

AXIS CAPITAL HOLDINGS LTD

Form 10-Q

July 29, 2015

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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 June 30, 2015

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

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 July 22, 2015, there were 100,638,757 Common Shares, \$0.0125 par value per share, of the registrant outstanding.

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PART I FINANCIAL INFORMATION

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 estimates of losses related to catastrophes and other large losses, measurements of potential losses in the fair value of our investment portfolio and derivative contracts, our expectations regarding pricing and other market conditions, our growth prospects, and valuations of the potential impact of movements in interest rates, equity prices, credit spreads and foreign currency rates. Forward-looking statements only reflect our expectations and are not guarantees of performance.

These statements involve risks, uncertainties and assumptions. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. We believe that these factors include, but are not limited to, the following:

- the occurrence and magnitude 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, coverage and regulatory issues, including uncertainty related to coverage definitions, limits, terms and conditions,
- the failure of our cedants to adequately evaluate risks,
- inability to obtain additional capital on favorable terms, or at all,
- 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,
- the use of industry catastrophe models and changes to these models,
- 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,
- the failure to complete our amalgamation with PartnerRe Ltd., and
- the other matters set forth under Item 1A, ‘Risk Factors’ and Item 7, ‘Management’s Discussion and Analysis of Financial Condition and Results of Operations’ included in our Annual Report on Form 10-K for the year ended December 31, 2014.

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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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2015 (UNAUDITED) AND DECEMBER 31, 2014

	2015	2014
	(in thousands)	
Assets		
Investments:		
Fixed maturities, available for sale, at fair value (Amortized cost 2015: \$12,093,366; 2014: \$12,185,973)	\$ 12,005,736	\$ 12,129,273
Equity securities, available for sale, at fair value (Cost 2015: \$618,869; 2014: \$531,648)	659,181	567,707
Mortgage loans, held for investment, at amortized cost and fair value	79,606	—
Other investments, at fair value	853,101	965,465
Short-term investments, at amortized cost and fair value	30,618	107,534
Total investments	13,628,242	13,769,979
Cash and cash equivalents	989,395	921,830
Restricted cash and cash equivalents	190,664	287,865
Accrued interest receivable	78,409	83,070
Insurance and reinsurance premium balances receivable	2,394,037	1,808,620
Reinsurance recoverable on unpaid and paid losses	2,063,087	1,926,145
Deferred acquisition costs	594,863	466,987
Prepaid reinsurance premiums	387,639	351,441
Receivable for investments sold	1,304	169
Goodwill and intangible assets	101,053	88,960
Other assets	276,182	250,670
Total assets	\$ 20,704,875	\$ 19,955,736
Liabilities		
Reserve for losses and loss expenses	\$ 9,693,440	\$ 9,596,797
Unearned premiums	3,324,578	2,735,376
Insurance and reinsurance balances payable	296,794	249,186
Senior notes	991,302	990,790
Payable for investments purchased	213,142	188,176
Other liabilities	237,061	315,471
Total liabilities	14,756,317	14,075,796
Shareholders' equity		
Preferred shares	627,843	627,843
Common shares (2015: 176,206; 2014: 175,478 shares issued and 2015: 100,284; 2014: 99,426 shares outstanding)	2,201	2,191
Additional paid-in capital	2,285,772	2,285,016
Accumulated other comprehensive loss	(78,067)	(45,574)
Retained earnings	5,875,147	5,715,504
Treasury shares, at cost (2015: 75,922; 2014: 76,052 shares)	(2,764,338)	(2,763,859)
Total shareholders' equity attributable to AXIS Capital	5,948,558	5,821,121
Noncontrolling interests	—	58,819

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Total shareholders' equity	5,948,558	5,879,940
Total liabilities and shareholders' equity	\$20,704,875	\$19,955,736

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, 2015 AND 2014

	Three months ended		Six months ended	
	2015	2014	2015	2014
	(in thousands, except for per share amounts)			
Revenues				
Net premiums earned	\$941,211	\$1,000,400	\$1,845,264	\$1,946,349
Net investment income	88,544	114,867	180,651	197,610
Other insurance related income	3,486	1,683	11,162	4,766
Net realized investment gains (losses):				
Other-than-temporary impairment (OTTI) losses	(12,893)	(1,905)	(30,461)	(2,690)
Other realized investment gains (losses)	1,783	35,166	(23,201)	46,572
Total net realized investment gains (losses)	(11,110)	33,261	(53,662)	43,882
Total revenues	1,022,131	1,150,211	1,983,415	2,192,607
Expenses				
Net losses and loss expenses	580,153	565,829	1,092,481	1,110,036
Acquisition costs	183,263	191,862	354,805	363,899
General and administrative expenses	148,482	151,081	311,723	303,810
Foreign exchange losses (gains)	22,108	9,705	(41,112)	13,939
Interest expense and financing costs	12,939	19,975	25,196	36,569
Total expenses	946,945	938,452	1,743,093	1,828,253
Income before income taxes	75,186	211,759	240,322	364,354
Income tax expense	1,815	9,500	1,125	13,625
Net income	73,371	202,259	239,197	350,729
Amounts attributable to noncontrolling interests	—	1,573	—	2,795
Net income attributable to AXIS Capital	73,371	200,686	239,197	347,934
Preferred share dividends	10,022	10,022	20,044	20,044
Net income available to common shareholders	\$63,349	\$190,664	\$219,153	\$327,890
Per share data				
Net income per common share:				
Basic net income	\$0.63	\$1.81	\$2.19	\$3.06
Diluted net income	\$0.63	\$1.79	\$2.17	\$3.03
Weighted average number of common shares outstanding - basic	100,274	105,118	100,093	107,075
Weighted average number of common shares outstanding - diluted	101,160	106,289	101,151	108,329
Cash dividends declared per common share	\$0.29	\$0.27	\$0.58	\$0.54

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, 2015 AND 2014

	Three months ended		Six months ended	
	2015	2014	2015	2014
	(in thousands)			
Net income	\$73,371	\$202,259	\$239,197	\$350,729
Other comprehensive income (loss), net of tax:				
Available for sale investments:				
Unrealized gains (losses) arising during the period	(72,041)	120,550	(77,228)	191,933
Adjustment for reclassification of net realized investment gains (losses) and OTTI losses recognized in net income	8,857	(33,929)	53,960	(43,543)
Unrealized gains (losses) arising during the period, net of reclassification adjustment	(63,184)	86,621	(23,268)	148,390
Foreign currency translation adjustment	2,188	3,790	(9,225)	6,449
Total other comprehensive income (loss), net of tax	(60,996)	90,411	(32,493)	154,839
Comprehensive income	12,375	292,670	206,704	505,568
Amounts attributable to noncontrolling interests	—	(1,573)	—	(2,795)
Comprehensive income attributable to AXIS Capital	\$12,375	\$291,097	\$206,704	\$502,773

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED
 CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
 FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	2015	2014
	(in thousands)	
Preferred shares		
Balance at beginning and end of period	\$627,843	\$627,843
Common shares (par value)		
Balance at beginning of period	2,191	2,174
Shares issued	10	15
Balance at end of period	2,201	2,189
Additional paid-in capital		
Balance at beginning of period		