AXIS CAPITAL HOLDINGS LTD
Form 10-Q
May 05, 2006

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 March 31, 2006
Commission file number 001-31721

AXIS CAPITAL HOLDINGS LIMITED

(Exact name of registrant as specified in its charter)

Bermuda	**98-0395986**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

106 Pitts Bay Road, Pembroke HM 08, Bermuda

(Address of principal executive offices and zip code)

(441) 296-2600
(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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of May 1, 2006 there were 151,892,527 Common Shares, $0.0125 par value per share, of the registrant outstanding.

AXIS CAPITAL HOLDINGS LIMITED

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AXIS CAPITAL HOLDINGS LIMITED

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
As at March 31, 2006 and December 31, 2005
(Expressed in thousands of U.S. dollars, except share amounts)

	March 31, 2006 (Unaudited)	December 31, 2005
Assets		
Cash and cash equivalents	$ 1,511,619	$ 1,280,990
Fixed maturity investments at fair market value *(Amortized cost 2006: $6,186,694; 2005: $6,090,998)*	6,047,556	6,012,425
Other investments	543,866	409,504
Accrued interest receivable	58,602	59,784
Securities lending collateral	984,847	998,349
Insurance and reinsurance premium balances receivable	1,316,318	1,026,975
Deferred acquisition costs	266,566	196,388
Prepaid reinsurance premiums	295,215	281,579
Reinsurance recoverable balances	1,347,204	1,455,248
Reinsurance recoverable balances on paid losses	128,302	62,862
Intangible assets	36,056	37,013
Other assets	119,504	104,859
Total Assets	$ 12,655,655	$ 11,925,976
Liabilities		
Reserve for losses and loss expenses	$ 4,813,516	$ 4,743,338
Unearned premiums	2,132,841	1,760,467
Insurance and reinsurance balances payable	311,933	314,232
Accounts payable and accrued expenses	84,357	101,179
Securities lending payable	982,499	995,287
Net payable for investments purchased	186,208	76
Debt	499,073	499,046
Total Liabilities	9,010,427	8,413,625
Shareholders Equity		
Share Capital		
Series A Preferred shares *(issued and outstanding 2006: 10,000,000; 2005: 10,000,000)*	125	125
Series B Preferred shares *(issued and outstanding 2006: 2,500,000; 2005: 2,500,000)*	31	31
Common shares *(issued and outstanding 2006: 149,752,565; 2005: 148,868,759)*	1,872	1,861
Additional paid-in capital	2,405,448	2,386,200
Accumulated other comprehensive loss	(134,238)	(77,798)
Retained earnings	1,371,990	1,201,932
Total Shareholders Equity	3,645,228	3,512,351
Total Liabilities & Shareholders Equity	$ 12,655,655	$ 11,925,976

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

AXIS CAPITAL HOLDINGS LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Quarters ended March 31, 2006 and 2005
(Expressed in thousands of U.S. dollars, except share and per share amounts)

	Quarters ended March 31, 2006	**March 31, 2005**
Revenues		
Gross premiums written	$ 1,164,740	$ 1,198,699
Premiums ceded	(172,412)	(136,628)
Change in unearned premiums	(358,734)	(436,481)
Net premiums earned	633,594	625,590
Net investment income	93,568	52,758
Net realized losses	(10,929)	(1,393)
Other insurance related income (loss)	624	(68)
Total revenues	716,857	676,887
Expenses		
Net losses and loss expenses	358,658	344,290
Acquisition costs *(related party 2006: $26,673; 2005: $32,945)*	89,704	91,301
General and administrative expenses	55,411	54,302
Foreign exchange (gains) losses	(9,264)	23,418
Interest expense	8,085	8,078
Total expenses	502,594	521,389
Income before income taxes	214,263	155,498
Income tax expense	(9,447)	(3,699)
Net income	204,816	151,799
Preferred share dividends	(9,631)	
Net income available to common shareholders	$ 195,185	$ 151,799
Weighted average common shares and common share equivalents basic	149,314,313	146,635,717
Weighted average common shares and common share equivalents outstanding - diluted	163,554,990	160,429,657
Net income per common share - basic	$ 1.31	$ 1.04
Net income per common share - diluted	$ 1.19	$ 0.95

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

AXIS CAPITAL HOLDINGS LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Quarters ended March 31, 2006 and 2005
(Expressed in thousands of U.S. dollars)

	Quarters ended March 31, 2006	March 31, 2005
Net income	$ 204,816	$ 151,799
Other comprehensive income, net of tax		
Unrealized losses arising during the period	(63,686)	(58,066)
Adjustment for re-classification of losses (gains) realized in income	7,246	(4,243)
Comprehensive income	$ 148,376	$ 89,490

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

AXIS CAPITAL HOLDINGS LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For the Quarters ended March 31, 2006 and 2005

(Expressed in thousands of U.S. dollars)

	March 31, 2006	March 31, 2005
Preferred Shares		
Balance at beginning and end of period	$ 156	$
Common Shares		
Balance at beginning of period	$ 1,861	$ 1,910
Issued during period	11	2
Repurchased during period		(160)
Balance at end of period	1,872	1,752
Additional paid-in capital		
Balance at beginning of period	2,386,200	2,017,144
Shares issued during period, net of costs	272	(152)
Repurchased during period		(349,840)
Stock option exercise	12,876	187
Stock option expense	442	1,103
Stock compensation expense	5,658	4,967
Balance at end of period	2,405,448	1,673,409
Accumulated other comprehensive income (loss)		
Balance at beginning of period	(77,798)	12,915
Change in unrealized losses	(57,496)	(68,249)
Change in deferred taxes	1,056	5,940
Balance at end of period	(134,238)	(49,394)
Retained earnings		
Balance at beginning of period	1,201,932	1,206,095
Preferred shares dividend	(9,631)	
Common share dividends	(25,127)	(21,639)
Net income for period	204,816	151,799
Balance at end of period	1,371,990	1,336,255
Total Shareholders Equity	$ 3,645,228	$ 2,962,022

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

AXIS CAPITAL HOLDINGS LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Quarters ended March 31, 2006 and 2005
(Expressed in thousands of U.S. dollars)

	Quarters ended March 31, 2006	March 31, 2005
Cash flows provided by operating activities:		
Net income	$ 204,816	$ 151,799
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized losses on sales of investments	8,114	1,393
Change in carrying value of other investments	(10,506)	896
Net amortization on fixed maturities	7,518	7,511
Amortization of deferred compensation and option expense	6,100	6,070
Amortization of intangible assets	957	887
Amortization of deferred debt expenses	113	163
Accrued interest receivable	1,182	6,126
Insurance and reinsurance premium balances receivable	(289,343)	(395,074)
Deferred acquisition costs	(70,178)	(66,387)
Prepaid reinsurance premiums	(13,636)	(1,126)
Reinsurance recoverable balances	108,044	(44,689)
Reinsurance recoverable balances on paid losses	(65,440)	(115)
Other assets	(13,675)	(15,885)
Reserve for losses and loss expenses	70,178	314,687
Unearned premiums	372,374	437,606
Insurance and reinsurance balances payable	(2,299)	39,154
Accounts payable and accrued expenses	(18,328)	913
Total adjustments	91,175	292,130
Net cash provided by operating activities	295,991	443,929
Cash flows provided by (used in) investing activities:		
Purchases of available-for-sale securities	(1,092,458)	(1,247,259)
Sales and maturities of available-for-sale securities	1,172,473	1,336,399
Other investments, net	(126,000)	(50,000)
Net cash used in provided by investing activities	(45,985)	39,140
Cash flows provided by (used in) financing activities:		
Common share dividends	(22,403)	(19,370)
Preferred share dividends	(10,134)	
Repurchase of shares, net		(350,000)
Issue of common shares, net	13,160	37
Net cash used in financing activities	(19,377)	(369,333)
Increase in cash and cash equivalents	230,629	113,736
Cash and cash equivalents beginning of period	1,280,990	632,329
Cash and cash equivalents end of period	$ 1,511,619	$ 746,065
Supplemental disclosures of cash flow information:		
Income taxes paid	$ 8,276	$ 1,812
Interest paid	$	$

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of U.S. dollars, except share and per share amounts)

1. Basis of Preparation and Consolidation

These unaudited condensed consolidated financial statements include the accounts of AXIS Capital Holdings Limited (AXIS Capital) and its subsidiaries (together, the Company) and have been prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for interim financial information and with the 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 unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company s 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 intercompany accounts and transactions have been eliminated. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The major estimates reflected in the Company s condensed consolidated financial statements include the reserve for losses and loss expenses, premium estimates for business written on a line slip or proportional basis, reinsurance recoverable balances, and the estimation of fair values for derivative contracts. 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.

This Quarterly Report on Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission (the SEC) on March 9, 2006.

2. New Accounting Pronouncements

There were no new accounting pronouncements issued during the quarter which impacted the Company.

3. Benefit plans

(a) Employee Benefit Plans

1) Retirement Plans

The Company provides retirement benefits to eligible employees through various plans sponsored by the Company.

(i) Defined contribution plans

The Company has several defined contribution plans that are managed externally pursuant to which employees and the Company contribute on a monthly basis. During the quarter ended March 31, 2006, pension expenses totaled $1.6 million (March 31, 2005: $1.5 million).

(ii) Defined benefit plans

Effective January 1, 2004, the Company implemented supplemental retirement plans (SERPs) for two executives. The SERP for Mr. Charman requires the Company to make annual payments to Mr. Charman upon his retirement for a period of 20 years. The benefits vest over a period of two years commencing in 2006. Commencing at age 56, Mr. Charman is entitled to an annual payment of $750,000 compounded by 3% annually for each year commencing from inception. The SERP for Mr. Butt requires the Company to make annual payments to Mr. Butt upon his retirement for a period of 10 years. The benefits vest over a period of two years commencing in 2006. Commencing at age 66, Mr. Butt is entitled to an annual payment of $350,000 compounded by 3% annually for each year commencing from inception. If either Mr. Charman or Mr. Butt dies, is permanently disabled or a change of control of the Company occurs, the remaining benefits under his plan are payable by the Company in a lump sum. The benefits received under the SERPs will be reduced by the benefits received by the executives under the Company s Bermuda retirement plan. The measurement date of the plan was January 1, 2005. The plan was fully funded in January 2006.

The following table shows the components of expense for the quarters ended March 31, 2006 and 2005 and the amounts included in the Company s Condensed Consolidated Balance Sheet as of March 31, 2006 and December 31, 2005 for the Company s SERPs:

	Quarters ended March 31, 2006	March 31, 2005
Components of pension expense		
Amortization of prior service cost	$ 574	$ 536
Interest cost	184	171
Expected return on plan assets	(179)	
Pension expense	$ 579	$ 707

The weighted-average assumptions used to determine net periodic pension cost and benefit obligations were:

	Quarters ended March 31, 2006	March 31, 2005
Discount rate	5.75 %	5.75 %
Expected return on plan assets	5.75 %	5.75 %

	March 31, 2006	December 31, 2005
Changes in plan assets		
Fair value of plan assets at beginning of period	$	$
Expected return on plan assets	179	
Employer contribution	12,439	
Fair value of plan assets at end of period	$ 12,618	$

	March 31, 2006		December 31, 2005	
Components of benefit obligation				
Benefit obligation at beginning of period	$	12,439	$	11,371
Interest cost	184		683	
Amendments	379		385	
Benefit obligation at end of period	$	13,002	$	12,439
Reconciliation of Funded Status				
Funded Status	$		$	(12,439)
Unrecognized loss	385		385	
Unrecognized prior service cost	5,862		6,436	
Net amount recognized at end of period	$	6,247	$	(5,618)

2) Long Term Equity Compensation Plan

The Company has adopted a Long-Term Equity Compensation Plan (LTEC) that provides for the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock awards, performance share and performance unit awards and share purchase rights. The maximum number of common shares with respect to which awards may be granted under the plan is 14,855,192, of which 1,200,000 are available for issuance pursuant to share purchase rights and of which 13,655,192 are available for issuance under all other awards. The plan is administered by the Compensation Committee of the Board of Directors.

Effective January 1, 2006, the Company adopted, prospectively, the fair value recognition provisions of FAS No. 123 (revised) Share-Based Payments (FAS No. 123 (R)) for all stock options and restricted shares that were outstanding on January 1, 2006 that are granted or subsequently modified or cancelled. Compensation expense for stock options and for restricted stock awards granted to employees is recorded over the vesting period using the fair value method.

The Company adopted FAS No. 123 (R) effective January 1, 2006 by applying the modified prospective approach. The modified prospective approach requires FAS No. 123 (R) to be applied to new awards and to awards that were outstanding on January 1, 2006 that are subsequently modified or cancelled. The compensation cost recognized in the first quarter of fiscal 2006 includes compensation cost for all share-based payments granted prior to, but not vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with FAS No. 123, Accounting for Stock-Based Compensation (FAS 123), and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with FAS No. 123 (R). Prior periods have not been restated to reflect the adoption of the new standard. The adoption of FAS No. 123 (R) did not have a significant impact on net income and basic and diluted earnings per share for the three months ended March 31, 2006. In addition, the Company receives a tax deduction for certain stock option exercises in the period of exercise; in accordance with FAS No. 123 (R), the condensed consolidated statement of cash flows for the three months ended March 31, 2006 includes tax benefits of $554 on exercise of stock options as a financing cash flow.

On January 1, 2003, the Company adopted FAS No. 123 by applying the prospective method permitted under FAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Prior to 2003, the Company followed Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations in accounting for its employee stock compensation. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FAS 123 to all of its stock-based compensation prior to January 1, 2003.

		Quarter Ended March 31, 2006			Quarter Ended March 31, 2005		
Net income available to common shareholders, as reported		$	195,185		$	151,799	
Add:	Stock-based employee compensation expense included in net income, net of related tax						
	effects	5,218			5,057		
Deduct:	Total stock-based employee compensation expense determined under fair value based						
	methods for all awards, net of related tax effects	(5,218		)	(5,236		)
Pro-forma net income available to common shareholders		$	195,185		$	151,620	
Earnings per common share:							
	Basic as reported	$	1.31		$	1.04	
	Basic pro-forma	$	1.31		$	1.03	
	Diluted as reported	$	1.19		$	0.95	
	Diluted pro-forma	$	1.19		$	0.95	

(i) Options

Options granted under the plan generally expire 10 years after the date of grant and generally vest ratably on an annual basis over three years from the date of grant. Exercise prices are established at the fair value of the Company s common shares at the date of grant. Upon exercise, new shares are issued by the Company.

During the quarter ended March 31, 2006, the Company expensed $417 (quarter ended March 31, 2005: $1,055) related to the grant of options and realized a tax benefit of $568 (quarter ended March 31, 2005: $178). At March 31, 2006, there was $2,432 of unrecognized compensation cost related to options which is expected to be recognized over the weighted average period of 1 year. The total intrinsic value of options exercised during the quarter ended March 31, 2006 was $8,728 (year ended December 31, 2005: $10,258) and the Company received proceeds of $12,567 (year ended December 31, 2005: $8,585). The total intrinsic value of options vested at March 31, 2006, was $57,610 (year ended December 31, 2005: $69,886). The fair value of options granted during 2006 was $213 (year ended December 31, 2005: $6,413). The grants in 2006 reflect modifications to grants made in prior years to an employee pursuant to the severance agreement filed in an 8-K with the SEC on February 23, 2006. The earlier grants were deemed cancelled and new grants issued at the new terms. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2006: risk free interest rates of 4.6% (2005: 4.2%), expected life of 0 years (2005: 7 years), a dividend yield of 1.7% (2005: 2.5%) and an expected volatility of 20% (2005: 22%). The Company has elected to use the simplified method of calculating the expected life of the options, which is the average of the vesting period and the expiry period.

The following is a summary of stock options granted under the LTEC and related activity:

	Quarter ended March 31, 2006		Year ended December 31, 2005	
	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price
Outstanding beginning of period	6,054,464	$ 18.99	5,622,181	$ 16.38
Granted	45,000	26.90	1,269,834	28.01
Exercised	(687,282)	18.29	(653,881)	13.13
Forfeited	(57,833)	27.32	(183,670)	25.92
Outstanding end of period	5,354,349	$ 19.06	6,054,464	$ 18.99

The following table summarizes information about the Company s stock options for options granted under the LTEC and outstanding as of March 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise prices	Number of Options	Average Exercise Price	Average Remaining Contractual Life	Number of Options	Average Exercise Price
$12.50-$13.75	2,622,347	$ 12.55	5.83	2,622,347	$ 12.55
$13.76-$15.00	671,000	14.50	6.70	671,000	14.50
$15.01-$16.25	55,334	16.25	7.17	55,334	16.25
$16.26-$25.65	59,000	25.54	7.58	39,334	25.54
$25.66-$29.62	1,946,668	$ 28.80	8.14	1,023,219	$ 29.06

(ii) Restricted Stock

The fair value of restricted share grants is determined using the closing price of the Company s shares on the New York Stock Exchange on the day prior to the grant, with grants generally vesting three years after the date of grant or upon the employee s earlier retirement, death, permanent disability or a change in control of the Company. Restricted shares are entitled to vote and to receive dividends but may not be transferred during the period of restriction and are forfeited if the employee s employment terminates prior to vesting. Compensation cost equivalent to the estimated fair market value at the date of grant for the number of shares expected to fully vest is amortized over a three-year vesting period. As of March 31, 2006, there was $44,721 of unrecognized compensation cost related to these awards which is expected to be recognized over the weighted average period of 2 years. The total fair value of shares vested during the quarter ended March 31, 2006 was $2,387 (year ended 2005: $25,699). During the quarter ended March 31, 2006, the Company expensed $5,587 (quarter ended March 31, 2005: $4,885) in respect of restricted stock, and recorded tax benefits thereon of $867 (quarter ended March 31, 2005: $835).

The following is a summary of restricted stock granted under the LTEC and related activity:

	March 31, 2006		December 31, 2005	
	Number of Shares	Average Grant-Date Fair Value	Number of Shares	Average Grant-Date Fair Value
Nonvested beginning of period	1,175,750	$ 28.40	2,126,700	$ 17.36
Awarded	1,249,500	31.06	898,750	28.35
Vested	(86,000)	27.75	(1,723,300)	14.91
Forfeited	(69,750)	28.16	(126,400)	26.18
Nonvested end of period	2,269,500	$ 29.89	1,175,750	$ 28.40

The grants in 2006 include modifications to grants made in prior years to employees pursuant to the severance agreements. The earlier grants were deemed cancelled and new grants issued at the new terms.

(iii) Share Purchase Rights

The maximum number of shares that may be offered for purchase under the plan pursuant to share purchase rights is 1,200,000. Share purchase rights may only be granted to employees. In order to assist employees in purchasing shares pursuant to a grant of share purchase rights, the Company guaranteed full recourse loans secured by the shares purchased with the loan proceeds to employees who were not executive officers of the Company. At March 31, 2006, the maximum guaranteed amount was $4,700 (December 31, 2005: $4,700). During the three months ended March 31, 2006, there were no share purchase rights exercisable for common shares (December 31, 2005: nil) awarded to employees of the Company and its subsidiaries. At March 31, 2006, 921,560 common shares were issued pursuant to outstanding share purchase rights and there were no unexercised share purchase rights outstanding.

(b) Director Benefit Plans

(i) 2004 Directors Long-Term Equity Compensation Plan

The Company has adopted a Directors Long-Term Equity Compensation Plan (DLTECP) that provides for the grant of non-qualified stock options and stock awards (restricted and unrestricted) to non-employee directors of the Company. The maximum number of common shares with respect to which awards may be granted under the plan is 1,200,000. The plan is administered by the Compensation Committee of the Board of Directors.

(i) Options

Options granted under the plan generally expire 10 years after the date of grant and generally vest ratably on an annual basis over three years from the date of grant. Exercise prices are established at the fair value of the Company s common shares at the date of grant. Upon exercise, new shares are issued by the Company.

During the quarter ended March 31, 2006, the Company expensed $25 (quarter ended March 31, 2005: $48) related to the grant of options. At March 31, 2006, there was $107 of unrecognized compensation cost related to options which is expected to be recognized over the weighted average period of 1 year. The total intrinsic value of options exercised during the quarter ended March 31, 2006 was $94 (December 31, 2005: $nil) and the Company received proceeds of $318 (year ended December 31, 2005: $nil) and realized a tax benefit of $nil (year ended December 31, 2005: $nil). The total intrinsic value of options vested at March 31,

2006, was $1,410 (December 31, 2005: $343). There were no option grants during the three months ended March 31, 2006, and the fair value of options granted during 2005 was $257. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2005: risk free interest rates of 4.2%, expected life of 7 years, a dividend yield of 2.5% and an expected volatility of 22%. The Company has elected to use the simplified method of calculating the expected life of the options, which is the average of the vesting period and the expiry period.

The following is a summary of stock options granted under the DLTECP and related activity:

	Quarter ended March 31, 2006		Year ended December 31, 2005	
	Number of Options	**Average Exercise Price**	**Number of Options**	**Average Exercise Price**
Outstanding beginning of period	120,000	$ 25.19	72,000	$ 23.68
Granted			48,000	27.45
Exercised	(13,332)	23.84		
Outstanding end of period	106,668	$ 25.36	120,000	$ 25.19

The following table summarizes information about the Company s stock options granted under the DLTECP and for options outstanding as of March 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise prices	**Number of Options**	**Average Exercise Price**	**Average Remaining Contractual Life**	**Number of Options**	**Average Exercise Price**
$15.01-$16.25	26,667	$ 16.25	6.84	26,667	$ 16.25
$25.66-$29.62	80,001	$ 28.39	8.41	34,668	$ 28.79

(ii) Restricted Stock

The fair value of restricted share grants is determined using the closing price of the Company s shares on the New York Stock Exchange on the day prior to the grant, with grants generally vesting six months after the date of grant or upon the director s earlier retirement, death, permanent disability or a change in control of the Company. Restricted shares are entitled to vote and to receive dividends but may not be transferred during the period of restriction and are forfeited if the director resigns prior to vesting. Compensation cost equivalent to the estimated fair market value at the date of grant for the number of shares expected to fully vest is amortized over a six-month vesting period. As of March 31, 2006, there was $97 of unrecognized compensation cost related to these awards which is expected to be recognized in the second quarter of 2006. The total fair value of shares vested during the quarter ended March 31, 2006 was $nil (year ended December 31, 2005: $120). During the quarter ended March 31, 2006, the Company expensed $70 (quarter ended March 31, 2005: $57) in respect of restricted stock, and recorded no tax benefits.

The following is a summary of restricted stock granted under the DLTECP and related activity:

	Quarter ended March 31, 2006		Year ended December 31, 2005	
	Number of Shares	Average Grant-Date Fair Value	Number of Shares	Average Grant-Date Fair Value
Nonvested beginning of period		$		$
Awarded	5,590	31.31	4,368	27.45
Vested			(4,368)	27.45
Nonvested end of period	5,590	$ 31.31		$

In addition, directors may elect to receive their fees in common shares rather than cash. As at March 31, 2005, 43,912 (December 31, 2005: 40,235) common shares had been granted under the plan in lieu of fees. All awards are made at the fair market value of the common shares at the time of the grant.

(ii) 2004 Directors Deferred Compensation Plan

The Company has an unfunded nonqualified deferred compensation plan that allows participating directors to elect (i) the amount, if any, of cash or stock as fees for services to be deferred and (ii) the form in which payment is to be made. Directors who choose to defer fees otherwise payable in shares are credited a number of phantom stock units equal in amount to the number of shares of stock deferred. In the event a cash dividend is declared on the stock, the portion of the participant s deferral account denominated in phantom share units is credited with additional phantom share units (or portions thereof). Directors who choose to defer fees otherwise payable in cash are credited with interest on their cash deferral at a rate for the year of deferral that is 100 basis points above the 12-month LIBOR rate for deposits of U.S. dollars. Generally, benefits are paid upon termination of service as a director. As at March 31, 2006, 35,657 (December 31, 2005: 31,411) phantom share units had been issued under the plan in lieu of fees, and 10,001 (December 31, 2005: 6,657) had been issued in lieu of restricted shares.

4. Segment Information

The Company evaluates the performance of its insurance and reinsurance segments based on underwriting results. The Company writes business that has loss experience generally characterized as low frequency and high severity. This may result in volatility in both the Company s and an individual segment s operating results and cash flows. The Company does not allocate its assets by segment as it evaluates the underwriting results of each segment separately from the results of its investment portfolio.

Insurance

The Company s insurance segment provides insurance coverage on a worldwide basis and is divided into two sub-segments: global insurance and U.S. insurance.

Global insurance provides specialty lines coverage, predominantly through the London broker network. The product lines in this segment are property, marine, terrorism and war risk, aviation and aerospace, political risk, professional lines and other specialty.

U.S. insurance provides specialty lines coverage through a variety of channels in the U.S. and covers exposures predominantly in the U.S. The product lines in this segment are property, professional lines, liability and other specialty and are offered through wholesale brokers, retail brokers and managing general agents and underwriters.

Reinsurance

The Company s reinsurance segment provides treaty property and casualty reinsurance to insurance companies on a worldwide basis. Treaty reinsurance contracts are contractual arrangements that provide for automatic reinsurance of any agreed upon portion of business written as specified in a reinsurance contract. Contracts can be written on an excess of loss basis or a pro rata basis, also known as proportional. The product lines in this segment are catastrophe, property, professional liability, credit and bond, motor, liability and other.

The following tables summarize the underwriting results, income before income taxes, ratios and the reserves for losses and loss expenses for the Company s reportable operating segments and sub-segments for the quarters ended March 31, 2006 and 2005.

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Quarter ended March 31, 2006

	Global Insurance	U.S. Insurance	Total Insurance	Reinsurance	Corporate	Total
Revenues:						
Gross premiums written	$ 209,798	$ 227,252	$ 437,050	$ 727,690	$	$ 1,164,740
Net premiums written	157,186	117,964	275,150	717,178		992,328
Net premiums earned	185,199	137,514	322,713	310,881		633,594
Other insurance related income		624	624			624
Net losses and loss expenses	(80,439)	(75,731)	(156,170)	(202,488)		(358,658)
Acquisition costs	(27,389)	(10,067)	(37,456)	(52,248)		(89,704)
General and administrative expenses.	(9,868)	(23,187)	(33,055)	(10,714)		(43,769)
Underwriting income	67,503	29,153	96,656	45,431		142,087
Corporate expenses					(11,642)	(11,642)
Net investment income					93,568	93,568
Realized losses on investments					(10,929)	(10,929)
Foreign exchange gains					9,264	9,264
Interest expense					(8,085)	(8,085)
Income before income taxes						$ 214,263
Net loss and loss expense ratio	43.4%	55.1%	48.4%	65.1%		56.6%
Acquisition cost ratio	14.8%	7.3%	11.6%	16.8%		14.2%
General and administrative expense ratio	5.3%	16.9%	10.2%	3.4%	1.8%	8.7%
Combined ratio	63.5%	79.3%	70.2%	85.3%	1.8%	79.5%
Reserve for losses and loss expenses	$ 1,525,522	$ 1,561,622	$ 3,087,144	$ 1,726,372	$ n/a	$ 4,813,516

Quarter ended March 31, 2005

	Global Insurance	U.S. Insurance	Total Insurance	Reinsurance	Corporate	Total
Revenues:						
Gross premiums written	$ 252,323	$ 176,926	$ 429,249	$ 769,450		$ 1,198,699
Net premiums written	203,430	91,232	294,662	767,409		1,062,071
Net premiums earned	216,858	106,501	323,359	302,231		625,590
Other insurance related (loss) income	(238)	20	(218)	150		(68)
Net losses and loss expenses	(65,895)	(71,718)	(137,613)	(206,677)		(344,290)
Acquisition costs	(33,082)	(3,044)	(36,126)	(55,175)		(91,301)
General and administrative expenses.	(9,852)	(20,311)	(30,163)	(12,301)		(42,464)
Underwriting income	107,791	11,448	119,239	28,228		147,467
Corporate expenses					(11,838)	(11,838)
Net investment income					52,758	52,758
Realized losses on investments					(1,393)	(1,393)
Foreign exchange losses					(23,418)	(23,418)
Interest expense					(8,078)	(8,078)
Income before income taxes						$ 155,498
Net loss and loss expense ratio	30.4%	67.3%	42.6%	68.4%		55.0%
Acquisition cost ratio	15.3%	2.9%	11.2%	18.3%		14.6%
General and administrative expense ratio	4.5%	19.1%	9.3%	4.1%	1.9%	8.7%
Combined ratio	50.2%	89.3%	63.1%	90.8%	1.9%	78.3%
Reserve for losses and loss expenses	$ 924,888	$ 858,994	$ 1,783,882	$ 935,365	n/a	$ 2,719,247

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5. Investments

The following table summarizes the fixed maturity investments in an unrealized loss position at March 31, 2006 and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

	12 months or greater		Less than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agency securities	$ 415,808	$ (12,929)	$ 1,039,881	$ (21,376)	$ 1,455,689	$ (34,305)
Non - U.S. government securities	1,750	(123)	119,243	(2,172)	120,993	(2,295)
Corporate securities	326,228	(13,191)	576,353	(13,964)	902,581	(27,155)
Mortgage-backed securities	443,926	(16,736)	2,009,702	(51,423)	2,453,628	(68,159)
Asset-backed securities	131,508	(3,097)	126,038	(1,438)	257,546	(4,535)
Municipals	67,292	(2,118)	258,100	(3,555)	325,392	(5,673)
Total	$ 1,386,512	$ (48,194)	$ 4,129,317	$ (93,928)	$ 5,515,829	$ (142,122)

As of March 31, 2006, there were approximately 2,246 securities (2005: 2,113) in an unrealized loss position with a fair market value of $5,515.8 million (2005: $4,852.7 million). Of these securities, there are 729 securities (2005: 517) that have been in an unrealized loss position for 12 months or greater with a fair market value of $1,386.5 million (2005: $1,259.2 million). The unrealized losses from these securities were not a result of credit, collateral or structural issues. As of March 31, 2006, six (2005: none) of these securities were considered to be other than temporarily, impaired consequently the Company recorded an other than temporary impairment charge, within net realized losses, of $0.4 million (2005: $nil).

6. Debt and Financing Arrangements

a) Senior Notes

On November 15, 2004, the Company issued $500.0 million of senior unsecured debt (Senior Notes) at an issue price of 99.785%, generating net proceeds of $495.7 million. The Senior Notes bear interest at a rate of 5.75%, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on June 1, 2005. Unless previously redeemed, the Senior Notes will mature on December 1, 2014. The Company may redeem the Senior Notes at any time and from time to time, in whole or in part, at a make-whole redemption price, however, the Company has no current intentions of calling the Senior Notes. The Senior Notes indenture contains various covenants, including limitations on liens on the stock of restricted subsidiaries, restrictions as to the disposition of the stock of restricted subsidiaries and limitations on mergers and consolidations. The Company was in compliance with all the covenants contained in the Senior Notes indenture at March 31, 2006. The market value of the Senior Notes at March 31, 2006 was $484.1 million.

Interest expense includes interest payable, amortization of the offering discount and amortization of debt offering expenses. The offering discount and debt offering expenses are amortized over the period of time during which the Senior Notes are outstanding. For the quarter ended March 31, 2006 and March 31, 2005, the Company incurred interest expense for the Senior Notes of $7.2 million.

b) Credit Facilities

As at March 31, 2006, the Company had a $1.5 billion credit facility agreement with a syndicate of lenders. The credit agreement is an unsecured five-year facility that allows the Company and its operating subsidiaries to issue letters of credit up to the full amount of the facility and to borrow up to $500.0 million for general corporate purposes, with total usage not to exceed $1.5 billion. The credit agreement contains various loan covenants, including limitations on the incurrence of future indebtedness, future liens, fundamental

changes, investments and certain transactions with affiliates. The facility also requires that the Company maintain 1) a minimum consolidated net worth of $2.0 billion plus (A) 25% of consolidated net income (if positive) of AXIS Capital for each semi-annual fiscal period ending on or after December 31, 2005 plus (B) an amount equal to 25% of the net cash proceeds received by AXIS Capital from the issuance of its capital stock during each such semi-annual fiscal period and 2) a maximum debt to total capitalization ratio of 0.35:1.0. The Company was in compliance with all covenants contained in the credit agreement at March 31, 2006. As at March 31, 2006, the Company had letters of credit of $612.7 million (December 31, 2005: $685.1 million) outstanding. There was no debt outstanding under the credit facility as at March 31, 2006 or December 31, 2005.

7. Earnings Per Common Share

The following table sets forth the calculation of basic and diluted earnings per common share:

	Quarters ended March 31, 2006	**March 31, 2005**
Basic earnings per common share		
Net income available to common shareholders	$ 195,185	$ 151,799
Weighted average common shares outstanding	149,314,313	146,635,717
Basic earnings per common share - basic	$ 1.31	$ 1.04
Diluted earnings per common share		
Net income available to common shareholders	$ 195,185	$ 151,799
Weighted average common shares outstanding	149,314,313	146,635,717
Share equivalents		
Warrants	11,634,094	10,825,954
Options	2,032,418	2,263,801
Restricted stock	574,165	704,185
Weighted average common shares and common share equivalents outstanding diluted	163,554,990	160,429,657
Diluted earnings per common share	$ 1.19	$ 0.95

As of March 31, 2006, there were 1,907,750 securities (2005: 2,630,750) which would result in the issuance of common shares that were excluded in the computation of diluted earnings per share because the effect would be antidilutive.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

As used in this quarterly report, references to we, us or our refer to the consolidated operations of AXIS Capital and its direct and indirect subsidiaries and branches, unless the context suggests otherwise.

Business Overview

The following is a discussion of the Company s financial condition, liquidity and results of operations. This discussion should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and the audited Consolidated Financial Statements and notes thereto presented under Item 7 and Item 8, respectively, of the Company s Annual Report on Form 10-K for the year ended December 31, 2005 filed with the SEC on March 9, 2006.

The markets in which we operate have historically been cyclical. During periods of excess underwriting capacity, as defined by availability of capital, competition can result in lower pricing and less favorable policy terms and conditions for insurers and reinsurers. During periods of reduced underwriting capacity, pricing and policy terms and conditions are generally more favorable for insurers and reinsurers. Historically, underwriting capacity has been impacted by several factors, including industry losses, catastrophes, changes in legal and regulatory guidelines, investment results and the ratings and financial strength of competitors.

We believe that we are currently operating in a marketplace that, with appropriate risk selection, can offer favorable pricing and/or terms and conditions in our business segments. In general, short-tail lines in our wholesale insurance and reinsurance businesses have experienced significantly improved pricing, terms and conditions. The most dramatic hardening, including major revisions of terms, conditions and structure, has occurred for business exposed to U.S. wind perils. This hardening is occurring in the wake of record catastrophe losses incurred by the industry in 2005, led by Hurricanes Katrina, Rita and Wilma, and reflects more disciplined underwriting and recalibration of catastrophe models addressing increased assumptions regarding potential losses and increased capital requirements for loss scenarios. For short-tail insurance and reinsurance business without natural perils exposure or with natural perils exposure but outside the U.S., we have experienced increasing competition, but are still able to find business which meets or exceeds our underwriting criteria. For casualty insurance and reinsurance lines of business, particularly in the U.S., pricing, terms and conditions have stabilized at or above technically adequate levels.

We derive our revenues primarily from the sale of our insurance policies and reinsurance contracts. Insurance and reinsurance premiums are a function of the number and type of contracts we write, as well as prevailing market prices. Our expenses primarily consist of net losses and loss expenses, acquisition costs, general and administrative expenses and interest expense.

Financial Measures

Our objective as an insurance and reinsurance company is to generate superior returns on capital that appropriately reward us for the risks we assume and to grow revenue only when we deem the returns meet or exceed our requirements. To achieve this objective, we must be able to accurately assess the potential losses associated with the risks that we insure and reinsure, to manage our investment portfolio risk appropriately, and to control acquisition costs and infrastructure throughout the organization. Four financial measures that are meaningful in analyzing our performance are return on common equity, book value per common share, combined ratio and underwriting income. Our return on common equity calculation is based on the level of net income available to common shareholders generated from the average of the opening and closing common shareholders equity during the period. Book value per common share is calculated by dividing common shareholders equity by the number of outstanding common shares at any period end. The combined ratio is a formula used by insurance and reinsurance companies to relate net premiums earned during a period to net losses and loss expenses, acquisition costs and general and administrative expenses during a period.

We consider return on common equity and book value per common share appropriate indicators of our returns to common shareholders. A combined ratio above 100% indicates that a company is incurring more in net losses and loss expenses, acquisition costs and general and administrative expenses than it is earning in net premiums. We consider the combined ratio an appropriate indicator of our underwriting performance, particularly given the relatively short tail orientation of our overall portfolio of risks. Underwriting income on a segment basis is a measure of underwriting profitability that takes into account net premiums earned and other insurance related income as revenue and net losses and loss expenses, acquisition costs and underwriting related general and administrative expenses as expenses. Underwriting income is the difference between these revenue and expense items.

The following table details our key performance indicators for the periods indicated:

	Quarters ended March 31, 2006	March 31, 2005
	($ in thousands, except per share amounts)	
Gross premiums written	$ 1,164,740	$ 1,198,699
Net premiums earned	633,594	625,590
Net income available to common shareholders	195,185	151,799
Net loss and loss expense ratio	56.6 %	55.0 %
Acquisition cost ratio	14.2 %	14.6 %
General and administrative expense ratio	8.7 %	8.7 %
Combined ratio	79.5 %	78.3 %
Return on average common equity	25.4 %	19.6 %
Book value per common share	$ 21.00	$ 21.14

Because we have a limited operating history and are exposed to volatility in our results of operations, period-to-period comparisons of our results of operations may not be meaningful. In addition, the amount of premiums written with respect to any particular segment or line of business may vary from quarter to quarter as a result of changes in market conditions and our view of the long-term profit potential of individual lines of business.

Critical Accounting Policies

The Company s critical accounting policies are discussed in Managements Discussion and Analysis of Results of Operations and Financial Condition contained in our Annual Report on Form 10-K for the year ended December 31, 2005 filed with the SEC on March 9, 2006.

Results of Operations

Quarters ended March 31, 2006 and 2005

Premiums. The $34.0 million decrease in gross premiums written was primarily due to a decrease in gross premiums written of $41.8 million in our reinsurance segment. This was largely due to the impact of foreign exchange rates that generated a stronger U.S. Dollar exchange rate against the Euro and Sterling at January 1, 2006 compared to January 1, 2005. Gross premiums written in 2006 were otherwise at comparable levels with the quarter ended March 31, 2005.

The increase of $35.8 million in premiums ceded was largely due to an increase in the level of reinsurance purchased by our insurance segment. This was primarily a result of an increase in premiums written by U.S insurance.

The $8.0 million increase in net premiums earned was primarily generated by our reinsurance segment, which reported an increase in net premiums earned of $8.7 million. Premiums are earned over the term of the policies in proportion to the risks to which they relate. As the level of net premiums written increases, the level of net premiums earned also increases. As we experienced an increase in net premiums written over the rolling twelve-month period ended March 31, 2006 compared to the rolling twelve-month period ended March 31, 2005, our net premiums earned increased.

Net Investment Income. Net investment income increased by $40.8 million due to a combination of higher cash investment balances, higher investment yields and increased income from other investments. Net investment income consisted of $81.9 million of interest on cash and fixed maturity investments and $13.4 million of income from other investments, offset by $1.7 million of net investment expenses. Included in net investment income was $10.8 million (2005: $0.3 million) of unrealized gains from other investments. Net investment income for the quarter ended March 31, 2005 consisted of $51.5 million of interest on cash and fixed maturity investments, $2.9 million of income from other investments, offset by $1.6 million of net investment expenses.

The annualized effective yield (calculated by dividing the net investment income generated from invested assets by the average balance of the assets managed by our portfolio managers) increased by 0.7% to 4.5%. The increase in the effective yield was primarily due to higher U.S. interest rates at the short end of the yield curve. The effective yield may vary significantly from period to period due primarily to the timing of cash flows, changes in interest rates and changes in asset allocation.

Net Realized Losses. Net realized losses increased by $9.5 million. The increase was generated by net realized losses of $4.1 million and net realized and unrealized losses of $5.4 million from investment derivatives that we use to hedge foreign exchange risk in our investment portfolio. We invest our portfolio to produce a total return. In assessing returns under this approach, we include investment income, realized gains and losses and unrealized gains and losses generated by the investment portfolio. As a result, there can be significant changes in the levels of our net realized gains (losses) from quarter to quarter. Included within net realized losses was $3.3 million (2005: $0.1 million) of realized losses from mortgage-backed securities that are required to be classified as derivatives.

The total return for our investment portfolio for the quarter ended March 31, 2006 (calculated using beginning and ending market portfolio values, adjusted for external cash flows) was (0.1%) versus (0.3)% for the quarter ended March 31, 2005. The total return for an investment portfolio consists of price and income return. These components are primarily affected by the timing of cash flows, changes in interest rates and changes in asset allocation. The negative returns in the quarter ended March 31, 2006 and 2005 were primarily due to increases in intermediate U.S. interest rates that negatively impacted the price of fixed income securities.

Net Losses and Loss Expenses. Net losses and loss expenses for the quarter ended March 31, 2006 was $358.7 million, or 56.6% of net premiums earned, compared to $344.3 million, or 55.0% of net premiums earned, for the quarter ended March 31, 2005. The increase was generated by an increase in loss and loss expenses in our insurance segment. During the quarter ended March 31, 2006, we experienced favorable prior period development of $61.1 million, or 9.6 percentage points, compared with $66.7 million, or 10.7 percentage points, for the quarter ended March 31, 2005. We experienced adverse development of $35.0 million on losses relating to Hurricanes Katrina, Rita and Wilma primarily due to loss development in our reinsurance segment. Our current estimate of net losses and loss expenses for Hurricanes Katrina, Rita and Wilma is $1,054.0 million.

Acquisition Costs. The acquisition cost ratio for the quarter ended March 31, 2006 was 14.2% compared to 14.6% for the quarter ended March 31, 2005. The decrease was principally the result of a reduction of $8.8 million in the amounts expensed under our incentive commission arrangements with

brokers from 2004. We have not entered into any of these arrangements with respect to business underwritten in 2005 or thereafter. Consequently, there was only a negligible expense for the quarter ended March 31, 2006. Excluding incentive commissions, the acquisition cost ratio for the quarter ended March 31, 2006 was 14.0% compared to 13.1% for the quarter ended March 31, 2005. The increase was primarily due to higher acquisition costs in our insurance segment.

At March 31, 2006, we had two remaining incentive commission arrangements with brokers from 2004 that had yet to be resolved. Although we have accrued our best estimate of the amounts due under these arrangements, given the uncertainties that exist surrounding the calculation and payment of these incentive commissions, our estimates are subject to change. Any changes in the estimates are recorded during the period in which the change is identified.

General and Administrative Expenses. The general and administrative expense ratio for the quarter ended March 31, 2006 was 8.7%, consistent with the quarter ended March 31, 2005.

Foreign Exchange. Our functional currency is the U.S. dollar; however, some of our business is written in other currencies. For the quarter ended March 31, 2006, we experienced a foreign exchange gain of $9.3 million compared to a foreign exchange loss of $23.4 million for the quarter ended March 31, 2005. The gain was principally made on asset balances denominated in Euros following a 2.3% appreciation of the Euro against the U.S. Dollar during the quarter.

Interest Expense. Interest expense was consistent at $8.1 million for the quarters ended March 31, 2006 and 2005. Interest expense consists of interest due on outstanding debt, the amortization of debt offering expenses and offering discounts, and fees relating to our credit facility.

Income Tax. For the quarter ended March 31, 2006, we experienced an income tax expense of $9.4 million compared to $3.7 million for the quarter ended March 31, 2005. The increase was primarily attributable to the generation of additional taxable income in our U.S. subsidiaries combined with a valuation allowance related to net unrealized losses on fixed maturity investments.

Preferred Dividends. The increase of $9.6 million was due to the dividends on our Series A and Series B preferred shares that we issued in the fourth quarter of 2005.

Underwriting Results by Segment

Our business consists of two underwriting segments: insurance and reinsurance. Our insurance segment is further divided into two sub-segments: global insurance and U.S. insurance.

We evaluate the performance of each underwriting segment based on underwriting results. We allocate all of our general and administrative costs, except our corporate expenses, to our underwriting segments. Our corporate expenses include holding company costs necessary to support our worldwide insurance and reinsurance operations and costs associated with operating as a publicly-traded company. 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 provides coverage for specialty lines of business on a worldwide basis.

Global insurance provides specialty lines coverage predominantly through the London broker network with product lines comprising property, marine, terrorism and war risk, aviation and aerospace, political risk and professional lines and other specialty risks.

U.S. insurance operates through offices throughout the U.S., provides coverage through a variety of distribution channels in the U.S., and covers predominantly U.S. exposures. The product lines are property, professional lines, liability and other specialty and are offered through wholesale brokers, retail brokers and managing general agents and underwriters. Many of our property and casualty insurance products are for nonstandard and complex risks. U.S. insurance has the ability to write business on an admitted basis using forms and rates as filed with state insurance regulators and on a non-admitted, or surplus lines basis, with flexibility in forms and rates not filed with state insurance regulators. Having access to a non-admitted carrier provides the pricing flexibility needed to write non-standard coverage.

Quarters ended March 31, 2006 and March 31, 2005

The following table summarizes the underwriting results and ratios for the insurance segment for the quarters ended March 31, 2006 and 2005:

	Quarters ended March 31, 2006 ($ in thousands)		March 31, 2005		Change		% Change	
Revenues:								
Gross premiums written	$437,050		$429,249		$7,801		1.8	%
Net premiums written	275,150		294,662		(19,512	)	(6.6	%)
Net premiums earned	322,713		323,359		(646	)	(0.2	%)
Other insurance related income (loss)	624		(218	)	842		nm	
Expenses:								
Net losses and loss expenses	(156,170	)	(137,613	)	(18,557	)	13.5	%
Acquisition costs	(37,456	)	(36,126	)	(1,330	)	3.7	%
General and administrative expenses	(33,055	)	(30,163	)	(2,892	)	9.6	%
Underwriting income	$96,656		$119,239		$(22,583	)	(18.9	%)
Ratios:								
Net loss and loss expense ratio	48.4	%	42.6	%	5.8	%		
Acquisition cost ratio	11.6	%	11.2	%	0.4	%		
General and administrative expense ratio	10.2	%	9.3	%	0.9	%		
Combined ratio	70.2	%	63.1	%	7.1	%		

nm not meaningful

Premiums. The increase in gross premiums written was principally due to an increase of $50.3 million in gross premiums written in U.S. insurance that offset a $42.5 million decrease in gross premiums written in global insurance.

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The table below shows gross premiums written in global insurance by line of business for the quarters ended March 31, 2006 and 2005:

	Quarters ended			
	March 31, 2006	March 31, 2005	Change	% Change
	($ in thousands)			
Property	$ 49,285	$ 45,377	$ 3,908	8.6 %
Marine	62,701	75,663	(12,962)	(17.1%)
Terrorism and War Risk	50,840	75,734	(24,894)	(32.9%)
Aviation and Aerospace	8,191	14,898	(6,707)	(45.0%)
Political Risk	13,586	25,284	(11,698)	(46.3%)
Professional Lines and Other Specialty	25,195	15,367	9,828	64.0 %
Total	$ 209,798	$ 252,323	$ (42,525)	(16.9%)

The reduction in gross premiums written in global insurance was primarily driven by our terrorism and war, marine and political risk lines of business. The decrease in our terrorism and war line was driven by the continued deterioration in the pricing environment, which resulted in fewer risks meeting our underwriting criteria. As a result, we experienced an $18.9 million and $5.5 million decrease in gross premiums written on our war risk and terrorism lines, respectively. The decrease in our marine line was primarily due to two factors: a reduction of $6.3 million in gross premiums written in our marine hull book and a reduction of $3.9 million in gross premiums written in our energy offshore business. The first was due to reduced market shares on several renewals, the non-renewal of certain business written in 2005 because it no longer met our underwriting criteria, and also a one time contract written in the quarter ended March 31, 2005 that was not repeated in 2006. On our energy offshore account, despite a significant improvement in the underlying rates, terms and conditions, gross premiums written on this line decreased as a result of several renewals moving from the first quarter of 2006 and into later quarters. Gross premiums written on our political risk book was impacted by the cancellation of a contract written in 2005 that provided insurance coverage for eight years and consequently resulted in a negative adjustment to gross premiums written of $7.4 million. The remaining decrease was due to the unpredictable business flows on our political risk book that largely depends upon the levels of foreign direct investment. Consequently, there can be some variability in the level of our gross premium writings for comparable periods.

The increase in our professional lines and other specialty business was primarily due to a new specialty program that we began to write in mid-2005 that generated approximately $5.5 million of gross premiums written during the first quarter of 2006. The remainder of the increase related to the continued growth of existing business as well as new market opportunities. The reduction in our aviation and aerospace book was due to a $5.2 million decrease on our aviation line where we continued to decline business due to unacceptable rates. The increase in gross premiums written in our property book was primarily due to the growth of our program business.

The table below shows gross premiums written in U.S. insurance by line of business for the quarters ended March 31, 2006 and 2005:

	Quarters ended March 31, 2006	March 31, 2005	Change	% Change
	($ in thousands)			
Property	$ 82,864	$ 61,931	$ 20,933	33.8 %
Professional Lines	65,107	50,958	14,149	27.8 %
Liability	69,049	63,022	6,027	9.6 %
Other Specialty	10,232	1,015	9,217	nm
Total	$ 227,252	$ 176,926	$ 50,326	28.4 %

nm not meaningful

The increase in gross premiums written in U.S insurance was driven by growth across all lines of business.

The increase in our property account was largely driven by a $13.6 million increase in property excess and surplus lines that was driven by both rate increases and additional underwriting resources. We also experienced an increase of $6.1 million in our specialty program business that was primarily driven by growth in new accounts. The increase in gross premiums written in our professional lines business was driven by an increase of $14.1 million in errors and omissions insurance, which was a new line of business in 2005. We also wrote an additional $3.5 million of gross premiums written within our directors and officers account driven by a stable rate environment that presented opportunities to write additional business. The increase in our other specialty account was due to the fact that we only began to write this class of business at the end of 2004 and consequently only a small amount was written in the quarter ended March 31, 2005.

The following table shows the derivation of net premiums earned in our insurance segment for the quarters ended March 31, 2006 and 2005:

	Quarters ended March 31, 2006	March 31, 2005	Change	% Change
	($ in thousands)			
Gross premiums earned	$ 478,502	$ 454,053	$ 24,449	5.4 %
Ceded premiums amortized	(155,789)	(130,694)	(25,095)	19.2 %
Net premiums earned	$ 322,713	$ 323,359	$ (646)	(0.2 %)

Gross premiums are earned over the period of the insured risk, which is generally one or two years. The increase in gross premiums earned was driven by an increase in gross premiums written in U.S. insurance.

Ceded premiums are amortized over the contract term. The increase in ceded premium amortized was primarily due to a $23.6 million increase in our U.S insurance segment that was driven by an increase in gross premiums earned in the quarter. The ratio of ceded premium amortized to gross premium earned was 47.0% for the quarter ended March 31, 2006 compared to 47.4% for the quarter ended March 31, 2005.

Net Losses and Loss Expenses. The increase in the net loss and loss expense ratio was primarily due to a higher net loss and loss expense ratio in global insurance.

The net loss and loss expense ratio for global insurance was 43.4% for the quarter ended March 31, 2006 compared to 30.4% for the quarter ended March 31, 2005. During the quarter ended March 31, 2006,

we experienced favorable development in prior year loss and loss expense reserves of $51.1 million, or 27.6 percentage points, which included $16.0 million in relation to losses incurred on Hurricanes Katrina, Rita and Wilma. We experienced favorable development of $63.2 million, or 29.1 percentage points, for the quarter ended March 31, 2005. In estimating the ultimate cost of losses, we primarily use the Bornhuetter-Ferguson method. This method takes as a starting point an initial expected loss and loss expense ratio and blends in the loss and loss expense ratio implied by our experience to date. After adjusting for this development, the accident year net loss and loss expense ratio increased to 71.0 % from 59.5% for the quarter ended March 31, 2005. The increase was due to a lower level of reinsurance recoveries available in the quarter for severity-exposed lines of business following the catastrophe loss activity of the third and fourth quarter of 2005. On a gross basis, the accident year ratio was relatively consistent at 60.7% compared to 58.9% for the quarter ended March 31, 2005.

The net loss and loss expense ratio for U.S. insurance was 55.1% for the quarter ended March 31, 2006 compared to 67.3% for the quarter ended March 31, 2005. During the quarter ended March 31, 2006, we experienced favorable prior year development of $14.8 million, or 10.8 percentage points, compared to adverse development of $1.1 million, or 1.0 percentage point, during the quarter ended March 31, 2005. The favorable development in 2006 was primarily due to a $14.0 million reduction in our loss and loss expense reserves relating to Hurricanes Katrina, Rita and Wilma. The net loss and loss expense ratio for the accident year was consistent at 65.8% for the quarter ended March 31, 2006, compared to 66.3% for the quarter ended March 31, 2005.

Acquisition Costs. The increase in the acquisition cost ratio was driven by an increase in the acquisition cost ratio in both global insurance and U.S insurance.

Acquisition costs in global insurance were $27.4 million, or 14.8% of net premiums earned, for the quarter ended March 31, 2006 compared to $33.1 million, or 15.3% of net premiums earned, for the quarter ended March 31, 2005. The ratio was impacted by a reduction of $6.9 million in the amounts expensed under incentive commission arrangements with brokers for 2004. Excluding the incentive commissions, the acquisition cost ratio was 14.4% for the quarter ended March 31, 2006 compared to 11.8% for the quarter ended March 31, 2005. The increase was due to higher commissions, primarily in our professional lines and other specialty book, driven by a new specialty program we acquired in mid-2005. The acquisition cost ratio was also higher on our property account caused by a shift in business mix.

U.S. insurance acquisition costs were $10.1 million, or 7.3% of net premiums earned, for the quarter ended March 31, 2006 compared to $3.0 million, or 2.9% of net premiums earned, for the quarter ended March 31, 2005. The increase was primarily due to a reduction in the level of commission received on ceded premiums and also an increase in commissions on our professional liability book. In addition, the increase was partially due to the impact of higher amortized reinsurance costs. As a percentage of gross premiums earned the acquisition ratio was 3.9% for the quarter ended March 31, 2006 compared to 1.5% for the quarter ended March 31, 2005. We also experienced a shift in business mix with more business generated from managing general underwriters which typically has a higher acquisition cost rate.

General and Administrative Expenses. The 0.9 percentage point increase in our general and administrative expenses ratio was primarily due to a shift in the business mix from global insurance business to U.S. insurance business.

Reinsurance

Our reinsurance segment provides treaty property and casualty reinsurance to insurance companies on a worldwide basis. Treaty reinsurance contracts are contractual arrangements that provide for automatic reinsurance of any agreed upon portion of business written as specified in a reinsurance contract. Contracts

can be written on an excess of loss basis or a pro rata basis, also known as proportional. The product lines in this segment are catastrophe, property, professional liability, credit and bond, motor, liability and other.

Quarters ended March 31, 2006 and March 31, 2005

The following table summarizes the underwriting results and ratios in our reinsurance segment for the quarters ended March 31, 2006 and 2005:

	Quarters ended							
	March 31, 2006		March 31, 2005		Change		% Change	
	($ in thousands)							
Revenues:								
Gross premiums written	$ 727,690		$ 769,450		$ (41,760	)	(5.4	%)
Net premiums written	717,178		767,409		(50,231	)	(6.5	%)
Net premiums earned	310,881		302,231		8,650		2.9	%
Other insurance related income			150		(150	)	nm	
Expenses:								
Net losses and loss expenses	(202,488	)	(206,677	)	4,189		2.0	%
Acquisition costs	(52,248	)	(55,175	)	2,927		5.3	%
General and administrative expenses	(10,714	)	(12,301	)	1,587		12.9	%
Underwriting income	$ 45,431		$ 28,228		$ 17,203		60.9	%
Ratios:								
Net loss and loss expense ratio	65.1	%	68.4	%	(3.3	%)		
Acquisition cost ratio	16.8	%	18.3	%	(1.5	%)		
General and administrative expenses ratio	3.4	%	4.1	%	(0.7	%)		
Combined ratio	85.3	%	90.8	%	(5.5	%)		

nm not meaningful

Premiums. The table below shows gross premiums written by line of business in our reinsurance segment for the quarters ended March 31, 2006 and 2005:

	Quarters ended							
	March 31, 2006		March 31, 2005		Change		% Change	
	($ in thousands)							
Catastrophe	$ 227,501		$ 267,798		$ (40,297	)	(15.0	%)
Property	101,580		145,818		(44,238	)	(30.3	%)
Professional lines	93,442		87,336		6,106		7.0	%
Credit and bond	89,483		94,630		(5,147	)	(5.4	%)
Motor	67,329		72,041		(4,712	)	(6.5	%)
Liability	113,120		90,649		22,471		24.8	%
Other	35,235		11,178		24,057		215.2	%
Total	$ 727,690		$ 769,450		$ (41,760	)	(5.4	%)

Gross premiums written in the quarter ended March 31, 2006 was impacted by a stronger U.S. dollar exchange rate against the Euro and Sterling at January 1, 2006 compared to January 1, 2005. We write significant amounts of Sterling and Euro denominated business in our catastrophe,

property, credit and bond and motor lines of business. Consequently, gross premiums written on these lines decreased by approximately $14.6 million, $8.6 million, $11.0 million and $8.3 million, respectively, as a result of

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exchange movements. Excluding this impact, gross premiums written in the quarter ended March 31, 2006 were comparable with the quarter ended March 31, 2005.

Our reinsurance segment has adjusted its internal catastrophe models for increased severity and frequency in advance of expected changes in commercial models and simultaneously restructured our participations in various programs. Both property and non-property catastrophe business which was inadequately priced on this basis was declined. This led to a decline in our catastrophe gross premiums written worldwide. Our property line was primarily impacted by a $34.6 million reduction on our pro rata book that was principally due to two factors. First, we wrote a large 17-month policy in the first quarter of 2005 that will not be renewed until the second quarter of 2006. Second, we did not renew several policies written in 2005 as a result of pricing and other considerations which resulted in these policies not making our underwriting criteria. The increase in our liability account was primarily driven by growth of existing accounts and also new market opportunities within our U.S. general liability and umbrella excess reinsurance business. We experienced an increase in other gross premiums written that was primarily due to a $14.9 million increase in our property exposed engineering business, a line which we began to write in late 2005.

The following table shows the derivation of net premiums earned in our reinsurance segment for the quarters ended March 31, 2006 and 2005:

	Quarters ended			
	March 31, 2006	March 31, 2005	Change	% Change
	($ in thousands)			
Gross premiums earned	$ 313,868	$ 307,039	$ 6,829	2.2%
Ceded premiums amortized	(2,987)	(4,808)	1,821	(37.9%)
Net premiums earned	$ 310,881	$ 302,231	$ 8,650	2.9%

Gross premiums are earned over the period of the reinsured risk. Consequently, as the level of gross premiums written increases, the level of gross premiums earned also increases. As we experienced an increase in gross premiums written over the twelve-month period ended March 31, 2006 compared to the rolling twelve-month period ended March 31, 2005, we experienced an increase in our gross premiums earned during the quarter ended March 31, 2006.

Ceded premiums are amortized over the contract term. The decrease in ceded premiums amortized was primarily due to the exhaustion of reinsurance protection on several contracts following Hurricanes Katrina, Rita and Wilma.

Net Losses and Loss Expenses. The net loss and loss expense ratio for reinsurance was 65.1% for the quarter ended March 31, 2006 compared to 68.4% for the quarter ended March 31, 2005. During the quarter ended March 31, 2006, we experienced adverse development on prior year loss and loss expense reserves of $4.8 million, or 1.6 percentage points, which included $65.0 million of adverse development on losses relating to Hurricanes Katrina, Rita and Wilma. We experienced favorable development of $4.6 million, or 1.5 percentage points, for the quarter ended March 31, 2005. After adjusting for this development, the accident year net loss and loss expense ratio was 63.6% compared to 69.9% for the quarter ended March 31, 2005. The decrease was primarily due to limited catastrophe activity in the quarter ended March 31, 2006 compared to the same quarter in 2005. During the quarter ended March 31, 2005, we incurred losses from windstorm Erwin.

Acquisition Costs. Acquisition costs were $52.2 million, or 16.8% of net premiums earned, for the quarter ended March 31, 2006 compared to $55.2 million, or 18.3% of net premiums earned, for the quarter ended March 31, 2005. The decrease in the acquisition cost ratio was primarily the result of lower commissions in the current quarter.

General and Administrative Expenses. The 0.7 percentage point decrease in the general and administrative expense ratio was primarily due to a lower allocation of non-specific underwriting costs.

Financial Condition, Liquidity and Capital Resources

We are a holding company and have no substantial operations of our own. Our assets consist primarily of our investments in subsidiaries. At March 31, 2006, we had operating subsidiaries in Bermuda, Ireland and the United States, a branch in the United Kingdom, a branch in Switzerland and a representative office in Singapore. Accordingly, our future cash flows depend upon the availability of dividends or other statutorily permissible payments from our subsidiaries. The ability to pay dividends or distributions is limited by the applicable laws and regulations of Bermuda, Ireland and the United States, which subject our insurance subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, some of our insurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends that these subsidiaries can pay to us, which in turn may limit our ability to pay dividends and make other payments.

We are subject to Bermuda regulatory constraints that affect our ability to pay dividends on our common shares and make other payments. Under the Bermuda Companies Act 1981, as amended, AXIS Capital may declare or pay a dividend or make a distribution out of contributed surplus only if it has no reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due or that the realizable value of its assets would thereby be less than the aggregate of its liabilities and issued share capital and share premium accounts.

At March 31, 2006, the maximum amount of distributions that our subsidiaries could pay to AXIS Capital under applicable laws and regulations without prior regulatory approval was approximately $1.3 billion.

Financial Condition

At March 31, 2006, our shareholders equity was $3.6 billion which was consistent with the balance of $3.5 billion at December 31, 2005. Our book value per common share was $21.00 compared to $20.23 at December 31, 2005.

Investments

At March 31, 2006, our total investments at fair market value, accrued interest receivable and cash net of unsettled investment trades totaled $8.0 billion compared to $7.8 billion at December 31, 2005. Our investment portfolio at March 31, 2006 included fixed income securities that were managed by several external investment management firms. At March 31, 2006, all of these fixed income securities were investment grade, with 81.5% rated Aa3 or AA- or better by an internationally recognized rating agency. The weighted-average rating of our fixed income portfolio was AAA based on ratings assigned by Standard & Poor s.

During 2006, we continued to increase the size of the allocation to other investments within our investment portfolio. At March 31, 2006, other investments were $543.9 million compared to $409.5 million at December 31, 2005 and consisted of investments in funds of funds, a fund that invests in U.S. dollar high yield credit, funds that primarily invest in senior secured bank loans and a portfolio of investments in collateralized loan obligations.

We regularly review our investment portfolio for other than temporary impairments and determined as at March 31, 2006, six (2005: none) securities were other than temporarily impaired, consequently we recorded an other than temporary impairment charge, within net realized losses, of $0.4 million (2005: $nil).

Reserve for loss and loss expenses

At March 31, 2006, we had $4.8 billion of reserves for loss and loss expenses compared to $4.7 billion at December 31, 2005. Of this balance, $2.7 billion, or 56.9%, was incurred but not reported reserves which was consistent with the balance of $2.7 billion, or 57.5%, at December 31, 2005. At March 31, 2006, we had $1.5 billion of reserves for loss and loss expenses relating to Hurricanes Katrina, Rita and Wilma compared to $1.7 billion at December 31, 2005.

Reinsurance recoverable balances

Of the reinsurance recoverable balances, 94.2% was due from reinsurers rated the equivalent of A- or better by interna