AXIS CAPITAL HOLDINGS LTD
Form 10-Q
August 04, 2009
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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 June 30, 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 such filing requirements for the past 90 days. Yes x 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 x 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 x

As of July 27, 2009 there were 142,370,593 Common Shares, $0.0125 par value per share, of the registrant outstanding.

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AXIS CAPITAL HOLDINGS LIMITED

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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 estim 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.

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2009 (UNAUDITED) AND DECEMBER 31, 2008

	2009	2008
	(in thousands)	
Assets		
Investments:		
Fixed maturities, available for sale, at fair value *(amortized cost 2009: $9,380,300; 2008: $8,404,994)*	**$ 8,872,839**	$ 7,750,654
Equity securities, available for sale, at fair value *(cost 2009: $119,345; 2008: $164,330)*	**96,875**	107,283
Other investments, at fair value	**539,545**	492,082
Short-term investments	**165,197**	261,879
Total investments	**9,674,456**	8,611,898
Cash and cash equivalents	**1,264,043**	1,697,581
Restricted cash and cash equivalents	**116,820**	123,092
Accrued interest receivable	**87,361**	79,232
Insurance and reinsurance premium balances receivable	**1,707,677**	1,185,785
Reinsurance recoverable balances	**1,381,076**	1,304,551
Reinsurance recoverable balances on paid losses	**62,764**	74,079
Deferred acquisition costs	**374,849**	273,096
Prepaid reinsurance premiums	**296,994**	279,553
Securities lending collateral	**146,350**	412,823
Goodwill and intangible assets	**95,058**	60,417
Other assets	**171,437**	180,727
Total assets	**$ 15,378,885**	$ 14,282,834
Liabilities		
Reserve for losses and loss expenses	**$ 6,561,894**	$ 6,244,783
Unearned premiums	**2,671,025**	2,162,401
Insurance and reinsurance balances payable	**178,372**	202,145
Securities lending payable	**149,288**	415,197
Senior notes	**499,422**	499,368
Other liabilities	**253,198**	233,082
Net payable for investments purchased	**156,567**	64,817
Total liabilities	**10,469,766**	9,821,793
Commitments and Contingencies		
Shareholders equity		
Preferred shares - Series A and B	**500,000**	500,000
Common shares *(2009: 137,710; 2008: 136,212 shares issued and outstanding)*	**1,900**	1,878
Additional paid-in capital	**1,989,503**	1,962,779
Accumulated other comprehensive loss	**(528,261)**	(706,499)
Retained earnings	**3,447,511**	3,198,492
Treasury shares, at cost *(2009: 14,468; 2008: 14,243 shares)*	**(501,534)**	(495,609)

Total shareholders equity	**4,909,119**	4,461,041
Total liabilities and shareholders equity	**$ 15,378,885**	$ 14,282,834

See accompanying notes to Consolidated Financial Statements

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

	Three months ended		Six months ended	
	2009	**2008**	**2009**	**2008**
	(in thousands, except for per share amounts)			
Revenues				
Net premiums earned	**$ 706,770**	$ 680,291	**$ 1,372,129**	$ 1,338,925
Net investment income	**112,220**	137,015	**211,512**	222,666
Other insurance related loss	**(14,261)**	(7,269)	**(23,656)**	(5,267)
Net realized investment gains (losses):				
Other-than-temporary impairment losses	**(22,896)**	(645)	**(52,796)**	(16,141)
Portion of impairment losses transferred to other comprehensive income	**1,443**		**1,443**	
Other realized investment (losses) gains	**(2,225)**	2,197	**(12,922)**	53,378
Total net realized investment (losses) gains	**(23,678)**	1,552	**(64,275)**	37,237
Total revenues	**781,051**	811,589	**1,495,710**	1,593,561
Expenses				
Net losses and loss expenses	**378,252**	371,717	**766,251**	733,398
Acquisition costs	**103,309**	97,780	**205,285**	192,260
General and administrative expenses	**86,949**	82,953	**173,506**	161,703
Foreign exchange losses (gains)	**24,184**	6,564	**23,795**	(13,733)
Interest expense and financing costs	**7,971**	7,890	**15,892**	15,848
Total expenses	**600,665**	566,904	**1,184,729**	1,089,476
Income before income taxes	**180,386**	244,685	**310,981**	504,085
Income tax expense	**12,006**	4,199	**17,703**	16,658
Net income	**168,380**	240,486	**293,278**	487,427
Preferred share dividends	**9,219**	9,219	**18,438**	18,438
Net income available to common shareholders	**$ 159,161**	$ 231,267	**$ 274,840**	$ 468,989
Weighted average common shares and common share equivalents:				
Basic	**137,849**	142,333	**137,586**	142,786
Diluted	**149,861**	157,602	**149,448**	158,893
Earnings per common share:				
Basic	**$ 1.15**	$ 1.62	**$ 2.00**	$ 3.28
Diluted	**$ 1.06**	$ 1.47	**$ 1.84**	$ 2.95

Cash dividends declared per common share	**$**	**0.20**	$	0.185	**$**	**0.40**	$	0.37

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

	Three months ended		Six months ended	
	2009	2008	2009	2008
	(in thousands)			
Net income	**$ 168,380**	$ 240,486	**$ 293,278**	$ 487,427
Other comprehensive income, net of tax:				
Available-for-sale investments:				
Unrealized gains (losses) arising during the period	**254,295**	(148,491)	**155,046**	(138,997)
Portion of other-than-temporary impairment losses recognized in other comprehensive income	**(1,443)**		**(1,443)**	
Adjustment for re-classification of realized investment losses (gains) and net impairment losses recognized in net income	**23,103**	(2,688)	**64,636**	(35,517)
Foreign currency translation adjustment	**1,300**		**(1,667)**	
Change in the unrecognized prior service cost for SERPs		562		1,125
Comprehensive income	**$ 445,635**	$ 89,869	**$ 509,850**	$ 314,038

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2009 AND 2008

	2009	2008
	(in thousands)	
Common shares (shares outstanding)		
Balance at beginning of period	**136,212**	142,520
Shares issued	**1,723**	2,343
Shares repurchased for treasury	**(225)**	(5,210)
Balance at end of period	**137,710**	139,653
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	**22**	27
Balance at end of period	**1,900**	1,877
Additional paid-in capital		
Balance at beginning of period	**1,962,779**	1,869,810
Shares issued	**13**	2,329
Stock options exercised	**920**	21,142
Share-based compensation expense	**25,791**	29,075
Balance at end of period	**1,989,503**	1,922,356
Accumulated other comprehensive income (loss)		
Balance at beginning of period	**(706,499)**	22,668
Cumulative effect of change in accounting principle at April 1st, net of tax[1]	**(38,334)**	
Unrealized appreciation (depreciation) on available for sale investments, net of tax	**219,682**	(174,514)
Portion of other-than-temporary impairment losses, net of tax	**(1,443)**	
Amortization of prior service cost on the SERPs		1,125
Foreign currency translation adjustment	**(1,667)**	
Balance at end of period	**(528,261)**	(150,721)
Retained earnings		
Balance at beginning of period	**3,198,492**	2,968,900
Cumulative effect of change in accounting principle at April 1st, net of tax[1]	**38,334**	
Net income	**293,278**	487,427
Series A and B preferred share dividends	**(18,438)**	(18,438)
Common share dividends	**(64,155)**	(60,838)
Balance at end of period	**3,447,511**	3,377,051

Treasury shares, at cost		
Balance at beginning of period	**(495,609)**	(204,606)
Shares repurchased for treasury	**(5,925)**	(182,795)
Balance at end of period	**(501,534)**	(387,401)
Total shareholders equity	**$ 4,909,119**	$ 5,263,162

[1] Adoption of FASB Staff Position No. FAS 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2009 AND 2008

	2009	2008
	(in thousands)	
Cash flows from operating activities:		
Net income	**$ 293,278**	$ 487,427
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment losses (gains)	**64,275**	(37,237)
Net realized and unrealized (gains) losses of other investments	**(26,110)**	34,888
Amortization/accretion of fixed maturities	**5,319**	1,331
Other amortization and depreciation	**6,684**	5,603
Share-based compensation expense	**25,791**	29,075
Changes in:		
Accrued interest receivable	**(8,129)**	(1,923)
Reinsurance recoverable balances	**(65,210)**	(66,236)
Deferred acquisition costs	**(101,753)**	(78,786)
Prepaid reinsurance premiums	**(17,441)**	(20,521)
Reserve for loss and loss expenses	**317,111**	408,420
Unearned premiums	**508,624**	457,589
Insurance and reinsurance balances, net	**(545,665)**	(416,079)
Other items	**(5,332)**	(64,536)
Net cash provided by operating activities	**451,442**	739,015
Cash flows from investing activities:		
Purchases of:		
Fixed maturities	**(5,251,298)**	(4,655,172)
Equity securities	**(24,689)**	(262,863)
Other investments	**(91,800)**	(130,500)
Proceeds from the sale of:		
Fixed maturities	**3,871,643**	3,809,843
Equity securities	**44,967**	38,538
Other investments	**60,420**	9,615
Proceeds from the redemption of fixed maturities	**497,681**	528,375
Net sales of short-term investments	**102,660**	(90,392)
Purchase of other assets	**(39,660)**	(5,605)
Change in restricted cash and cash equivalents	**6,272**	(25,473)
Net cash used in investing activities	**(823,804)**	(783,634)
Cash flows from financing activities:		
Repurchase of shares	**(5,925)**	(182,795)
Dividends paid - common shares	**(59,562)**	(54,784)
Dividends paid - preferred shares	**(18,438)**	(18,430)
Proceeds from issuance of common shares	**955**	23,498
Net cash used in by financing activities	**(82,970)**	(232,511)

Effect of exchange rate changes on foreign currency cash	**21,794**	13,165
(Decrease) in cash and cash equivalents	**(433,538)**	(263,965)
Cash and cash equivalents - beginning of period	**1,697,581**	1,273,117
Cash and cash equivalents - end of period	**$ 1,264,043**	$ 1,009,152

See accompanying notes to Consolidated Financial Statements

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 June 30, 2009 and the consolidated statements of operations, comprehensive income, shareholders equity and cash flows for the periods ended June 30, 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

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.

Investments

Investments available for sale

Fixed maturities and equities classified as available for sale are reported at fair value at the balance sheet date. See Note 4 for additional information regarding the determination of fair value.

Purchases and sales of investments are recorded on a trade date basis. Realized gains or losses on sales of investments are determined based on the specific identification method. Net investment income is recognized when earned and includes interest and dividend income together with amortization of market premiums and discounts using the effective yield method and is net of investment management fees and other expenses. For mortgage-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments that are required due to the change in effective yields and maturities are recognized on a prospective basis through yield adjustments.

The net unrealized gain or loss on available for sale investments, net of tax, is included as accumulated other comprehensive income (loss) in shareholders equity.

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Investments available for sale (continued)

We assess quarterly whether our available-for-sale investments with unrealized losses represent impairments that are other than temporary. There are several factors that are considered in the assessment of a security 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), (iii) the historical and implied future volatility of the fair value, (iv) the financial condition of, and near-term prospects of, the issuer and (v) the collateral structure and credit support of the security, if applicable.

On April 1, 2009, we adopted FASB Staff Position FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). Accordingly, we recognize an other-than-temporary impairment (OTTI) in earnings for a fixed maturity security in an unrealized loss position when we either (a) have the intent to sell the security, (b) more likely than not will be required to sell the security before its anticipated recovery, or (c) do not anticipate to fully recover the amortized cost based on projected cash flows to be collected. Prior to the adoption of this new guidance, we recorded an OTTI charge for a fixed maturity security in an unrealized position when we could not assert that we had both the intent and ability to hold the security for a period of time sufficient to allow for a recovery in its fair value to its amortized cost.

Under FSP FAS 115-2 and FAS 124-2, if the impaired fixed maturity security meets one of the first two criteria above, the entire difference between the security s fair value and its amortized cost is recorded as an OTTI charge in the Consolidated Statements of Operations. However, if the impairment arises due to an anticipated credit loss on the security (third criterion above), we recognize only the credit 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 accumulated other comprehensive income (AOCI) in our shareholders equity. The new amortized cost is accreted into net investment income.

Equity securities were specifically excluded from FSP FAS 115-2 and FAS 124-2. Accordingly, we continue to 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. When it is determined that the decline in value of an equity security is other-than-temporary, we adjust the carrying value of the equity security to its fair value, with a corresponding charge to earnings.

In periods subsequent to the recognition of an OTTI for either a fixed maturity or equity security, the new cost basis is not adjusted for subsequent increases in estimated fair value.

Other investments

We account for our other investments at fair value (see Note 4 Fair Value Measurements), with the change in fair value and realized gains and losses reported in net investment income.

Income distribution from our investment in collateralized loan obligations (CLOs) - equity tranche securities, is also reported in net investment income.

Short-term investments

Short-term investments primarily comprised highly liquid debt securities due to mature within one year and greater than three months since 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 June 30, 2009 and December 31, 2008, the Consolidated Statements of Cash Flows for the six months ended

June 30, 2009 and 2008, and in the related disclosures. These investments are carried at amortized cost, which fairly approximates fair value.

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Translation

Our functional currency is the U.S. dollar, except for our recently established Canadian branch, for which the functional currency 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.

Adoption of New Accounting Standards

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 impact our results of operations or financial position.

Effective April 1, 2009, we adopted the following FASB Staff Positions (FSPs) in relation to fair value measurements:

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. It also expands disclosure requirements to include disaggregation of the FAS 157 disclosures by defining major categories to be consistent with FAS 115. FSP FAS 157-4 must be applied prospectively. The adoption of this FSP did not materially impact our results of operations or financial position. Refer to Note 4 Fair Value Measurements for disclosures required by this FSP.

FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). Refer to the above *Significant Accounting Policies- Investments Available for Sale* , for further details on the new OTTI recognition guidance. This FSP requires new interim and annual disclosure of both fixed maturities and equities, including more disaggregated information (refer to Note 4 Fair Value Measurements). As of April 1, 2009, the adoption of this FSP resulted in $38 million net after-tax increase to retained earnings with a corresponding increase to accumulated other comprehensive loss. This adjustment reflects the non-credit portion of the total OTTI of $86 million previously recognized in retained earnings for fixed maturity securities still outstanding at March 31, 2009. As part of the cumulative effect adjustment, we also recorded a corresponding adjustment to the amortized cost of our fixed maturities. The adoption of this new guidance on April 1, 2009, did not impact our total shareholders equity.

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. Refer to Note 4 Fair Value Measurements for interim disclosures on fair value of financial instruments.

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Business Combinations

In April, 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. The adoption of this FSP did not impact 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 a significant impact on 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 on 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 impact the calculation of our earnings per share.

Subsequent Events

Effective April 1, 2009, we adopted FAS 165, *Subsequent Events* (FAS 165). This new standard provides new accounting and disclosure guidance on management s assessment of subsequent events. It clarifies that management must evaluate, as of each reporting period, events or transactions that occur after the balance sheet date through the date that the financial statements are issued or available to be issued. The adoption of FAS 165 did not have an impact on our results of operations or financial position. In preparing our Consolidated Financial Statements, we have evaluated subsequent events through August 4, 2009, which is the date that these financial statements were issued.

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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

Transfers and Servicing of Financial Assets

In June 2009, the FASB issued FAS 166, *Accounting for Transfers of Financial Assets*, which amends the derecognition guidance in FAS 140 and eliminates the exemption from consolidation for qualifying special-purpose entities (QSPEs). Consequently, a transferor will need to evaluate all existing QSPEs to determine whether they must now be consolidated in accordance with FAS 167 (see below). FAS 166 is effective for financial asset transfers occurring after January 1, 2010 and early adoption is prohibited. We do not anticipate this adoption will materially impact our results of operations, financial condition and liquidity.

Consolidations

In June 2009, the FASB issued FAS 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167), which amends the consolidation guidance applicable to variable interest entities (VIEs). The amendments will significantly affect the overall consolidation analysis under Interpretation 46(R), in particular it modifies the approach for determining the primary beneficiary of a VIE. FAS 167 is effective as of January 1, 2010, and early adoption is prohibited. We are currently evaluating the impact of the adoption of FAS 167 on our financial condition and results of operations.

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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 Re 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 June 30, 2009 and 2008:

	2009			2008		
Three months ended June 30,	**Insurance**	**Reinsurance**	**Total**	**Insurance**	**Reinsurance**	**Total**
Gross premiums written	**$ 526,764**	**$ 387,877**	**$ 914,641**	$ 555,464	$ 318,705	$ 874,169
Net premiums written	**313,136**	**387,877**	**701,013**	365,511	318,705	684,216
Net premiums earned	**298,975**	**407,795**	**706,770**	297,429	382,862	680,291
Other insurance related (loss) income	**(14,956)**	**695**	**(14,261)**	(7,509)	240	(7,269)
Net losses and loss expenses	**(187,211)**	**(191,041)**	**(378,252)**	(159,696)	(212,021)	(371,717)
Acquisition costs	**(28,306)**	**(75,003)**	**(103,309)**	(31,120)	(66,660)	(97,780)
General and administrative expenses	**(52,893)**	**(17,525)**	**(70,418)**	(48,141)	(17,077)	(65,218)
Underwriting income	**$ 15,609**	**$ 124,921**	**140,530**	$ 50,963	$ 87,344	138,307
Corporate expenses			**(16,531)**			(17,735)
Net investment income			**112,220**			137,015
Net realized investment (losses) gains			**(23,678)**			1,552
Foreign exchange losses			**(24,184)**			(6,564)
Interest expense and financing costs			**(7,971)**			(7,890)
Income before income taxes			**$ 180,386**			$ 244,685
Net loss and loss expense ratio	**62.6%**	**46.8%**	**53.5%**	53.7%	55.4%	54.6%
Acquisition cost ratio	**9.5%**	**18.4%**	**14.6%**	10.4%	17.4%	14.4%
General and administrative expense ratio	**17.7%**	**4.3%**	**12.3%**	16.2%	4.5%	12.2%
Combined ratio	**89.8%**	**69.5%**	**80.4%**	80.3%	77.3%	81.2%
Goodwill and intangible assets	**$ 95,058**	**$ -**	**$ 95,058**	$ 61,035	$ -	$ 61,035

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. SEGMENT INFORMATION (CONTINUED)

	2009			2008		
Six months ended June 30,	**Insurance**	**Reinsurance**	**Total**	**Insurance**	**Reinsurance**	**Total**
Gross premiums written	**$ 890,922**	**$ 1,347,214**	**$ 2,238,136**	$ 990,321	$ 1,148,029	$ 2,138,350
Net premiums written	**525,151**	**1,338,163**	**1,863,314**	637,243	1,138,748	1,775,991
Net premiums earned	**574,598**	**797,531**	**1,372,129**	596,986	741,939	1,338,925
Other insurance related (loss) income	**(24,761)**	**1,105**	**(23,656)**	(6,322)	1,055	(5,267)
Net losses and loss expenses	**(339,915)**	**(426,336)**	**(766,251)**	(319,146)	(414,252)	(733,398)
Acquisition costs	**(54,509)**	**(150,776)**	**(205,285)**	(62,834)	(129,426)	(192,260)
General and administrative expenses	**(103,374)**	**(35,796)**	**(139,170)**	(95,960)	(34,447)	(130,407)
Underwriting income	**$ 52,039**	**$ 185,728**	**237,767**	$ 112,724	$ 164,869	277,593
Corporate expenses			**(34,336)**			(31,296)
Net investment income			**211,512**			222,666
Net realized investment (losses) gains			**(64,275)**			37,237
Foreign exchange (losses) gains			**(23,795)**			13,733
Interest expense and financing costs			**(15,892)**			(15,848)
Income before income taxes			**$ 310,981**			$ 504,085
Net loss and loss expense ratio	**59.2%**	**53.5%**	**55.8%**	53.5%	55.8%	54.8%
Acquisition cost ratio	**9.4%**	**18.9%**	**15.0%**	10.5%	17.5%	14.3%
General and administrative expense ratio	**18.0%**	**4.5%**	**12.6%**	16.1%	4.6%	12.1%
Combined ratio	**86.6%**	**76.9%**	**83.4%**	80.1%	77.9%	81.2%
Goodwill and intangible assets	**$ 95,058**	**$ -**	**$ 95,058**	$ 61,035	$ -	$ 61,035

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. INVESTMENTS

a) Fixed Maturities and Equities

The amortized cost or cost and fair values of our fixed maturities and equities were as follows:

At June 30, 2009	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI in AOCI[3]
Fixed maturities:					
U.S. government and agency	**$ 1,781,450**	**$ 13,802**	**$ (14,548)**	**$ 1,780,704**	**$ -**
Non-U.S. government	**299,302**	**7,129**	**(4,218)**	**302,213**	**-**
Corporate debt	**3,034,281**	**49,871**	**(398,744)**	**2,685,408**	**(20,709)**
Residential MBS[1]	**2,525,196**	**46,136**	**(71,770)**	**2,499,562**	**(4,948)**
Commercial MBS	**838,244**	**1,545**	**(111,485)**	**728,304**	**(691)**
Asset-backed[2]	**341,630**	**4,774**	**(36,057)**	**310,347**	**(11,447)**
Municipals	**560,197**	**12,115**	**(6,011)**	**566,301**	**(389)**
Total fixed maturities	**$ 9,380,300**	**$ 135,372**	**$ (642,833)**	**$ 8,872,839**	**$ (38,184)**
Equities:					
Common stock	**$ 119,345**	**$ 6,952**	**$ (29,422)**	**$ 96,875**	
Preferred stock	**-**	**-**	**-**	**-**	
Total equities	**$ 119,345**	**$ 6,952**	**$ (29,422)**	**$ 96,875**	

At December 31, 2008	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities:				
U.S. government and agency	$ 1,148,767	$ 39,474	$ (908)	$ 1,187,333
Non-U.S. government	272,006	19,915	(12,696)	279,225
Corporate debt	2,517,059	19,640	(475,382)	2,061,317
Residential MBS[1]	2,736,811	71,523	(96,336)	2,711,998
Commercial MBS	933,315	90	(170,307)	763,098
Asset-backed[2]	433,266	390	(52,650)	381,006
Municipals	363,770	6,479	(3,572)	366,677
Total fixed maturities	$ 8,404,994	$ 157,511	$ (811,851)	$ 7,750,654

Equities:				
Common stock	$ 132,935	$ 1,522	$ (48,620)	$ 85,837
Preferred stock	31,395	-	(9,949)	21,446
Total equities	$ 164,330	$ 1,522	$ (58,569)	$ 107,283

(1) Residential mortgage-backed securities (MBS) include agency pass-through securities and collateralized mortgage obligations.

(2) Asset-backed securities (ABS) include debt tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, and other asset types. This asset class also includes an insignificant position in collateralized loan obligations (CLOs) and collateralized debt obligations (CDOs).

(3) Represents the non-credit component of OTTI losses since the adoption of FSP FAS 115-2 and FAS 124-2, 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. INVESTMENTS (CONTINUED)

Contractual Maturities

The contractual maturities of our fixed maturities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

As at June 30, 2009	Amortized Cost	Fair Value	% of Total Fair Value
Maturity			
Due in one year or less	**$ 582,117**	**$ 428,246**	**4.8%**
Due after one year through five years	**3,263,212**	**3,098,156**	**34.9%**
Due after five years through ten years	**1,558,719**	**1,550,605**	**17.5%**
Due after ten years	**271,182**	**257,620**	**2.9%**
	5,675,230	**5,334,627**	**60.1%**
Residential MBS	**2,525,196**	**2,499,561**	**28.2%**
Commercial MBS	**838,244**	**728,304**	**8.2%**
Asset-backed	**341,630**	**310,347**	**3.5%**
Total	**$ 9,380,300**	**$ 8,872,839**	**100.0%**

As at December 31, 2008	Amortized Cost	Fair Value	% of Total Fair Value
Maturity			
Due in one year or less	$ 416,178	$ 343,570	4.4%
Due after one year through five years	2,798,157	2,512,428	32.4%
Due after five years through ten years	814,175	803,331	10.4%
Due after ten years	273,092	235,223	3.0%
	4,301,602	3,894,552	50.2%
Residential MBS	2,736,811	2,711,998	35.0%
Commercial MBS	933,315	763,098	9.9%
Asset-backed	433,266	381,006	4.9%
Total	$ 8,404,994	$ 7,750,654	100.0%

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. INVESTMENTS (CONTINUED)

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 June 30, 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	**$ -**	**$ -**	**$ 971,677**	**$ (14,548)**	**$ 971,677**	**$ (14,548)**
Non-U.S. government	**67,615**	**(3,649)**	**73,856**	**(569)**	**141,471**	**(4,218)**
Corporate debt	**625,150**	**(336,835)**	**452,098**	**(61,909)**	**1,077,248**	**(398,744)**
Residential MBS	**203,184**	**(61,605)**	**487,898**	**(10,165)**	**691,082**	**(71,770)**
Commercial MBS	**506,217**	**(105,331)**	**96,793**	**(6,154)**	**603,010**	**(111,485)**
Asset-backed	**85,419**	**(28,002)**	**11,436**	**(8,055)**	**96,855**	**(36,057)**
Municipals	**13,574**	**(2,577)**	**152,968**	**(3,434)**	**166,542**	**(6,011)**
Total fixed maturities	**$ 1,501,159**	**$ (537,999)**	**$ 2,246,726**	**$ (104,834)**	**$ 3,747,885**	**$ (642,833)**
Equities:						
Common stock	**$ 32,622**	**$ (20,534)**	**$ 28,617**	**$ (8,888)**	**$ 61,239**	**$ (29,422)**
Preferred stock	**-**	**-**	**-**	**-**	**-**	**-**
Total equities	**$ 32,622**	**$ (20,534)**	**$ 28,617**	**$ (8,888)**	**$ 61,239**	**$ (29,422)**
At December 31, 2008						
Fixed maturities:						
U.S. government and agency	$ -	$ -	$ 84,208	$ (908)	$ 84,208	$ (908)
Non-U.S. government	-	-	162,203	(12,696)	162,203	(12,696)
Corporate debt	428,311	(329,445)	1,057,684	(145,937)	1,485,995	(475,382)
Residential MBS	75,916	(16,266)	385,527	(80,070)	461,443	(96,336)
Commercial MBS	138,132	(49,091)	611,631	(121,216)	749,763	(170,307)
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	$ (413,680)	$ 2,673,348	$ (398,171)	$ 3,375,304	$ (811,851)
Equities:						
Common stock	$ 2,286	$ (3,083)	$ 71,071	$ (45,537)	$ 73,357	$ (48,620)
Preferred stock	-	-	21,446	(9,949)	21,446	(9,949)

Total equities	$ 2,286	$ (3,083)	$ 92,517	$ (55,486)	$ 94,803	$ (58,569)

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. INVESTMENTS (CONTINUED)

Fixed Maturities

At June 30, 2009, 796 fixed maturities (2008: 1,202) were in an unrealized loss position. Of these, 492 securities (2008: 266) have been in continuous unrealized loss position for 12 months or greater. At June 30, 2009, the $538 million gross unrealized losses for 12 months or greater were primarily concentrated in our non-agency commercial MBS and corporate debt securities. The average Standard & Poor s (S&P) credit rating for our non-agency commercial MBS was AAA at June 30, 2009. Within our corporate debts, $290 million of the $337 million gross unrealized losses for 12 months or greater was attributable to our holdings in medium-term notes. At December 31, 2008, the $414 million of gross unrealized losses for 12 months or greater were primarily concentrated in our corporate debt securities. Our medium-term notes accounted for $284 million of these unrealized losses from corporate debt securities. The medium-term notes use leverage and are a highly diversified pool of corporate and sovereign debt securities, with an average credit rating of BBB by Moody s at June 30, 2009.

At June 30, 2009, based on a detailed analysis of the underlying credit, projected cash flows to be collected, and other qualitative factors, we concluded that there were no OTTI charges to be recognized for the fixed maturities portfolio other than those mentioned below. The gross unrealized losses for our fixed maturity portfolio are primarily attributable to credit spread widening and increased illiquidity discounts. At June 30, 2009, we do not intend to sell these securities and it is not more likely than not that we will be required to sell the above securities before the anticipated recovery of their remaining amortized costs basis.

During the three and six months ended June 30, 2009, we recorded an impairment charge on our fixed maturities of $15 million (2008: $1 million) and $42 million (2008: $16 million), respectively. The OTTI charge for the three months ended June 30, 2009, includes $13 million of impairments on certain commercial MBS, residential MBS and corporate debt securities which we intend to sell in the near term.

Prior to the adoption of FSP FAS 115-2 and 124-2, the OTTI recognized in earnings reflected the entire difference between the fair value and the amortized cost of the fixed maturity. Upon adoption of this new guidance, we recorded a $38 million cumulative effect adjustment on our April 1, 2009 retained earnings balance to reclassify the non-credit portion of OTTI previously recorded in earnings from retained earnings to AOCI, net of deferred taxes. Because FSP FAS 115-2 and FAS 124-2 does not allow for retrospective application of the new OTTI recognition model, the OTTI amount reported in the Consolidated Statements of Operations for the three months ended June 30, 2009, is not measured on the same basis as prior period amounts and accordingly these amounts are not comparable. The total non-credit losses included in AOCI at June 30, 2009 was $38 million (see above part (a) for breakdown by major security type).

The following table provides a rollforward of the credit losses, before income taxes, for which a portion of the OTTI was recognized in AOCI:

Balance at March 31, 2009	**$ -**
Credit losses remaining in retained earnings related to adoption of FSP FAS 115-2 and FAS 124-2	**45,347**
Credit loss impairments previously recognized in AOCI on securities which were sold during the period	**(10,818)**
Credit loss impairment recognized on securities not previously impaired	**2,513**
Additional credit loss impairments recognized on securities previously impaired	**187**
Balance at June 30, 2009	**$ 37,229**

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. INVESTMENTS (CONTINUED)

The credit losses remaining in retained earnings upon adoption of FSP FAS 115-2 and 124-2 related to $33 million of corporate debt securities, $7 million of ABS, $4 million of residential MBS and $1 million of commercial MBS. Corporate debts included $20 million of credit losses related to the bankruptcy of Lehman Brothers. The reduction of credit loss impairments in the above table was related to sales of mostly corporate debt securities in the current quarter. The credit losses recognized in earnings are generally 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 for which a portion of the OTTI was recognized in AOCI were as follows:

Corporate Debt:

We estimated the credit losses on corporate debt securities not yet defaulted based on discounted cash flows. Our cash flow estimates are primarily driven by our assumptions regarding probability of default. We developed the default assumption based on our internal credit analysis and observable market data such as industry analyst reports and forecasts, rating agencies expected loss tables and other data relevant to the recoverability of the security. We impaired corporate debt securities that have been downgraded to speculative grade from investment grade by either Moody s or Standard & Poor s. For corporate debts that have defaulted to date, we estimated the credit loss based on the entire difference between the amortized cost of the security and its fair value at the impairment measurement.

Residential MBS, Commercial MBS and ABS:

We utilized models to determine the estimated credit losses for structured securities. To project expected cash flows to be collected, we utilized underlying data from widely accepted third-party data sources as well as the following significant assumptions: expected defaults, delinquencies, recoveries, foreclosure costs, and prepayments. These assumptions require significant management judgment and vary for each structured security based on the underlying property type, vintage, loan to collateral value ratios, geographic concentration, and current levels of subordination. We have also corroborated our principal loss estimate with the independent investment manager s principal loss estimate for each structured debt security with a significant unrealized loss position.

Equity Securities

For equities, at June 30, 2009, 40 securities (2008: nil) were in an unrealized loss position and eight of these securities (2008: nil) have been in a continuous unrealized loss position for 12 months or greater. Based on our OTTI quarterly review process and our ability and intent to hold these securities for a reasonable period of time sufficient for a recovery of fair value, we concluded that there were no OTTI charges to be recognized for the equities in the above table at June 30, 2009 or December 31, 2008. During the three and six months ended June 30, 2009, we recorded an impairment charge on other equities of $6 million (2008: $nil) and $9 million (2008: $nil), respectively, primarily due to the severity and duration of the impairment.

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. INVESTMENTS (CONTINUED)

Credit Ratings

The following summarizes the credit ratings of our fixed maturities as assigned by S&P:

As at June 30, 2009	Amortized Cost	Fair Value	% of Total Fair Value
Rating			
AAA	**$ 6,173,459**	**$ 6,064,310**	**68.3%**
AA	**722,316**		