

AXIS CAPITAL HOLDINGS LTD
Form 10-Q
April 28, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

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)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to

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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 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 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 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

As of April 28, 2008 there were 142,400,716 Common Shares, \$0.0125 par value per share, of the registrant outstanding.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED

INDEX TO FORM 10-Q

	Page
<u>PART I</u>	
	<u>Financial Information</u>
Item 1.	<u>Consolidated Financial Statements</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
Item 4.	<u>Controls and Procedures</u>
<u>PART II</u>	
	<u>Other Information</u>
Item 1.	<u>Legal Proceedings</u>
Item 1A.	<u>Risk Factors</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
Item 6.	<u>Exhibits</u>
	<u>Signatures</u>

Table of Contents

PART I FINANCIAL INFORMATION

Cautionary Statement Regarding Forward-looking Statements

This quarterly report contains forward-looking statements within the meaning of the U.S. federal securities laws. 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 estimation 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, the following:

the occurrence of natural and man-made disasters,

actual claims exceeding our loss reserves,

general economic, capital and credit market conditions,

the failure of any of the loss limitation methods we employ,

the failure of our cedants to adequately evaluate risks,

the loss of one or more key executives,

a decline in our ratings with rating agencies,

loss of business provided to us by our major brokers,

changes in accounting policies or practices,

changes in governmental regulations,

increased competition,

changes in the political environment of certain countries in which we operate or underwrite business,

fluctuations in interest rates, credit spreads, equity prices and/or currency values, and

the other matters set forth under Item 1A, Risk Factors and Item 7, Management's Discussion and Analysis of Financial Conditions and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2008.

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

Table of Contents

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Consolidated Balance Sheets as at March 31, 2009 (Unaudited) and December 31, 2008</u>	5
<u>Consolidated Statements of Operations for the three months ended March 31, 2009 and 2008 (Unaudited)</u>	6
<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2009 and 2008 (Unaudited)</u>	7
<u>Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2009 and 2008 (Unaudited)</u>	8
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2009 and 2008 (Unaudited)</u>	9
<u>Notes to the Consolidated Financial Statements (Unaudited)</u>	10

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED BALANCE SHEETS****MARCH 31, 2009 (UNAUDITED) AND DECEMBER 31, 2008**

	2009	2008
	(in thousands)	
Assets		
Investments:		
Fixed maturities, available for sale, at fair value (Amortized cost 2009: \$8,980,894; 2008: \$8,404,994)	\$ 8,238,175	\$ 7,750,654
Equity securities, available for sale, at fair value (Cost 2009: \$127,044; 2008: \$164,330)	78,527	107,283
Other investments, at fair value	494,405	492,082
Short-term investments, available for sale, at fair value (Amortized cost: 2009: \$227,922; 2008, \$266,640)	225,583	261,879
Total investments	9,036,690	8,611,898
Cash and cash equivalents	1,309,924	1,697,581
Restricted cash and cash equivalents	101,627	123,092
Accrued interest receivable	80,746	79,232
Insurance and reinsurance premium balances receivable	1,581,743	1,185,785
Reinsurance recoverable balances	1,375,143	1,304,551
Reinsurance recoverable balances on paid losses	57,507	74,079
Deferred acquisition costs	375,774	273,096
Prepaid reinsurance premiums	266,789	279,553
Securities lending collateral	312,364	412,823
Goodwill and intangible assets	95,380	60,417
Other assets	183,679	180,727
Total assets	\$ 14,777,366	\$ 14,282,834
Liabilities		
Reserve for losses and loss expenses	\$ 6,392,278	\$ 6,244,783
Unearned premiums	2,646,578	2,162,401
Insurance and reinsurance balances payable	154,763	202,145
Securities lending payable	317,310	415,197
Senior notes	499,395	499,368
Other liabilities	222,832	233,082
Net payable for investments purchased	51,373	64,817
Total liabilities	10,284,529	9,821,793
Commitments and Contingencies		
Shareholders equity		
Preferred shares - Series A and B	500,000	500,000
Common shares (2009: 137,622; 2008: 136,212 shares issued and outstanding)	1,899	1,878
Additional paid-in capital	1,977,144	1,962,779
Accumulated other comprehensive loss	(767,182)	(706,499)
Retained earnings	3,282,392	3,198,492

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Treasury shares, at cost (2009: 14,463; 2008: 14,243 shares)	(501,416)	(495,609)
Total shareholders equity	4,492,837	4,461,041
Total liabilities and shareholders equity	\$ 14,777,366	\$ 14,282,834

See accompanying notes to Consolidated Financial Statements

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008**

	2009	2008
	(in thousands, except for per share amounts)	
Revenues		
Net premiums earned	\$ 665,359	\$ 658,634
Net investment income	99,292	85,651
Net realized investment (losses) gains	(40,597)	35,685
Other insurance related (loss) income	(9,395)	2,002
Total revenues	714,659	781,972
Expenses		
Net losses and loss expenses	387,999	361,681
Acquisition costs	101,976	94,480
General and administrative expenses	86,557	78,750
Foreign exchange gains	(389)	(20,297)
Interest expense and financing costs	7,921	7,958
Total expenses	584,064	522,572
Income before income taxes	130,595	259,400
Income tax expense	5,697	12,459
Net income	124,898	246,941
Preferred share dividends	9,219	9,219
Net income available to common shareholders	\$ 115,679	\$ 237,722
Weighted average common shares and common share equivalents:		
Basic	137,316	143,239
Diluted	149,023	160,184
Earnings per common share:		
Basic	\$ 0.84	\$ 1.66
Diluted	\$ 0.78	\$ 1.48
Cash dividends declared per common share	\$ 0.20	\$ 0.19

See accompanying notes to Consolidated Financial Statements.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

	2009	2008
	(in thousands)	
Net income	\$ 124,898	\$ 246,941
Other comprehensive income (loss), net of tax:		
Available-for-sale investments:		
Unrealized (losses) gains arising during the period	(99,249)	9,494
Adjustment for re-classification of investment losses (gains) realized in net income	41,533	(32,829)
Foreign currency translation adjustment	(2,967)	
Change in the unrecognized prior service cost for SERPs		563
Comprehensive income	\$ 64,215	\$ 224,169

See accompanying notes to Consolidated Financial Statements

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2009 AND 2008

	2009	2008
	(in thousands)	
Common shares (shares outstanding)		
Balance at beginning of period	136,212	142,520
Shares issued	1,630	2,189
Shares repurchased for treasury	(220)	(119)
Balance at end of period	137,622	144,590
Preferred shares - Series A and B		
Balance at beginning and end of period	\$ 500,000	\$ 500,000
Common shares (par value)		
Balance at beginning of period	1,878	1,850
Shares issued	21	25
Balance at end of period	1,899	1,875
Additional paid-in capital		
Balance at beginning of period	1,962,779	1,869,810
Shares issued	141	2,069
Stock options exercised		20,121
Share-based compensation expense	14,224	10,336
Balance at end of period	1,977,144	1,902,336
Accumulated other comprehensive income (loss)		
Balance at beginning of period	(706,499)	22,668
Unrealized depreciation on available for sale investments	(59,442)	(28,148)
Amortization of prior service cost on the SERPs		563
Foreign currency translation adjustment	(2,967)	
Change in deferred taxes	1,726	4,813
Balance at end of period	(767,182)	(104)
Retained earnings		
Balance at beginning of period	3,198,492	2,968,900
Net income	124,898	246,941
Series A and B preferred share dividends	(9,219)	(9,219)
Common share dividends	(31,779)	(29,968)
Balance at end of period	3,282,392	3,176,654

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Treasury shares, at cost		
Balance at beginning of period	(495,609)	(204,606)
Shares repurchased for treasury	(5,807)	(4,733)
Balance at end of period	(501,416)	(209,339)
Total shareholders equity	\$ 4,492,837	\$ 5,371,422

See accompanying notes to Consolidated Financial Statements.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2009 AND 2008

	2009	2008
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 124,898	\$ 246,941
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment losses (gains)	40,597	(35,685)
Net realized and unrealized (gains) losses of other investments	(7,167)	42,626
Amortization/accretion of fixed maturities	4,140	319
Other amortization and depreciation	3,201	5,914
Share-based compensation expense	14,224	10,336
<i>Changes in:</i>		
Accrued interest receivable	(1,514)	6,348
Reinsurance recoverable balances	(54,020)	(69,420)
Deferred acquisition costs	(102,678)	(92,199)
Prepaid reinsurance premiums	12,764	4,474
Reserve for loss and loss expenses	147,495	226,897
Unearned premiums	484,177	428,668
Insurance and reinsurance balances, net	(443,340)	(395,388)
Other items	21,189	(55,960)
Net cash provided by operating activities	243,966	323,871
Cash flows from investing activities:		
Purchases of:		
Fixed maturities	(3,558,125)	(2,470,840)
Equity securities	(13,754)	
Other investments	(40,000)	(63,500)
Proceeds from the sale of:		
Fixed maturities	2,731,108	2,136,529
Equity securities	32,616	
Other investments	42,044	43,509
Proceeds from the redemption of fixed maturities	209,865	247,573
Net sales of short-term investments	39,533	38,393
Purchase of other assets	(37,541)	(3,068)
Change in restricted cash and cash equivalents	21,465	(5,319)
Net cash used in investing activities	(572,789)	(76,723)
Cash flows from financing activities:		
Repurchase of shares	(5,807)	(4,733)
Dividends paid - common shares	(27,091)	(27,402)
Dividends paid - preferred shares	(9,219)	(9,219)
Proceeds from issuance of common shares	162	22,215
Net cash used in by financing activities	(41,955)	(19,139)

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Effect of exchange rate changes on foreign currency cash	(16,879)	12,552
(Decrease) increase in cash and cash equivalents	(387,657)	240,561
Cash and cash equivalents - beginning of period	1,697,581	1,273,117
Cash and cash equivalents - end of period	\$ 1,309,924	\$ 1,513,678

See accompanying notes to Consolidated Financial Statements

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

In these notes, the terms we, us, our, or the Company refer to AXIS Capital Holdings Limited and its subsidiaries.

Our consolidated balance sheet at March 31, 2009 and the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the periods ended March 31, 2009 and 2008 have not been audited. The balance sheet at December 31, 2008 is derived from the audited financial statements.

These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for interim financial information and with the Securities and Exchange Commission's instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of our financial position and results of operations as at the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All significant inter-company accounts and transactions have been eliminated.

The following information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008. Certain reclassifications have been made to prior period amounts to conform to the current period presentation. Tabular dollars and share amounts are in thousands, except per share amounts.

Significant Accounting Policies

Foreign Currency Translation

The functional currency of the Company is the U.S. dollar, except for our recently established Canadian branch which is the Canadian dollar. The assets and liabilities of the Canadian branch are translated using period-end exchange rates, and revenues and expenses are translated using average exchange rates during each period. Translation gains and losses are reported in accumulated other comprehensive income (loss) as a component of shareholders' equity.

Short-Term Investments

Short-term investments comprise securities due to mature within one year and greater than three months of the date of purchase. Short-term investments, which have been previously included in fixed maturities, are now reported separately in the Consolidated Balance Sheets at March 31, 2009 and December 31, 2008 as well as in our Consolidated Statements of Cash Flows for the three months ended March 31, 2009 and 2008.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards

The terms FAS and FASB used in these notes refer to Statements of Financial Accounting Standards issued by the United States Financial Accounting Standards Board.

Fair Value Measurements

Effective January 1, 2009, we adopted FAS 157-2, *Fair Value Measurements* (FAS 157) for non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis. The adoption of FAS 157-2 did not have an impact to our results of operations or financial position.

Determination of the Useful Life of Intangible Assets

Effective January 1, 2009, we adopted FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors considered in developing assumptions used to determine the useful life of an intangible asset under FAS No. 142, *Goodwill and Other Intangible Assets* (FAS 142). The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141(R) and other applicable accounting literature. The adoption of FSP FAS 142-3 did not have an impact to our results of operations or financial position.

Financial Guarantee Insurance Contracts

Effective January 1, 2009, we adopted FAS No. 163, *Accounting for Financial Guarantee Insurance Contracts* (FAS 163), with no cumulative adjustment to opening retained earnings. This new standard clarifies how FAS No. 60, *Accounting and Reporting by Insurance Enterprises*, applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts. The determination of applicability of FAS 163 to certain of our insurance contracts required significant management judgment due to the interpretation of the scope exemption for insurance contracts that are similar to financial guarantee insurance contracts. The adoption of FAS 163 did not have a significant impact to our results of operations or financial position.

Earnings Per Share

Effective January 1, 2009, we adopted FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 provides additional guidance in the calculation of earnings per share under FAS No. 128, *Earnings Per Share*, and requires unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) to be included in the computation of earnings per share pursuant to the two-class method. As the dividends on all outstanding unvested stock awards are restricted and forfeitable, the adoption of FSP EITF 03-6-1 did not have an impact on the calculation of our earnings per share.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards Not Yet Adopted

On April 9, 2009, the FASB issued the following three Staff Positions (FSPs):

FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). This FSP supercedes FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. FSP FAS 157-4 provides additional guidance on: 1) estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to the normal market activity for the asset or liability, and 2) identifying transactions that are not orderly. FSP FAS 157-4 must be applied prospectively and retrospective application is not permitted. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 subject to also early adoption of FSP FAS 115-2 and FAS 124-2 (see below).

FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). This FSP provides new guidance on the recognition and presentation of an other-than-temporary impairments (OTTI) for available for sale and held to maturity fixed maturities (equities are excluded). An impaired security is not recognized as an impairment if management does not intend to sell the impaired security and it is more likely than not it will not be required to sell the security before the recovery of its amortized cost basis. If management concludes a security is other-than-temporarily impaired, the FSP requires that the difference between the fair value and the amortized cost of the security be presented as an OTTI charge in the Consolidated Statements of Operations, with an offset for any noncredit-related loss component of the OTTI charge to be recognized in other comprehensive income. Accordingly, only the credit loss component of the OTTI amount will have an impact on the Company's results of operations. The FSP also requires extensive new interim and annual disclosure for both fixed maturities and equities to provide further disaggregated information as well as information about how the credit loss component of the OTTI charge was determined and requiring a roll forward of such amount for each reporting period. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 subject to also early adoption of FSP FAS 157-4 (see above).

FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). This FSP extends the disclosure requirements under FAS 107, *Disclosures about Fair Value of Financial Instruments*, to interim financial statements and it amends APB Opinion 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 subject to also early adoption of FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2 (see above). We did not avail of the early adoption of the above three new FSPs and are presently evaluating the impact of the adoption of these FSPs on our results of operations and financial position.

On April 1, 2009, the FASB issued FSP FAS 141(R)-1, *Accounting for Assets and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP FAS 141(R)-1). This FSP amends the guidance in FAS 141(R), *Business Combinations*, by requiring that assets acquired or liabilities assumed in a business combination that arise from contingencies be recognized at fair value only if fair value can be reasonably estimated; otherwise the asset or liability should generally be recognized in accordance with FAS 5, *Accounting for Contingencies*, and FASB Interpretation 14, *Reasonable Estimation of the Amount of Loss*. This FSP removes the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. FSP FAS 141(R)-1 is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after December 15, 2008. We do not anticipate this adoption will have a material impact to our results of operations, financial condition and liquidity.

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****2. SEGMENT INFORMATION**

Our underwriting operations are organized around our two global underwriting platforms, AXIS Insurance and AXIS Reinsurance and therefore we have determined that we have two reportable segments, insurance and reinsurance. Except for goodwill and intangible assets, we do not allocate our assets by segment as we evaluate the underwriting results of each segment separately from the results of our investment portfolio.

The following tables summarize the underwriting results of our operating segments for the periods indicated and the carrying values of goodwill and intangible assets as at March 31, 2009 and 2008:

Three months ended March 31,	2009			2008		
	Insurance	Reinsurance	Total	Insurance	Reinsurance	Total
Gross premiums written	\$ 364,158	\$ 959,337	\$ 1,323,495	\$ 434,857	\$ 829,324	\$ 1,264,181
Net premiums written	212,015	950,286	1,162,301	271,732	820,043	1,091,775
Net premiums earned	275,623	389,736	665,359	299,557	359,077	658,634
Other insurance related (loss) income	(9,805)	410	(9,395)	1,187	815	2,002
Net losses and loss expenses	(152,704)	(235,295)	(387,999)	(159,450)	(202,231)	(361,681)
Acquisition costs	(26,203)	(75,773)	(101,976)	(31,714)	(62,766)	(94,480)
General and administrative expenses	(50,481)	(18,271)	(68,752)	(47,819)	(17,370)	(65,189)
Underwriting income	\$ 36,430	\$ 60,807	97,237	\$ 61,761	\$ 77,525	139,286
Corporate expenses			(17,805)			(13,561)
Net investment income			99,292			85,651
Net realized investment (losses) gains			(40,597)			35,685
Foreign exchange gains			389			20,297
Interest expense and financing costs			(7,921)			(7,958)
Income before income taxes			\$ 130,595			\$ 259,400
Net loss and loss expense ratio	55.4%	60.4%	58.3%	53.2%	56.3%	54.9%
Acquisition cost ratio	9.5%	19.4%	15.3%	10.6%	17.5%	14.3%
General and administrative expense ratio	18.3%	4.7%	13.0%	16.0%	4.8%	12.0%
Combined ratio	83.2%	84.5%	86.6%	79.8%	78.6%	81.2%
Goodwill and intangible assets	\$ 95,380	\$ -	\$ 95,380	\$ 61,344	\$ -	\$ 61,344

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****3. INVESTMENTS****a) Gross unrealized losses**

The following tables summarize 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:

At March 31, 2009	12 months or greater		Less than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities:						
U.S. government and agency	\$ -	\$ -	\$ 135,350	\$ (1,876)	\$ 135,350	\$ (1,876)
Non-U.S. government	43,828	(4,550)	127,157	(6,447)	170,985	(10,997)
Corporate	467,590	(377,868)	975,129	(155,207)	1,442,719	(533,075)
Mortgage-backed	312,600	(113,105)	721,385	(161,586)	1,033,985	(274,691)
Asset-backed	46,429	(18,690)	169,262	(16,589)	215,691	(35,279)
Municipals	11,926	(1,253)	77,921	(3,469)	89,847	(4,722)
Total fixed maturities	\$ 882,373	\$ (515,466)	\$ 2,206,204	\$ (345,174)	\$ 3,088,577	\$ (860,640)
Equities:						
Common Stock	6,530	(7,447)	56,414	(43,127)	\$ 62,944	\$ (50,574)
Non-redeemable preferred stock	-	-	-	-	-	-
Total equities	\$ 6,530	\$ (7,447)	\$ 56,414	\$ (43,127)	\$ 62,944	\$ (50,574)
Short-term investments:	\$ -	\$ -	\$ 80,012	\$ (2,437)	\$ 80,012	\$ (2,437)

At December 31, 2008	12 months or greater		Less than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities: ⁽¹⁾						
U.S. government and agency	\$ -	\$ -	\$ 84,208	\$ (908)	\$ 84,208	\$ (908)
Non-U.S. government	-	-	162,203	(12,696)	162,203	(12,696)
Corporate	428,311	(329,445)	1,057,684	(145,937)	1,485,995	(475,382)
Mortgage-backed	214,048	(65,358)	997,158	(201,285)	1,211,206	(266,643)
Asset-backed	59,597	(18,878)	300,585	(33,772)	360,182	(52,650)
Municipals	-	-	71,510	(3,572)	71,510	(3,572)
Total fixed maturities	\$ 701,956	\$ (413,681)	\$ 2,673,348	\$ (398,170)	\$ 3,375,304	\$ (811,851)

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Equities:							
Common Stock	\$ 2,286	\$ (3,083)	\$ 71,071	\$ (45,537)	\$ 73,357	\$ (48,620)	
Non-redeemable preferred stock	-	-	21,446	(9,949)	21,446	(9,949)	
Total equities	\$ 2,286	\$ (3,083)	\$ 92,517	\$ (55,486)	\$ 94,803	\$ (58,569)	
Short-term investments:							
	\$ -	\$ -	\$ 58,540	\$ (5,189)	\$ 58,540	\$ (5,189)	

⁽¹⁾ In our 2008 Form 10-K, we included short-term investments in fixed maturities. To conform with the current year's presentation, we have presented short-term investments separately in the above table and have restated the figures for Non-U.S. government and Corporate.

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****3. INVESTMENTS (CONTINUED)**

At March 31, 2009, 967 fixed maturities (2008: 992) were in an unrealized loss position of which 288 securities (2008: 367) have been in continuous unrealized loss position for 12 months or greater. For equities, 78 securities (2008: nil) were in an unrealized loss position of which one security (2008: nil) have been in continuous unrealized loss position for 12 months or greater. During the three months ended March 31, 2009, we recorded an impairment charge on our fixed maturities and equities of \$26 million (2008: \$15 million) and \$4 million (2008: \$nil), respectively.

At March 31, 2009, gross unrealized losses on the fixed maturities were primarily due to the widening of credit spreads relating to market illiquidity that began in mid 2007 rather than credit events. Unrealized losses on equities were driven by the decline in the global equity markets rather than issuer fundamentals. Because we have the ability and intent to hold these securities until a recovery of fair value to amortized cost or cost, we do not consider these securities to be other-than-temporarily impaired at March 31, 2009.

b) Other Investments

The table below shows our portfolio of other investments:

	March 31, 2009		December 31, 2008	
Hedge funds	\$ 273,239	55%	\$ 251,787	51%
CLO - equity tranches	94,861	19%	97,661	20%
Credit funds	83,882	17%	101,094	21%
Short duration high yield fund	42,423	9%	41,540	8%
Total other investments	\$ 494,405	100%	\$ 492,082	100%

c) Net Investment Income

Net investment income was derived from the following sources:

Three months ended March 31,	2009	2008
Fixed maturities	\$ 91,697	\$ 104,513
Cash and cash equivalents	2,856	14,891
Short-term investments	266	2,260
Equities	371	2,039
Other investments	6,870	(35,690)
Gross investment income	102,060	88,013
Investment expenses	(2,768)	(2,362)

Net investment income

\$ 99,292 \$ 85,651

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****3. INVESTMENTS (CONTINUED)**

The following table provides an analysis of net realized investment losses:

Three months ended March 31,	2009	2008
Gross realized gains	\$ 61,081	\$ 62,820
Gross realized losses	(75,257)	(11,851)
Other than temporary impairments	(29,901)	(15,120)
Net realized losses on fixed maturities and equities	(44,077)	35,849
Change in fair value of derivative instruments	21,465	(164)
Change in fair value of hedged AFS ⁽¹⁾ instruments (see Note 6)	(17,985)	-
Net realized investment (losses) gains	\$ (40,597)	\$ 35,685

⁽¹⁾ Available for sale

4. FAIR VALUE MEASUREMENTS**a) Fair Value Hierarchy**

We classified our financial instruments measured at fair value on a recurring basis in the following valuation hierarchy:

At March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Fixed maturities				
U.S. government and agency	\$ 746,515	\$ 685,124	\$ -	\$ 1,431,639
Non-U.S. government	-	250,053	-	250,053
Corporate	-	2,260,823	17,534	2,278,357
Mortgage-backed	-	3,463,687	49,599	3,513,286
Asset-backed	-	304,620	47,758	352,378
Municipals	-	412,462	-	412,462
Equity securities	78,527	-	-	78,527
Other investments	-	42,423	451,982	494,405
Short-term investments	-	225,583	-	225,583
Other assets (see Note 6)	-	68	-	68

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Total	\$	825,042	\$	7,644,843	\$	566,873	\$	9,036,758
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Liabilities

Other liabilities (see Note 6)	\$	-	\$	13,465	\$	72,597	\$	86,062
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Table of Contents

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. FAIR VALUE MEASUREMENTS (CONTINUED)

At December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant
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