Consolidated Balance Sheets.

**e) Reinsurance**

In the normal course of business, we purchase reinsurance protection to limit our ultimate losses from catastrophic events and to reduce our loss aggregation risk. The premiums paid to our reinsurers (i.e. premiums ceded) are expensed over the coverage period. Prepaid reinsurance premiums represent the portion of premiums ceded applicable to the unexpired term of the contracts in force. Reinstatement-related premiums ceded are recorded at the time a loss event occurs and our coverage limits for the remaining life of a contract are reinstated under pre-defined contract terms; such premiums are expensed over the remaining risk period.

Reinsurance recoverable related to our case reserves is estimated on a case-by-case basis by applying the terms of any applicable reinsurance coverage to our individual case reserve estimates. Our estimate of reinsurance recoverable related to our IBNR reserves is generally developed as part of our loss reserving process.

Our reinsurance recoverable is presented net of a provision for uncollectible amounts, reflecting the amount we believe will ultimately not be recovered due to reinsurer insolvency, contractual disputes and/or some other reason. We apply case-specific provisions against certain recoveries that we deem unlikely to be collected in full. In addition, we use a default analysis to estimate our provision for uncollectible amounts on the remainder of the balance.

The estimates of our reinsurance recoverable and the associated provision require management’s judgment and are reviewed in detail on a quarterly basis. Any adjustments to amounts recognized in prior periods are reported in our net losses and loss expenses in the Consolidated Statements of Operations for the period when the adjustments were identified. The charge-off of amounts previously reserved as uncollectible is also considered on a case-by-case basis as part of this quarterly process.

**f) Foreign Exchange**

The Company’s reporting currency is the U.S. dollar. In translating the financial statements of our subsidiaries or branches where the functional currency is other than the U.S. dollar, assets and liabilities are converted into U.S. dollars using the rates of exchange in effect at the balance sheet dates and revenues and expenses are converted using the weighted average foreign exchange rates for the period. The effect of translation adjustments is reported as a separate component of AOCI in shareholders’ equity.

**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013, 2012 AND 2011**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In recording foreign currency transactions, revenue and expense items are converted to the relevant functional currency at the exchange rate prevailing at the transaction date. Assets and liabilities originating in currencies other than the functional currency are translated into the functional currency at the rates of exchange in effect at the balance sheet date. The resulting foreign currency gains or losses are recognized in the Consolidated Statements of Operations, with the exception of those related to foreign-denominated available for sale investments. For these investments, exchange rate fluctuations represent an unrealized appreciation/depreciation in the value of the securities and are included in the related component of AOCI.

**g) Share-Based Compensation**

The Company is authorized to issue restricted stock awards and units, stock options and other equity-based awards to its employees and directors. The fair value of service-based awards is measured at the grant date, with the associated expense recognized on a straight-line basis over the service period. The fair value of performance-based awards ("PSUs") is measured at the grant date based on pre-established targets relating to certain performance based measures achieved by the Company, with the associated expense recognized on a straight-line basis over the applicable performance and vesting period. The compensation expense for PSUs is subject to a periodic review and adjustment taking into account actual performance of the Company. The fair value of the liability associated with cash-settled awards is re-measured at each balance sheet date, with the effects recognized as an increase or decrease to share-based compensation expense for the period. Forfeiture benefits are estimated at the time of grant and incorporated in the determination of share-based compensation expense.

**h) Derivative Instruments**

***Derivative Instruments not Designated as Hedging Instruments***

We may enter into derivative instruments such as futures, options, interest rate swaps and foreign currency forward contracts as part of our overall foreign currency risk management strategy, to obtain exposure to a particular financial market or for yield enhancement. During 2013, we began to write derivative based risk management products designed to address weather and commodity price risks, with the objective of generating profits on a portfolio basis. From time to time we may also enter into (re)insurance contracts that meet the FASB's definition of a derivative contract.

We measure all derivative instruments at fair value (see Note 6 – Fair Value Measurements) and recognize them as either assets or liabilities in the Consolidated Balance Sheets. Subsequent changes in fair value and any realized gains or losses are recognized in the Consolidated Statements of Operations.

***Derivative Instruments Designated as Hedging Instruments***

We may designate a currency derivative as a hedge of foreign exchange rate-related movements in the fair value of certain investment portfolios. This is referred to as a fair value hedge. Changes in the fair value of the designated fair value hedge, along with the changes in the fair value of the hedged asset attributable to the hedged risk, are recorded in net realized investment gains (losses) in the Consolidated Statements of Operations, along with any hedge ineffectiveness.

To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated changes in value of the hedged item. Further, the hedge relationship must be designated and formally documented at the inception, detailing the particular risk management objective and strategy for the hedge, including the item and risk that is being hedged, the derivative that is being used, and how effectiveness will be assessed. We formally measure the hedge effectiveness at inception and on an ongoing basis. We evaluate the effectiveness on a retrospective and prospective basis, using the period-to-period dollar offset method. Using this method, if the hedge correlation is within the range of 80% to 125%, we consider the hedge effective and apply hedge accounting. Cash flows from derivative instruments designated as hedging instruments are presented as operating activities in the Consolidated Statements of Cash Flows.

**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**i) Goodwill and Intangible Assets**

We classify intangible assets into three categories: (1) intangible assets with finite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization, and (3) goodwill.

We amortize intangible assets with finite lives over their estimated useful lives in proportion to the estimated economic benefits of the intangible assets. We also test these assets for impairment if circumstances indicate that the carrying value may not be fully recoverable. Such circumstances may include an economic downturn in a geographic market or a change in the assessment of future operations. If, as a result of such an evaluation, we determine that the carrying value of the finite-lived intangible assets is not recoverable, the value of the assets will be reduced to fair value with the difference being expensed in the Consolidated Statements of Operations.

Our intangible assets with indefinite lives include licenses held by certain subsidiaries in various jurisdictions that allow such subsidiaries to write insurance and/or reinsurance business. These intangible assets are carried at or below estimated fair value and are tested annually for impairment, either qualitatively or quantitatively, and between annual tests if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

We have recorded goodwill in connection with certain acquisitions. Goodwill represents the excess of the cost of acquisitions over the fair value of the net assets acquired and is assigned to applicable reporting unit(s) on the acquisition date, based upon the expected benefit to be received by the reporting unit. We determine the expected benefit based on several factors, including the purpose of the business combination, our strategy subsequent to the business combination and the structure of the acquired company subsequent to the business combination. Goodwill is not subject to amortization. We test goodwill for potential impairment during the fourth quarter each year and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit to a level below its carrying amount. We have the option to first make this assessment on a qualitative basis. Should we choose to forgo this option, or if our qualitative assessment indicates that fair value is more likely than not below carrying value, we conduct a quantitative two-step impairment evaluation at the reporting unit level. First, we identify potential impairment by comparing the estimated fair values of the reporting units to estimated book values, including goodwill. The fair value of each reporting unit is derived based upon valuation techniques and assumptions that we believe market participants would use to value our business. The estimated fair values are generally determined utilizing methodologies that incorporate discounted cash flow analyses. The values derived from the analyses are then compared to recent market transactions for reasonableness. We derive the net book value of our reporting units by estimating the amount of shareholders' equity required to support the activities of each reporting unit. If the estimated fair value of a reporting unit exceeds the estimated book value, goodwill is not considered impaired. If the book value exceeds the estimated fair value, the second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of the goodwill in order to determine the magnitude of impairment to be recognized. The implied fair value of goodwill is determined by deducting the fair value of a reporting unit's identifiable assets and liabilities from the fair value of the reporting unit as a whole. The excess of the carrying value of goodwill above the implied goodwill, if any, would be recognized as an impairment charge in the Consolidated Statements of Operations.

**j) Income Taxes**

Certain subsidiaries and branches of the Company operate in jurisdictions where they are subject to taxation. Current and deferred income taxes are charged or credited to net income, or in certain cases to AOCI, based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes accruable or realizable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the Consolidated Balance Sheets and those used in the various jurisdictional tax returns. When our assessment indicates that it is more likely than not that a portion of a deferred tax asset will not be realized in the foreseeable future, a valuation allowance against deferred tax assets is recorded. We recognize the tax benefits of uncertain tax positions only when the position is more-likely-than-not to be sustained upon audit by the relevant taxing authorities.

**AXIS CAPITAL HOLDINGS LIMITED**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**k) Treasury Shares**

Common shares repurchased by the Company and not subsequently cancelled are classified as treasury shares and are recorded at cost. This results in a reduction of shareholders' equity in the Consolidated Balance Sheets. When shares are reissued from treasury, we use the average cost method to determine the cost of the reissued shares. Gains on sales/reissuances of treasury shares are credited to additional paid-in capital, while losses are charged to additional paid-in capital to the extent that previous net gains from reissued treasury shares were included therein; otherwise losses are charged to retained earnings.

**l) New Accounting Standards Adopted in 2013**

*Balance Sheet Offsetting*

Effective January 1, 2013, we adopted Financial Accounting Standards Board ("FASB") guidance requiring additional disclosures about financial instruments and derivative instruments that are either: (1) offset for balance sheet presentation purposes or (2) subject to an enforceable master netting arrangement or similar arrangement, regardless of whether they are offset for balance sheet presentation purposes. The disclosure requirements of this guidance are limited to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing/lending transactions. As this guidance is disclosure-related only and did not amend existing balance sheet offsetting guidance, adoption did not impact our results of operations, financial condition or liquidity. The additional disclosures are provided in Note 7 - Derivative Instruments.

*Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income ("AOCI")*

Effective January 1, 2013, we adopted FASB guidance requiring additional disclosures about reclassification adjustments from AOCI. As this guidance is disclosure-related only and did not amend existing guidance on the reporting of net income available to common shareholders or other comprehensive income, adoption did not impact our results of operations, financial condition or liquidity. The additional disclosures are provided in Note 19 - Other Comprehensive Income (Loss).

**3. SEGMENT INFORMATION**

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

**Insurance**

Our insurance segment provides insurance coverage on a worldwide basis. The product lines in this segment are property, marine, terrorism, aviation, credit and political risk, professional lines, liability and accident and health.

**Reinsurance**

Our reinsurance segment provides non-life treaty reinsurance to insurance companies on a worldwide basis. The product lines in this segment are catastrophe, property, professional lines, credit and surety, motor, liability, agriculture, engineering and other.

**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. SEGMENT INFORMATION (CONTINUED)**

The following tables summarize the underwriting results of our reportable segments, as well as the carrying values of allocated goodwill and intangible assets:

At and year ended December 31, 2013	Insurance	Reinsurance	Total
Gross premiums written	\$ 2,559,138	\$ 2,137,903	\$ 4,697,041
Net premiums written	1,813,538	2,114,662	3,928,200
Net premiums earned	1,722,762	1,984,303	3,707,065
Other insurance related income	2,436	1,988	4,424
Net losses and loss expenses	(1,050,402)	(1,083,793)	(2,134,195)
Acquisition costs	(242,363)	(421,828)	(664,191)
General and administrative expenses	(347,684)	(137,450)	(485,134)
<b>Underwriting income</b>	<u>\$ 84,749</u>	<u>\$ 343,220</u>	427,969
Corporate expenses			(90,256)
Net investment income			409,312
Net realized investment gains			75,564
Foreign exchange losses			(26,143)
Interest expense and financing costs			(61,979)
<b>Income before income taxes</b>			<u>\$ 734,467</u>
Net loss and loss expense ratio	61.0%	54.6%	57.6%
Acquisition cost ratio	14.1%	21.3%	17.9%
General and administrative expense ratio	20.1%	6.9%	15.5%
<b>Combined ratio</b>	<u>95.2%</u>	<u>82.8%</u>	<u>91.0%</u>
<b>Goodwill and intangible assets</b>	<u>\$ 89,528</u>	<u>\$ —</u>	<u>\$ 89,528</u>



**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. SEGMENT INFORMATION (CONTINUED)**

At and year ended December 31, 2012	Insurance	Reinsurance	Total
Gross premiums written	\$ 2,309,481	\$ 1,830,162	\$ 4,139,643
Net premiums written	1,522,245	1,815,211	3,337,456
Net premiums earned	1,558,058	1,857,405	3,415,463
Other insurance related income	2,676	—	2,676
Net losses and loss expenses	(953,564)	(1,142,464)	(2,096,028)
Acquisition costs	(226,859)	(400,794)	(627,653)
General and administrative expenses	(314,834)	(116,487)	(431,321)
<b>Underwriting income</b>	<u>\$ 65,477</u>	<u>\$ 197,660</u>	263,137
Corporate expenses			(129,660)
Net investment income			380,957
Net realized investment gains			127,469
Foreign exchange losses			(29,512)
Interest expense and financing costs			(61,863)
<b>Income before income taxes</b>			<u>\$ 550,528</u>
Net loss and loss expense ratio	61.2%	61.5%	61.4%
Acquisition cost ratio	14.6%	21.6%	18.4%
General and administrative expense ratio	20.2%	6.3%	16.4%
<b>Combined ratio</b>	<u>96.0%</u>	<u>89.4%</u>	<u>96.2%</u>
<b>Goodwill and intangible assets</b>	<u>\$ 97,493</u>	<u>\$ —</u>	<u>\$ 97,493</u>

**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. SEGMENT INFORMATION (CONTINUED)**

At and year ended December 31, 2011	Insurance	Reinsurance	Total
Gross premiums written	\$ 2,121,829	\$ 1,974,324	\$ 4,096,153
Net premiums written	1,466,134	1,953,300	3,419,434
Net premiums earned	1,429,687	1,885,274	3,314,961
Other insurance related income	2,396	—	2,396
Net losses and loss expenses	(919,319)	(1,755,733)	(2,675,052)
Acquisition costs	(199,583)	(387,886)	(587,469)
General and administrative expenses	(278,147)	(103,915)	(382,062)
<b>Underwriting income (loss)</b>	<u>\$ 35,034</u>	<u>\$ (362,260)</u>	<u>(327,226)</u>
Corporate expenses			(77,089)
Net investment income			362,430
Net realized investment gains			121,439
Foreign exchange gains			44,582
Interest expense and financing costs			(62,598)
<b>Income before income taxes</b>			<u>\$ 61,538</u>
Net loss and loss expense ratio	64.3%	93.1%	80.7%
Acquisition cost ratio	14.0%	20.6%	17.7%
General and administrative expense ratio	19.4%	5.5%	13.9%
<b>Combined ratio</b>	<u>97.7%</u>	<u>119.2%</u>	<u>112.3%</u>
<b>Goodwill and intangible assets</b>	<u>\$ 99,590</u>	<u>\$ —</u>	<u>\$ 99,590</u>

**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. SEGMENT INFORMATION (CONTINUED)**

The following table presents our gross premiums written by the geographical location of our subsidiaries:

Year ended December 31,	2013	2012	2011
Bermuda	\$ 718,904	\$ 684,588	\$ 822,237
Europe	1,699,748	1,561,701	1,493,692
United States	2,278,389	1,893,354	1,780,224
<b>Total gross premium written</b>	<b>\$ 4,697,041</b>	<b>\$ 4,139,643</b>	<b>\$ 4,096,153</b>

The following table presents our net premiums earned by segment and line of business:

Year ended December 31,	2013	2012	2011
<u>Insurance</u>			
Property	\$ 462,364	\$ 408,943	\$ 385,291
Marine	179,057	171,165	152,123
Terrorism	39,298	38,605	35,213
Aviation	48,489	60,363	70,681
Credit and political risk	68,192	87,103	97,680
Professional lines	586,200	563,500	536,238
Liability	110,623	86,873	89,555
Accident & health	228,539	141,506	62,906
Total Insurance	<u>1,722,762</u>	<u>1,558,058</u>	<u>1,429,687</u>
<u>Reinsurance</u>			
Catastrophe	380,199	375,088	456,858
Property	350,970	351,470	356,022
Professional lines	304,754	297,726	281,025
Credit and surety	279,943	277,185	263,912
Motor	221,844	237,006	202,830
Liability	234,736	220,874	230,872
Agriculture	126,490	17,116	15,031
Engineering	66,243	68,402	65,727
Other	19,124	12,538	12,997
Total Reinsurance	<u>1,984,303</u>	<u>1,857,405</u>	<u>1,885,274</u>
<b>Total</b>	<b>\$ 3,707,065</b>	<b>\$ 3,415,463</b>	<b>\$ 3,314,961</b>

**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. GOODWILL AND INTANGIBLE ASSETS**

The following table shows an analysis of goodwill and intangible assets:

	Goodwill	Intangible assets with an indefinite life	Intangible assets with a finite life	Total
<b>Net balance at December 31, 2011</b>	\$ 49,350	\$ 26,036	\$ 24,204	\$ 99,590
Amortization	—	—	(2,618)	(2,618)
Foreign currency translation adjustment	285	—	236	521
<b>Net balance at December 31, 2012</b>	49,635	26,036	21,822	97,493
Amortization	—	—	(2,233)	(2,233)
Foreign currency translation adjustment	(3,213)	—	(2,519)	(5,732)
<b>Net balance at December 31, 2013</b>	<u>\$ 46,422</u>	<u>\$ 26,036</u>	<u>\$ 17,070</u>	<u>\$ 89,528</u>
<b>Gross balance at December 31, 2013</b>	\$ 42,237	\$ 26,036	\$ 35,596	\$ 103,869
Accumulated amortization	—	—	(23,601)	(23,601)
Foreign currency translation adjustment	4,185	—	5,075	9,260
<b>Net balance at December 31, 2013</b>	<u>\$ 46,422</u>	<u>\$ 26,036</u>	<u>\$ 17,070</u>	<u>\$ 89,528</u>

We estimate that the annual amortization expense for our total intangible assets with a finite life will be approximately \$2 million from 2014 to 2018. The estimated remaining useful lives of these assets range from six to twenty-five years.

Intangible assets with an indefinite life consist primarily of U.S. state licenses that provide a legal right to transact business indefinitely. Our impairment reviews for goodwill and indefinite lived intangibles did not result in the recognition of impairment losses for the years ended December 31, 2013, 2012 and 2011.

**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. INVESTMENTS**

**a) Fixed Maturities and Equities**

The amortized cost or cost and fair values of our fixed maturities and equities were as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI in AOCI <sup>(5)</sup>
<b><u>At December 31, 2013</u></b>					
<b>Fixed maturities</b>					
U.S. government and agency	\$ 1,421,245	\$ 1,405	\$ (33,952)	\$ 1,388,698	\$ —
Non-U.S. government	1,208,384	17,990	(49,992)	1,176,382	—
Corporate debt	3,533,585	84,881	(10,228)	3,608,238	—
Agency RMBS <sup>(1)</sup>	2,485,139	21,979	(58,291)	2,448,827	—
CMBS <sup>(2)</sup>	790,095	11,285	(3,966)	797,414	—
Non-Agency RMBS	65,590	2,375	(398)	67,567	(868)
ABS <sup>(3)</sup>	955,274	6,871	(8,694)	953,451	—
Municipals <sup>(4)</sup>	1,527,834	32,432	(14,516)	1,545,750	—
<b>Total fixed maturities</b>	<b>\$ 11,987,146</b>	<b>\$ 179,218</b>	<b>\$ (180,037)</b>	<b>\$ 11,986,327</b>	<b>\$ (868)</b>
<b>Equity securities</b>					
Common stocks	345,759	98,742	(6,183)	438,318	
Exchange-traded funds	106,762	32,085	—	138,847	
Non-U.S. bond mutual funds	113,698	11,124	—	124,822	
<b>Total equity securities</b>	<b>\$ 566,219</b>	<b>\$ 141,951</b>	<b>\$ (6,183)</b>	<b>\$ 701,987</b>	
<b><u>At December 31, 2012</u></b>					
<b>Fixed maturities</b>					
U.S. government and agency	\$ 1,413,520	\$ 9,484	\$ (119)	\$ 1,422,885	\$ —
Non-U.S. government	1,076,501	30,276	(2,201)	1,104,576	—
Corporate debt	3,746,616	135,658	(5,892)	3,876,382	—
Agency RMBS <sup>(1)</sup>	2,594,180	67,398	(1,670)	2,659,908	—
CMBS <sup>(2)</sup>	814,211	25,999	(126)	840,084	—
Non-Agency RMBS	93,266	2,503	(570)	95,199	(884)
ABS <sup>(3)</sup>	639,614	10,774	(7,182)	643,206	—
Municipals <sup>(4)</sup>	1,227,764	58,770	(725)	1,285,809	—
<b>Total fixed maturities</b>	<b>\$ 11,605,672</b>	<b>\$ 340,862</b>	<b>\$ (18,485)</b>	<b>\$ 11,928,049</b>	<b>\$ (884)</b>
<b>Equity securities</b>					
Common stocks	398,975	51,821	(7,398)	443,398	
Exchange-traded funds	109,434	9,727	—	119,161	
Non-U.S. bond mutual funds	99,897	4,092	—	103,989	
<b>Total equity securities</b>	<b>\$ 608,306</b>	<b>\$ 65,640</b>	<b>\$ (7,398)</b>	<b>\$ 666,548</b>	

(1) Residential mortgage-backed securities (RMBS) originated by U.S. agencies.

(2) Commercial mortgage-backed securities (CMBS).

(3) Asset-backed securities (ABS) include debt tranch securities collateralized primarily by auto loans, student loans, credit cards, and other asset types. This asset class also includes collateralized loan obligations (CLOs) and collateralized debt obligations (CDOs).

(4) Municipals include bonds issued by states, municipalities and political subdivisions.

(5) Represents the non-credit component of the other-than-temporary impairment (OTTI) losses, adjusted for subsequent sales of securities. It does not include the change in fair value subsequent to the impairment measurement date.

**AXIS CAPITAL HOLDINGS LIMITED**  
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**5. INVESTMENTS (CONTINUED)**

In the normal course of investing activities, we actively manage allocations to non-controlling tranches of structured securities (variable interests) issued by VIEs. These structured securities include RMBS, CMBS and ABS and are included in the above table. Additionally, within our other investments portfolio, we also invest in limited partnerships (hedge funds) and CLO equity tranch securities, which are all variable interests issued by VIEs (see Note 5(b)). For these variable interests, we do not have the power to direct the activities that are most significant to the economic performance of the VIEs and accordingly we are not the primary beneficiary for any of these VIEs. Our maximum exposure to loss on these interests is limited to the amount of our investment. We have not provided financial or other support with respect to these structured securities other than our original investment.

**Contractual Maturities**

The contractual maturities of fixed maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value	% of Total Fair Value
<b><u>At December 31, 2013</u></b>			
<b>Maturity</b>			
Due in one year or less	\$ 710,079	\$ 717,052	5.9%
Due after one year through five years	5,030,728	5,116,060	42.7%
Due after five years through ten years	1,852,877	1,791,835	14.9%
Due after ten years	97,364	94,121	0.8%
	<u>7,691,048</u>	<u>7,719,068</u>	<u>64.3%</u>
Agency RMBS	2,485,139	2,448,827	20.4%
CMBS	790,095	797,414	6.7%
Non-Agency RMBS	65,590	67,567	0.6%
ABS	955,274	953,451	8.0%
<b>Total</b>	<u>\$ 11,987,146</u>	<u>\$ 11,986,327</u>	<u>100.0%</u>
<b><u>At December 31, 2012</u></b>			
<b>Maturity</b>			
Due in one year or less	\$ 651,111	\$ 657,045	5.5%
Due after one year through five years	4,880,039	4,989,151	41.8%
Due after five years through ten years	1,847,295	1,951,569	16.4%
Due after ten years	85,956	91,887	0.8%
	<u>7,464,401</u>	<u>7,689,652</u>	<u>64.5%</u>
Agency RMBS	2,594,180	2,659,908	22.3%
CMBS	814,211	840,084	7.0%
Non-Agency RMBS	93,266	95,199	0.8%
ABS	639,614	643,206	5.4%
<b>Total</b>	<u>\$ 11,605,672</u>	<u>\$ 11,928,049</u>	<u>100.0%</u>

**AXIS CAPITAL HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. INVESTMENTS (CONTINUED)**

**Gross Unrealized Losses**

The following table summarizes fixed maturities and equities in an unrealized loss position and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

	12 months or greater		Less than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b><u>At December 31, 2013</u></b>						
<b>Fixed maturities</b>						
U.S. government and agency	\$ —	\$ —	\$ 982,307	\$ (33,952)	\$ 982,307	\$ (33,952)
Non-U.S. government	35,577	(3,430)	420,622	(46,562)	456,199	(49,992)
Corporate debt	27,696	(802)	606,592	(9,426)	634,288	(10,228)
Agency RMBS	144,468	(5,247)	1,478,527	(53,044)	1,622,995	(58,291)
CMBS	13,319	(116)	298,863	(3,850)	312,182	(3,966)
Non-Agency RMBS	4,287	(315)	5,319	(83)	9,606	(398)
ABS	37,765	(2,941)	553,803	(5,753)	591,568	(8,694)
Municipals	8,408	(615)	543,474	(13,901)	551,882	(14,516)
<b>Total fixed maturities</b>	<b>\$ 271,520</b>	<b>\$ (13,466)</b>	<b>\$ 4,889,507</b>	<b>\$ (166,571)</b>	<b>\$ 5,161,027</b>	<b>\$ (180,037)</b>
<b>Equity securities</b>						
Common stocks	\$ 3,499	\$ (398)	\$ 48,828	\$ (5,785)	\$ 52,327	\$ (6,183)
<b>Total equity securities</b>	<b>\$ 3,499</b>	<b>\$ (398)</b>	<b>\$ 48,828</b>	<b>\$ (5,785)</b>	<b>\$ 52,327</b>	<b>\$ (6,183)</b>
<b><u>At December 31, 2012</u></b>						
<b>Fixed maturities</b>						
U.S. government and agency	\$ —	\$ —	\$ 119,730	\$ (119)	\$ 119,730	\$ (119)
Non-U.S. government	44,568	(1,453)	153,134	(748)	197,702	(2,201)
Corporate debt	95,511	(2,947)	451,651	(2,945)	547,162	(5,892)
Agency RMBS	9,557	(148)	521,400	(1,522)	530,957	(1,670)
CMBS	1,749	(16)	69,615	(110)	71,364	(126)
Non-Agency RMBS	11,026	(537)	115	(33)	11,141	(570)
ABS	99,514	(7,034)	39,296	(148)	138,810	(7,182)
Municipals	6,386	(270)	77,766	(455)	84,152	(725)
<b>Total fixed maturities</b>	<b>\$ 268,311</b>	<b>\$ (12,405)</b>	<b>\$ 1,432,707</b>	<b>\$ (6,080)</b>	<b>\$ 1,701,018</b>	<b>\$ (18,485)</b>
<b>Equity securities</b>						
Common stocks	\$ 11,554	\$ (1,793)	\$ 95,697	\$ (5,605)	\$ 107,251	\$ (7,398)
<b>Total equity securities</b>	<b>\$ 11,554</b>	<b>\$ (1,793)</b>	<b>\$ 95,697</b>	<b>\$ (5,605)</b>	<b>\$ 107,251</b>	<b>\$ (7,398)</b>

**Fixed Maturities**

At December 31, 2013, 1,127 fixed maturities (2012: 478) were in an unrealized loss position of \$180 million (2012: \$18 million) of which \$2 million (2012: \$3 million) was related to securities below investment grade or not rated.

At December 31, 2013, 99 securities (2012: 146) had been in a continuous unrealized loss position for 12 months or greater and had a fair value of \$272 million (2012: \$268 million). Following our credit impairment review, we concluded that these

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**5. INVESTMENTS (CONTINUED)**

securities as well as the remaining securities in an unrealized loss position in the above table were temporarily depressed at December 31, 2013, and were expected to recover in value as the securities approach maturity. Further, at December 31, 2013, we did not intend to sell these securities in an unrealized loss position and it is more likely than not that we will not be required to sell these securities before the anticipated recovery of their amortized costs.

Equity Securities

At December 31, 2013, 63 securities (2012: 106) were in an unrealized loss position of \$6 million (2012: \$7 million).

At December 31, 2013, 9 (2012: 17) securities had been in a continuous unrealized loss position for 12 months or greater and had a fair value of \$3 million (2012: \$12 million). Based on our impairment review process and our ability and intent to hold these securities for a reasonable period of time sufficient for a full recovery, we concluded that the above equities in an unrealized loss position were temporarily impaired at December 31, 2013 and 2012.

**b) Other Investments**

The following tables provide a breakdown of our investments in hedge funds, direct lending funds and CLO Equities, together with additional information relating to the liquidity of each category:

	Fair Value		Redemption Frequency (if currently eligible)	Redemption Notice Period
<b><u>At December 31, 2013</u></b>				
Long/short equity funds	\$ 425,444	41%	Monthly, Quarterly, Semi-annually	30-60 days
Multi-strategy funds	285,155	27%	Quarterly, Semi-annually	60-95 days
Event-driven funds	190,458	18%	Quarterly, Annually	45-60 days
Leveraged bank loan funds	48,753	5%	Quarterly	65 days
Direct lending funds	22,134	2%	n/a	n/a
CLO - Equities	73,866	7%	n/a	n/a
<b>Total other investments</b>	<b>\$ 1,045,810</b>	<b>100%</b>		
<b><u>At December 31, 2012</u></b>				
Long/short equity funds	\$ 302,680	36%	Monthly, Quarterly, Semi-annually	30-60 days
Multi-strategy funds	244,075	29%	Quarterly, Semi-annually	60-95 days
Event-driven funds	171,479	20%	Quarterly, Annually	45-95 days
Leveraged bank loan funds	62,768	8%	Quarterly	65 days
Direct lending funds	—	—%	n/a	n/a
CLO - Equities	62,435	7%	n/a	n/a
<b>Total other investments</b>	<b>\$ 843,437</b>	<b>100%</b>		

n/a – not applicable

The investment strategies for the above funds are as follows:

- *Long/short equity funds*: Seek to achieve attractive returns by executing an equity trading strategy involving both long and short investments in publicly-traded equities.
- *Multi-strategy funds*: Seek to achieve above-market returns by pursuing multiple investment strategies to diversify risks and reduce volatility. This category includes funds of hedge funds which invest in a large pool of hedge funds across a diversified range of hedge fund strategies.



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**5. INVESTMENTS (CONTINUED)**

- *Event-driven funds*: Seek to achieve attractive returns by exploiting situations where announced or anticipated events create opportunities.
- *Leveraged bank loan funds*: Seek to achieve attractive returns by investing primarily in bank loan collateral that has limited interest rate risk exposure.
- *Direct lending funds*: Seek to achieve attractive risk-adjusted returns, including current income generation, by investing in funds which provide financing directly to borrowers.

Two common redemption restrictions which may impact our ability to redeem our hedge funds are gates and lockups. A gate is a suspension of redemptions which may be implemented by the general partner or investment manager of the fund in order to defer, in whole or in part, the redemption request in the event the aggregate amount of redemption requests exceeds a predetermined percentage of the fund's net assets which may otherwise hinder the general partner or investment manager's ability to liquidate holdings in an orderly fashion in order to generate the cash necessary to fund extraordinarily large redemption payouts. A lockup period is the initial amount of time an investor is contractually required to hold the security before having the ability to redeem. During 2013 and 2012, neither of these restrictions impacted our redemption requests. At December 31, 2013, \$99 million (2012: \$38 million), representing 10% (2012: 5%) of our total hedge funds, relate to holdings where we are still within the lockup period. The expiry of this lockup periods range from April, 2014 to April, 2016.

At December 31, 2013, \$11 million (2012: \$29 million) was invested in hedge funds that are not accepting redemption requests. Of this amount, substantially all relates to a leveraged bank loan fund in a period of planned principal distributions. Based on market conditions and payments made to date, management's current expectation is that the distribution process will be completed in 2014. The remainder primarily relates to funds that entered liquidation or had their assets side pocketed as a result of the global financial crisis which began in late 2008. For these funds, management is currently unable to estimate when those funds will be distributed.

At December 31, 2013, we have \$88 million (2012: \$40 million) of unfunded commitments within our other investments portfolio relating to our future investments in direct lending funds. Once the full amount of committed capital has been called by the General Partner of each of these funds, the assets will not be fully returned until the completion of the fund's investment term. These funds have investment terms ranging from 5-10 years and the General Partners of certain funds have the option to extend the term by up to three years.

During 2013, we made a \$60 million commitment as a limited partner in a multi-strategy hedge fund. Once the full amount of committed capital has been called by the General Partner, the assets will not be fully returned until the completion of the fund's investment term which ends in December, 2018. The General Partner then has the option to extend the term by up to three years. At December 31, 2013, \$54 million of our commitment remains unfunded and the current fair value of the funds called to date are included in the multi-strategy funds line of the table above.

During 2013, we made a \$60 million commitment as a limited partner in a fund that invests primarily in CLO equities ("CLO fund"). We will not be eligible to redeem our investment until December, 2017 but expect to receive interest distributions on a quarterly basis. At December 31, 2013, \$27 million of our commitment remains unfunded and the current fair value of the funds called to date are included in the CLO - Equities line of the table above. The CLO - Equities line also includes direct investment in the equity tranches of CLOs.

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**5. INVESTMENTS (CONTINUED)**

**c) Net Investment Income**

Net investment income was derived from the following sources:

Year ended December 31,	2013	2012	2011
Fixed maturities	\$ 293,609	\$ 304,400	\$ 337,616
Other investments	128,814	87,660	31,856
Equity securities	10,897	11,904	11,186
Cash and cash equivalents	6,337	4,528	5,697
Short-term investments	1,181	596	1,592
<b>Gross investment income</b>	<b>440,838</b>	<b>409,088</b>	<b>387,947</b>
Investment expenses	(31,526)	(28,131)	(25,517)
<b>Net investment income</b>	<b>\$ 409,312</b>	<b>\$ 380,957</b>	<b>\$ 362,430</b>

**d) Net Realized Investment Gains**

The following table provides an analysis of net realized investment gains:

Year ended December 31,	2013	2012	2011
<b>Gross realized gains</b>			
Fixed maturities and short-term investments <sup>(1)</sup>	\$ 120,932	\$ 242,082	\$ 243,296
Equities	54,564	36,411	16,992
Gross realized gains	175,496	278,493	260,288
<b>Gross realized losses</b>			
Fixed maturities and short-term investments <sup>(1)</sup>	(87,894)	(101,844)	(108,490)
Equities	(10,407)	(23,530)	(14,526)
Gross realized losses	(98,301)	(125,374)	(123,016)
Net OTTI recognized in earnings	(9,362)	(24,234)	(15,861)
Change in fair value of investment derivatives <sup>(2)</sup>	7,731	(9,170)	4,431
Fair value hedges <sup>(2)</sup>	—	7,754	(4,403)
<b>Net realized investment gains</b>	<b>\$ 75,564</b>	<b>\$ 127,469</b>	<b>\$ 121,439</b>

(1) Includes \$37 million of gains in 2012 and \$11 million of losses in 2011 relating to previously unrealized foreign exchange currency amounts on the hedged fixed maturity portfolios. The hedged portfolio was sold and all associated foreign exchange contracts were fully settled during 2012 so there is no impact on the 2013 figures.

(2) Refer to Note 7 – Derivative Instruments

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The following table summarizes the OTTI recognized in earnings by asset class:

Year ended December 31,	2013	2012	2011
<b>Fixed maturities:</b>			
Non-U.S. government	\$ 120	\$ 3,281	\$ —
Corporate debt	5,802	1,821	1,954
Non-Agency RMBS	57	2,016	717
ABS	129	795	61
Municipals	639	—	483
	<u>6,747</u>	<u>7,913</u>	<u>3,215</u>
<b>Equity Securities</b>			
Common stocks	2,092	7,318	12,646
Exchange-traded funds	523	9,003	—
	<u>2,615</u>	<u>16,321</u>	<u>12,646</u>
<b>Total OTTI recognized in earnings</b>	<b>\$ 9,362</b>	<b>\$ 24,234</b>	<b>\$ 15,861</b>

Fixed Maturities

The following table provides a roll forward of the credit losses (“credit loss table”), before income taxes, for which a portion of the OTTI was recognized in AOCI:

Year ended December 31,	2013	2012
Balance at beginning of period	\$ 1,809	\$ 2,061
Credit impairments recognized on securities not previously impaired	—	—
Additional credit impairments recognized on securities previously impaired	—	—
Change in timing of future cash flows on securities previously impaired	—	—
Intent to sell of securities previously impaired	—	—
Securities sold/redeemed/matured	(215)	(252)
<b>Balance at end of period</b>	<b>\$ 1,594</b>	<b>\$ 1,809</b>

Credit losses are calculated based on the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to the impairment. The following provides a summary of the credit loss activities by asset class for the above table as well as the significant inputs and the methodology used to estimate these credit losses.

*U.S. Government, U.S. Agency and U.S. Agency RMBS:*

Unrealized losses on securities issued or backed (either explicitly or implicitly) by the U.S. government are generally not analyzed for OTTI. We have concluded that the possibility of any credit losses on these securities is highly unlikely due to the explicit U.S. government guarantee on certain securities (e.g. GNMA issuances) and, on others, the implicit guarantee that has been validated by past actions (e.g. U.S. government bailout of FNMA and FHLMC during the 2008 credit crisis). Although not generally analyzed for credit losses, the securities are still evaluated for intention to sell at a loss.

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**5. INVESTMENTS (CONTINUED)**

*Non-U.S. Government:*

Non-U.S. government obligations are evaluated for credit loss primarily through qualitative assessments of the likelihood of credit loss using information such as duration and severity of unrealized losses, as well as credit ratings and price volatility. At December 31, 2013, our holdings in sovereign debt, including \$161 million (2012: \$217 million) relating to the eurozone countries, were substantially all investment-grade securities. The gross unrealized losses of \$50 million at December 31, 2013 were mainly due to pricing and foreign exchange losses on emerging market debt. Based on our analysis, we do not anticipate any credit losses on our non-U.S. government fixed maturities at December 31, 2013.

*Corporate Debt:*

To estimate credit losses for corporate debt securities, our projected cash flows are primarily driven by our assumptions regarding the probability of default and the severity associated with those defaults. Our default and loss severity rates are based on credit rating, credit analysis, industry analyst reports and forecasts, Moody's historical default data and any other data relevant to the recoverability of the security. In 2013, the OTTI charges on corporate debt securities were related to our intent to sell, as well as unrealized foreign exchange losses on certain securities where forecasted recovery was uncertain.

*CMBS:*

Our investments in CMBS are diversified and highly rated, with a weighted average estimated subordination percentage of 30% at December 31, 2013 (2012: 30%). Based on discounted cash flows at December 31, 2013, the current level of subordination is sufficient to cover the estimated loan losses on the underlying collateral of the CMBS.

*Non-agency RMBS:*

For non-agency RMBS, our projected cash flows incorporated underlying data from widely accepted third-party data sources along with certain internal assumptions and judgments regarding the future performance of the security. These assumptions included the following: default, delinquency, loss severity and prepayment rates. The assumptions used to calculate the credit losses in 2013 have not changed significantly since December 31, 2012. At December 31, 2013, the fair value of our non-agency RMBS was \$68 million (2012: \$95 million), consisting primarily of \$41 million (2012: \$65 million) of Prime and \$19 million (2012: \$22 million) of Alt-A MBS. We have concluded there are no credit losses anticipated for any of our non-agency RMBS at December 31, 2013, other than those already recorded.

*ABS:*

A significant portion of the unrealized losses on ABS at December 31, 2013, and 2012, were related to CLO debt tranching securities ("CLO Debt") purchased prior to the credit crisis with a current carrying value of \$30 million (2012: \$53 million). We used the following significant inputs to estimate the credit loss for these securities:

At December 31,	2013	2012
Default rate	4.0%	4.0%
Loss severity rate	53.5%	53.5%
Collateral spreads	2.7% - 3.5%	2.5% - 3.7%

Our assumptions on default and loss severity rates are established based on an assessment of actual experience to date for each CLO Debt and review of recent credit rating agencies' default and loss severity forecasts. Based on the underlying collateral values and our projected cash flows at December 31, 2013, we do not expect any credit losses on our CLO Debt as the current unrealized loss is reflective of the securities' low coupon relative to the higher market yields available for similar securities.

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Equity Securities

The OTTI losses on common stocks in 2013 and 2012 are primarily due to the severity and duration of their unrealized loss positions, for which we concluded the forecasted recovery period was uncertain. The recognition of such losses does not necessarily indicate that sales will occur or that sales are imminent or planned. During 2013, we recorded \$1 million (2012: \$9 million) of OTTI losses on our exchange-traded funds as we no longer had the intent to hold these underwater securities through full recovery of cost. At December 31, 2013, the fair value of our equities was \$702 million (2012: \$667 million), which included \$6 million (2012: \$7 million) of gross unrealized losses.

**e) Restricted Investments**

In order to support our obligations in regulatory jurisdictions where we operate as a non-admitted carrier, we provide collateral in the form of assets held in trust and, to a lesser extent, letters of credit. Refer to Note 10(b) for further information on our collateral requirements upon issuance of certain letters of credit. The fair value of our restricted investments primarily relates to these items, as noted in the table below. Our restricted investments primarily consist of high-quality fixed maturity and short-term investment securities.

At December 31,	2013	2012
Collateral in Trust for inter-company agreements	\$ 2,261,081	\$ 2,134,931
Collateral for secured letter of credit facility	777,828	470,062
Collateral in Trust for third party agreements	276,839	245,539
Securities on deposit with regulatory authorities	58,327	59,456
<b>Total restricted investments</b>	<b>\$ 3,374,075</b>	<b>\$ 2,909,988</b>

**f) Reverse Repurchase Agreements**

At December 31, 2013, we held \$34 million (2012: \$39 million) of reverse repurchase agreements. These loans are fully collateralized, are generally outstanding for a short period of time and are presented on a gross basis as part of cash and cash equivalents on our consolidated balance sheet. The required collateral for these loans is either cash or U.S. Treasuries at a minimum rate of 102% of the loan principal. Upon maturity, we receive principal and interest income.

**6. FAIR VALUE MEASUREMENTS**

**Fair Value Hierarchy**

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants. We use a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The hierarchy is broken down into three levels as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

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**6. FAIR VALUE MEASUREMENTS (CONTINUED)**

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

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment.

Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This may lead us to change the selection of our valuation technique (from market to cash flow approach) or may cause us to use multiple valuation techniques to estimate the fair value of a financial instrument. This circumstance could cause an instrument to be reclassified between levels within the fair value hierarchy.

We used the following valuation techniques and assumptions in estimating the fair value of our financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy.

**Fixed Maturities**

At each valuation date, we use the market approach valuation technique to estimate the fair value of our fixed maturities portfolio, when possible. This market approach includes, but is not limited to, prices obtained from third party pricing services for identical or comparable securities and the use of “pricing matrix models” using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. Pricing from third party pricing services is sourced from multiple vendors, when available, and we maintain a vendor hierarchy by asset type based on historical pricing experience and vendor expertise. When prices are unavailable from pricing services, we obtain non-binding quotes from broker-dealers who are active in the corresponding markets.

The following describes the significant inputs generally used to determine the fair value of our fixed maturities by asset class.

*U.S. government and agency*

U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. As the fair values of our U.S. Treasury securities are based on unadjusted market prices in active markets, they are classified within Level 1. The fair values of U.S. government agency securities are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. government agency securities are classified within Level 2.

*Non-U.S. government*

Non-U.S. government securities comprise bonds issued by non-U.S. governments and their agencies along with supranational organizations (collectively also known as sovereign debt securities). The fair value of these securities is based on prices obtained from international indices or a valuation model that includes the following inputs: interest rate yield curves, cross-currency basis index spreads, and country credit spreads for structures similar to the sovereign bond in terms of issuer, maturity and seniority. As the significant inputs are observable market inputs, the fair value of non-U.S. government securities are classified within Level 2.

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**6. FAIR VALUE MEASUREMENTS (CONTINUED)**

*Corporate debt*

Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are generally determined using the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As these spreads and the yields for the risk-free yield curve are observable market inputs, the fair values of our corporate debt securities are classified within Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, securities are classified within Level 3.

*MBS*

Our portfolio of RMBS and CMBS are originated by both agencies and non-agencies. The fair values of these securities are determined through the use of a pricing model (including Option Adjusted Spread) which uses prepayment speeds and spreads to determine the appropriate average life of the MBS. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As the significant inputs used to price MBS are observable market inputs, the fair values of the MBS are classified within Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. These securities are classified within Level 3.

*ABS*

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and CLO Debt originated by a variety of financial institutions. Similarly to MBS, the fair values of ABS are priced through the use of a model which uses prepayment speeds and spreads sourced primarily from the new issue market. As the significant inputs used to price ABS are observable market inputs, the fair values of ABS are classified within Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers or use a discounted cash flow model to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. These securities are priced within Level 3.

*Municipals*

Our municipal portfolio comprises revenue and general obligation bonds issued by U.S. domiciled state and municipal entities. The fair value of these securities is determined using spreads obtained from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the municipals are observable market inputs, municipals are classified within Level 2.

**Equity Securities**

Equity securities include U.S. and non-U.S. common stocks, exchange-traded funds, and non-U.S. bond mutual funds. For common stocks and exchange-traded funds, we classified these within Level 1 as their fair values are based on unadjusted quoted market prices in active markets. Our investments in non-U.S. bond mutual funds have daily liquidity, with redemption based on the net asset value (NAV) of the funds. Accordingly, we have classified these investments as Level 2.

**Other Investments**

As a practical expedient, we estimate fair values for hedge funds, direct lending funds and the CLO fund using NAVs as advised by external fund managers or third party administrators. For each of these funds, the NAV is based on the manager's or administrator's valuation of the underlying holdings in accordance with the fund's governing documents and in accordance

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**6. FAIR VALUE MEASUREMENTS (CONTINUED)**

with U.S. GAAP. For any funds for which we have not yet received a NAV concurrent with our period end date, we record an estimate of the change in fair value for the period subsequent to the most recent NAV. Such estimates are based on return estimates for the period between the most recently issued NAV and the period end date; these estimates are obtained from the relevant fund managers. Accordingly, we do not typically have a reporting lag in our fair value measurements for these funds. Historically, our valuation estimates incorporating these return estimates have not significantly diverged from the subsequent NAVs.

Within the hedge fund, direct lending fund and CLO fund industries, there is a general lack of transparency necessary to facilitate a detailed independent assessment of the values placed on the securities underlying the NAV provided by the fund manager or fund administrator. To address this, on a quarterly basis, we perform a number of monitoring procedures designed to assist us in the assessment of the quality of the information provided by managers and administrators. These procedures include, but are not limited to, regular review and discussion of each fund's performance with its manager, regular evaluation of fund performance against applicable benchmarks and the backtesting of our fair value estimates against subsequently received NAVs. Backtesting involves comparing our previously reported values for each individual fund against NAVs per audited financial statements (for year-end values) and final NAVs from fund managers and fund administrators (for interim values).

For our hedge fund investments with liquidity terms allowing us to fully redeem our holdings at the applicable NAV in the near term, we have classified these investments as Level 2. Certain investments in hedge funds, all of our direct lending funds and our CLO fund have redemption restrictions (see Note 5(b) for further details) that prevent us from redeeming in the near term and therefore we have classified these investments as Level 3.

At December 31, 2013, our direct investments in CLO - Equities were classified within Level 3 as we estimated the fair value for these securities using an income approach valuation technique (discounted cash flow model) due to the lack of observable and relevant trades in the secondary markets.

**Short-Term Investments**

Short-term investments primarily comprise highly liquid securities with maturities greater than three months but less than one year from the date of purchase. These securities are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their amortized cost approximates fair value.

**Derivative Instruments**

Our foreign currency forward contracts and interest rate swaps are customized to our economic hedging strategies and trade in the over-the-counter derivative market. We use the market approach valuation technique to estimate the fair value for these derivatives based on significant observable market inputs from third party pricing vendors, non-binding broker-dealer quotes and/or recent trading activity. Accordingly, we classified these derivatives within Level 2.

We also participate in non-exchange traded derivative-based risk management products addressing weather risks. We use observable market inputs and unobservable inputs in combination with industry or internally-developed valuation and forecasting techniques to determine fair value. We classify these instruments within Level 3.

**Cash Settled Awards**

Cash settled awards comprise restricted stock units that form part of our compensation program. Although the fair value of these awards is determined using observable quoted market prices in active markets, the stock units themselves are not actively traded. Accordingly, we have classified these liabilities within Level 2.



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**6. FAIR VALUE MEASUREMENTS (CONTINUED)**

The table below presents the financial instruments measured at fair value on a recurring basis:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>At December 31, 2013</b>				
<b>Assets</b>				
Fixed maturities				
U.S. government and agency	\$ 1,119,632	\$ 269,066	\$ —	\$ 1,388,698
Non-U.S. government	—	1,176,382	—	1,176,382
Corporate debt	—	3,608,238	—	3,608,238
Agency RMBS	—	2,448,827	—	2,448,827
CMBS	—	793,396	4,018	797,414
Non-Agency RMBS	—	67,567	—	67,567
ABS	—	922,652	30,799	953,451
Municipals	—	1,545,750	—	1,545,750
	<u>1,119,632</u>	<u>10,831,878</u>	<u>34,817</u>	<u>11,986,327</u>
Equity securities				
Common stocks	438,318	—	—	438,318
Exchange-traded funds	138,847	—	—	138,847
Non-U.S. bond mutual funds	—	124,822	—	124,822
	<u>577,165</u>	<u>124,822</u>	<u>—</u>	<u>701,987</u>
Other investments				
Hedge funds	—	488,755	461,055	949,810
Direct lending funds	—	—	22,134	22,134
CLO-Equities	—	—	73,866	73,866
	<u>—</u>	<u>488,755</u>	<u>557,055</u>	<u>1,045,810</u>
Short-term investments	—	46,212	—	46,212
Derivative instruments (see Note 7)	—	6,824	984	7,808
<b>Total Assets</b>	<u>\$ 1,696,797</u>	<u>\$ 11,498,491</u>	<u>\$ 592,856</u>	<u>\$ 13,788,144</u>
<b>Liabilities</b>				
Derivative instruments (see Note 7)	\$ —	\$ 1,152	\$ 815	\$ 1,967
Cash settled awards (see Note 16)	—	8,693	—	8,693
<b>Total Liabilities</b>	<u>\$ —</u>	<u>\$ 9,845</u>	<u>\$ 815</u>	<u>\$ 10,660</u>
<b>At December 31, 2012</b>				
<b>Assets</b>				
Fixed maturities				
U.S. government and agency	\$ 1,094,220	\$ 328,665	\$ —	\$ 1,422,885
Non-U.S. government	—	1,104,576	—	1,104,576
Corporate debt	—	3,874,832	1,550	3,876,382
Agency RMBS	—	2,659,908	—	2,659,908
CMBS	—	835,788	4,296	840,084
Non-Agency RMBS	—	94,089	1,110	95,199
ABS	—	579,231	63,975	643,206
Municipals	—	1,285,809	—	1,285,809
	<u>1,094,220</u>	<u>10,762,898</u>	<u>70,931</u>	<u>11,928,049</u>
Equity securities				
Common stocks	443,398	—	—	443,398
Exchange-traded funds	119,161	—	—	119,161
Non-U.S. bond mutual funds	—	103,989	—	103,989
	<u>562,559</u>	<u>103,989</u>	<u>—</u>	<u>666,548</u>
Other investments				
Hedge funds	—	421,006	359,996	781,002
Direct lending funds	—	—	—	—
CLO-Equities	—	—	62,435	62,435
	<u>—</u>	<u>421,006</u>	<u>422,431</u>	<u>843,437</u>
Short-term investments	—	108,860	—	108,860
Derivative instruments (see Note 7)	—	5,838	—	5,838
<b>Total Assets</b>	<u>\$ 1,656,779</u>	<u>\$ 11,402,591</u>	<u>\$ 493,362</u>	<u>\$ 13,552,732</u>
<b>Liabilities</b>				
Derivative instruments (see Note 7)	\$ —	\$ 3,737	\$ —	\$ 3,737
Cash settled awards (see Note 16)	—	—	—	—
<b>Total Liabilities</b>	<u>\$ —</u>	<u>\$ 3,737</u>	<u>\$ —</u>	<u>\$ 3,737</u>

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**6. FAIR VALUE MEASUREMENTS (CONTINUED)**

During 2013 and 2012, we had no transfers between Levels 1 and 2.

**Level 3 Fair Value Measurements**

Except for hedge funds, direct lending funds and our CLO fund priced using NAV as a practical expedient and certain fixed maturities priced using broker-dealer quotes (underlying inputs are not available), the following table quantifies the significant unobservable inputs we have used in estimating fair value at December 31, 2013 for our investments classified as Level 3 in the fair value hierarchy. These significant unobservable inputs have not changed significantly from December 31, 2012. Where appropriate, this table has been reconciled back to the asset class' total Level 3 holdings.

	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
ABS - CLO Debt	\$ 29,944	Discounted cash flow	Credit spreads	3.3% - 4.6%	3.7%
			Illiquidity discount <sup>(1)</sup>	5%	5%
	855	Broker-dealer quote	n/a	n/a	n/a
	\$ 30,799				
Other investments - CLO Equities	\$ 39,706	Discounted cash flow	Default rates	4.0% - 5.0%	4.4%
			Loss severity rate	53.5%	53.5%
			Collateral spreads	2.6% - 3.4%	3.3%
			Estimated maturity dates	2.1 - 4.6 years	4.2 years
	34,160	Net asset value	n/a	n/a	n/a
	\$ 73,866				
Derivatives - Weather derivatives, net	\$ 169	Simulation model	Weather curve	525 - 4,750 <sup>(2)</sup>	n/a <sup>(3)</sup>
			Weather standard deviation	94 - 290 <sup>(2)</sup>	n/a <sup>(3)</sup>

(1) Judgmentally determined based on limited trades of similar securities observed in the secondary markets.

(2) Measured in Heating Degree Days ("HDD") which is the number of degrees the daily temperature is below a reference temperature. The cumulative HDD for the duration of the derivatives contract is compared to the strike value to determine the necessary settlement.

(3) Due to the diversity of the portfolio, the range of unobservable inputs is widespread; therefore, presentation of a weighted average is not useful. Weather parameters may include various temperature and/or precipitation measures that will naturally vary by geographic location of each counterparty's operations.

Our CLO Debt represent holdings of investment-grade debt tranches within collateralized loan obligations with underlying collateral of loans originated primarily by U.S. corporations. The CLO Debt in the table represent securities where broker-dealer quotes are unavailable so we estimate fair value through the use of a discounted cash flow model (income approach). This model estimates fair values by discounting the estimated cash flows based on current credit spreads for similar securities, derived from observable offer prices. As these securities are thinly traded in the secondary market, we apply an illiquidity discount to these discounted cash flows in developing our estimate of fair value. Significant increases (decreases) in either of the significant unobservable inputs (credit spread, illiquidity discount) in isolation would result in lower (higher) fair value estimates for our CLO Debt. The interrelationship between these inputs is insignificant. These inputs are updated on a quarterly basis and the reasonableness of the resulting prices is assessed through a comparison to observable offer prices for similar securities.

The CLO - Equities market continues to be mostly inactive with only a small number of transactions being observed in the market and fewer still involving transactions in our CLO - Equities. Accordingly, we continue to rely on the use of our internal discounted cash flow model (income approach) to estimate fair value of our direct investments in CLO - Equities. Of the significant inputs into this model, the default and loss severity rates are the most judgmental unobservable market inputs

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**6. FAIR VALUE MEASUREMENTS (CONTINUED)**

to which the valuation of CLO - Equities is most sensitive. A significant increase (decrease) in either of these significant inputs in isolation would result in lower (higher) fair value estimates for direct investments in our CLO - Equities and, in general, a change in default rate assumptions will be accompanied by a directionally similar change in loss severity rate assumptions. Collateral spreads and estimated maturity dates are less judgmental inputs as they are based on the historical average of actual spreads and the weighted average life of the current underlying portfolios, respectively. A significant increase (decrease) in either of these significant inputs in isolation would result in higher (lower) fair value estimates for direct investments in our CLO - Equities. In general, these inputs have no significant interrelationship with each other or with default and loss severity rates.

On a quarterly basis, our valuation processes for both CLO Debt and CLO - Equities include a review of the underlying cash flows and key assumptions used in the discounted cash flow models. We review and update the above significant unobservable inputs based on information obtained from secondary markets, including from the managers of the CLOs we hold. These inputs are the responsibility of management and, in order to ensure fair value measurement is applied consistently and in accordance with U.S. GAAP, we update our assumptions through regular communication with industry participants and ongoing monitoring of the deals in which we participate (e.g. default and loss severity rate trends), we maintain a current understanding of the market conditions, historical results, as well as emerging trends that may impact future cash flows. By maintaining this current understanding, we are able to assess the reasonableness of the inputs we ultimately use in our models.

Weather derivatives relate to non-exchange traded risk management products addressing weather risks. We use observable market inputs and unobservable inputs in combination with industry or internally-developed simulation models to determine fair value; these models may reference market price information for similar instruments. The pricing models are internally reviewed by Risk Management personnel prior to implementation and are reviewed periodically thereafter.

Observable and unobservable inputs to these models vary by contract type and would typically include the following:

- Observable inputs: market prices for similar instruments, notional, option strike, term to expiry, contractual limits;
- Unobservable inputs: correlation; and
- Both observable and unobservable inputs: weather curves, weather standard deviation.

In general, weather curves are the most significant contributing input to fair value determination; changes in this variable can result in higher or lower fair value depending on the underlying position. In addition, changes in any or all of the unobservable inputs identified above may contribute positively or negatively to overall portfolio value. The correlation input will quantify the interrelationship, if any, amongst the other variables.

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**6. FAIR VALUE MEASUREMENTS (CONTINUED)**

The following tables present changes in Level 3 for financial instruments measured at fair value on a recurring basis for the periods indicated:

	Opening Balance	Transfers into Level 3	Transfers out of Level 3	Included in earnings <sup>(1)</sup>	Included in OCI <sup>(2)</sup>	Purchases	Sales	Settlements/ Distributions	Closing Balance	Change in unrealized investment gain/loss <sup>(3)</sup>
<b>Year ended December 31, 2013</b>										
<b>Fixed maturities</b>										
Corporate debt	\$ 1,550	\$ —	\$ —	\$ 1,550	\$ —	\$ —	\$ —	\$ (3,100)	\$ —	\$ —
Non-Agency RMBS	1,110	—	(1,222)	—	135	—	—	(23)	—	—
CMBS	4,296	—	—	—	(278)	—	—	—	4,018	—
ABS	63,975	—	—	(111)	1,794	—	—	(34,859)	30,799	—
	<u>70,931</u>	<u>—</u>	<u>(1,222)</u>	<u>1,439</u>	<u>1,651</u>	<u>—</u>	<u>—</u>	<u>(37,982)</u>	<u>34,817</u>	<u>—</u>
<b>Other investments</b>										
Hedge funds	359,996	—	—	58,293	—	86,138	—	(43,372)	461,055	58,293
Direct lending funds	—	—	—	(125)	—	22,317	—	(58)	22,134	(125)
CLO-Equities	62,435	—	—	27,898	—	34,016	—	(50,483)	73,866	27,898
	<u>422,431</u>	<u>—</u>	<u>—</u>	<u>86,066</u>	<u>—</u>	<u>142,471</u>	<u>—</u>	<u>(93,913)</u>	<u>557,055</u>	<u>86,066</u>
<b>Other assets</b>										
Derivative instruments	—	—	—	2,084	—	(1,100)	—	—	984	2,084
	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,084</u>	<u>—</u>	<u>(1,100)</u>	<u>—</u>	<u>—</u>	<u>984</u>	<u>2,084</u>
<b>Total assets</b>	<u>\$ 493,362</u>	<u>\$ —</u>	<u>\$ (1,222)</u>	<u>\$ 89,589</u>	<u>\$ 1,651</u>	<u>\$ 141,371</u>	<u>\$ —</u>	<u>\$ (131,895)</u>	<u>\$ 592,856</u>	<u>\$ 88,150</u>
<b>Other liabilities</b>										
Derivative instruments	—	—	—	98	—	717	—	—	815	98
<b>Total liabilities</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 98</u>	<u>\$ —</u>	<u>\$ 717</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 815</u>	<u>\$ 98</u>
<b>Year ended December 31, 2012</b>										
<b>Fixed maturities</b>										
Corporate debt	\$ 1,550	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,550	\$ —
Non-Agency RMBS	—	1,110	—	—	—	—	—	—	1,110	—
CMBS	—	4,296	—	—	—	—	—	—	4,296	—
ABS	49,328	10,539	—	—	5,112	—	—	(1,004)	63,975	—
	<u>50,878</u>	<u>15,945</u>	<u>—</u>	<u>—</u>	<u>5,112</u>	<u>—</u>	<u>—</u>	<u>(1,004)</u>	<u>70,931</u>	<u>—</u>
<b>Other investments</b>										
Hedge funds	346,244	—	(9,435)	33,301	—	—	(2,835)	(7,279)	359,996	33,301
Direct lending funds	—	—	—	—	—	—	—	—	—	—
CLO-Equities	66,560	—	—	31,108	—	—	—	(35,233)	62,435	31,108
	<u>412,804</u>	<u>—</u>	<u>(9,435)</u>	<u>64,409</u>	<u>—</u>	<u>—</u>	<u>(2,835)</u>	<u>(42,512)</u>	<u>422,431</u>	<u>64,409</u>
<b>Other assets</b>										
Derivative instruments	—	—	—	—	—	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total assets</b>	<u>\$ 463,682</u>	<u>\$ 15,945</u>	<u>\$ (9,435)</u>	<u>\$ 64,409</u>	<u>\$ 5,112</u>	<u>\$ —</u>	<u>\$ (2,835)</u>	<u>\$ (43,516)</u>	<u>\$ 493,362</u>	<u>\$ 64,409</u>
<b>Other liabilities</b>										
Derivative instruments	—	—	—	—	—	—	—	—	—	—
<b>Total liabilities</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(1) Gains and losses included in earnings on fixed maturities are included in net realized investment gains (losses). Gains and (losses) included in earnings on other investments are included in net investment income. Gains (losses) on weather derivatives included in earnings are included in other insurance-related income.

(2) Gains and losses included in other comprehensive income ("OCI") on fixed maturities are included in unrealized gains (losses) arising during the period.

(3) Change in unrealized investment gain/(loss) relating to assets held at the reporting date.

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**6. FAIR VALUE MEASUREMENTS (CONTINUED)**

The transfers into and out of fair value hierarchy levels reflect the fair value of the securities at the end of the reporting period.

Transfers into Level 3 from Level 2

The transfers to Level 3 from Level 2 made during 2012 were primarily due to the lack of observable market inputs and multiple quotes from pricing vendors and broker-dealers for certain fixed maturities. No such transfers were made during 2013.

Transfers out of Level 3 into Level 2

The transfers from Level 3 to Level 2 made during 2013 were primarily due to the availability of observable market inputs and multiple quotes from pricing vendors and broker-dealers. The transfer from Level 3 to Level 2 in 2012 related to certain hedge funds where we had the ability to liquidate holdings at the reported NAV in the near term due to the expiry of lockup provisions.

**Financial Instruments Not Carried at Fair Value**

U.S. GAAP guidance over disclosures about the fair value of financial instruments are also applicable to financial instruments not carried at fair value, except for certain financial instruments, including insurance contracts.

The carrying values of cash equivalents (including restricted amounts), accrued investment income, receivable for investments sold, certain other assets, payable for investments purchased and certain other liabilities approximated their fair values at December 31, 2013, due to their respective short maturities. As these financial instruments are not actively traded, their respective fair values are classified within Level 2.

At December 31, 2013, our senior notes are recorded at amortized cost with a carrying value of \$996 million (2012: \$995 million) and have a fair value of \$1,073 million (2012: \$1,091 million). The fair values of these securities were obtained from a third party pricing service and pricing was based on the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As these spreads and the yields for the risk-free yield curve are observable market inputs, the fair values of our senior notes are classified within Level 2.

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**7. DERIVATIVE INSTRUMENTS**

The following table summarizes the balance sheet classification of derivatives recorded at fair value. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated and is presented in the table to quantify the volume of our derivative activities. Notional amounts are not reflective of credit risk.

	At December 31, 2013			At December 31, 2012		
	Derivative Notional Amount	Asset Derivative Fair Value <sup>(1)</sup>	Liability Derivative Fair Value <sup>(1)</sup>	Derivative Notional Amount	Asset Derivative Fair Value <sup>(1)</sup>	Liability Derivative Fair Value <sup>(1)</sup>
<b>Derivatives not designated as hedging instruments</b>						
<i>Relating to investment portfolio:</i>						
Foreign exchange forward contracts	\$ 254,023	1,214	1,032	\$ 287,819	1,067	2,733
Interest rate swaps	281,250	873	—	—	—	—
<i>Relating to underwriting portfolio:</i>						
Foreign exchange forward contracts	390,663	4,737	120	476,191	4,771	1,004
Weather-related contracts	24,451	984	815	—	—	—
<b>Total derivatives</b>		<b>\$ 7,808</b>	<b>\$ 1,967</b>		<b>\$ 5,838</b>	<b>\$ 3,737</b>

(1) Asset and liability derivatives are classified within other assets and other liabilities on the Consolidated Balance Sheets.

**Offsetting Assets and Liabilities**

Our derivative instruments are generally traded under International Swaps and Derivatives Association master netting agreements, which establish terms that apply to all transactions. In the event of a bankruptcy or other stipulated event, master netting agreements provide that individual positions be replaced with a new amount, usually referred to as the termination amount, determined by taking into account market prices and converting into a single currency. Effectively, this contractual close-out netting reduces credit exposure from gross to net exposure. The table below presents a reconciliation of our gross derivative assets and liabilities to the net amounts presented in our Consolidated Balance Sheets, with the difference being attributable to the impact of master netting agreements.

	December 31, 2013			December 31, 2012		
	Gross Amounts	Gross Amounts Offset	Net Amounts <sup>(1)</sup>	Gross Amounts	Gross Amounts Offset	Net Amounts <sup>(1)</sup>
Derivative assets	\$ 9,796	\$ (1,988)	\$ 7,808	\$ 6,476	\$ (639)	\$ 5,838
Derivative liabilities	3,955	(1,988)	1,967	4,376	(639)	3,737

(1) Net asset and liability derivatives are classified within other assets and other liabilities on the Consolidated Balance Sheets.

Refer to *Note 5 - Investments* for information on reverse repurchase agreements.

**Fair Value Hedges**

During 2012, we sold all available for sale fixed maturities in the portfolios that qualified for hedge accounting and settled all of the associated foreign exchange forward contracts. The hedges were designated and qualified as fair value hedges, resulting in the net impact of the hedges recognized in net realized investment gains (losses).

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**7. DERIVATIVE INSTRUMENTS (CONTINUED)**

The following table provides the total impact on earnings of applying hedge accounting for foreign exchange contracts designated as fair value hedges along with the impact of the related hedged investment portfolio for the periods indicated:

Year ended December 31,	2013	2012	2011
Foreign exchange forward contracts	\$ —	\$ 10,853	\$ 11,682
Hedged investment portfolio	—	(3,099)	(16,085)
<b>Hedge ineffectiveness recognized in earnings</b>	<b>\$ —</b>	<b>\$ 7,754</b>	<b>\$ (4,403)</b>

**Derivative Instruments not Designated as Hedging Instruments**

*a) Relating to Investment Portfolio*

Foreign Currency Risk

Within our investment portfolio we are exposed to foreign currency risk. Accordingly, the fair values for our investment portfolio are partially influenced by the change in foreign exchange rates. We may enter into foreign currency forward contracts to manage the effect of this foreign currency risk. These foreign currency hedging activities are not designated as specific hedges for financial reporting purposes.

In addition, our external equity investment managers have the discretion to hold foreign currency exposures as part of their total return strategy.

Interest Rate Risk

Our investment portfolio contains a large percentage of fixed maturities which exposes us to significant interest rate risk. As part of our overall management of this risk, we may use interest rate swaps. The interest rate swaps held at December 31, 2013 convert part of our overall fixed rate exposure to a variable rate exposure which effectively reduces the duration of our overall portfolio.

*b) Relating to Underwriting Portfolio*

Foreign Currency Risk

Our (re)insurance subsidiaries and branches operate in various foreign countries. Consequently, some of our business is written in currencies other than the U.S. dollar and, therefore, our underwriting portfolio is exposed to significant foreign currency risk. We manage foreign currency risk by seeking to match our foreign-denominated net liabilities under (re) insurance contracts with cash and investments that are denominated in such currencies. We may also use derivative instruments, specifically forward contracts and currency options, to economically hedge foreign currency exposures.

Weather Risk

During 2013, we began to write derivative-based risk management products designed to address weather risks with the objective of generating profits on a portfolio basis. The majority of this business consists of receiving a payment at contract inception in exchange for bearing the risk of variations in a quantifiable weather-related phenomenon, such as temperature. Where a client wishes to minimize the upfront payment, these transactions may be structured as swaps or collars. In general, our portfolio of such derivative contracts is of short duration, with contracts being predominantly seasonal in nature. In order to economically hedge a portion of this portfolio, we may also purchase weather derivatives.

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**7. DERIVATIVE INSTRUMENTS (CONTINUED)**

The total unrealized and realized gains (losses) recognized in earnings for derivatives not designated as hedges were as follows:

		Amount of Gain (Loss) Recognized in Income on Derivative		
		2013	2012	2011
<b>Derivatives not designated as hedging instruments</b>				
<i>Relating to investment portfolio:</i>				
Foreign exchange forward contracts	Net realized investment gains	\$ 10,843	\$ (9,170)	\$ 4,431
Interest rate swaps	Net realized investment gains	(3,112)	—	—
<i>Relating to underwriting portfolio:</i>				
Foreign exchange forward contracts	Foreign exchange gains (losses)	1,690	26,612	33,893
Currency collar options	Foreign exchange gains (losses)	—	—	267
Weather-related contracts	Other insurance related income	1,987	—	—
<b>Total</b>		<b>\$ 11,408</b>	<b>\$ 17,442</b>	<b>\$ 38,591</b>

**8. RESERVE FOR LOSSES AND LOSS EXPENSES**

Our reserve for losses and loss expenses comprise the following:

As of December 31,	2013	2012
Reserve for reported losses and loss expenses	\$ 3,499,817	\$ 3,272,682
Reserve for losses incurred but not reported	6,082,323	5,786,049
<b>Reserve for losses and loss expenses</b>	<b>\$ 9,582,140</b>	<b>\$ 9,058,731</b>



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**8. RESERVE FOR LOSSES AND LOSS EXPENSES (CONTINUED)**

The following table presents a reconciliation of our beginning and ending gross reserve for losses and loss expenses and net reserve for unpaid losses and loss expenses for the periods indicated:

Year ended December 31,	2013	2012	2011
Gross reserve for losses and loss expenses, beginning of period	\$ 9,058,731	\$ 8,425,045	\$ 7,032,375
Less reinsurance recoverable on unpaid losses, beginning of period	(1,825,617)	(1,736,823)	(1,540,633)
Net reserve for unpaid losses and loss expenses, beginning of period	<u>7,233,114</u>	<u>6,688,222</u>	<u>5,491,742</u>
Net incurred losses and loss expenses related to:			
Current year	2,353,631	2,340,868	2,932,513
Prior years	(219,436)	(244,840)	(257,461)
	<u>2,134,195</u>	<u>2,096,028</u>	<u>2,675,052</u>
Net paid losses and loss expenses related to:			
Current year	(318,006)	(322,836)	(509,075)
Prior years	(1,373,459)	(1,299,384)	(953,035)
	<u>(1,691,465)</u>	<u>(1,622,220)</u>	<u>(1,462,110)</u>
Foreign exchange and other	<u>6,184</u>	71,084	(16,462)
Net reserve for unpaid losses and loss expenses, end of period	7,682,028	7,233,114	6,688,222
Reinsurance recoverable on unpaid losses, end of period	1,900,112	1,825,617	1,736,823
<b>Gross reserve for losses and loss expenses, end of period</b>	<u>\$ 9,582,140</u>	<u>\$ 9,058,731</u>	<u>\$ 8,425,045</u>

We write business with loss experience generally characterized as low frequency and high severity in nature, which can result in volatility in our financial results. During 2013, 2012 and 2011, respectively, we recognized aggregate net losses and loss expenses of \$201 million, \$438 million and \$944 million in relation to natural catastrophe and weather-related events.

Prior year reserve development arises from changes to loss and loss expense estimates related to loss events that occurred in previous calendar years. Such development is summarized by segment in the following table:

	Insurance	Reinsurance	Total
<b>Year ended December 31, 2013</b>	<b>\$ 50,355</b>	<b>\$ 169,081</b>	<b>\$ 219,436</b>
Year ended December 31, 2012	122,209	122,631	244,840
Year ended December 31, 2011	103,014	154,447	257,461

Overall, the majority of the net favorable prior year reserve development related to short-tail lines of business. Net favorable prior year reserve development for liability reinsurance also contributed significantly in 2013 with professional lines contributing notably in 2012 and 2011. Favorable development in 2013 was partially offset by adverse development in the insurance professional lines.

The underlying exposures in our property, marine and aviation reserving classes within our insurance segment and the property reserving class within our reinsurance segment largely relate to short-tail business. Development from these classes contributed \$162 million, \$186 million and \$178 million of the total net favorable prior year reserve development in 2013, 2012 and 2011, respectively, and primarily reflected the recognition of better than expected loss emergence.

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**8. RESERVE FOR LOSSES AND LOSS EXPENSES (CONTINUED)**

In the first quarter of 2013, we began to give weight to actuarial methods that reflect our actual experience for liability reinsurance business, as we believe that our older accident years are now at a stage of expected development where such methods will produce meaningful actuarial indications. During 2013, we recognized \$85 million of net favorable prior year development, primarily reflecting the greater weight management is giving to experience based indications and our experience which has been favorable for the 2004 through 2008 accident years.

Our professional lines business recognized \$29 million of net adverse development in 2013. This increase in the reserves was due to a \$51 million adverse development in the insurance segment, reflecting worse than expected loss experience for the 2011-2012 accident years, due to worse than expected loss experience on certain parts of our U.S. D&O business, and the 2008-2009 accident years, due to developments on certain global financial crisis-related claims. Comparably in 2012 and 2011 professional lines contributed net favorable prior year reserve developments of \$54 million and \$105 million, respectively. The 2012 and 2011 favorable prior year reserve developments were driven by increased weight being given to experience-based actuarial methods in selecting our ultimate loss estimates for accident years 2009 and prior. During 2013, the transition to the experience-based actuarial methods also had a favorable impact on 2009 and prior years, which partially offset the adverse development discussed above.

The frequency and severity of natural catastrophe and weather activity was high in recent years and our December 31, 2013 net reserve for losses and loss expenses continues to include estimated amounts for numerous events. We caution that the magnitude and/or complexity of losses arising from certain of these events, in particular Storm Sandy, the Japanese earthquake and tsunami and the three New Zealand earthquakes, inherently increase the level of uncertainty and, therefore, the level of management judgment involved in arriving at our estimated net reserves for losses and loss expenses. As a result, our actual losses for these events may ultimately differ materially from our current estimates.

**9. REINSURANCE**

We purchase treaty and facultative reinsurance to reduce exposure to significant losses. Facultative reinsurance provides coverage for all or a portion of the losses incurred for a single policy and we separately negotiate each facultative contract. Treaty reinsurance provides coverage for a specified type or category of risks. Our treaty reinsurance agreements provide this coverage on either an excess of loss or a proportional basis. Excess of loss covers provide a contractually set amount of coverage after a specified loss amount has been reached. These covers can be purchased on a package policy basis, which provide us with coverage for a number of lines of business within one contract. In contrast, proportional covers provide us with a specified percentage of coverage from the first dollar of loss.

All of these reinsurance covers provide us the right to recover of a portion of specified losses and loss expenses from reinsurers. However, to the extent that our reinsurers do not meet their obligations under these agreements due to solvency issues, contractual disputes or other reasons, we remain liable. We predominantly cede our business to reinsurers rated A- or better by A.M. Best.

Gross and net premiums written and earned were as follows:

Year ended December 31,	2013		2012		2011	
	Premiums written	Premiums earned	Premiums written	Premiums earned	Premiums written	Premiums earned
Gross	\$ 4,697,041	\$ 4,459,269	\$ 4,139,643	\$ 4,141,037	\$ 4,096,153	\$ 3,973,956
Ceded	(768,841)	(752,204)	(802,187)	(725,574)	(676,719)	(658,995)
<b>Net</b>	<b>\$ 3,928,200</b>	<b>\$ 3,707,065</b>	<b>\$ 3,337,456</b>	<b>\$ 3,415,463</b>	<b>\$ 3,419,434</b>	<b>\$ 3,314,961</b>

During the year ended December 31, 2013, we recognized ceded losses and loss expenses of \$415 million (2012: \$396 million; 2011: \$450 million).

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**9. REINSURANCE (CONTINUED)**

Our provision for unrecoverable reinsurance was \$18 million at December 31, 2013 (2012: \$16 million). At December 31, 2013, 98.8% (2012: 98.8%) of our gross reinsurance recoverables were collectible from reinsurers rated A- or better by A.M. Best.

**10. DEBT AND FINANCING ARRANGEMENTS**

**a) Senior Notes**

On November 15, 2004, AXIS Capital issued \$500 million aggregate principal amount of 5.75% senior unsecured debt (the "5.75% Senior Notes") at an issue price of 99.785%, generating net proceeds of \$496 million. Interest on the 5.75% Senior Notes is payable semi-annually in arrears on June 1 and December 1 of each year, beginning on June 1, 2005. Unless previously redeemed, the 5.75% Senior Notes will mature on December 1, 2014.

On March 23, 2010, AXIS Specialty Finance LLC ("AXIS Specialty Finance"), a 100% owned finance subsidiary, issued \$500 million aggregate principal amount of 5.875% senior unsecured debt (the "5.875% Senior Notes" and, together with the 5.75% Senior Notes, the "Senior Notes") at an issue price of 99.624%. The net proceeds of the issuance, after consideration of the offering discount and underwriting expenses and commissions, totaled approximately \$495 million. Interest on the 5.875% Senior Notes is payable semi-annually in arrears on June 1 and December 1 of each year, beginning on June 1, 2010. Unless previously redeemed, the 5.875% Senior Notes will mature on June 1, 2020. The 5.875% Senior Notes are ranked as unsecured senior obligations of AXIS Specialty Finance. AXIS Capital has fully and unconditionally guaranteed all obligations of AXIS Specialty Finance under the 5.875% Senior Notes. AXIS Capital's obligations under this guarantee are unsecured and senior and rank equally with all other senior obligations of AXIS Capital.

We have the option to redeem the Senior Notes at any time and from time to time, in whole or in part, at a "make-whole" redemption price, which is equal to the greater of the aggregate principal amount or the sum of the present values of the remaining scheduled payments of principal and interest. The related indentures contain various covenants, including limitations on liens on the stock of restricted subsidiaries, restrictions as to the disposition of the stock of restricted subsidiaries and limitations on mergers and consolidations. We were in compliance with all the covenants contained in the indentures at December 31, 2013.

Interest expense recognized in relation to our Senior Notes includes interest payable, amortization of the offering discounts and amortization of debt offering expenses. The offering discounts and debt offering expenses are amortized over the period of time during which the Senior Notes are outstanding. During 2013, we incurred interest expense of \$59 million (2012: \$59 million, 2011: \$59 million).

**b) Credit Facilities**

On March 26, 2013, in advance of the scheduled August expiration, we terminated and replaced our previously existing credit facility. AXIS Capital and certain subsidiaries are now party to a \$250 million credit facility (the "Credit Facility"), which was issued by a syndication of lenders pursuant to a Credit Agreement and other ancillary documents (together, the "Facility Documents") and will expire in March 2017. At the request of the Company and subject to the satisfaction of certain conditions, the aggregate commitment available under the Credit Facility may be increased by up to \$150 million. Under the terms of the Credit Facility, loans are available for general corporate purposes and letters of credit may be issued in the ordinary course of business, with total usage not to exceed the aggregate commitment available. Interest on loans issued under the Credit Facility is payable based on underlying market rates at the time of loan issuance. While loans under the Credit Facility are unsecured, we have the option to issue letters of credit on a secured basis in order to reduce associated fees. Letters of credit issued under the Credit Facility would principally be used to support the (re)insurance obligations of our operating subsidiaries. Each of AXIS Capital, AXIS Specialty Finance and AXIS Specialty Holdings Bermuda Limited guarantees the obligations of the other parties to the Credit Facility. The Credit Facility is subject to certain non-financial covenants, including limitations on fundamental changes, the incurrence of additional indebtedness and liens and certain transactions with affiliates and investments, as defined in the Facility Documents. The Credit Facility also requires

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**10. DEBT AND FINANCING ARRANGEMENTS (CONTINUED)**

compliance with certain financial covenants, including a maximum debt to capital ratio and a minimum consolidated net worth requirement. In addition, each of AXIS Capital's material (re)insurance subsidiaries party to the Credit Facility must maintain a minimum A.M. Best Company, Inc. financial strength rating. In the event of default, including a breach of these covenants, the lenders may exercise certain remedies including the termination of the Credit Facility, the declaration of all principal and interest amounts related to Credit Facility loans to be immediately due and the requirement that all outstanding letters of credit be collateralized.

On September 18, 2013, we entered into an amendment to the Credit Facility in order to permit AXIS Capital and its subsidiaries to enter into swap contracts and other arrangements related to weather derivative transactions. All other material terms and conditions remained unchanged.

On November 6, 2013, AXIS Capital's subsidiary, AXIS Specialty Limited, entered into a \$170 million secured letter of credit facility (the "Lloyd's LOC Facility") with ING Bank N.V., London Branch ("ING") pursuant to a Letter of Credit Facility Agreement and Security Agreement (collectively, the "Lloyd's Facility Documents"). The Lloyd's LOC Facility is fully utilized and meets the Funds at Lloyd's requirements for the Company's subsidiary, AXIS Corporate Capital UK Limited to support the underwriting capacity of the Company's Lloyd's syndicate, AXIS Syndicate 1686, for the 2014 underwriting year of account. The Letter of Credit issued under the Lloyd's LOC Facility will expire no later than July 31, 2018. The Lloyd's Facility Documents contain customary covenants with which the Company must comply, including a requirement to maintain sufficient collateral to fully secure any issued Letter of Credit. In case of an event of default under the Lloyd's Facility Documents, ING may exercise certain remedies, including the exercise of sole and exclusive control over pledged collateral.

On November 20, 2013, certain of AXIS Capital's operating subsidiaries entered into an amendment to extend the term of the Company's secured \$750 million letter of credit facility (the "LOC Facility") with Citibank Europe plc ("Citibank") pursuant to a Master Reimbursement Agreement and other ancillary documents (together, the "LOC Facility Documents"). The LOC Facility may be terminated by Citibank on December 31, 2016 upon thirty days prior notice. Under the terms of the LOC Facility, letters of credit to a maximum aggregate amount of \$750 million are available for issuance on behalf of the operating subsidiaries. These letters of credit will principally be used to support the reinsurance obligations of the operating subsidiaries. The LOC Facility is subject to certain covenants, including the requirement to maintain sufficient collateral, as defined in the LOC Facility Documents, to cover all of the obligations under the LOC Facility. Such obligations include contingent reimbursement obligations for outstanding letters of credit and fees payable to Citibank. In the event of default, Citibank may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the LOC Facility to any or all of the operating subsidiaries party to the LOC Facility Documents.

At December 31, 2013, we had \$501 million, \$170 million and nil letters of credit outstanding under the LOC Facility, Lloyd's LOC Facility and the Credit Facility, respectively. There was no debt outstanding under the Credit Facility. We were in compliance with all LOC Facility, Lloyd's LOC Facility and Credit Facility covenants at December 31, 2013.

**11. COMMITMENTS AND CONTINGENCIES**

**a) Concentrations of Credit Risk**

***Credit Risk Aggregation***

We monitor and control the aggregation of credit risk on a consolidated basis by assigning limits on the maximum credit exposure we are willing to assume by single obligors and groups, industry sector, country, region or other inter-dependencies. Our credit exposures are aggregated based on the origin of risk. Limits are based and adjusted on a variety of factors, including the prevailing economic environment and the nature of the underlying credit exposures. Our credit aggregation measurement and reporting process is facilitated by an exposure database, which contains relevant information on counterparties and credit risk; we also license third party databases to provide credit risk assessments.

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**11. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

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

The assets that potentially subject us to concentrations of credit risk consist principally of cash and investments, reinsurance recoverable and (re)insurance premiums receivable balances, as described below:

***Cash and Investments***

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

Our investment portfolio is managed by external investment managers in accordance with our investment guidelines. We limit credit risk through diversification, issuer exposure limitation graded by ratings and, with respect to custodians, through contractual and other legal remedies. Excluding U.S. government and agency securities, we limit our concentration of credit risk to any single corporate issuer to 2% or less of our fixed maturities portfolio for securities rated A- or above and 1% or less of our fixed maturities portfolio for securities rated below A-. At December 31, 2013, we were in compliance with these limits.

***Reinsurance Recoverable Balances***

With respect to our reinsurance recoverable balances, we are exposed to the risk of a reinsurer failing to meet its obligations under coverage we have purchased. To mitigate this risk, all reinsurance coverage we purchase is subject to requirements established by our Reinsurance Security Committee. This Committee maintains a list of approved reinsurers, performs credit risk assessments for potential new reinsurers, regularly monitors approved reinsurers with consideration for events which may have a material impact on their creditworthiness, recommends counterparty tolerance levels for different types of ceded business and monitors concentrations of credit risk. The assessment of each reinsurer considers a range of attributes, including a review of financial strength, industry position and other qualitative factors. Generally, the Committee requires that reinsurers who do not meet specified requirements provide collateral.

The three largest balances by reinsurer accounted for 14%, 11% and 11% of total reinsurance recoverable on unpaid and paid losses at December 31, 2013 (2012: 13%, 10% and 10%). Amounts related to our reinsurers with the ten largest balances comprised 77% of December 31, 2013 balance (2012: 72%) and had a weighted average A.M. Best rating of A+ (2012: A+).

***Premiums Receivable Balances***

The diversity of our client base limits the credit risk associated with our premiums receivable. In addition, for insurance contracts we have contractual rights to cancel coverage for non-payment of premiums and for reinsurance contracts we have contractual rights to offset premiums receivable with corresponding payments for losses and loss expenses.

Brokers and other intermediaries collect premiums from customers to be paid to us. We have policies and standards in place to manage and monitor credit risk from intermediaries with a focus on day-to-day monitoring of the largest positions.

These contractual rights contribute to the mitigation of credit risk, as does our monitoring of aged receivable balances. In light of these mitigating factors, and considering that a significant portion of our premiums receivable are not currently due based on the terms of the underlying contracts, we do not utilize specific credit quality indicators to monitor our premiums receivable balance. At December 31, 2013, we recorded an allowance for estimated uncollectible premiums receivable of \$3 million (2012: \$2 million). The corresponding bad debts expense charges for 2013, 2012 and 2011 were insignificant.

**b) Brokers**

We produce our business through brokers and direct relationships with insurance companies. During 2013, three brokers accounted for 61% (2012: 61%; 2011: 63%) of our total gross premiums written. Aon Corporation accounted for 26% (2012: 27%; 2011: 27%), Marsh, Inc. (including its subsidiary Guy Carpenter and Company) for 23% (2012: 22%; 2011: 23%), and

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**11. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Willis Group Holdings Ltd. for 12% (2012: 12%; 2011: 13%). No other broker and no one insured or reinsured accounted for more than 10% of our gross premiums written in any of the last three years.

**c) Lease Commitments**

We lease office space under operating leases which expire at various dates. We renew and enter into new leases in the ordinary course of business, as required. During 2013, total rent expense with respect to these operating leases was \$29 million (2012: \$29 million; 2011: \$24 million).

Future minimum lease payments under our leases are expected to be as follows:

<b>Year ended December 31,</b>	
2014	\$ 31,207
2015	27,378
2016	23,838
2017	20,881
2018	17,955
Later years	53,049
<b>Total future minimum lease payments</b>	<b>\$ 174,308</b>

**d) Reinsurance Purchase Commitment**

We purchase reinsurance coverage for our insurance lines of business. The minimum reinsurance premiums are contractually due in advance on a quarterly basis. Accordingly at December 31, 2013, we have an outstanding reinsurance purchase commitment of \$80 million. Actual payments under the reinsurance contracts will depend on the underlying subject premium and may exceed the minimum premium.

**e) Legal Proceedings**

From time to time, we are subject to routine legal proceedings, including arbitrations, arising in the ordinary course of business. These legal proceedings generally relate to claims asserted by or against us in the ordinary course of insurance or reinsurance operations; estimated amounts payable under such proceedings are included in the reserve for losses and loss expenses in our Consolidated Balance Sheets.

We are not party to any material legal proceedings arising outside the ordinary course of business.

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**12. EARNINGS PER COMMON SHARE**

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

At and year ended December 31,	2013	2012	2011
<b>Basic earnings per common share</b>			
Net income	\$ 727,465	\$ 547,241	\$ 46,305
Less: preferred share dividends	40,474	38,228	36,875
Less: loss on repurchase of preferred shares	3,081	14,009	—
Net income available to common shareholders	<u>683,910</u>	<u>495,004</u>	<u>9,430</u>
Weighted average common shares outstanding - basic	<u>113,636</u>	<u>122,148</u>	<u>122,499</u>
<b>Basic earnings per common share</b>	<u>\$ 6.02</u>	<u>\$ 4.05</u>	<u>\$ 0.08</u>
<b>Diluted earnings per common share</b>			
Net income available to common shareholders	<u>\$ 683,910</u>	<u>\$ 495,004</u>	<u>\$ 9,430</u>
Weighted average common shares outstanding - basic	113,636	122,148	122,499
Warrants	—	—	4,292
Stock compensation plans	1,692	1,506	1,331
Weighted average common shares outstanding - diluted	<u>115,328</u>	<u>123,654</u>	<u>128,122</u>
<b>Diluted earnings per common share</b>	<u>\$ 5.93</u>	<u>\$ 4.00</u>	<u>\$ 0.07</u>
Anti-dilutive shares excluded from the dilutive computation	<u>250</u>	<u>614</u>	<u>1,134</u>

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**13. SHAREHOLDERS' EQUITY**

**a) Common Shares**

At December 31, 2013, and 2012, our authorized share capital was 800,000,000 common shares, par value of \$0.0125 per share.

The following table presents our common shares issued and outstanding, excluding restricted shares under our stock compensation plans (see Note 16 – Share-based Compensation):

Year ended December 31,	2013	2012	2011
Shares issued, balance at beginning of period	171,867	170,159	154,912
Shares issued	2,267	1,708	15,247
<b>Total shares issued at end of period</b>	<b>174,134</b>	<b>171,867</b>	<b>170,159</b>
Treasury shares, balance at beginning of period	(53,947)	(44,571)	(42,519)
Shares repurchased	(10,830)	(9,376)	(2,052)
Shares reissued from treasury	128	—	—
<b>Total treasury shares at end of period</b>	<b>(64,649)</b>	<b>(53,947)</b>	<b>(44,571)</b>
<b>Total shares outstanding</b>	<b>109,485</b>	<b>117,920</b>	<b>125,588</b>

During 2013, the total cash dividends declared per common share were \$1.02 (2012: \$0.97; 2011: \$0.93).

Warrants

During 2011, our founding shareholders exercised all remaining warrants. These warrants were exercised on a cashless basis pursuant to the terms of the applicable warrant agreements, resulting in a lower number of shares being issued than the number of warrants exercised. Accordingly, we issued 12,893,483 common shares upon the exercise of 19,827,760 warrants. In connection with the warrant exercise, we paid deferred dividends of \$93 million to those warrant holders who chose the deferred cash option for dividends declared.

Treasury shares

On December 9, 2013, our Board of Directors authorized a new share repurchase plan for up to \$750 million of our common shares through December 31, 2015. The new plan is effective January 1, 2014.



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**13. SHAREHOLDERS' EQUITY (CONTINUED)**

The following table presents our common share repurchase activities, which are held in treasury:

Year ended December 31,	2013	2012	2011
<b>In the open market:</b>			
Total shares	7,362	6,057	1,609
Total cost	\$ 337,083	\$ 203,704	\$ 49,974
Average price per share <sup>(2)</sup>	\$ 45.79	\$ 33.63	\$ 31.07
<b>From employees:<sup>(1)</sup></b>			
Total shares	468	319	443
Total cost	\$ 19,080	\$ 10,483	\$ 15,911
Average price per share <sup>(2)</sup>	\$ 40.75	\$ 32.85	\$ 35.92
<b>From founding shareholder:<sup>(3)</sup></b>			
Total shares	3,000	3,000	—
Total cost	\$ 116,100	\$ 103,500	\$ —
Average price per share <sup>(2)</sup>	\$ 38.70	\$ 34.50	\$ —
<b>Total</b>			
Total shares	10,830	9,376	2,052
Total cost	\$ 472,263	\$ 317,687	\$ 65,885
Average price per share <sup>(2)</sup>	\$ 43.61	\$ 33.88	\$ 32.11

(1) To satisfy withholding tax liabilities upon vesting of restricted stock, restricted stock units, and exercise of stock options. Share repurchases from employees are excluded from the authorized share repurchase plans noted above.

(2) Calculated using whole figures.

(3) We privately negotiated with Trident II, L.P. and affiliated entities to repurchase 3,000,000 (2012: 3,000,000; 2011: none) of our common shares.

**b) Preferred Shares**

Series A Preferred Shares

During October 2005, we issued \$250 million of 7.25% Series A preferred shares, par value \$0.0125 per share, with a liquidation preference of \$25.00 per share. In 2012, concurrent with the issuance of our Series C preferred shares (see below), we redeemed 6,000,000 of the 7.25% Series A preferred shares, representing \$150 million in aggregate liquidation preference, without accumulation of any undeclared dividends. In connection with this redemption, we recognized a \$5 million loss on redemption (calculated as the difference between the redemption price and the carrying value), which was recognized as a reduction in determining our net income available to common shareholders.

During June 2013, we redeemed the remaining 4,000,000 Series A preferred shares outstanding, representing an aggregate liquidation preference of \$100 million. In connection with this redemption, we recognized a \$3 million loss.

For 2013, the total dividends declared on Series A preferred shares were \$0.9063 per share. In 2013, dividends of \$1.3594 per share were paid, of which \$0.4531 had been declared in 2012. For 2012 and 2011, the total dividends declared and paid on Series A preferred shares were \$1.8125 per share.

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**13. SHAREHOLDERS' EQUITY (CONTINUED)**

Series B Preferred Shares

During November 2005, we issued \$250 million of 7.50% Series B preferred shares, par value \$0.0125 per share, with a liquidation preference of \$100.00 per share. We may redeem the shares on or after December 1, 2015 at a redemption price of \$100.00 per share. Dividends on the Series B preferred shares if, as and when declared by our board of directors will be payable initially at a fixed rate per annum equal to 7.50% of the liquidation preference on the first day of March, June, September and December of each year, commencing on March 1, 2006, up to but not including December 1, 2015. Commencing on March 1, 2016, the dividend rate on the Series B preferred shares will be payable at a floating rate. During a floating rate period, the floating rate per annum will be reset quarterly at a rate equal to 3.4525% plus the 3 month LIBOR Rate. Dividends on the Series B preferred shares are non-cumulative.

During April 2012, we closed a cash tender offer for any and all of our outstanding 7.50% Series B preferred shares at a purchase price of \$102.81 per share. As a result, we purchased 2,471,570 Series B preferred shares for \$254 million. In connection with this tender offer, we recognized a \$9 million loss on redemption (calculated as the difference between the redemption price and the carrying value), which was recognized as a reduction in determining our net income available to common shareholders. Following the completion of the tender offer, 28,430 Series B preferred shares, representing \$3 million in aggregate liquidation preference, remain outstanding.

For 2013, 2012 and 2011, total dividends declared and paid on Series B preferred shares were \$7.50 per share.

Series C Preferred Shares

During March 2012, we issued \$400 million of 6.875% Series C preferred shares, par value \$0.0125 per share, with a liquidation preference of \$25.00 per share. We may redeem the Series C preferred shares on or after April 15, 2017 at a redemption price of \$25.00 per share. Dividends on the Series C preferred shares are non-cumulative. Consequently, if the board of directors does not authorize and declare a dividend for any period, holders of the Series C preferred shares will not be entitled to receive a dividend for such period, and such undeclared dividend will not accumulate and be payable. Holders of the Series C preferred shares will be entitled to receive, only when, as and if declared by the board of directors, non-cumulative cash dividends from the original issue date, quarterly in arrears on the fifteenth day of January, April, July and October of each year, commencing on July 15, 2012, without accumulation of any undeclared dividends. To the extent declared, these dividends will accumulate, with respect to each dividend period, in an amount per share equal to 6.875% of the liquidation preference per annum.

For 2013 the total dividends declared and paid on Series C preferred shares were \$1.7188 per share. For 2012, the total dividends declared on Series C preferred shares were \$1.4132 per share. Of this amount, \$0.9835 was paid in 2012 and the remaining \$0.4297 was subsequently paid in 2013.

Series D Preferred Shares

During May 2013, we issued \$225 million of 5.50% Series D preferred shares, par value \$0.0125 per share, with a liquidation preference of \$25.00 per share. We may redeem the Series D preferred shares on or after June 1, 2018 at a redemption price of \$25.00 per share. Dividends on the Series D preferred shares are non-cumulative. Consequently, if the Board of Directors does not authorize and declare a dividend for any period, holders of the Series D preferred shares will not be entitled to receive a dividend for such period, and such undeclared dividend will not accumulate and be payable. Holders of the Series D preferred shares will be entitled to receive, only when, as and if declared by the Board of Directors, non-cumulative cash dividends from the original issue date, quarterly in arrears on the first day of March, June, September and December of each year, commencing on September 1, 2013, without accumulation of any undeclared dividends. To the extent declared, these dividends will accumulate, with respect to each dividend period, in an amount per share equal to 5.50% of the liquidation preference per annum.

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**13. SHAREHOLDERS' EQUITY (CONTINUED)**

For 2013, the total dividends declared on Series D preferred shares were \$0.6875 per share. Of this amount, \$0.3438 was paid in 2013 and the remaining \$0.3438 will be subsequently paid in 2014.

The holders of the Series D preferred shares, as well as our previously issued preferred shares, have no voting rights other than the right to elect a specified number of directors if preferred share dividends are not declared and paid for a specified period.

**c) Out of Period Adjustment**

Common share dividends were historically recognized as a reduction of retained earnings when paid. During 2012, we recognized a \$31 million adjustment in our Consolidated Statement of Shareholders' Equity in order to reflect dividends within retained earnings when declared, with a corresponding increase in other liabilities in our Consolidated Balance Sheet. This adjustment did not impact net income or net income available to common shareholders.

We believe that this matter was quantitatively and qualitatively immaterial to our previously issued financial statements and that the recognition of the adjustment in 2012 was similarly immaterial.

**14. NONCONTROLLING INTERESTS**

During November 2013, the Company formed AXIS Ventures Reinsurance Limited (Ventures Re), a Bermuda domiciled insurer. Ventures Re was formed to write reinsurance on a fully collateralized basis.

In conjunction with the formation of Ventures Re, third party investors purchased \$50 million of non-voting redeemable preferred share capital issued by this entity. The preferred shares are redeemable at the sole discretion of Ventures Re's Board of Directors, and are expected to be redeemed on or before July 1, 2016.

Ventures Re is considered to be a variable interest entity. The Company has concluded that it is the primary beneficiary of Ventures Re as it has the power to direct, and has more than an insignificant economic interest in, the activities of this entity. Following this determination, Ventures Re was consolidated by the Company. Shareholders' equity attributable to Ventures Re's third party investors is recorded in the Consolidated Financial Statements as noncontrolling interests.

At December 31, 2013, total assets of Ventures Re were \$50 million, consisting of cash and cash equivalents. The assets of Ventures Re can only be used to settle its own liabilities, and there is no recourse to the Company for any liabilities incurred by this entity.

**15. RETIREMENT PLANS**

We provide defined contribution plans that are self directed to eligible employees through various plans sponsored by us. Generally, mutual funds are made available pursuant to which employees and we contribute a percentage of the employee's gross salary into the plan each month.

For eligible U.S. employees, we provide a non-qualified deferred compensation plan that enables them to make salary contributions in excess of those permitted under the AXIS 401(k) Plan, to make additional employee contributions from their bonus payments, and to receive discretionary employer contributions.

We also provided supplemental executive retirement plans ("SERP") to both the Chairman and the former CEO. We settled all obligations under our SERP during the third quarter of 2012, resulting in the recognition of an insignificant loss.

During 2013, our total pension expenses were \$20 million (2012: \$20 million and 2011: \$20 million) for the above retirement benefits.

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**16. SHARE-BASED COMPENSATION**

In May 2007, our shareholders approved the establishment of the AXIS Capital Holdings Limited 2007 Long-Term Equity Compensation Plan (“2007 Plan”). The 2007 Plan provides for, among other things, the grant of restricted stock, restricted stock units, non-qualified and incentive stock options, and other equity-based awards to our employees and directors. The 2007 Plan authorized the issuance of a total of 5,000,000 shares. In May of 2009 and 2012, our shareholders approved amendments to the 2007 Plan to increase the number of common shares authorized for issuance by 4,000,000 and 6,000,000 respectively, to bring the total number of common shares authorized for issuance to 15,000,000. As a result of the adoption of the 2007 Plan, the 2003 Long-Term Equity Compensation and 2003 Directors Long-Term Equity Compensation Plan were terminated, except that all related outstanding awards will remain in effect.

We currently issue restricted stock and restricted stock units to our employees with service conditions, vesting generally over a period of 4 years with 25% of the award vesting annually. We also grant performance-based stock awards to certain employees in order to promote long-term growth and profitability. Performance-based awards represent the right to receive a specified number of common shares in the future, based upon the achievement of established performance criteria during the applicable performance period. At December 31, 2013, we anticipate that the established performance based criterion for these awards are likely to be achieved.

Grants provided under the 2007 Plan generally allow for accelerated vesting provisions upon the employee’s death, permanent disability, or certain terminations following a change in control of the Company occurring within two years of the change in control event. Notwithstanding these vesting provisions, the Compensation Committee of our Board has broad authority to accelerate vesting at its own discretion.

At December 31, 2013, 6,310,845 equity-based awards remained available for grant under the 2007 Plan. Between January 1, 2014 and February 10, 2014, a total of 1,890,523 restricted stock units and 91,917 performance-based restricted stock units were approved by the board of directors to be granted on March 1, 2014. Included in the total restricted stock awards granted subsequent to December 31, 2013 were 954,329 awards which will be settled in cash upon vesting.

We have granted stock options under the 2003 Plans; however, none have been issued since 2005. All outstanding stock options are fully vested and exercisable. These options expire ten years from the date of grant.

**a) Restricted Stock**

The following table provides a reconciliation of the beginning and ending balance of nonvested restricted stock (including restricted stock units) for the year ended December 31, 2013:

	Performance-based Stock Awards		Service-based Stock Awards	
	Number of Restricted Stock	Weighted Average Grant Date Fair Value	Number of Restricted Stock	Weighted Average Grant Date Fair Value
Nonvested restricted stock - beginning of year	250	\$ 34.42	4,429	\$ 32.48
Granted	33	45.89	975	39.31
Vested	—	—	(1,754)	32.03
Forfeited	—	—	(220)	34.17
<b>Nonvested restricted stock - end of year</b>	<b>283</b>	<b>\$ 35.74</b>	<b>3,430</b>	<b>\$ 34.72</b>

(1) Fair value is based on the closing price of our common shares on the New York Stock Exchange on the day of the grant.

During 2013, we granted 1,007,425 restricted stock awards (2012: 2,447,700; 2011: 1,839,250) to our employees with a weighted average grant-date fair value per share of \$39.52 (2012: \$32.20; 2011: \$36.12).

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**16. SHARE-BASED COMPENSATION (CONTINUED)**

During 2013, we incurred a compensation cost of \$57 million (2012: \$68 million; 2011: \$39 million) in respect of all restricted stock and restricted stock units, and recorded tax benefits thereon of \$10 million (2012: \$8 million; 2011: \$7 million). Compensation costs incurred in 2012 includes \$20 million of accelerated and incremental expenses associated with the transition in our senior leadership. The retirement of one senior leader resulted in the modification of that leader's outstanding restricted stock awards to eliminate the previously existing service condition. The unanticipated termination without cause of another senior officer lead to the early satisfaction of employment obligations and resulted in the service condition associated with that officer's outstanding restricted stock awards being fully satisfied.

**b) Cash-settled Awards**

During 2013, we also granted 847,425 restricted stock units that will settle in cash rather than shares when the awards ultimately vest. At December 31, 2013, the corresponding liability for cash-settled awards, included in other liabilities on the Consolidated Balance Sheets, was \$9 million (2012: \$nil).

The total fair value of restricted stock and cash settled awards vested during 2013 was \$56 million (2012: \$43 million; 2011: \$63 million). At December 31, 2013, we had unrecognized compensation costs of \$98 million (2012: \$89 million) which are expected to be recognized over the weighted average period of 2.4 years (2012: 2.5 years).

**c) Stock options**

The following is a summary of stock options outstanding and exercisable at December 31, 2013 and related activity for the year ended:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value <sup>(1)</sup>
Outstanding and exercisable - beginning of year	919	\$ 28.74		
Granted	—	—		
Exercised	(706)	28.96		
Expired	—	—		
<b>Outstanding and exercisable - end of year</b>	<b>213</b>	<b>\$ 27.98</b>	<b>1.0</b>	<b>\$ 4,180</b>

(1) The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between our closing stock price at December 31, 2013 and the exercisable price, multiplied by the number of in-the-money-options) that would have been received by the stock option holder had all stock option holders exercised their stock options on December 31, 2013.

The total intrinsic value of stock options exercised during 2013 was \$10 million (2012: \$11 million) and we received proceeds of \$17 million (2012: \$3 million). For these exercised stock options, we issued new shares from the authorized share capital pool rather than from our treasury pool.

**17. RELATED PARTY TRANSACTIONS**

The transactions listed below are classified as related party transactions as each counterparty had or has had either a direct or indirect shareholding in us or has been a board member during any period covered by the financial statements.

The collateral manager of four of our CLOs is Blackstone Debt Advisors L.P., who is entitled to management fees payable by the collateralized obligations in the ordinary course of business. We also have investments in two hedge funds managed by Blackstone Alternative Asset Management, LP, who is entitled to management fees in the ordinary course of business. On

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**17. RELATED PARTY TRANSACTIONS (CONTINUED)**

June 30, 2012, Blackstone Group ceased to be a related party. Fees due or paid for the six months ended June 30, 2012 were \$1 million. In 2011, total fees paid were \$2 million.

In the ordinary course of business, we engage SKY Harbor Capital Management, LLC for asset management services for certain of our short duration high yield debt portfolios and StoneRiver RegEd for broker and adjuster licensing, appointment and compliance services. During 2013, total fees paid to these Stone Point Group companies were \$2 million (2012: \$2 million; 2011: nil).

**18. INCOME TAXES**

Under current Bermuda law, our Bermuda domiciled companies are not required to pay any taxes in Bermuda on income or capital gains. We have received an assurance from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, we will be exempt from taxation in Bermuda until March 2035. Our primary Bermuda subsidiary has an operating branch in Singapore, which is subject to the relevant taxes in that jurisdiction. The branch is not under examination in this tax jurisdiction, but remains subject to examination for tax years 2010 through 2013.

Our U.S. subsidiaries are subject to federal, state and local corporate income taxes and other taxes applicable to U.S. corporations. The provision for federal income taxes has been determined under the principles of the consolidated tax provisions of the U.S. Internal Revenue Code and Regulations. Should the U.S. subsidiaries pay a dividend outside the U.S. group, withholding taxes will apply. Our U.S. subsidiaries are not under examination but remain subject to examination in the U.S. for tax years 2010 through 2013.

In Canada, our U.S. reinsurance company operates through a branch and our U.S. service company has an unlimited liability company subsidiary based in Canada. These Canadian operations are subject to the relevant taxes in that jurisdiction and generally remain subject to examination for tax years 2009 through 2013. During the year, our Canadian reinsurance branch was audited by the Canada Revenue Agency for income taxes for tax years 2009 and 2010, with no material adjustments.

We also have subsidiaries in Ireland, the United Kingdom (U.K.), Australia and Brazil. These subsidiaries and their branches, are not under examination, but generally remain subject to examination in all applicable jurisdictions for tax years 2009 through 2013.

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**18. INCOME TAXES (CONTINUED)**

The following table provides an analysis of our income tax expense and net tax assets:

Year ended December 31,	2013	2012	2011
<b>Current income tax expense (benefit)</b>			
United States	\$ 12,466	\$ 4,931	\$ 5,064
Europe	9,039	8,566	9,598
Other	—	(174)	188
<b>Deferred income tax expense (benefit)</b>			
United States	(13,976)	(10,749)	1,379
Europe	(526)	713	(996)
Other	(1)	—	—
<b>Total income tax expense</b>	<b>\$ 7,002</b>	<b>\$ 3,287</b>	<b>\$ 15,233</b>
Net current tax receivables	\$ 5,689	\$ 1,164	\$ 1,318
Net deferred tax assets	80,258	52,794	60,836
<b>Net tax assets</b>	<b>\$ 85,947</b>	<b>\$ 53,958</b>	<b>\$ 62,154</b>

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**18. INCOME TAXES (CONTINUED)**

Deferred income taxes reflect the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. The significant components of our deferred tax assets and liabilities were as follows:

At December 31,	2013	2012
<b>Deferred tax assets:</b>		
Discounting of loss reserves	\$ 59,023	\$ 61,534
Unearned premiums	39,146	32,355
Operating loss carryforwards	20,316	20,685
Accruals not currently deductible	39,018	25,638
Other investment adjustments and impairments	7,859	8,790
Tax credits	11,886	7,945
Depreciation	2,410	3,858
Other deferred tax assets	2,906	2,185
<b>Deferred tax assets before valuation allowance</b>	<b>182,564</b>	<b>162,990</b>
Valuation allowance	(25,542)	(24,574)
<b>Deferred tax assets net of valuation allowance</b>	<b>157,022</b>	<b>138,416</b>
<b>Deferred tax liabilities:</b>		
Deferred acquisition costs	(37,226)	(27,211)
Net unrealized gains on investments	(23,200)	(44,137)
Amortization of intangible assets and goodwill	(10,059)	(8,258)
Accrued market discounts	(1,151)	(1,323)
Equalization reserves	(2,080)	(1,957)
Other deferred tax liabilities	(3,048)	(2,736)
<b>Deferred tax liabilities</b>	<b>(76,764)</b>	<b>(85,622)</b>
<b>Net deferred tax assets</b>	<b>\$ 80,258</b>	<b>\$ 52,794</b>

At December 31, 2013, the total operating loss carryforwards for our Singapore and Australian branches were \$115 million (2012: \$117 million) and \$45 million (2012: \$51 million), respectively. Such operating losses are currently available to offset future taxable income of the branches and may be carried forward indefinitely in each jurisdiction. At December 31, 2013, our European subsidiaries have a \$4 million (2012: \$3 million) foreign tax credit which can be carried forward indefinitely. In addition, at December 31, 2013, our U.S. companies have a \$7 million (2012: \$5 million) alternative minimum tax credit that can be carried forward indefinitely.



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**18. INCOME TAXES (CONTINUED)**

The following table provides an analysis of the movement in our valuation allowance:

At December 31,	2013	2012
<b>Income tax expense:</b>		
Valuation allowance - beginning of year	\$ 33,933	\$ 30,623
Operating loss carryforwards	(794)	635
Foreign tax credit	1,762	2,675
Change in investment-related items	(7,831)	—
<b>Valuation allowance - end of year</b>	<b>27,070</b>	<b>33,933</b>
<b>Accumulated other comprehensive income:</b>		
Valuation allowance - beginning of year	(9,359)	(9,359)
Change in investment-related items	7,831	—
<b>Valuation allowance - end of year</b>	<b>(1,528)</b>	<b>(9,359)</b>
<b>Total valuation allowance - end of year</b>	<b>\$ 25,542</b>	<b>\$ 24,574</b>

At December 31, 2013 and 2012, we established a full valuation allowance on: (1) operating loss carryforwards relating to branch operations in Australia and Singapore due to cumulative losses in recent years; (2) unutilized foreign tax credits available in Ireland and (3) certain other deferred tax assets related to branch operations.

Although realization is not assured, management believes it is more likely than not that the tax benefit of the recorded net deferred tax assets will be realized. Other than the items discussed above, the remaining gross deferred tax assets relate substantially to our U.S. operations. In evaluating our ability to recover these tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including historical results, operating loss carryback potential and scheduled reversals of deferred tax liabilities. Our U.S. operations have produced significant taxable income in prior periods and have deferred tax liabilities that will reverse in future periods such that we believe sufficient ordinary taxable income is available to utilize all remaining ordinary deferred tax assets. In 2013 and 2012, there were sufficient net unrealized gains to offset remaining impairments, therefore a valuation allowance on such impairments in the U.S., was not considered necessary.

There were no unrecognized tax benefits at December 31, 2013 and 2012.

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**18. INCOME TAXES (CONTINUED)**

The following table presents the distribution of income before income taxes between domestic and foreign jurisdictions as well as a reconciliation of the actual income tax rate to the amount computed by applying the effective tax rate of 0% under Bermuda law to income before income taxes:

Year ended December 31,	2013	2012	2011
<b>Income before income taxes</b>			
Bermuda (domestic)	\$ 625,490	\$ 485,613	\$ 10,911
Foreign	108,977	64,915	50,627
<b>Total income before income taxes</b>	<u>\$ 734,467</u>	<u>\$ 550,528</u>	<u>\$ 61,538</u>
<b>Reconciliation of effective tax rate (% of income before income taxes)</b>			
Expected tax rate	0.0 %	0.0 %	0.0 %
Foreign taxes at local expected rates:			
United States	2.1 %	0.4 %	33.2 %
Europe	1.0 %	1.4 %	10.7 %
Other	0.3 %	— %	3.3 %
Valuation allowance	(0.7)%	0.6 %	(15.5)%
Net tax exempt income	(1.3)%	(1.5)%	(11.2)%
Other	(0.4)%	(0.3)%	4.3 %
<b>Actual tax rate</b>	<u>1.0 %</u>	<u>0.6 %</u>	<u>24.8 %</u>

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**19. OTHER COMPREHENSIVE INCOME (LOSS)**

The tax effects allocated to each component of other comprehensive income (loss) were as follows:

	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
<b>Year ended December 31, 2013</b>			
Available for sale investments:			
Unrealized investment losses arising during the period	\$ (169,614)	\$ 7,782	\$ (161,832)
Adjustment for reclassification of net realized investment gains and OTTI losses recognized in net income	(67,156)	5,605	(61,551)
Unrealized investment losses arising during the period, net of reclassification adjustment	(236,770)	13,387	(223,383)
Non-credit portion of OTTI losses	—	—	—
Foreign currency translation adjustment	(21,414)	—	(21,414)
Net change in benefit plan assets and obligations recognized in equity and reclassification adjustment	—	—	—
<b>Total other comprehensive loss</b>	<b>\$ (258,184)</b>	<b>\$ 13,387</b>	<b>\$ (244,797)</b>
<b>Year ended December 31, 2012</b>			
Available for sale investments:			
Unrealized investment gains arising during the period	\$ 378,040	\$ (29,530)	\$ 348,510
Adjustment for reclassification of net realized investment gains and OTTI losses recognized in net income	(127,828)	11,550	(116,278)
Unrealized investment gains arising during the period, net of reclassification adjustment	250,212	(17,980)	232,232
Non-credit portion of OTTI losses	—	—	—
Foreign currency translation adjustment	510	—	510
Net change in benefit plan assets and obligations recognized in equity and reclassification adjustment	1,718	—	1,718
<b>Total other comprehensive income</b>	<b>\$ 252,440</b>	<b>\$ (17,980)</b>	<b>\$ 234,460</b>
<b>Year ended December 31, 2011</b>			
Available for sale investments:			
Unrealized investment gains arising during the period	87,384	(13,087)	74,297
Adjustment for reclassification of net realized investment gains and OTTI losses recognized in net income	(121,248)	1,700	(119,548)
Unrealized investment losses arising during the period, net of reclassification adjustment	(33,864)	(11,387)	(45,251)
Non-credit portion of OTTI losses	(585)	130	(455)
Foreign currency translation adjustment	(3,045)	—	(3,045)
Net change in benefit plan assets and obligations recognized in equity and reclassification adjustment	92	—	92
<b>Total other comprehensive loss</b>	<b>(37,402)</b>	<b>(11,257)</b>	<b>(48,659)</b>

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**19. OTHER COMPREHENSIVE INCOME (LOSS) (CONTINUED)**

Reclassifications out of AOCI into net income available to common shareholders were as follows:

Details About AOCI Components	Consolidated Statement of Operations Line Item That Includes Reclassification	Amount Reclassified from AOCI <sup>(1)</sup>		
		Year ended December 31,		
		2013	2012	2011
Unrealized appreciation on available for sale investments				
	Other realized investment gains	\$ 76,518	\$ 152,062	\$ 137,694
	OTTI losses	(9,362)	(24,234)	(16,446)
	Total before tax	67,156	127,828	121,248
	Tax expense	(5,605)	(11,550)	(1,700)
	Net of tax	\$ 61,551	\$ 116,278	\$ 119,548
Supplemental Executive Retirement Plans (SERPs)				
Net change in benefit plan assets and obligations				
	General and administrative expenses	\$ —	\$ (1,718)	\$ (92)
	Tax benefit	—	—	—
	Net of tax	\$ —	\$ (1,718)	\$ (92)

(1) Amounts in parentheses are debits to net income available to common shareholders

**20. STATUTORY FINANCIAL INFORMATION**

Our (re)insurance operations are subject to insurance and/or reinsurance laws and regulations in the jurisdictions in which they operate, the most significant of which include Bermuda, Ireland and the United States. These regulations include certain restrictions on the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the insurance regulatory authorities.

The statutory capital and surplus in each of our most significant regulatory jurisdictions at December 31, 2013 and 2012 was as follows:

At December 31,	Bermuda		Ireland		United States	
	2013	2012	2013	2012	2013	2012
Required statutory capital and surplus	\$ 1,996,794	\$ 2,048,329	\$ 315,258	\$ 279,078	\$ 385,651	\$ 358,674
Actual statutory capital and surplus	\$ 3,839,840	\$ 4,091,437	\$ 906,932	\$ 904,237	\$ 1,348,861	\$ 1,295,679

Under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Act"), our Bermuda subsidiary, AXIS Specialty Bermuda is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR"). The MSM is the greater of \$100 million, 50% of net written premiums or 15% of the net reserve for losses and loss adjustment expenses and the ECR is calculated based on either an internally developed risk-based capital model or a standard risk-based capital model developed by the Bermuda Monetary Authority. Under the Act, AXIS Specialty Bermuda is restricted as to the payment of dividends and/or distributions for amounts greater than 25% of the prior year's statutory capital and surplus, whereby a signed affidavit by at least two members of the Board of Directors attesting that a dividend and/or distribution in excess of this amount would

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**20. STATUTORY FINANCIAL INFORMATION (CONTINUED)**

not cause the company to fail to meet its relevant margins is required. At December 31, 2013, the maximum dividend/distribution AXIS Specialty Bermuda could pay, without a signed affidavit, having met minimum levels of statutory capital and surplus requirements, was approximately \$1 billion.

Our Irish subsidiaries, AXIS Specialty Europe SE and AXIS Re SE, are required to maintain minimum levels of statutory and capital surplus. At December 31, our subsidiaries were in compliance with these requirements. Our Irish subsidiaries may declare dividends out of retained earnings subject to meeting their solvency and capital requirements, which are to hold statutory capital and surplus equal to or exceeding the Required Solvency Margin (RSM). The RSM is calculated with reference to Solvency I regulations. The maximum dividend is limited to "profits available for distribution", which consists of accumulated realized profits less accumulated realized losses. At December 31, 2013, the maximum dividend our Irish subsidiaries could pay out of retained earnings, after obtaining prior approval from the Irish regulator, was approximately \$141 million.

Our U.S. operations required statutory capital and surplus is determined using risk based capital tests, which is the threshold that constitutes the authorized control level. If a company falls below the control level, the commissioner is authorized to take whatever regulatory actions may be considered necessary to protect policyholders and creditors. The maximum dividend that may be paid by our U.S. insurance subsidiaries is restricted by the regulatory requirements of the domiciliary states. Generally, the maximum dividend that may be paid by each of our U.S. insurance subsidiaries is limited to unassigned surplus (statutory equivalent of retained earnings) and may also be limited to statutory net income, net investment income or 10% of total statutory capital and surplus. At December 31, 2013, the maximum dividend that our U.S. insurance operations could pay without regulatory approval was approximately \$135 million.

Our operating subsidiaries in Bermuda and the United States maintain branch offices in Singapore and Canada, respectively. Our Irish operating subsidiaries maintain branch offices in Switzerland, Australia and the United Kingdom. As branch offices are not considered separate entities for regulatory purposes, the required and actual statutory capital and surplus amounts for each jurisdiction in the table above include amounts related to the applicable branch offices. Our Singaporean, Australian and Canadian branch offices are subject to additional minimum capital or asset requirements in their countries of domicile. At December 31, 2013 and 2012, the actual capital/assets for each of these branches exceeded the relevant local regulatory requirements.

Total statutory net income of our operating subsidiaries was \$766 million, \$697 million, \$99 million for 2013, 2012 and 2011, respectively. The differences between statutory financial statements and statements prepared in accordance with U.S. GAAP vary by jurisdiction; however, the primary differences are that statutory financial statements do not reflect deferred acquisition costs, certain net deferred tax assets, goodwill and intangible assets, unrealized appreciation on debt securities or certain unauthorized reinsurance recoverables.

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**21. UNAUDITED CONDENSED QUARTERLY FINANCIAL DATA**

The following is an unaudited summary of our quarterly financial results:

Quarters ended	Mar 31	Jun 30	Sep 30	Dec 31
<b><u>2013</u></b>				
Net premiums earned	\$ 874,039	\$ 945,873	\$ 945,242	\$ 941,911
Net investment income	108,908	83,112	103,429	113,863
Net realized investment gains (losses)	44,478	16,235	(4,708)	19,558
Underwriting income	170,799	9,921	153,088	94,159
Net income available to common shareholders	302,816	72,447	137,121	171,524
Earnings per common share - basic	\$ 2.59	\$ 0.63	\$ 1.23	\$ 1.55
Earnings per common share - diluted	\$ 2.55	\$ 0.62	\$ 1.21	\$ 1.52
<b><u>2012</u></b>				
Net premiums earned	\$ 846,362	\$ 850,603	\$ 862,447	\$ 856,049
Net investment income	116,023	74,449	103,638	86,847
Net realized investment gains	14,491	30,405	50,803	31,771
Underwriting income (loss)	62,689	119,739	154,999	(74,291)
Net income (loss) available to common shareholders	121,997	168,152	223,407	(18,551)
Earnings (loss) per common share - basic	\$ 0.97	\$ 1.36	\$ 1.84	\$ (0.16)
Earnings (loss) per common share - diluted	\$ 0.96	\$ 1.35	\$ 1.82	\$ (0.16)

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

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None.

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**ITEM 9A. CONTROLS AND PROCEDURES**

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*Disclosure Controls and Procedures*

The Company's management has performed an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) as of December 31, 2013. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2013, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures.

*Management's Annual Report on Internal Control Over Financial Reporting*

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). The Company's management has performed an assessment, with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer, of our internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (1992). Based upon that assessment, the Company's management believes that, as of December 31, 2013, our internal control over financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our independent registered public accounting firm has issued an audit report on our assessment of our internal control over financial reporting as of December 31, 2013. This report appears below.

All internal control systems, no matter how well designed, have inherent limitations. As a result, even those internal control systems determined to be effective can provide only reasonable assurance with respect to financial reporting and the preparation of financial statements.

*Changes in Internal Control Over Financial Reporting*

The Company's management has performed an evaluation, with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer, of changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2013. Based upon that evaluation, there were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
AXIS Capital Holdings Limited

We have audited the internal control over financial reporting of AXIS Capital Holdings Limited and subsidiaries (the “Company”) as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated February 21, 2014 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche Ltd.

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Hamilton, Bermuda  
February 21, 2014



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**ITEM 9B. OTHER INFORMATION**

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Not applicable.

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**PART III**

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**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

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The information required by this item is incorporated by reference from the sections captioned “Proposal No. 1 – Election of Directors”, “Corporate Governance”, “Section 16(a) Beneficial Ownership Reporting Compliance” and “Executive Officers” in the definitive proxy statement that will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year ended December 31, 2013 pursuant to Regulation 14A.

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**ITEM 11. EXECUTIVE COMPENSATION**

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The information required by this item is incorporated by reference from the sections captioned “Executive Compensation”, “Compensation Discussion and Analysis”, “Director Compensation”, “Compensation Committee Report” and “Compensation Committee Interlocks and Insider Participation” in the definitive proxy statement that will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year ended December 31, 2013 pursuant to Regulation 14A.

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**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

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The information required by this item is incorporated by reference from the sections captioned “Principal Shareholders” and “Equity Compensation Plan Information” in the definitive proxy statement that will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year ended December 31, 2013 pursuant to Regulation 14A.

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**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

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The information required by this item is incorporated by reference from the sections captioned “Certain Relationships and Related Transactions”, and “Corporate Governance” in the definitive proxy statement that will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year ended December 31, 2013 pursuant to Regulation 14A.

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**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

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The information required by this item is incorporated by reference from the section captioned “Principal Accounting Fees and Services” in the definitive proxy statement that will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year ended December 31, 2013 pursuant to Regulation 14A.

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**PART IV**

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**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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**(a) Financial Statements, Financial Statement Schedules and Exhibits****1. Financial Statements**

Included in Part II – see Item 8 of this report.

**2. Financial Statement Schedules**

Report of Independent Registered Public Accounting Firm  
Schedule II – Condensed Financial Information of Registrant  
Schedule III – Supplementary Insurance Information  
Schedule IV – Supplementary Reinsurance Information

Schedules I, V and VI have been omitted as the information is provided in Item 8, Consolidated Financial Statements, or in the above schedules.

**3. Exhibits**

<b>Exhibit Number</b>	<b>Description of Document</b>
3.1	Certificate of Incorporation and Memorandum of Association of AXIS Capital Holdings Limited (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-103620) filed on April 16, 2003).
3.2	Amended and Restated Bye-laws of AXIS Capital Holdings Limited (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed on May 15, 2009).
4.1	Specimen Common Share Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 3) (No. 333-103620) filed on June 10, 2003).
4.2	Amended and Restated Series A Warrant for the Purchase of Common Shares (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the period ended December 31, 2003).
4.3	Senior Indenture between AXIS Capital Holdings Limited and The Bank of New York, as trustee, dated as of November 15, 2004 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 15, 2004).
4.4	First Supplemental Indenture between AXIS Capital Holdings Limited and The Bank of New York, as trustee, dated as of November 15, 2004 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on November 15, 2004).
4.5	Senior Indenture among AXIS Specialty Finance LLC, AXIS Capital Holdings Limited and The Bank of New York Mellon Trust Company, N.A., as trustee, dated as of March 23, 2010 (incorporated by reference to Exhibit 4.4 to the Company's Quarterly Report on Form 10-Q filed on April 27, 2010).
4.6	Certificate of Designations setting forth the specific rights, preferences, limitations and other terms of the Series A Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 4, 2005).
4.7	Certificate of Designations setting forth the specific rights, preferences, limitations and other terms of the Series B Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 23, 2005).

- 4.8 Certificate of Designations setting from the specific rights, preferences, limitations and other terms of the Series C Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 19, 2012).
- 4.9 Certificate of Designations setting from the specific rights, preferences, limitations and other terms of the Series D Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 20, 2013).
- 10.1 Amended and Restated Shareholders Agreement dated December 31, 2002, among AXIS Capital Holdings Limited and each of the persons listed on Schedule A thereto (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (Amendment No. 3) (No. 333-103620) filed on June 10, 2003).
- \*10.2 Amended and Restated Service Agreement by and between Michael A. Butt and AXIS Specialty Limited dated as of December 15, 2003 (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
- \*10.3 Amendment No. 1 to Amended and Restated Service Agreement by and between Michael A. Butt and AXIS Specialty Limited effective as of May 12, 2006 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 18, 2006).
- \*10.4 Amendment No. 2 to Amended and Restated Service Agreement by and between Michael A. Butt and AXIS Specialty Limited dated September 19, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 23, 2008).
- \*10.5 Amendment No. 3 to Amended and Restated Service Agreement by and between Michael A. Butt and AXIS Specialty Limited dated May 6, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 7, 2009).
- \*10.6 Amendment No. 4 to Amended and Restated Service Agreement by and between Michael A. Butt and AXIS Specialty Limited dated December 31, 2010 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 4, 2011).
- \*10.7 Separation Agreement and Release by and between Michael A. Butt and AXIS Specialty Limited dated May 3, 2012 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K/A filed on May 9, 2012).
- \*10.8 Consulting Agreement by and between Michael A. Butt and AXIS Specialty Limited dated May 3, 2012 (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K/A filed on May 9, 2012).
- \*10.9 Amendment No. 1 to Consulting Agreement by and between Michael A. Butt and AXIS Specialty Limited dated December 5, 2013 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on December 9, 2013).
- \*10.10 Amended and Restated Supplemental Executive Retirement Agreement by and between AXIS Specialty Limited and Michael A. Butt dated May 8, 2008 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 5, 2008).
- \*10.11 Addendum to the Amended and Restated Supplemental Executive Retirement Agreement dated July 13, 2012 between AXIS Capital Holdings Limited, AXIS Specialty Limited, Codan Trust Company Limited and Michael A. Butt (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 16, 2012).
- \*10.12 Employment Agreement by and among Albert Benchimol, AXIS Capital Holdings Limited and AXIS Specialty U.S. Services, Inc. dated May 3, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed on May 9, 2012).
- \*10.13 Restricted Stock Agreement for Albert Benchimol pursuant to the AXIS Capital Holdings Limited 2007 Long-Term Equity Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A filed on May 9, 2012).
- \*10.14 Employment Agreement by and between Dennis B. Reding and AXIS Specialty U.S. Services, Inc. dated December 31, 2010 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on January 4, 2011).

- \*10.15 Amendment No. 1 to Employment Agreement by and between Dennis B. Reding and AXIS Specialty U.S. Services, Inc., dated December 27, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 28, 2012).
- \*10.16 Employment Agreement by and between John Gressier and AXIS Specialty Europe SE dated December 5, 2013 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 9, 2013).
- \*10.17 Employment Agreement by and between John D. Nichols, Jr. and AXIS Specialty U.S. Services, Inc. dated February 6, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 8, 2012).
- \*10.18 Letter Agreement by and between John D. Nichols, Jr. and AXIS Specialty U.S. Services, Inc. dated July 8, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 12, 2013).
- \*10.19 Employment Agreement by and between Joseph C. Henry and AXIS Specialty U.S. Services, Inc. dated May 16, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 18, 2012).
- \*10.20 2003 Long-Term Equity Compensation Plan (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-103620) filed on May 17, 2003).
- \*10.21 2007 Long-Term Equity Compensation Plan, as amended (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 filed on May 15, 2012).
- \*10.22 Form of Employee Restricted Stock Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 28, 2010).
- \*†10.23 Form of Employee Restricted Stock Unit Agreement (Performance Vesting).
- \*†10.24 Form of Employee Restricted Stock Unit Agreement.
- \*10.25 2013 Executive Long-Term Equity Compensation Program (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 9, 2013).
- \*10.26 2013 Executive Annual Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 9, 2013).
- \*10.27 2003 Directors Long-Term Equity Compensation Plan (incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-8 (No. 333-110228) filed on November 4, 2003).
- \*10.28 2003 Directors Deferred Compensation Plan, as amended and restated (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on April 28, 2009).
- \*10.29 2014 Directors Annual Compensation Program (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on October 31, 2013).
- \*10.30 AXIS Specialty U.S. Services, Inc. Supplemental Retirement Plan (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed on February 26, 2008).
- 10.31 Master Reimbursement Agreement, dated as of May 14, 2010, by and among AXIS Specialty Limited, AXIS Re Limited, AXIS Specialty Europe Limited, AXIS Insurance Company, AXIS Surplus Insurance Company, AXIS Specialty Insurance Company, AXIS Reinsurance Company and Citibank Europe plc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 19, 2010).
- 10.32 Amendment to Master Reimbursement Agreement dated January 27, 2012 by and among AXIS Specialty Limited, AXIS Re Limited, AXIS Specialty Europe Limited, AXIS Insurance Company, AXIS Surplus Insurance Company, AXIS Specialty Insurance Company and AXIS Reinsurance Company and Citibank Europe plc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 30, 2012).
- 10.33 Amendment to Committed Facility Letter dated November 20, 2013 by and among AXIS Specialty Limited, AXIS Re SE, AXIS Specialty Europe SE, AXIS Insurance Company, AXIS Surplus Insurance Company and AXIS Reinsurance Company and Citibank Europe plc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 21, 2013).

- 10.34 Credit Agreement dated March 26, 2013 by and among AXIS Capital Holdings Limited, certain subsidiaries of AXIS Capital Holdings Limited party thereto, Wells Fargo Bank, National Association, as Administrative Agent, Fronting Bank and L/C Administrator and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 29, 2013).
- 10.35 First Amendment to Credit Agreement dated September 18, 2013 by and among AXIS Capital Holdings Limited, certain subsidiaries of AXIS Capital Holdings Limited party thereto, Wells Fargo Bank, National Association, as Administrative Agent, Fronting Bank and L/C Administrator and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 24, 2013).
- 10.36 Letter of Credit Facility dated November 6, 2013 by and between AXIS Specialty Limited and ING Bank N.V., London Branch (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 8, 2013).
- †12.1 Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends.
- †21.1 Subsidiaries of the registrant.
- †23.1 Consent of Deloitte & Touche.
- †24.1 Power of Attorney (included as part of signature pages hereto).
- †31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- †31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- †32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- †32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- †101 The following financial information from AXIS Capital Holdings Limited's Annual Report on Form 10-K for the year ended December 31, 2013 formatted in XBRL: (i) Consolidated Balance Sheets at December 31, 2013 and 2012; (ii) Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011; (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2013, 2012 and 2011; (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011; and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

\* Exhibits 10.2 through 10.30 represent a management contract, compensatory plan or arrangement in which directors and/or executive officers are eligible to participate.

† Filed herewith.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

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## SIGNATURES

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 21, 2014.

### AXIS CAPITAL HOLDINGS LIMITED

By: /s/ ALBERT BENCHIMOL  
Albert Benchimol  
President and Chief Executive Officer

### POWER OF ATTORNEY

We, the undersigned directors and executive officers of AXIS Capital Holdings Limited, hereby appoint Joseph Henry and Richard T. Gieryn, Jr., and each of them singly, as our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to the Annual Report on Form 10-K filed with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys to any and all amendments to said Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 21, 2014.

<u>Signature</u>	<u>Title</u>
<u>/s/ ALBERT BENCHIMOL</u> Albert Benchimol	Chief Executive Officer, President and Director (Principal Executive Officer)
<u>/s/ JOSEPH HENRY</u> Joseph Henry	Chief Financial Officer (Principal Financial Officer)
<u>/s/ JAMES O'SHAUGHNESSY</u> James O'Shaughnessy	Controller (Principal Accounting Officer)
<u>/s/ GEOFFREY BELL</u> Geoffrey Bell	Director
<u>/s/ JANE BOISSEAU</u> Jane Boisseau	Director
<u>/s/ MICHAEL A. BUTT</u> Michael A. Butt	Director
<u>/s/ CHARLES A. DAVIS</u> Charles A. Davis	Director
<u>/s/ ROBERT L. FRIEDMAN</u> Robert L. Friedman	Director

<u>Signature</u>	<u>Title</u>
<u>/s/ CHRISTOPHER V. GREETHAM</u> Christopher V. Greetham	Director
<u>/s/ MAURICE A. KEANE</u> Maurice A. Keane	Director
<u>/s/ SIR ANDREW LARGE</u> Sir Andrew Large	Director
<u>/s/ CHERYL-ANN LISTER</u> Cheryl-Ann Lister	Director
<u>/s/ THOMAS C. RAMEY</u> Thomas C. Ramey	Director
<u>/s/ HENRY B. SMITH</u> Henry B. Smith	Director
<u>/s/ ALICE YOUNG</u> Alice Young	Director
<u>/s/ WILHELM ZELLER</u> Wilhelm Zeller	Director

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
AXIS Capital Holdings Limited

We have audited the consolidated financial statements of AXIS Capital Holdings Limited and subsidiaries (the “Company”) as of December 31, 2013, and 2012, and for each of the three years in the period ended December 31, 2013, and the Company’s internal control over financial reporting as of December 31, 2013, and have issued our report thereon dated February 21, 2014; such consolidated financial statements and reports are included elsewhere in this Form 10-K and are incorporated herein by reference. Our audits also included the consolidated financial statement schedules of the Company listed in Item 15. These consolidated financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche Ltd.

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Hamilton, Bermuda

February 21, 2014



**AXIS CAPITAL HOLDINGS LIMITED**  
**CONDENSED BALANCE SHEETS – PARENT COMPANY**  
**DECEMBER 31, 2013 AND 2012**

	2013	2012
	(in thousands)	
<b>Assets</b>		
Investments in subsidiaries on equity basis	\$ 6,581,368	\$ 6,571,607
Cash and cash equivalents	4,414	2,841
Other assets	3,179	2,706
<b>Total assets</b>	<b>\$ 6,588,961</b>	<b>\$ 6,577,154</b>
<b>Liabilities</b>		
Intercompany payable	\$ 204,877	\$ 243,252
Senior notes	499,906	499,798
Dividends payable	47,959	37,370
Other liabilities	18,257	16,973
<b>Total liabilities</b>	<b>770,999</b>	<b>797,393</b>
<b>Shareholders' equity</b>		
Preferred shares	627,843	502,843
Common shares (2013: 174,134; 2012: 171,867 shares issued and 2013: 109,485; 2012: 117,920 shares outstanding)	2,174	2,146
Additional paid-in capital	2,240,125	2,179,034
Accumulated other comprehensive income	117,825	362,622
Retained earnings	5,062,706	4,497,789
Treasury shares, at cost (2013: 64,649; 2012: 53,947 shares)	(2,232,711)	(1,764,673)
<b>Total shareholders' equity</b>	<b>5,817,962</b>	<b>5,779,761</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 6,588,961</b>	<b>\$ 6,577,154</b>

- (1) On November 15, 2004, AXIS Capital issued \$500 million aggregate principal amount of 5.75% senior unsecured debt ("Senior Notes") at an issue price of 99.785%, generating net proceeds of \$496 million. Interest of the 5.75% Senior Notes is payable semi-annually in arrears on June 1 and December 1 of each year, beginning on June 1, 2005. Unless previously redeemed, the 5.75% Senior Notes will mature on December 1, 2014.
- (2) AXIS Capital has fully and unconditionally guaranteed all obligations of AXIS Specialty Finance, a 100% owned finance subsidiary, related to the issuance of \$500 million aggregate principal amount of 5.875% senior unsecured notes. AXIS Capital's obligations under this guarantee are unsecured and senior and rank equally with all other senior obligations of AXIS Capital.
- (3) AXIS Capital has fully and unconditionally guaranteed the derivative instrument obligations of certain of its 100% owned operating subsidiaries. At December 31, 2013, the fair value of guaranteed obligations utilized aggregated to \$28 million (2012: \$nil).

**AXIS CAPITAL HOLDINGS LIMITED**  
**CONDENSED STATEMENTS OF OPERATIONS – PARENT COMPANY**  
**YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
<b>Revenues</b>			
Net investment income	\$ 5	\$ 25	\$ 1
<b>Total revenues</b>	<u>5</u>	<u>25</u>	<u>1</u>
<b>Expenses</b>			
General and administrative expenses	40,565	62,293	36,248
Interest expense and financing costs	29,201	29,201	29,201
<b>Total expenses</b>	<u>69,766</u>	<u>91,494</u>	<u>65,449</u>
<b>Loss before equity in net earnings of subsidiaries</b>	(69,761)	(91,469)	(65,448)
Equity in net earnings of subsidiaries	797,226	638,710	111,753
<b>Net income</b>	<u>727,465</u>	<u>547,241</u>	<u>46,305</u>
Preferred share dividends	40,474	38,228	36,875
Loss on repurchase of preferred shares	3,081	14,009	—
<b>Net income available to common shareholders</b>	<u>\$ 683,910</u>	<u>\$ 495,004</u>	<u>\$ 9,430</u>
<b>Comprehensive income (loss)</b>	<u>\$ 482,668</u>	<u>\$ 781,701</u>	<u>\$ (2,354)</u>

SCHEDULE II

**AXIS CAPITAL HOLDINGS LIMITED**  
**CONDENSED STATEMENTS OF CASH FLOWS – PARENT COMPANY**  
**YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
<b>Cash flows from operating activities:</b>			
Net income	\$ 727,465	\$ 547,241	\$ 46,305
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Equity in net earnings of subsidiaries	(797,226)	(638,710)	(111,753)
Change in intercompany payable	(38,375)	(7,667)	(44,503)
Dividends received from subsidiaries	566,000	525,000	255,000
Other items	34,803	56,425	21,298
<b>Net cash provided by operating activities</b>	<u>492,667</u>	<u>482,289</u>	<u>166,347</u>
<b>Cash flows from investing activities:</b>			
Capital repaid from subsidiary	—	—	130,000
<b>Net cash from investing activities</b>	<u>—</u>	<u>—</u>	<u>130,000</u>
<b>Cash flows from financing activities:</b>			
Net proceeds from issuance of preferred shares	218,449	393,544	—
Repurchase of preferred shares	(100,000)	(404,073)	—
Repurchase of common shares	(472,263)	(317,687)	(65,885)
Dividends paid - common shares	(118,426)	(120,487)	(206,455)
Dividends paid - preferred shares	(39,193)	(38,228)	(36,875)
Proceeds from issuance of common shares	20,339	5,120	6,735
<b>Net cash used in financing activities</b>	<u>(491,094)</u>	<u>(481,811)</u>	<u>(302,480)</u>
Increase (decrease) in cash and cash equivalents	1,573	478	(6,133)
Cash and cash equivalents - beginning of period	2,841	2,363	8,496
<b>Cash and cash equivalents - end of period</b>	<u>\$ 4,414</u>	<u>\$ 2,841</u>	<u>\$ 2,363</u>
<b>Supplemental disclosures of cash flow information:</b>			
Interest paid	\$ 28,750	\$ 28,750	\$ 28,750

**AXIS CAPITAL HOLDINGS LIMITED**  
**SUPPLEMENTARY INSURANCE INFORMATION**

**At and year ended December 31, 2013**

(in thousands)	Deferred Acquisition Costs	Reserve for Losses and Loss Expenses	Unearned Premiums	Net Premiums Earned	Net Investment Income <sup>(1)</sup>	Losses And Loss Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses <sup>(2)</sup>	Net Premiums Written
Insurance	\$ 150,109	\$ 4,873,184	\$ 1,548,653	\$ 1,722,762	\$ —	\$ 1,050,402	\$ 242,363	\$ 347,684	\$ 1,813,538
Reinsurance	306,013	4,708,956	1,135,196	1,984,303	—	1,083,793	421,828	137,450	2,114,662
Corporate	—	—	—	—	409,312	—	—	90,256	—
Total	<u>\$ 456,122</u>	<u>\$ 9,582,140</u>	<u>\$ 2,683,849</u>	<u>\$ 3,707,065</u>	<u>\$ 409,312</u>	<u>\$ 2,134,195</u>	<u>\$ 664,191</u>	<u>\$ 575,390</u>	<u>\$ 3,928,200</u>

**At and year ended December 31, 2012**

(in thousands)	Deferred Acquisition Costs	Reserve for Losses and Loss Expenses	Unearned Premiums	Net Premiums Earned	Net Investment Income <sup>(1)</sup>	Losses And Loss Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses <sup>(2)</sup>	Net Premiums Written
Insurance	\$ 128,311	\$ 4,492,553	\$ 1,456,318	\$ 1,558,058	\$ —	\$ 953,564	\$ 226,859	\$ 314,834	\$ 1,522,245
Reinsurance	260,937	4,566,178	998,374	1,857,405	—	1,142,464	400,794	116,487	1,815,211
Corporate	—	—	—	—	380,957	—	—	129,660	—
Total	<u>\$ 389,248</u>	<u>\$ 9,058,731</u>	<u>\$ 2,454,692</u>	<u>\$ 3,415,463</u>	<u>\$ 380,957</u>	<u>\$ 2,096,028</u>	<u>\$ 627,653</u>	<u>\$ 560,981</u>	<u>\$ 3,337,456</u>

**At and year ended December 31, 2011**

(in thousands)	Deferred Acquisition Costs	Reserve for Losses and Loss Expenses	Unearned Premiums	Net Premiums Earned	Net Investment Income <sup>(1)</sup>	Losses And Loss Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses <sup>(2)</sup>	Net Premiums Written
Insurance	\$ 142,743	\$ 4,081,741	\$ 1,412,699	\$ 1,429,687	\$ —	\$ 919,319	\$ 199,583	\$ 278,147	\$ 1,466,134
Reinsurance	264,784	4,343,304	1,041,763	1,885,274	—	1,755,733	387,886	103,915	1,953,300
Corporate	—	—	—	—	362,430	—	—	77,089	—
Total	<u>\$ 407,527</u>	<u>\$ 8,425,045</u>	<u>\$ 2,454,462</u>	<u>\$ 3,314,961</u>	<u>\$ 362,430</u>	<u>\$ 2,675,052</u>	<u>\$ 587,469</u>	<u>\$ 459,151</u>	<u>\$ 3,419,434</u>

- (1) As we evaluate the underwriting results of each of our reportable segments separately from the results of our investment portfolio, we do not allocate net investment income to our reportable segments.
- (2) Amounts related to our reportable segments reflect underwriting-related general and administrative expenses, including those incurred directly by segment personnel and certain corporate overhead costs allocated based on estimated consumption, headcount and other variables deemed relevant. Other corporate overhead costs, which are not incremental and/or directly attributable to our individual underwriting operations, are not allocated to our reportable segments and are presented separately as corporate expenses.

SCHEDULE IV

AXIS CAPITAL HOLDINGS LIMITED  
 SUPPLEMENTARY REINSURANCE INFORMATION  
 YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

<u>(in thousands)</u>	<u>DIRECT GROSS PREMIUM</u>	<u>CEDED TO OTHER COMPANIES</u>	<u>ASSUMED FROM OTHER COMPANIES</u>	<u>NET AMOUNT</u>	<u>PERCENTAGE OF AMOUNT ASSUMED TO NET</u>
2013	\$ 1,974,915	\$ 768,841	\$ 2,722,126	\$ 3,928,200	69.3%
2012	1,805,887	802,187	2,333,756	3,337,456	69.9%
2011	1,696,600	676,719	2,399,553	3,419,434	70.2%

## AXIS CAPITAL HOLDINGS LIMITED

### 2007 LONG-TERM EQUITY COMPENSATION PLAN

#### Employee Restricted Stock Unit Agreement (Performance Vesting / 100% Stock Settled)

You (the “Participant”) have been granted an award of Restricted Stock Units (the “Award”) with a value based on ordinary shares, par value \$0.0125 per share (“Shares”), of AXIS Capital Holdings Limited, a Bermuda company (the “Company”), pursuant to the AXIS Capital Holdings Limited 2007 Long-Term Equity Compensation Plan (the “Plan”). The date of grant of the Award (the “Award Date”) and the base number of Restricted Stock Units subject to the Award (the “Target Number”) are as set forth in your restricted stock unit account maintained on the Morgan Stanley Benefit Access website or such other website as may be designated by the Committee (“Benefit Access”). The actual number of Shares that you will be eligible to earn with respect to this Award (referred to herein as the “Award Units”), subject to meeting the applicable service and performance vesting requirements, will equal the Target Number multiplied by the applicable “Performance Multiplier” (as defined in Exhibit A hereto). This Award constitutes an unfunded and unsecured promise of the Company to deliver (or cause to be delivered to you) on the terms and conditions set forth herein the number of Shares corresponding to the earned Award Units.

By your acceptance of the grant of the Award on Benefit Access, you agree that the Award is granted under and governed by the terms and conditions of the Plan and this Restricted Stock Unit Agreement (the “Agreement”).

#### 1. GRANT OF RESTRICTED STOCK UNITS.

(a) **Award.** On the terms and conditions set forth in this Agreement, the Company hereby grants to the Participant on the Award Date the Award.

(b) **Plan and Defined Terms.** The Award is granted pursuant to the Plan, a copy of which the Participant acknowledges having received. The terms and provisions of the Plan are incorporated into this Agreement by this reference. All capitalized terms that are used in this Agreement and not otherwise defined herein shall have the meanings ascribed to them in the Plan.

#### 2. PERIOD OF RESTRICTION.

(i) The Restricted Stock Units subject to the Award shall be restricted during the period (the “Period of Restriction”) commencing on the Award Date and expiring on the first to occur of:

(a) The normal scheduled vesting of the Award Units. The Award Units shall vest in a single installment on the third anniversary of the Grant Date;

- (b) The Participant's death or Disability; or
- (c) The date of the Participant's termination without Cause or termination for Good Reason, in each case, within 24 months following a Change in Control.

(d) Definitions. As used herein, the following terms shall have the meanings set forth below:

(1) "Cause" shall have the meaning set forth in the Participant's employment agreement with the Company, if any, or in the absence of an employment agreement definition shall mean (A) any act or omission which constitutes a material breach by the Participant of the terms of his or her employment, (B) the Participant's conviction of a felony or commission of any act which would rise to the level of a felony, (C) the Participant's conviction or commission of a lesser crime or offense that adversely impacts or potentially could impact upon the business or reputation of the Company and/or affiliates and subsidiaries in a material way, (D) the Participant's willful violation of specific lawful directives of the Company, (E) the Participant's commission of a dishonest or wrongful act involving fraud, misrepresentation, or moral turpitude causing damage or potential damage to the Company and/or its affiliates and subsidiaries, (F) the Participant's willful failure to perform a substantial part of the Participant's duties or (G) the Participant's breach of fiduciary duty.

(2) "Disability" shall mean the Participant's permanent disability which constitutes a disability within the meaning of Section 409A(a)(2)(C) of the Code.

(3) "Good Reason" shall have the meaning set forth in the Participant's employment agreement with the Company, if any, or in the absence of an employment agreement definition shall mean (A) the scope of the Participant's position, authority or duties with the Company is materially adversely changed, (B) the Participant's compensation is not paid or is materially reduced or there is a material adverse change in the Participant's employee benefits or (C) the Participant is required by the Company to relocate to a place more than 50 miles from the Participant's current place of employment; provided that, in each case, "Good Reason" shall not exist unless the Participant provides the Company with written notice of the Participant's intent to terminate employment as a result of such event, providing the specific reasons therefore, and the Company does not make the necessary corrections within thirty days of receipt of the Participant's written notice, following which the Participant may terminate his or her employment for "Good Reason" within the ten days following expiration of such thirty day notice period.

(ii) Absent subsequent Committee action, the Award Units will not automatically vest upon the Participant's Retirement.

(iii) Notwithstanding the foregoing, to the extent that the Participant is party to an employment agreement with the Company that provides for vesting of the Participant's restricted stock units on an accelerated or otherwise more favorable basis as compared to the terms set

forth in this Section 2, then the Award Units shall vest pursuant to the terms set forth in such employment agreement.

### **3. ISSUANCE OF AWARD UNITS.**

Subject to the Participant's continued employment with the Company during the Period of Restriction, the Company shall deliver to the Participant promptly following the close of the Period of Restriction with respect to the number of Award Units earned as determined in accordance with Exhibit A hereto 100% of the Shares underlying such Award Units as of the date of close of the Period of Restriction, with such Share delivery fully satisfying the Company's obligations to the Participant with respect to such corresponding Award Units. In the event that the Participant's employment terminates for any reason prior to close of the Period of Restriction (except as described in Section 2(i)(b) or Section 2(i)(c)), the Award will immediately terminate and the Company will have no further obligation or liability to the Participant. Subject to Section 4, the Participant will have no rights as a shareholder of the Company with respect to the Shares underlying the Award Units until such time as the Shares underlying the Award Units are actually delivered to the Participant.

### **4. RESTRICTIONS, VOTING RIGHTS AND DIVIDEND EQUIVALENTS.**

**(a) Restrictions.** The Award may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated at any time.

**(b) Voting Rights.** Prior to the delivery of Shares underlying the Award Units pursuant to this Agreement, the Participant shall not be entitled to exercise any voting rights with respect to the Award Units and, except as provided in Section 4(c), shall not be entitled to receive dividends or other distributions with respect to the Award Units.

**(c) Dividend Equivalents.** Dividend equivalents may be paid to the Participant with respect to the Award Units during the Period of Restriction as determined from time to time by the Committee. Any dividend equivalents paid with respect to the Award Units during the Period of Restriction will be held by the Company, or a depository appointed by the Committee, for the Participant's account, and interest may be paid on the amount of cash dividend equivalents held at a rate and subject to such terms as may be determined by the Committee. All cash or share dividend equivalents so held, and any interest so paid, shall be payable at the same time as the delivery of Shares are made with respect to the Award Units as set forth in Section 3 and shall be forfeited and shall not be paid in the event the Award is terminated as set forth in Section 3.

**(d) Leaves of Absence.** For any purpose under this Agreement, employment shall be deemed to continue while the Participant is on a bona fide leave of absence, if such leave was approved by the Company in writing and if continued crediting of employment for such purpose is expressly required by the terms of such leave or by applicable law (as determined by the Company).



## 5. RESTRICTIONS ON TRANSFER.

(a) **Transfer Restrictions.** Regardless of whether the offering and sale of Units under the Plan have been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”) or otherwise, the Company, in its sole discretion, may impose restrictions upon the sale, pledge or other transfer of the Shares deliverable in respect of the Award Units (including the placement of appropriate legends on stock certificates or the imposition of stop-transfer instructions) if, in the judgment of the Company, such restrictions are necessary or desirable in order to achieve compliance with the Company's Bye-Laws, the Securities Act, the U.S. Securities Exchange Act of 1934, as amended, the securities laws of any country or state or any other applicable law, rule or regulation.

(b) **Legends.** All certificates evidencing Shares issued in respect of Award Units under this Agreement shall bear such restrictive legends as are required or deemed advisable by the Company under the provisions of any applicable law, rule or regulation (including to reflect any restrictions to which you may be subject under any applicable securities laws). If, in the opinion of the Company and its counsel, any legend placed on a stock certificate representing Shares issued under this Agreement is no longer required, the holder of such certificate shall be entitled to exchange such certificate for a certificate representing the same number of Shares but without such legend.

## 6. MISCELLANEOUS PROVISIONS.

(a) **Bye-Laws.** All Shares acquired pursuant to this Agreement shall be subject to any applicable restrictions contained in the Company's Bye-Laws.

(b) **No Retention Rights.** Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue employment for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or any Affiliate employing or retaining the Participant or of the Participant, which rights are hereby expressly reserved by each, to terminate his or her employment at any time and for any reason, with or without Cause.

(c) **Notice.** Any notice required by the terms of this Agreement shall be given in writing and shall be deemed effective upon delivery by hand, upon delivery by reputable express courier or, if the recipient is located in the United States, upon deposit with the United States Postal Service, by registered or certified mail, with postage and fees prepaid. Notice shall be addressed to the Company at its principal executive office and to the Participant at the address that he or she most recently provided in writing to the Company.

(d) **Choice of Law.** This Agreement shall be governed by, and construed in accordance with, the laws of Bermuda.

(e) **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

**(f) Modification or Amendment.** This Agreement may be amended or modified by the Committee; provided that any amendment or modification that would adversely affect the Participant's rights with respect to the Award must be made by written agreement executed by the parties hereto; and provided, that the adjustments permitted pursuant to Sections 4(b) and 7(c) of the Plan may be made without such written agreement.

**(g) Severability.** In the event any provision of this Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of this Agreement, and this Agreement shall be construed and enforced as if such illegal or invalid provision had not been included.

**(h) Compliance with Code Section 409A.** Notwithstanding anything herein to the contrary, (i) if at the time of the Participant's termination of employment with the Company and its Affiliates the Participant is a "specified employee" as defined in Section 409A of the Code and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Participant) until the date that is six months and one day following the Participant's termination of employment with the Company and its Affiliates (or the earliest date as is permitted under Section 409A of the Code) and (ii) if any other payments or other benefits due to the Participant hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, determined by the Committee, that does not cause such an accelerated or additional tax. The Company shall use commercially reasonable efforts to implement the provisions of this Section 6(h) in good faith; provided that neither the Company, the Committee nor any of the Company's employees, directors or representatives shall have any liability to the Participant with respect to this Section 6(h).

**(i) Recoupment Policy.** The Award is subject in all respects to the Company's Executive Compensation Recoupment Policy, as the same may be amended from time to time, or any successor policy thereto.

Performance Metrics for Determining the Number of Earned Award Units

<b>DBVPS Percentile</b>	<b>Performance Multiplier</b>
100%	200%
90% - 99.99%	175%
80% - 89.99%	150%
70% - 79.99%	125%
60% - 69.99%	100%
50% - 59.99%	80%
40% - 49.99%	60%
30% - 39.99%	40%
20% - 29.99%	20%
Less than 20%	10%

For purposes of this Exhibit A, the following terms shall have the following meanings:

“DBVPS” shall mean diluted book value per share, as determined for purposes of the relevant company’s financial reporting purposes.

“DBVPS Percentile” shall mean the Company’s percentile rank among its Peer Group in terms of DBVPS growth during the Performance Period (rounded to the nearest hundredth of a percent), as determined by the Committee in good faith.

“Peer Group” shall mean the peer group of companies identified by the Committee in the Company’s annual proxy statement filed with the U.S. Securities and Exchange Commissions during the same calendar year in which the Award Date occurs.

“Performance Multiplier” shall mean the applicable multiplier as determined in accordance with the table above based on the achieved DBVPS Percentile; provided, however, that in the event that the Period of Restriction terminates prior to the end of the Performance Period due to an event described in Sections 2(i)(b) or 2(i)(c) of the Agreement, then the Performance Multiplier shall automatically be deemed to equal 100%.

“Performance Period” shall mean the period commencing on September 30 of the calendar year preceding the year in which the Award Date occurs and ending on the third anniversary of such date.

## AXIS CAPITAL HOLDINGS LIMITED

### 2007 LONG-TERM EQUITY COMPENSATION PLAN

#### Employee Restricted Stock Unit Agreement

You (the “Participant”) have been granted an award of Restricted Stock Units (the “Award”) with a value based on ordinary shares, par value \$0.0125 per share (“Shares”), of AXIS Capital Holdings Limited, a Bermuda company (the “Company”), pursuant to the AXIS Capital Holdings Limited 2007 Long-Term Equity Compensation Plan (the “Plan”). The date of grant of the Award (the “Award Date”) and the base number of Restricted Stock Units subject to the Award (the “Award Units”) are as set forth in your restricted stock unit account maintained on the Smith Barney Benefit Access website or such other website as may be designated by the Committee (“Benefit Access”). This Award constitutes an unfunded and unsecured promise of the Company to deliver (or cause to be delivered to you) on the terms and conditions set forth herein the Award Units.

By your acceptance of the grant of the Award on Benefit Access, you agree that the Award is granted under and governed by the terms and conditions of the Plan and this Restricted Stock Unit Agreement (the “Agreement”).

#### 1. GRANT OF RESTRICTED STOCK UNITS.

(a) **Award.** On the terms and conditions set forth in this Agreement, the Company hereby grants to the Participant on the Award Date the Award.

(b) **Plan and Defined Terms.** The Award is granted pursuant to the Plan, a copy of which the Participant acknowledges having received. The terms and provisions of the Plan are incorporated into this Agreement by this reference. All capitalized terms that are used in this Agreement and not otherwise defined herein shall have the meanings ascribed to them in the Plan.

#### 2. PERIOD OF RESTRICTION.

(i) The Restricted Stock Units subject to the Award shall be restricted during the period (the “Period of Restriction”) commencing on the Award Date and expiring on the first to occur of:

(a) The vesting of the Award Units. The Award Units shall vest in four equal installments on the first, second, third and fourth anniversary of the Grant Date; provided, that if the Award Units are not evenly divisible by four, then no fractional units shall vest or be exercised and the installments shall be as equal as possible with any smaller installments vesting first;

(b) The Participant’s death or permanent Disability; or

(c) The date of the Participant's termination without Cause or termination for Good Reason, in each case, within 24 months following a Change in Control.

(d) Definitions. As used herein, the following terms shall have the meanings set forth below:

(1) "Cause" shall have the meaning set forth in the Participant's employment agreement with the Company, if any, or in the absence of an employment agreement definition shall mean (A) any act or omission which constitutes a material breach by the Participant of the terms of his or her employment, (B) the Participant's conviction of a felony or commission of any act which would rise to the level of a felony, (C) the Participant's conviction or commission of a lesser crime or offense that adversely impacts or potentially could impact upon the business or reputation of the Company and/or affiliates and subsidiaries in a material way, (D) the Participant's willful violation of specific lawful directives of the Company, (E) the Participant's commission of a dishonest or wrongful act involving fraud, misrepresentation, or moral turpitude causing damage or potential damage to the Company and/or its affiliates and subsidiaries, (F) the Participant's willful failure to perform a substantial part of the Participant's duties or (G) the Participant's breach of fiduciary duty.

(2) "Disability" shall mean the Participant's permanent disability which constitutes a disability within the meaning of Section 409A(a)(2)(C) of the Code.

(3) "Good Reason" shall have the meaning set forth in the Participant's employment agreement with the Company, if any, or in the absence of an employment agreement definition shall mean (A) the scope of the Participant's position, authority or duties with the Company is materially adversely changed, (B) the Participant's compensation is not paid or is materially reduced or there is a material adverse change in the Participant's employee benefits or (C) the Participant is required by the Company to relocate to a place more than 50 miles from the Participant's current place of employment; provided that, in each case, "Good Reason" shall not exist unless the Participant provides the Company with written notice of the Participant's intent to terminate employment as a result of such event, providing the specific reasons therefore, and the Company does not make the necessary corrections within thirty days of receipt of the Participant's written notice, following which the Participant may terminate his or her employment for "Good Reason" within the ten days following expiration of such thirty day notice period.

(ii) Absent subsequent Committee action, the Award Units will not automatically vest upon the Participant's Retirement.

(iii) Notwithstanding the foregoing, to the extent that the Participant is party to an employment agreement with the Company that provides for vesting of the Participant's restricted stock units on an accelerated or otherwise more favorable basis as compared to the terms set forth in this Section 3, then the Award Units shall vest pursuant to the terms set forth in such employment agreement.

### **3. ISSUANCE OF AWARD UNITS.**

Subject to the Participant's continued employment with the Company during the Period of Restriction, the Company shall deliver to the Participant promptly following the close of the Period of Restriction the Award Units. In the event that the Participant's employment terminates for any reason prior to close of the Period of Restriction (except as described in Section 2(i)(b) or 2(i)(c)), the Award will immediately terminate and the Company will have no further obligation or liability to the Participant. Subject to Section 4, any Award Units issued to the Participant generally shall have the rights and privileges of a shareholder of the Company as to such Units.

### **4. RESTRICTIONS, VOTING RIGHTS AND DIVIDEND EQUIVALENTS.**

**(a) Restrictions.** The Award may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated at any time.

**(b) Voting Rights.** Prior to the delivery of Award Units pursuant to this Agreement, the Participant shall not be entitled to exercise any voting rights with respect to the Restricted Stock Units (or the Award Units) and, except as provided in Section 4(c), shall not be entitled to receive dividends or other distributions with respect to the Award Units.

**(c) Dividend Equivalents.** Dividend equivalents may be paid to the Participant with respect to the Award Units during the Period of Restriction as determined from time to time by the Committee. Any dividend equivalents paid with respect to the Award Units during the Period of Restriction will be held by the Company, or a depository appointed by the Committee, for the Participant's account, and interest may be paid on the amount of cash dividend equivalents held at a rate and subject to such terms as may be determined by the Committee. All cash or share dividend equivalents so held, and any interest so paid, shall be payable at the same time as the Award Units are delivered as set forth in Section 3 and shall be forfeited and shall not be paid in the event the Award is terminated as set forth in Section 3.

**(d) Leaves of Absence.** For any purpose under this Agreement, employment shall be deemed to continue while the Participant is on a bona fide leave of absence, if such leave was approved by the Company in writing and if continued crediting of employment for such purpose is expressly required by the terms of such leave or by applicable law (as determined by the Company).

### **5. RESTRICTIONS ON TRANSFER.**

**(a) Transfer Restrictions.** Regardless of whether the offering and sale of Units under the Plan have been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or otherwise, the Company, in its sole discretion, may impose restrictions upon the sale, pledge or other transfer of such Award Units (including the placement of appropriate legends on stock certificates or the imposition of stop-transfer instructions) if, in the judgment of the Company, such restrictions are necessary or desirable in order to achieve compliance with the

Company's Bye-Laws, the Securities Act, the U.S. Securities Exchange Act of 1934, as amended, the securities laws of any country or state or any other applicable law, rule or regulation.

**(b) Legends.** All certificates evidencing Award Units issued under this Agreement shall bear such restrictive legends as are required or deemed advisable by the Company under the provisions of any applicable law, rule or regulation (including to reflect any restrictions to which you may be subject under any applicable securities laws). If, in the opinion of the Company and its counsel, any legend placed on a stock certificate representing Award Units issued under this Agreement is no longer required, the holder of such certificate shall be entitled to exchange such certificate for a certificate representing the same number of Units but without such legend.

## 6. MISCELLANEOUS PROVISIONS.

**(a) Bye-Laws.** All Units acquired pursuant to this Agreement shall be subject to any applicable restrictions contained in the Company's Bye-Laws.

**(b) No Retention Rights.** Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue employment for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or any Affiliate employing or retaining the Participant or of the Participant, which rights are hereby expressly reserved by each, to terminate his or her employment at any time and for any reason, with or without Cause.

**(c) Notice.** Any notice required by the terms of this Agreement shall be given in writing and shall be deemed effective upon delivery by hand, upon delivery by reputable express courier or, if the recipient is located in the United States, upon deposit with the United States Postal Service, by registered or certified mail, with postage and fees prepaid. Notice shall be addressed to the Company at its principal executive office and to the Participant at the address that he or she most recently provided in writing to the Company.

**(d) Choice of Law.** This Agreement shall be governed by, and construed in accordance with, the laws of Bermuda.

**(e) Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

**(f) Modification or Amendment.** This Agreement may be amended or modified by the Committee; provided that any amendment or modification that would adversely affect the Participant's rights with respect to the Award must be made by written agreement executed by the parties hereto; and provided, that the adjustments permitted pursuant to Sections 4(b) and 7(c) of the Plan may be made without such written agreement.

**(g) Severability.** In the event any provision of this Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining

provisions of this Agreement, and this Agreement shall be construed and enforced as if such illegal or invalid provision had not been included.

**(h) Compliance with Code Section 409A.** Notwithstanding anything herein to the contrary, (i) if at the time of the Participant's termination of employment with the Company and its Affiliates the Participant is a "specified employee" as defined in Section 409A of the Code and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Participant) until the date that is six months and one day following the Participant's termination of employment with the Company and its Affiliates (or the earliest date as is permitted under Section 409A of the Code) and (ii) if any other payments or other benefits due to the Participant hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, determined by the Committee, that does not cause such an accelerated or additional tax. The Company shall use commercially reasonable efforts to implement the provisions of this Section 6(h) in good faith; provided that neither the Company, the Committee nor any of the Company's employees, directors or representatives shall have any liability to the Participant with respect to this Section 6(h).

**(i) Recoupment Policy.** The Award is subject in all respects to the Company's Executive Compensation Recoupment Policy, as the same may be amended from time to time, or any successor policy thereto.



**AXIS CAPITAL HOLDINGS LIMITED**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS**

Year ended December 31,	2013	2012	2011	2010	2009
Earnings: income before income taxes	\$ 734,467	\$ 550,528	\$ 61,538	\$ 895,403	\$ 539,861
Add: fixed charges	67,944	67,898	66,185	58,010	34,061
<b>Earnings for computation</b>	<b>\$ 802,411</b>	<b>\$ 618,426</b>	<b>\$ 127,723</b>	<b>\$ 953,413</b>	<b>\$ 573,922</b>
Assumed interest component of rent expense <sup>(1)</sup>	\$ 8,866	\$ 8,849	\$ 7,163	\$ 5,798	\$ 4,860
Interest expense	59,078	59,049	59,022	52,212	29,201
<b>Total fixed charges</b>	<b>\$ 67,944</b>	<b>\$ 67,898</b>	<b>\$ 66,185</b>	<b>\$ 58,010</b>	<b>\$ 34,061</b>
<b>Ratio of earnings to fixed charges</b>	<b>11.8</b>	<b>9.1</b>	<b>1.9</b>	<b>16.4</b>	<b>16.8</b>
Preferred share dividends <sup>(2)</sup>	\$ 40,474	\$ 38,228	\$ 36,875	\$ 36,875	\$ 36,875
<b>Total fixed charges and preferred share dividends</b>	<b>\$ 108,418</b>	<b>\$ 106,126</b>	<b>\$ 103,060</b>	<b>\$ 94,885</b>	<b>\$ 70,936</b>
<b>Ratio of earnings to fixed charges and preferred share dividends</b>	<b>7.4</b>	<b>5.8</b>	<b>1.2</b>	<b>10.0</b>	<b>8.1</b>

(1) 33.3% represents a reasonable approximation of the interest factor.

(2) Dividends have been tax effected at a 0% rate because it is presumed they will be funded from a Bermuda entity.

**AXIS CAPITAL HOLDING LIMITED  
SUBSIDIARIES OF THE REGISTRANT**

<u>Subsidiaries</u>	<u>Jurisdiction of Incorporation</u>
AXIS Bermuda Services Limited	Bermuda
AXIS Specialty Holdings Bermuda Limited	Bermuda
AXIS Specialty Limited	Bermuda
AXIS Specialty Markets Limited	Bermuda
AXIS Specialty Markets II Limited	Bermuda
AXIS Ventures Limited	Bermuda
AXIS Ventures Reinsurance Limited	Bermuda
AXIS Re SE	Ireland
AXIS Specialty Europe SE	Ireland
AXIS Specialty Global Holdings Limited	Ireland
AXIS Specialty Holdings Ireland Limited	Ireland
AXIS Specialty Insurance Company	Connecticut
AXIS Group Services, Inc.	Delaware
AXIS Specialty Finance LLC	Delaware
AXIS Specialty U.S. Holdings, Inc.	Delaware
AXIS Specialty U.S. Services, Inc.	Delaware
AXIS Insurance Company	Illinois
AXIS Surplus Insurance Company	Illinois
AXIS Reinsurance Company	New York
AXIS Corporate Capital UK Limited	United Kingdom
AXIS Specialty Finance PLC	United Kingdom
AXIS Specialty UK Holdings Limited	United Kingdom

AXIS UK Corporate Services Limited

United Kingdom

Dexta Corporation Pty Ltd

Australia

Sirius Australia Holdings Pty Ltd

Australia

AXIS Re SE Escritório de Representação No Brasil Ltda.

Brazil

AXIS Specialty Canada Services, ULC

British Columbia

**AXIS CAPITAL HOLDINGS LIMITED**  
**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-165548 on Form S-3 and Registration Statement Nos. 333-159275 and 333-110228 on Form S-8 of our reports dated February 21, 2014, relating to the financial statements and financial statement schedules of AXIS Capital Holdings Limited and subsidiaries (the “Company”), and the effectiveness of the Company’s internal control over financial reporting appearing in this Annual Report on Form 10-K of AXIS Capital Holdings Limited and subsidiaries for the year ended December 31, 2013.

/s/ Deloitte & Touche Ltd.

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Hamilton, Bermuda

February 21, 2014

**CERTIFICATION**  
**AXIS Capital Holdings Limited**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Albert Benchimol, certify that:

1. I have reviewed this Annual Report on Form 10-K of AXIS Capital Holdings Limited for the period ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2014

/s/ ALBERT BENCHIMOL

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Albert Benchimol  
President and Chief Executive Officer

**CERTIFICATION**  
**AXIS Capital Holdings Limited**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Joseph Henry, certify that:

1. I have reviewed this Annual Report on Form 10-K of AXIS Capital Holdings Limited for the period ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2014

/S/ JOSEPH HENRY

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Joseph Henry  
Executive Vice President and Chief Financial Officer

**AXIS CAPITAL HOLDINGS LIMITED  
CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of AXIS Capital Holdings Limited (the “Company”) for the period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Albert Benchimol, Chief Executive Officer of the Company, hereby certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 21, 2014

/s/ ALBERT BENCHIMOL

Albert Benchimol

President and Chief Executive Officer

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

**AXIS CAPITAL HOLDINGS LIMITED  
CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of AXIS Capital Holdings Limited (the “Company”) for the period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joseph Henry, Chief Financial Officer of the Company, hereby certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 21, 2014

/s/ JOSEPH HENRY

Joseph Henry

Executive Vice President and Chief Financial Officer

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.