

AXIS CAPITAL HOLDINGS LTD
Form 10-Q
October 29, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

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 No

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

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 October 24, 2008 there were 141,453,047 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>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	4
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	57
<u>PART II</u>	
<u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	58
Item 1A. <u>Risk Factors</u>	59
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	60
Item 6. <u>Exhibits</u>	61
<u>Signatures</u>	62

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 hurricanes and other catastrophes, including Hurricanes Ike and Gustav, measurements of potential losses in fair market values of our investment portfolio, our expectations regarding pricing and other market conditions, our growth prospects, the amount of our acquisition costs, the amount of our net losses and loss reserves, the projected amount of our capital expenditures, managing interest rate and foreign currency risks, and valuations of potential interest rate shifts and foreign currency rate changes. 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 effects of emerging claims and coverage issues,

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,

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

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,

interest rate and/or currency value fluctuations, 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, 2007.

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 September 30, 2008 (Unaudited) and December 31, 2007</u>	5
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007 (Unaudited)</u>	6
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2008 and 2007 (Unaudited)</u>	7
<u>Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2008 and 2007 (Unaudited)</u>	8
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 (Unaudited)</u>	9
<u>Notes to the Consolidated Financial Statements (Unaudited)</u>	10

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED BALANCE SHEETS****SEPTEMBER 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007**

	2008	2007
	(in thousands)	
Assets		
Investments:		
Fixed maturities, available for sale, at fair value (<i>amortized cost 2008: \$8,911,721; 2007: \$8,301,528</i>)	\$ 8,449,620	\$ 8,331,666
Equity securities, available for sale, at fair value (<i>cost 2008: \$165,579; 2007: \$10,850</i>)	129,220	7,746
Other investments, at fair value	636,304	638,241
Total investments	9,215,144	8,977,653
Cash and cash equivalents	1,419,610	1,332,921
Accrued interest receivable	74,693	87,338
Insurance and reinsurance premium balances receivable	1,412,445	1,231,494
Reinsurance recoverable balances	1,410,554	1,280,295
Reinsurance recoverable balances on paid losses	62,617	76,598
Deferred acquisition costs	333,002	276,801
Prepaid reinsurance premiums	264,960	242,940
Securities lending collateral	731,661	865,256
Net receivable for investments sold		86,356
Goodwill and intangible assets	60,726	61,653
Other assets	190,042	156,004
Total assets	\$ 15,175,454	\$ 14,675,309
Liabilities		
Reserve for losses and loss expenses	\$ 6,406,204	\$ 5,587,311
Unearned premiums	2,466,622	2,146,087
Insurance and reinsurance balances payable	223,963	244,988
Securities lending payable	730,412	863,906
Senior notes	499,342	499,261
Other liabilities	183,385	175,134
Net payable for investments purchased	64,336	
Total liabilities	10,574,264	9,516,687
Commitments and Contingencies		
Shareholders equity		
Preferred shares - Series A and B	500,000	500,000
Common shares (2008: 137,991; 2007: 142,520)	1,878	1,850
Additional paid-in capital	1,943,125	1,869,810
Accumulated other comprehensive (loss) income	(495,697)	22,668
Retained earnings	3,097,487	2,968,900
Treasury shares, at cost (2008: 12,451; 2007: 5,466)	(445,603)	(204,606)

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

Total shareholders equity	4,601,190	5,158,622
Total liabilities and shareholders equity	\$ 15,175,454	\$ 14,675,309

See accompanying notes to Consolidated Financial Statements.

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

	Three months ended		Nine months ended	
	2008	2007	2008	2007
	(in thousands, except for per share amounts)			
Revenues				
Net premiums earned	\$ 689,970	\$ 685,845	\$ 2,028,895	\$ 2,065,090
Net investment income	50,583	118,908	273,249	357,873
Net realized investment losses	(89,079)	(1,192)	(51,842)	(5,548)
Other insurance related (loss) income	(13,806)	1,005	(19,073)	3,638
Total revenues	637,668	804,566	2,231,229	2,421,053
Expenses				
Net losses and loss expenses	705,531	328,193	1,438,929	1,079,714
Acquisition costs	90,333	100,039	282,593	293,923
General and administrative expenses	86,722	79,813	248,425	210,993
Foreign exchange gains	(7,627)	(7,202)	(21,360)	(16,477)
Interest expense and financing costs	7,941	13,929	23,789	43,241
Total expenses	882,900	514,772	1,972,376	1,611,394
(Loss) income before income taxes	(245,232)	289,794	258,853	809,659
Income tax (recovery) expense	(5,104)	10,677	11,554	32,943
Net (loss) income	(240,128)	279,117	247,299	776,716
Preferred share dividends	9,218	9,142	27,656	27,573
Net (loss) income available to common shareholders	\$ (249,346)	\$ 269,975	\$ 219,643	\$ 749,143
Weighted average common shares and common share equivalents:				
Basic	139,335	146,845	141,628	148,753
Diluted	139,335	164,064	157,315	165,458
Earnings per common share:				
Basic	\$ (1.79)	\$ 1.84	\$ 1.55	\$ 5.04
Diluted	\$ (1.79)	\$ 1.65	\$ 1.40	\$ 4.53
Cash dividends declared per common share	\$ 0.185	\$ 0.165	\$ 0.555	\$ 0.495

See accompanying notes to Consolidated Financial Statements.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

	Three months ended		Nine months ended	
	2008	2007	2008	2007
	(in thousands)			
Net (loss) income	\$ (240,128)	\$ 279,117	\$ 247,299	\$ 776,716
Other comprehensive income, net of tax				
Change in unrecognized prior service cost on the supplemental executive retirement plans (SERPs)	562	562	1,687	1,687
Unrealized (losses) gains arising during the period	(434,834)	77,803	(573,831)	10,109
Adjustment for re-classification of investment (gains) losses realized in net income	89,296	(116)	53,779	4,398
Comprehensive (loss) income	\$ (585,104)	\$ 357,366	\$ (271,066)	\$ 792,910

See accompanying notes to Consolidated Financial Statements.

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)****NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

	2008	2007
	(in thousands)	
Common shares (shares outstanding)		
Balance at beginning of period	142,520	149,982
Shares issued	2,456	729
Shares repurchased for treasury	(6,985)	(2,226)
Shares repurchased and cancelled		(2,775)
Balance at end of period	137,991	145,710
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	1,850	1,875
Shares issued	28	9
Shares repurchased and cancelled		(35)
Balance at end of period	1,878	1,849
Additional paid-in capital		
Balance at beginning of period	1,869,810	1,929,406
Shares issued	2,623	1,294
Shares repurchased and cancelled		(103,436)
Stock options exercised	23,655	6,399
Share-based compensation expense	47,037	25,404
Balance at end of period	1,943,125	1,859,067
Accumulated other comprehensive income (loss)		
Balance at beginning of period	22,668	(44,638)
Unrealized depreciation on fixed maturities and equities	(525,905)	15,891
Amortization of prior service cost on the SERPs	1,687	1,687
Change in deferred taxes	5,853	(1,384)
Balance at end of period	(495,697)	(28,444)
Retained earnings		
Balance at beginning of period	2,968,900	2,026,004
Net income	247,299	776,716
Series A and B preferred share dividends	(27,656)	(27,573)
Common share dividends	(91,056)	(84,405)
Balance at end of period	3,097,487	2,690,742

Treasury shares, at cost		
Balance at beginning of period	(204,606)	
Shares repurchased for treasury	(240,997)	(79,622)
Balance at end of period	(445,603)	(79,622)
Total shareholders equity	\$ 4,601,190	\$ 4,943,592

See accompanying notes to Consolidated Financial Statements.

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

	2008	2007
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 247,299	\$ 776,716
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment losses	51,842	5,548
Net unrealized losses (gains) of other investments	97,586	(14,300)
Amortization/accretion of fixed maturities	10,516	(13,808)
Other amortization and depreciation	8,263	17,566
Share-based compensation expense	47,037	25,404
<i>Changes in:</i>		
Accrued interest receivable	12,645	710
Reinsurance recoverable balances	(116,278)	14,387
Deferred acquisition costs	(56,201)	(79,491)
Prepaid reinsurance premiums	(22,020)	(4,206)
Reserve for loss and loss expenses	818,893	516,266
Unearned premiums	320,535	417,783
Insurance and reinsurance balances, net	(201,976)	(298,116)
Other items	10,115	(86,153)
Net cash provided by operating activities	1,228,256	1,278,306
Cash flows from investing activities:		
Purchases of fixed maturities	(7,318,695)	(5,579,091)
Sales and maturities of fixed maturities	6,842,657	4,310,846
Purchases of equity securities	(289,966)	-
Sales of equity securities	64,835	-
Purchases of other investments	(141,000)	(65,250)
Sales of other investments	69,521	585,395
Purchases of assets	(8,640)	(38,261)
Net cash used in investing activities	(781,288)	(786,361)
Cash flows from financing activities:		
Repurchase of shares	(240,997)	(183,093)
Dividends paid - common shares	(80,653)	(83,806)
Dividends paid - preferred shares	(27,656)	(27,573)
Proceeds from exercise of stock options	23,655	6,399
Proceeds from issuance of common shares	2,651	1,303
Repayment of repurchase agreement	-	(400,000)
Net cash used in financing activities	(323,000)	(686,770)
Effect of exchange rate changes on foreign currency cash	(37,279)	36,389

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

Decrease in cash and cash equivalents	86,689	(158,436)
Cash and cash equivalents - beginning of period	1,332,921	1,989,287
Cash and cash equivalents - end of period	\$ 1,419,610	\$ 1,830,851

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

Our consolidated balance sheet at September 30, 2008 and the consolidated statements of operations, comprehensive income, shareholders equity and cash flows for the periods ended September 30, 2008 and 2007 have not been audited. The balance sheet at December 31, 2007 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. In these notes, the terms we, us, our, or the Company refer to AXIS Capital Holdings Limited and its subsidiaries.

The following information is unaudited and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007. 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.

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.

(a) Fair Value Measurements

We adopted FAS 157, *Fair Value Measurements* (FAS 157), effective January 1, 2008. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, we use various valuation approaches, including market and income approaches. FAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Examples of assets and liabilities utilizing Level 1 inputs include: exchange-traded equity securities and listed derivatives that are actively traded.

Level 2 Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

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

Examples of assets and liabilities utilizing Level 2 inputs include: exchange-traded equity securities and listed derivatives that are not actively traded; U.S. government and agency securities; non-U.S. government obligations; corporate and municipal bonds; mortgage-backed securities (MBS) and asset-backed securities (ABS); and over-the-counter (OTC) derivatives (e.g. foreign currency options and forward contracts).

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 (Continued)

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

Examples of assets and liabilities utilizing Level 3 inputs include: insurance and reinsurance derivative contracts; hedge funds with partial transparency; and collateralized loan obligation (CLO) equity tranche securities, credit funds and short duration high yield funds that are traded in less liquid markets.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors, including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. We use prices and inputs that are current as of the measurement date. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified between levels.

The adoption of FAS 157 did not result in any cumulative-effect adjustment to our beginning retained earnings at January 1, 2008. In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2), which permits a one-year deferral of the application of FAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Accordingly, we have also adopted FSP FAS 157-2 effective January 1, 2008. FAS 157 will not be applied to our goodwill and other intangible assets measured annually for impairment testing purposes only. We will adopt FAS 157 for non-financial assets and non-financial liabilities on January 1, 2009. We do not anticipate this adoption will have a material impact on our results of operations, financial position or liquidity.

On October 10, 2008, the FASB issued Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which provided further clarification on fair value measurement for financial assets in inactive markets.

(b) Fair Value Option

FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), became effective on January 1, 2008. Under this standard, an entity is permitted to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial instruments and certain other items including insurance contracts. We did not elect the fair value option for our available for sale investments and therefore future changes in unrealized gains and losses on these investments, net of tax, will continue to be reported through accumulated other comprehensive income (loss) in our shareholders' equity. Accordingly, FAS 159 did not have an impact on our results of operations, financial position or liquidity.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Accounting Standards Not Yet Adopted

(a) Business Combinations and Non-controlling Interests

In December 2007, the FASB issued FAS No. 141(R), *Business Combinations* (FAS 141(R)) and FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of Accounting Research Bulletin No. 51 (FAS 160). FAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to provide additional disclosures on the nature and financial effect of the business combination. FAS 141(R) applies to all transactions or other events in which the acquirer obtains control of one or more businesses, even if control is not obtained by purchasing equity interests or net assets. FAS 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. Both FAS 141(R) and FAS 160 apply prospectively to business combinations for which the acquisition date is on or after December 15, 2008, except for the presentation and disclosure requirements of FAS 160 which will be applied retrospectively for all periods presented.

(b) Derivative Instruments and Hedging Activities

In March 2008, the FASB issued FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of *FASB Statement No. 133* (FAS 161). This Statement expands the disclosure requirements of FAS 133 and requires the reporting entity to provide enhanced disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about fair values and amounts of gains and losses on derivative contracts, and credit-risk related contingent features in derivative agreements. FAS 161 will be effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. As FAS 161 requires only additional disclosures concerning derivatives and hedging activities, its adoption will not affect our results of operations, financial position or liquidity.

(c) Financial Guarantee Insurance Contracts

In May 2008, the FASB issued FAS No. 163, *Accounting for Financial Guarantee Insurance Contracts* (FAS 163). 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. FAS 163 is effective for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for disclosures about the insurance enterprise's risk-management activities, which are effective the first period (including interim periods) beginning after the date of issuance. Except for the required disclosures, earlier application is not permitted. We do not anticipate this adoption will have a material impact on our results of operations, financial position or liquidity.

(d) Credit Derivatives and Guarantee Disclosures

In September 2008, the FASB issued Staff Position No. FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. This Staff Position amends FAS 133 to require a seller of credit derivatives, including credit derivatives embedded in hybrid instruments, to provide certain disclosures for each credit derivative (or group of similar credit derivatives) for each balance sheet presented. These disclosures must be provided even if the likelihood of having to make payments is remote. The Staff Position also clarifies that FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We do not anticipate the adoption of this Staff Position will have a material impact on our results of operations, financial position or 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 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.

Insurance

Our insurance segment offers specialty insurance products to a variety of niche markets on a global basis. The following are the lines of business in our insurance segment:

Property: provides physical damage and business interruption coverage primarily for industrial and commercial properties and physical damage, business interruption and liability coverage for onshore energy properties and operations. The book consists of both primary and excess risks, some of which are catastrophe-exposed.

Marine: provides coverage for hull, liability, cargo and specie and recreational marine risks. These risks include property damage or physical loss to ships, pollution damage caused by vessels on a sudden and accidental basis, protection for general cargo and the contents of armored cars, vaults, exhibitions and museums, and specific war related risks. This line of business also provides physical damage, business interruption and liability coverage for offshore energy property and operations.

Terrorism: provides coverage for physical damage and business interruption of an insured following an act of terrorism.

Aviation: includes hull and liability and specific war coverage for passenger and cargo airlines and privately owned aircraft as well as select aviation product liability coverage.

Political risk: provides protection against sovereign default or sovereign actions that result in the impairment of cross-border investments for banks and major corporations. This book also provides sovereign and corporate credit insurance, where lenders seek to mitigate the risk of non-payment from their borrowers.

Professional lines: includes coverage for directors and officers liability, errors and omissions liability, employment practices liability, media, cyber, technology and miscellaneous professional liability coverage.

Liability: primarily targets general liability and umbrella and excess liability in the U.S. excess and surplus lines markets. Target classes include mercantile, manufacturing and building/premises, with particular emphasis on commercial and consumer products, commercial construction and miscellaneous general liability.

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

Other: primarily includes employee medical coverage for self-insured, small and medium sized employers for losses in excess of a retention.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. SEGMENT INFORMATION (CONTINUED)

Reinsurance

Our reinsurance segment provides treaty and facultative property and casualty reinsurance to insurance companies on a worldwide basis. The following are the lines of business in our reinsurance segment:

Catastrophe: provides protection for most catastrophic losses that are covered in the underlying insurance policies written by our ceding company clients. The exposure in the underlying policies is principally property exposure but also covers other exposures including workers compensation, personal accident and life. The principal perils in this portfolio are hurricane and windstorm, earthquake, flood, tornado, hail and fire. In some instances, terrorism may be a covered peril or the only peril. We underwrite catastrophe reinsurance principally on an excess of loss basis, meaning that our exposure only arises when our customers' claims exceed a certain retained amount.

Property: includes reinsurance written on both a pro rata and a per risk basis and covers underlying personal lines and commercial property exposures. Property pro rata treaty reinsurance covers a cedent's aggregate losses from all events in the covered period on a proportional basis. Property per risk treaty reinsurance reinsures a portfolio of particular property risks of ceding companies on an excess of loss basis.

Professional Liability: covers directors' and officers' liability, employment practices liability, medical malpractice and miscellaneous errors and omissions insurance risks.

Credit and Bond: consists principally of reinsurance of trade credit insurance products and includes both proportional and excess-of loss structures. The underlying insurance indemnifies sellers of goods and services against a payment default by the buyer of those goods and services. Also included in this book is coverage for ceding insurers against losses arising from a broad array of surety bonds issued by bond insurers principally to satisfy regulatory demands in a variety of jurisdictions around the world, but predominantly in Europe.

Motor: provides coverage to insurers for motor liability losses arising out of any one occurrence. The occurrence can involve one or many claimants where the ceding insurer aggregates the claims from the occurrence.

Liability: provides coverage to insurers of standard casualty lines, including auto liability, general liability, personal and commercial umbrella and workers' compensation.

Engineering: provides coverage for all types of civil construction risks and risks associated with erection, testing and commissioning of machinery and plants during the construction stage. This line of business also includes operational risks for machinery, plant and equipment, electronic equipment and business interruption. We write engineering business on a proportional and non-proportional treaty basis as well as on a facultative basis.

Other: includes aviation, marine, personal accident and crop reinsurance.

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

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 September 30, 2008 and 2007:

Three months ended September 30,	2008			2007		
	Insurance	Reinsurance	Total	Insurance	Reinsurance	Total
Gross premiums written	\$ 402,672	\$ 322,611	\$ 725,283	\$ 480,729	\$ 274,495	\$ 755,224
Net premiums written	235,666	315,750	551,416	315,605	268,297	583,902
Net premiums earned	293,572	396,398	689,970	301,925	383,920	685,845
Other insurance related (loss) income	(13,751)	(55)	(13,806)	610	395	1,005
Net losses and loss expenses	(230,577)	(474,954)	(705,531)	(113,092)	(215,101)	(328,193)
Acquisition costs	(21,964)	(68,369)	(90,333)	(34,721)	(65,318)	(100,039)
General and administrative expenses	(49,361)	(17,366)	(66,727)	(43,262)	(15,828)	(59,090)
Underwriting (loss) income	\$ (22,081)	\$ (164,346)	(186,427)	\$ 111,460	\$ 88,068	199,528
Corporate expenses			(19,995)			(20,723)
Net investment income			50,583			118,908
Net realized investment losses			(89,079)			(1,192)
Foreign exchange gains			7,627			7,202
Interest expense and financing costs			(7,941)			(13,929)
(Loss) income before income taxes			\$ (245,232)			\$ 289,794
Net loss and loss expense ratio	78.5%	119.8%	102.3%	37.5%	56.0%	47.9%
Acquisition cost ratio	7.5%	17.2%	13.1%	11.5%	17.0%	14.6%
General and administrative expense ratio	16.8%	4.4%	12.6%	14.3%	4.1%	11.6%
Combined ratio	102.8%	141.4%	128.0%	63.3%	77.1%	74.1%
Goodwill and intangible assets	\$ 60,726	\$ -	\$ 60,726	\$ 61,967	\$ -	\$ 61,967

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. SEGMENT INFORMATION (CONTINUED)

Nine months ended September 30,	2008			2007		
	Insurance	Reinsurance	Total	Insurance	Reinsurance	Total
Gross premiums written	\$ 1,392,993	\$ 1,470,640	\$ 2,863,633	\$ 1,529,888	\$ 1,487,337	\$ 3,017,225
Net premiums written	872,909	1,454,498	2,327,407	1,004,536	1,474,066	2,478,602
Net premiums earned	890,558	1,138,337	2,028,895	915,102	1,149,988	2,065,090
Other insurance related (loss) income	(20,073)	1,000	(19,073)	1,737	1,901	3,638
Net losses and loss expenses	(549,723)	(889,206)	(1,438,929)	(432,612)	(647,102)	(1,079,714)
Acquisition costs	(84,798)	(197,795)	(282,593)	(97,512)	(196,411)	(293,923)
General and administrative expenses	(145,321)	(51,813)	(197,134)	(117,952)	(45,794)	(163,746)
Underwriting income	\$ 90,643	\$ 523	91,166	\$ 268,763	\$ 262,582	531,345
Corporate expenses			(51,291)			(47,247)
Net investment income			273,249			357,873
Net realized investment losses			(51,842)			(5,548)
Foreign exchange gains			21,360			16,477
Interest expense and financing costs			(23,789)			(43,241)
Income before income taxes			\$ 258,853			\$ 809,659
Net loss and loss expense ratio	61.7%	78.1%	70.9%	47.3%	56.3%	52.3%
Acquisition cost ratio	9.6%	17.4%	13.9%	10.7%	17.1%	14.2%
General and administrative expense ratio	16.3%	4.5%	12.2%	12.9%	4.0%	10.2%
Combined ratio	87.6%	100.0%	97.0%	70.9%	77.4%	76.7%
Goodwill and intangible assets	\$ 60,726	\$ -	\$ 60,726	\$ 61,967	\$ -	\$ 61,967

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

The following tables summarize investment securities that are in a gross unrealized loss position for the period specified:

As at September 30, 2008	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	\$ -	\$ -	\$ 809,710	\$ (8,493)	\$ 809,710	\$ (8,493)
Non-U.S. government	-	-	208,715	(18,405)	208,715	(18,405)
Corporate	176,091	(47,475)	1,743,579	(240,249)	1,919,670	(287,724)
Mortgage-backed	329,084	(31,618)	2,175,576	(110,696)	2,504,660	(142,314)
Asset-backed	44,460	(4,868)	323,137	(22,379)	367,597	(27,247)
Municipals	-	-	175,754	(6,208)	175,754	(6,208)
Total fixed maturities	\$ 549,635	\$ (83,961)	\$ 5,436,471	\$ (406,430)	\$ 5,986,106	\$ (490,391)
Equities:						
Common stock	\$ -	\$ -	\$ 89,979	\$ (26,871)	\$ 89,979	\$ (26,871)
Non-redeemable preferred stock	-	-	21,082	(10,313)	21,082	(10,313)
Total equities	\$ -	\$ -	\$ 111,061	\$ (37,184)	\$ 111,061	\$ (37,184)

As at December 31, 2007	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	\$ 67,131	\$ (169)	\$ 7,304	\$ (18)	\$ 74,435	\$ (187)
Non-U.S. government	-	-	87,214	(4,244)	87,214	(4,244)
Corporate	188,901	(4,391)	776,234	(56,296)	965,135	(60,687)
Mortgage-backed	1,064,646	(13,100)	241,920	(2,204)	1,306,566	(15,304)
Asset-backed	68,959	(1,391)	132,735	(6,754)	201,694	(8,145)
Municipals	32,053	(150)	50,782	(87)	82,835	(237)
Total fixed maturities	\$ 1,421,690	\$ (19,201)	\$ 1,296,189	\$ (69,603)	\$ 2,717,879	\$ (88,804)