

REPORT ON EXAMINATION

OF THE

AXIS REINSURANCE COMPANY

AS OF

DECEMBER 31, 2012

DATE OF REPORT

MARCH 21, 2014

EXAMINER

HAILS TAYLOR

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

March 21, 2014

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31017 dated July 15, 2013, attached hereto, I have made an examination into the condition and affairs of AXIS Reinsurance Company as of December 31, 2012, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate AXIS Reinsurance Company.

Whenever the term “AXIS U.S. Holdings” appear herein without qualification, it should be understood to mean the AXIS Specialty U.S. Holdings, Inc., an insurance holding company domiciled in Delaware.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s administrative office located at 11680 Great Oaks Way, Alpharetta, GA 30022.

The Company’s statutory home office is located at 1211 Avenue of the Americas, 24th Floor, New York, NY 10036.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2007. This examination covered the five year period from January 1, 2008 through December 31, 2012. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment and an evaluation based upon the Company’s Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

AXIS Reinsurance Company was incorporated on July 25, 1991 and commenced business on January 1, 1992 under the name Sun Insurance Office of America, to be the domesticated successor to Sun Insurance Office Limited (United States Branch).

Effective January 1, 1994, ownership of the Company was transferred, via a stock exchange, to Sun Alliance USA Inc., a wholly-owned subsidiary of Sun Alliance Group PLC.

On July 19, 1996, Sun Alliance Group PLC merged with Royal Insurance Holdings PLC, forming a new holding company called Royal & Sun Alliance Insurance Group PLC. Subsequently the Company changed its name to Royal & Sun Alliance Personal Insurance Company effective January 1, 1999. Effective December 8, 1999, ownership of the Company was transferred, via a stock exchange, to Royal Group Inc.

Effective August 21, 2000, ownership of the Company was transferred, via a stock exchange, to Royal Insurance Company of America.

On November 27, 2002, AXIS Specialty U.S. Holdings, Inc., a Delaware holding company, acquired the Company from Royal Insurance Company of America and subsequently changed its name to AXIS Reinsurance Company.

On September 23, 2008, the Company established a Canadian branch, AXIS Reinsurance Company (Canadian Branch). As of December 31, 2012, the Company is wholly-owned by AXIS Specialty U.S. Holdings, Inc. and is ultimately owned by AXIS Capital Holdings Limited, a holding company organized under the laws of Bermuda.

At December 31, 2012, capital paid in is \$5,000,000, consisting of 100 shares of common stock at \$50,000 par value per share. Gross paid in and contributed surplus is \$550,349,476, which remained unchanged during the examination period.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than twenty-one members. On December 13, 2012, the Company amended and restated its charter to reduce the minimum number of directors from thirteen to seven. The revised charter and bylaws reflecting the changes were filed with the Department. At December 31, 2012, the board of directors was comprised of the following seven members:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|--|--|
| Christopher A. Donelan Williston Park, NY | Executive Vice President, AXIS Reinsurance, Resigned on October 15, 2013 |
| William A. Fischer Mendham, NJ | Chief Underwriting Officer, AXIS Reinsurance, AXIS Specialty U.S. Services, Inc. |
| Robert J. Looney Jr. Summit, NJ | Chief Operating Officer, AXIS Reinsurance, AXIS Specialty U.S. Services, Inc. |
| Carlton W. Maner Lithonia, GA | Divisional CEO- Property & Casualty, AXIS Insurance – US - AXIS Specialty U.S. Services, Inc. |
| Gregory W. Springer Alpharetta, GA | Executive Vice President, AXIS Ceded Reinsurance, AXIS Specialty U.S. Services, Inc. |
| Linda Ventresca New York, NY | Executive Vice President, Corporate Development/Investor Relations, AXIS Specialty U.S. Services, Inc. |
| Andrew M. Weissert Marietta, GA | Executive Vice President, US General Counsel, AXIS Specialty U.S. Services, Inc. |

A review of the minutes of the board of directors revealed that the board did not hold any regular or annual meetings during the period covered by this examination. In lieu of formal board meetings, the Company's by-laws allow the board to take action if all of the members consent in writing ("Unanimous Written Consents") to the adoption of a resolution authorizing the action taken.

As of December 31, 2012, the principal officers of the Company were as follows:

| <u>Name</u> | <u>Title</u> |
|-------------------------|---------------------------------------|
| Robert J. Looney Jr. | President and Chief Executive Officer |
| Andrew M. Weissert | General Counsel and Secretary |
| Norman J. Tees | Senior Vice President and Treasurer |
| Christopher A. Donelan | Executive Vice President |
| Nicholas M. Leccese Jr. | Senior Vice President and Actuary |
| John M. Intondi | Senior Vice President – Claims |

B. Territory and Plan of Operation

As of December 31, 2012 the Company was licensed to write business in all fifty states, the District of Columbia, Puerto Rico, and Canada.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

| <u>Paragraph</u> | <u>Line of Business</u> |
|------------------|--|
| 3 | Accident & health |
| 4 | Fire |
| 5 | Miscellaneous property |
| 6 | Water damage |
| 7 | Burglary and theft |
| 8 | Glass |
| 9 | Boiler and machinery |
| 10 | Elevator |
| 11 | Animal |
| 12 | Collision |
| 13 | Personal injury liability |
| 14 | Property damage liability |
| 15 | Workers' compensation and employers' liability |
| 16 | Fidelity and surety |
| 17 | Credit |
| 19 | Motor vehicle and aircraft physical damage |
| 20 | Marine and inland marine |
| 21 | Marine protection and indemnity |
| 22 | Residual value |
| 24 | Credit unemployment |
| 29 | Legal services |

In addition, the Company is licensed to transact such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a)

including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended), and the kinds of insurance and reinsurance as defined in Section 4102(c) of the New York Insurance Law.

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

| <u>Calendar Year</u> | <u>New York State</u> | <u>Total Premiums</u> | <u>Premiums Written in New York State as a Percentage of Total Premium</u> |
|----------------------|-----------------------|-----------------------|--|
| 2008 | \$8,246,410 | \$127,151,772 | 6.49% |
| 2009 | \$5,836,360 | \$132,214,737 | 4.41% |
| 2010 | \$4,470,382 | \$140,399,115 | 3.18% |
| 2011 | \$4,947,936 | \$143,736,312 | 3.44% |
| 2012 | \$2,036,870 | \$127,890,238 | 1.59% |

The Company's direct business consists primarily of commercial property, liability, professional lines and other specialty program. The Company's reinsurance writings covering U.S exposures consist primarily of treaty reinsurance business comprised of professional lines (medical malpractice, directors' and officers', employment practices liability and miscellaneous errors and omissions), liability (auto liability, general liability, umbrella and workers' compensation), property (specialty companies), surety (North American and Canadian contract surety, commercial surety and financial products indemnity bonds supporting surety companies), and marine and aviation. Business is transacted primarily through licensed reinsurance brokers.

In 2008, previously written direct business began renewing in AXIS Insurance Company, an affiliate domiciled in Illinois. This process of renewing continued in 2012 and is reflected in the direct written premiums. Consequently, the Company currently primarily writes assumed reinsurance in the US. In September 2008, the Company established a branch in Canada to transact insurance and reinsurance business.

C. Reinsurance

Assumed

During the period covered by this examination, the Company's assumed reinsurance business has increased and accounted for 87% of the Company's gross premium written at December 31, 2012. The Company's assumed reinsurance consists mainly of property and casualty, multi-line coverage assumed on a quota share and excess of loss basis, pursuant to the terms of facultative and treaty agreements with both authorized and unauthorized cedants. Additionally, the Company's participation in various mandated pools is reflected in its assumed reinsurance activity.

The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business. The following intercompany reinsurance treaties are in place:

| <u>Type of Treaty</u> | <u>Cession</u> |
|--|---|
| AXIS Surplus Insurance Company - E&S Umbrella and Excess Quota Share | 100% quota share of the net retained liability on all insurance and reinsurance contracts classified as E&S Umbrella and Excess (net of inuring facultative). This agreement inures to the benefit of the below 70% quota share. |
| AXIS Surplus Insurance Company Quota Share | 70% quota share of the net retained liability on all insurance and reinsurance contracts. |
| AXIS Insurance Company Quota Share | 80% quota share of the net retained liability on all insurance and reinsurance contracts written through the New York Free Trade Zone. |
| AXIS Insurance Company Facultative Reinsurance | AXIS Insurance Company cedes to the Company on a facultative basis certain policies, whereby the premium, retention and limits of the facultative certificates to be issued will be determined by AXIS Insurance Company on a policy by policy basis. |

Ceded

The Company's ceded reinsurance program is as follows:

| <u>Type of Treaty</u> | <u>Cession</u> |
|---|--|
| <u>Property</u> | |
| U.S. Property per risk | \$5M excess of \$5M (100% placed). |
| U.S. Property/ Risk Management/ Global Property/ Onshore Cargo/ MGAs/ Energy per risk | 2 nd layer: \$15M excess of \$10M (80% placed). 3 rd layer: \$25M excess of \$25M (80% placed). 4 th layer: \$50M excess of \$50M (100% placed). |
| E&S Property per risk | \$15M excess of \$10M (60% placed). |
| Catastrophe (North America) | 1 st layer: \$100M excess of \$150M, Wind, Earthquake and Fire Following (50% placed). 2 nd layer: \$175M excess of \$250M, Wind, Earthquake and Fire Following (100% placed). 3 rd layer: \$250M excess of \$425M Excluding Named Hurricanes (100% placed). |
| Catastrophe (Rest of the World) | 1 st layer: \$25M excess of \$40M (100% placed*). 2 nd layer: \$50M excess of \$65M (100% placed*). |
| | *50% including Caribbean, Bermuda and Hawaii, 50% excluding Caribbean, Bermuda and Hawaii. |
| Catastrophe Top Only Cover | Section A: \$100M excess of \$425M (Named hurricanes only) (100% placed). Section B: \$100M excess of \$675M (Excludes named hurricanes) (100% placed). |
| <u>Casualty</u> | |
| U.S. Umbrella and Excess Casualty | 75% quota share up to \$25M each loss, each insured for ISO 1A and 2B business, and up to \$10M each loss, each insured for ISO 3C business. |
| Commercial General Liability, Umbrella and Excess Casualty – AXIS Reinsurance Company (Canadian Branch) | Section 1: 75% Primary Casualty Quota Share up to \$5M each loss, each insured. Section 2: Umbrella/Excess Quota Share up to \$25M each loss, each insured. |
| U.S. Excess Auto Liability (Auto Carve Out) | 75% quota share up to \$3M combined single limit, each policy, each occurrence in excess of \$1M retention. |

Type of TreatyCession

Professional Lines/ Directors and Officers/
Employer's Liability – U.S. and Non-U.S.
business (excluding Canada and Bermuda)

40% quota share up to \$25M each loss, each
insured.

Professional Lines/ Directors and Officers/
Employer's Liability – AXIS Reinsurance
Company (Canadian Branch)

65% quota share up to \$25M each loss, each
insured.

U.S. Specialty Errors and Omissions and Cyber
Liability (AXIS Pro MPLI/Tech) per risk excess

1st layer: \$1M excess of \$1M (42.5% placed).
2nd layer: \$3M excess of \$2M (95% placed).
3rd layer: \$5M excess of \$5M (85% placed).

U.S. Professional Liability (AXIS Pro
Media/Film) per risk excess

1st layer: \$1M excess of \$1M (35% placed).
2nd layer: \$3M excess of \$2M (90% placed).
3rd layer: \$5M excess of \$5M (100% placed).
4th layer: \$5M excess of \$10M (95% placed).

U.S. Errors and Omissions

50% quota share up to \$15M each loss, each
insured.

International Professional Indemnity – AXIS
Reinsurance Company (Canadian Branch)

CAD 9M excess of CAD 1M per risk (3 layers,
100% placed).

U.S. Directors and Officers – Miscellaneous
Professional Liability

75% quota share up to \$5M each loss, each
insured.

Environmental and Professional Liability

45% quota share up to \$25M each policy, each
occurrence.

Captive Quota Share (Ski Safe) Property and
Liability Marine

45% quota share each loss, each insured. Losses
above \$300K per occurrence are excluded, but
are covered via facultative placements. (25%
premium quota share).

American Specialty quota share

75% quota share up to \$10M each loss.

The Company also had the following intercompany ceded reinsurance agreements in place as of the examination date:

Type of TreatyCession

AXIS Specialty Limited Quota Share

50% quota share of the net retained liability on all
insurance and reinsurance contracts written by
the Company.
25% quota share of the net retained liability on all

Type of TreatyCession

| | |
|----------------------------------|---|
| | insurance and reinsurance contracts written by AXIS Reinsurance Company Canadian Branch. |
| AXIS Specialty Limited Stop Loss | 100% of the amount by which the Company's calendar year ultimate net loss ratio incurred exceeds 80%, subject to an aggregate annual limit of liability of an ultimate net loss ratio incurred of 120%. |

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law. All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

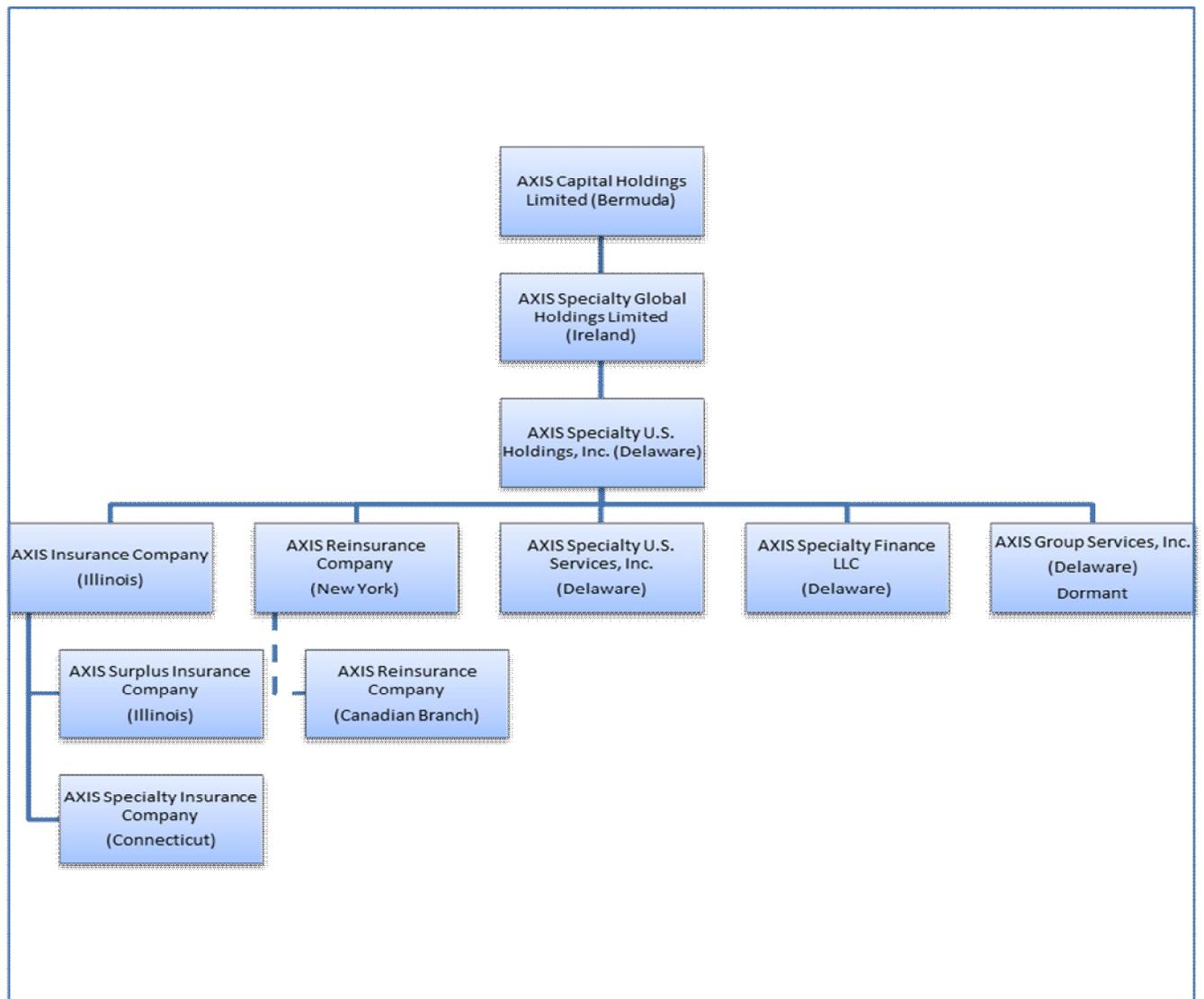
It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed, on a sample basis, for compliance with Department Regulation No. 133. No exceptions were noted.

Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 41 to 44 of SSAP No. 62.

D. Holding Company System

The Company is a member of the AXIS Capital Holdings Limited. The Company is a wholly-owned subsidiary of AXIS Specialty U.S. Holdings, Inc., a Delaware corporation, which is ultimately controlled by AXIS Capital Holdings Limited, a holding company organized under the laws of Bermuda. A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2012.



At December 31, 2012, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

Effective December 1, 2002, the Company and other members of the AXIS Group entered into an income tax sharing agreement, whereby the companies file a consolidated federal income tax return to provide for the payment of federal tax liabilities or refunds of members of the group. A review of this agreement determined that it is in compliance with Department Circular Letter No. 33 (1979).

Administrative Agreement

Effective November 27, 2002, the Company entered into an Administrative Service agreement with AXIS Specialty Limited, an affiliated insurance and reinsurance company organized under the laws of Bermuda. The agreement stipulates for AXIS Specialty Limited to provide from its offices in Bermuda or from outside of the United States, the services of reinsurance security, investment and cash flow management, and general corporate services on a cost reimbursement basis. This agreement was filed with the Department pursuant to Section 1505(d) of New York Insurance Law.

The agreement was terminated effective January 1, 2013.

Expense Allocation Agreement

Effective November 27, 2002, the Company entered into an expense allocation agreement with AXIS Specialty U.S. Services Inc. (“ServiceCo”), an affiliated Delaware corporation. Pursuant to the terms of the agreement, ServiceCo will provide the services of personnel, office space and use of office equipment. Costs and expenses will be determined and allocated pursuant to the provisions of Department Regulation 30. This agreement was filed with the Department pursuant to Section 1505(d) of New York Insurance Law.

Fee Agreement

Effective August 24, 2010, the Company and other members of the holding company system participate in a fee agreement. The fee agreement is associated with a revolving senior credit facility entered into between Bank of America and a group of financial institutions and AXIS Capital Holdings Limited (“AXIS Capital”) and its insurer affiliates. Under the credit facility, AXIS Capital is responsible for the payment of certain fees. Under the fee agreement, the Company agrees to pay its pro rata share of those fees. This agreement was filed with the Department pursuant to Section 1505(d) of New York Insurance Law.

The agreement was amended on December 1, 2011 to remove AXIS Specialty Insurance Company as a party to the agreement.

Representative Agreement

Effective January 24, 2008, the Company was a party to a representative agreement for services provided by AXIS UK Services, the UK branch of its affiliate AXIS Specialty Holdings Ireland Limited. Pursuant to this agreement, AXIS UK Services will act as fiscal representative to the UK Tax Authority in connection with insurance premium tax filings and other relevant tax filings. This agreement was filed with the Department pursuant to Section 1505(d) of New York Insurance Law.

The Agreement was terminated effective January 1, 2013.

Collateral Fee Agreement

Effective May 14, 2010, the Company and other members of the holding company system entered into a Collateral Fee agreement. The collateral fee agreement is associated with a letter of credit facility entered into between AXIS Specialty Limited, an affiliated Bermuda insurer, and Citibank Europe PLC. The assets pledged under the letter of credit facility to secure the letters of credit issued thereunder will be pledged by AXIS Specialty Limited. In consideration of the pledge, the Company and the affiliates will pay an annual fee to AXIS Specialty Limited based on the letters of credit issued and outstanding on behalf of each company. This agreement was filed with the Department pursuant to Section 1505(d) of New York Insurance Law.

On August 4, 2011, the Department approved an amendment to the Collateral Fee Agreement. Effective January 27, 2012 AXIS Specialty was removed as a party to the agreement.

Reinsurance Recoverable Transfer Agreement

Effective November 16, 2011, the Company and other members of the holding company entered into a reinsurance recoverable transfer agreement. Pursuant to the agreement, AXIS Surplus Insurance Company (“AXIS Surplus”) will act as the lockbox company and will receive reinsurance recoverable payments to an account maintained at Wells Fargo Bank from third parties that are intended for another company. AXIS Surplus shall then identify the proper recipient of the reinsurance recoverable payments and will transfer the amounts to the recipient within seven days. AXIS Surplus will receive the interest earned on investing the recoverable payments and will receive no other compensation. This agreement was filed with the Department pursuant to Section 1505(d) of New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2012, based upon the results of this examination:

| | |
|--|-----|
| Net premiums written to surplus as regards policyholders | 54% |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 73% |
| Premiums in course of collection to surplus as regards policyholders | 10% |

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five- year period covered by this examination:

| | <u>Amounts</u> | <u>Ratios</u> |
|--|------------------------|----------------|
| Losses and loss adjustment expenses incurred | \$1,229,277,523 | 63.25% |
| Other underwriting expenses incurred | 709,711,720 | 36.52 |
| Net underwriting gain | <u>4,482,442</u> | <u>0.23</u> |
| Premiums earned | <u>\$1,943,471,685</u> | <u>100.00%</u> |

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2012 as determined by this examination and as reported by the Company:

| <u>Assets</u> | <u>Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> |
|--|------------------------|--------------------------------|--------------------------------|
| Bonds | \$1,828,788,354 | \$0 | \$1,828,788,354 |
| Common stocks (stocks) | 86,314,851 | 0 | 86,314,851 |
| Cash, cash equivalents and short-term investments | 117,669,824 | 0 | 117,669,824 |
| Other invested assets | 1,386,682 | 1,386,682 | 0 |
| Receivables for securities | 11,882 | 0 | 11,882 |
| Subtotals, cash and invested assets | 2,034,171,593 | 1,386,682 | 2,032,784,911 |
| Investment income due and accrued | 14,824,000 | 10,313 | 14,813,687 |
| Uncollected premiums and agents' balances in the course of collection | 79,922,292 | 1,158,845 | 78,763,447 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 256,507,442 | 0 | 256,507,442 |
| Amounts recoverable from reinsurers | 47,860,034 | 0 | 47,860,034 |
| Funds held by or deposited with reinsured companies | 5,976,752 | 0 | 5,976,752 |
| Current federal and foreign income tax recoverable and interest thereon | 2,852,047 | 0 | 2,852,047 |
| Net deferred tax asset | 86,326,612 | 37,407,723 | 48,918,889 |
| Net adjustment in assets and liabilities due to foreign exchange rates | 184,700 | 0 | 184,700 |
| Receivables from parent, subsidiaries and affiliates | 670,398 | 0 | 670,398 |
| Aggregate write-ins for other than invested assets | <u>11,898,727</u> | <u>46,521</u> | <u>11,852,206</u> |
| Totals | <u>\$2,541,194,597</u> | <u>\$40,010,084</u> | <u>\$2,501,184,513</u> |

Liabilities, surplus and other funds

| | | |
|---|--------------------|------------------------|
| Losses and loss adjustment expenses | | \$1,242,596,392 |
| Reinsurance payable on paid losses and loss adjustment expenses | | 33,605,361 |
| Commissions payable, contingent commissions and other similar charges | | 3,878,735 |
| Other expenses (excluding taxes, licenses and fees) | | 1,431,596 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | | 1,440,053 |
| Unearned premiums | | 289,424,273 |
| Advance premium | | 123,763 |
| Ceded reinsurance premiums payable (net of ceding commissions) | | 88,413,398 |
| Funds held by company under reinsurance treaties | | 35,414,219 |
| Amounts withheld or retained by company for account of others | | 55,467 |
| Remittances and items not allocated | | 1,904,954 |
| Provision for reinsurance | | 20,010,000 |
| Payable to parent, subsidiaries and affiliates | | 20,675,633 |
| Payable for securities | | 4,662,966 |
| Aggregate write-ins for liabilities | | <u>745,823</u> |
| Total liabilities | | \$1,744,382,633 |
| <u>Surplus and Other Funds</u> | | |
| Common capital stock | \$ 5,000,000 | |
| Gross paid in and contributed surplus | 550,349,476 | |
| Unassigned funds (surplus) | <u>201,452,404</u> | |
| Surplus as regards policyholders | | <u>756,801,880</u> |
| Totals | | <u>\$2,501,184,513</u> |

Note: The Internal Revenue Service has never completed an audit of the Company's consolidated Federal Income Tax Returns. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Surplus as regards policyholders increased \$149,682,792 during the five-year examination period January 1, 2008 through December 31, 2012, detailed as follows:

Underwriting Income

| | | |
|--|--------------------|----------------------|
| Premiums earned | | \$1,943,471,685 |
| Deductions: | | |
| Losses and loss adjustment expenses incurred | \$1,229,277,523 | |
| Other underwriting expenses incurred | <u>709,711,720</u> | |
| Total underwriting deductions | | <u>1,938,989,243</u> |
| Net underwriting gain or (loss) | | \$ 4,482,442 |

Investment Income

| | | |
|-------------------------------|---------------------|-------------|
| Net investment income earned | \$266,884,715 | |
| Net realized capital gain | <u>(32,500,841)</u> | |
| Net investment gain or (loss) | | 234,383,874 |

Other Income

| | | |
|--|------------------|----------------------|
| Net gain or (loss) from agents' or premium balances charged off | \$ (127,294) | |
| Aggregate write-ins for miscellaneous income | <u>2,577,208</u> | |
| Total other income | | <u>2,449,914</u> |
| Net income before dividends to policyholders and before federal and foreign income taxes | | \$241,316,230 |
| Federal and foreign income taxes incurred | | <u>82,464,790</u> |
| Net Income | | <u>\$158,851,440</u> |

| | | | |
|--|-------------------------|--------------------------|----------------------|
| Surplus as regards policyholders per report on examination as of December 31, 2007 | | | \$607,119,089 |
| | <u>Gains in Surplus</u> | <u>Losses in Surplus</u> | |
| Net income | \$158,851,440 | | |
| Net unrealized capital gains or (losses) | 9,308,619 | | |
| Change in net unrealized foreign exchange capital gain (loss) | 1,968,748 | | |
| Change in net deferred income tax | 23,301,416 | | |
| Change in nonadmitted assets | 10,934,562 | | |
| Change in provision for reinsurance | | \$18,264,907 | |
| Cumulative effect of changes in accounting principles | 1,867,902 | | |
| Dividends to stockholders | | 38,000,000 | |
| Aggregate write-ins for gains and losses in surplus | <u>0</u> | <u>284,988</u> | |
| Net increase (decrease) in surplus | <u>\$206,232,687</u> | <u>\$56,549,895</u> | <u>\$149,682,792</u> |
| Surplus as regards policyholders per report on examination as of December 31, 2012 | | | <u>\$756,801,881</u> |

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$1,242,596,392 is the same as reported by the Company as of December 31, 2012. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

| <u>ITEM</u> | <u>PAGE NO.</u> |
|---|-----------------|
| A <u>Accounts and Records</u> | |
| It was recommended that the Company file the form required pursuant to Part 33.3(b) of Department Regulation 120 regarding its appointment of Sullivan and Strauss as an MGA. | 7 |

The Company has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

_____/s/_____
Hails Taylor, CFE
Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

HAILS TAYLOR, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of his knowledge and belief.

_____/s/_____
Hails Taylor

Subscribed and sworn to before me

this _____ day of _____, 2014.

APPOINTMENT NO. 31017

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Hails Taylor

as a proper person to examine the affairs of the

Axis Reinsurance Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as she shall deem requisite.

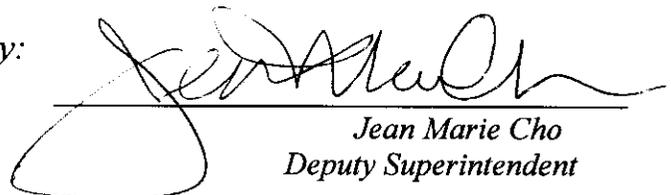
In Witness Whereof, I have hereunto subscribed by name and affixed the official Seal of the Department at the City of New York

this 15th day of July, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:


Jean Marie Cho
Deputy Superintendent