

AXIS CAPITAL HOLDINGS LTD

Form 10-Q

October 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 September 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 October 23, 2015, there were 96,392,995 Common Shares, \$0.0125 par value per share, of the registrant outstanding.

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PART I FINANCIAL INFORMATION

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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 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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**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

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

|   | 2015           | 2014          |
|---|----------------|---------------|
|   | (in thousands) |               |
| Assets  |                |               |
| Investments:  |                |               |
| Fixed maturities, available for sale, at fair value<br>(Amortized cost 2015: \$12,217,258; 2014: \$12,185,973)  | \$ 12,139,595  | \$ 12,129,273 |
| Equity securities, available for sale, at fair value<br>(Cost 2015: \$685,462; 2014: \$531,648)                 | 689,157        | 567,707       |
| Mortgage loans, held for investment, at amortized cost and fair value   | 129,431        | —             |
| Other investments, at fair value  | 800,319        | 965,465       |
| Short-term investments, at amortized cost and fair value  | 7,152          | 107,534       |
| Total investments   | 13,765,654     | 13,769,979    |
| Cash and cash equivalents   | 992,253        | 921,830       |
| Restricted cash and cash equivalents  | 188,220        | 287,865       |
| Accrued interest receivable   | 75,375         | 83,070        |
| Insurance and reinsurance premium balances receivable   | 2,169,581      | 1,808,620     |
| Reinsurance recoverable on unpaid and paid losses   | 2,036,099      | 1,926,145     |
| Deferred acquisition costs  | 544,178        | 466,987       |
| Prepaid reinsurance premiums  | 416,451        | 351,441       |
| Receivable for investments sold   | 7,220          | 169           |
| Goodwill and intangible assets  | 87,329         | 88,960        |
| Other assets  | 274,981        | 250,670       |
| Total assets  | \$ 20,557,341  | \$ 19,955,736 |
| Liabilities   |                |               |
| Reserve for losses and loss expenses  | \$ 9,703,583   | \$ 9,596,797  |
| Unearned premiums   | 3,107,348      | 2,735,376     |
| Insurance and reinsurance balances payable  | 301,830        | 249,186       |
| Senior notes  | 991,562        | 990,790       |
| Payable for investments purchased   | 303,916        | 188,176       |
| Other liabilities   | 322,736        | 315,471       |
| Total liabilities   | 14,730,975     | 14,075,796    |
| Shareholders' equity  |                |               |
| Preferred shares  | 627,843        | 627,843       |
| Common shares (2015: 176,222; 2014: 175,478 shares issued and<br>2015: 96,049; 2014: 99,426 shares outstanding) | 2,202          | 2,191         |
| Additional paid-in capital  | 2,230,278      | 2,285,016     |
| Accumulated other comprehensive loss  | (117,593)      | (45,574)      |
| Retained earnings   | 6,093,897      | 5,715,504     |
| Treasury shares, at cost (2015: 80,173; 2014: 76,052 shares)  | (3,010,261)    | (2,763,859)   |
| Total shareholders' equity attributable to AXIS Capital   | 5,826,366      | 5,821,121     |
| Noncontrolling interests  | —              | 58,819        |

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|  |              |              |
|--|--------------|--------------|
| Total shareholders' equity                 | 5,826,366    | 5,879,940    |
| Total liabilities and shareholders' equity | \$20,557,341 | \$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 NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

|  | Three months ended                           |           | Nine months ended |             |
|--|--|-----------|-------------------|-------------|
|  | 2015   | 2014      | 2015              | 2014        |
|  | (in thousands, except for per share amounts) |           |                   |             |
| <b>Revenues</b>  |  |           |                   |             |
| Net premiums earned  | \$919,341                                    | \$966,138 | \$2,764,605       | \$2,912,482 |
| Net investment income  | 45,685                                       | 66,562    | 226,336           | 264,171     |
| Other insurance related income                                 | 1,158  | 7,702     | 12,319            | 12,468      |
| Termination fee received                                       | 280,000                                      | —         | 280,000           | —           |
| Net realized investment gains (losses):                        |  |           |                   |             |
| Other-than-temporary impairment (OTTI) losses                  | (32,301 )                                    | (9,431 )  | (62,762 )         | (12,121 )   |
| Other realized investment gains (losses)                       | (37,656 )                                    | 86,879    | (60,856 )         | 133,450     |
| Total net realized investment gains (losses)                   | (69,957 )                                    | 77,448    | (123,618 )        | 121,329     |
| Total revenues   | 1,176,227                                    | 1,117,850 | 3,159,642         | 3,310,450   |
| <b>Expenses</b>  |  |           |                   |             |
| Net losses and loss expenses                                   | 560,387                                      | 552,064   | 1,652,868         | 1,662,097   |
| Acquisition costs  | 182,744                                      | 185,950   | 537,549           | 549,848     |
| General and administrative expenses                            | 144,727                                      | 152,916   | 456,451           | 456,725     |
| Foreign exchange gains   | (28,088 )                                    | (72,292 ) | (69,200 )         | (58,353 )   |
| Interest expense and financing costs                           | 12,918                                       | 20,344    | 38,114            | 56,913      |
| Reorganization and related expenses                            | 45,867                                       | —         | 45,867            | —           |
| Total expenses   | 918,555                                      | 838,982   | 2,661,649         | 2,667,230   |
| Income before income taxes                                     | 257,672                                      | 278,868   | 497,993           | 643,220     |
| Income tax expense (benefit)                                   | 30   | (4,098 )  | 1,155             | 9,527       |
| Net income   | 257,642                                      | 282,966   | 496,838           | 633,693     |
| Amounts attributable from noncontrolling interests             | —  | (6,160 )  | —                 | (3,365 )    |
| Net income attributable to AXIS Capital                        | 257,642                                      | 289,126   | 496,838           | 637,058     |
| Preferred share dividends                                      | 10,022                                       | 10,022    | 30,066            | 30,066      |
| Net income available to common shareholders                    | \$247,620                                    | \$279,104 | \$466,772         | \$606,992   |
| <b>Per share data</b>  |  |           |                   |             |
| Net income per common share:                                   |  |           |                   |             |
| Basic net income   | \$2.52                                       | \$2.71    | \$4.69            | \$5.74      |
| Diluted net income   | \$2.50                                       | \$2.68    | \$4.65            | \$5.68      |
| Weighted average number of common shares outstanding - basic   | 98,226                                       | 102,945   | 99,464            | 105,683     |
| Weighted average number of common shares outstanding - diluted | 99,124                                       | 104,247   | 100,468           | 106,953     |
| Cash dividends declared per common share                       | \$0.29                                       | \$0.27    | \$0.87            | \$0.81      |

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 NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

|  | Three months ended |            | Nine months ended |            |
|--|--------------------|------------|-------------------|------------|
|  | 2015               | 2014       | 2015              | 2014       |
|  | (in thousands)     |            |                   |            |
| Net income   | \$257,642          | \$282,966  | \$496,838         | \$633,693  |
| Other comprehensive loss, net of tax:  |                    |            |                   |            |
| Available for sale investments:  |                    |            |                   |            |
| Unrealized gains (losses) arising during the period  | (99,711 )          | (167,060 ) | (176,938 )        | 24,874     |
| Adjustment for reclassification of net realized investment gains (losses) and OTTI losses recognized in net income | 74,810             | (72,670 )  | 128,770           | (116,213 ) |
| Unrealized losses arising during the period, net of reclassification adjustment                                    | (24,901 )          | (239,730 ) | (48,168 )         | (91,339 )  |
| Foreign currency translation adjustment  | (14,626 )          | (10,000 )  | (23,851 )         | (3,551 )   |
| Total other comprehensive loss, net of tax   | (39,527 )          | (249,730 ) | (72,019 )         | (94,890 )  |
| Comprehensive income   | 218,115            | 33,236     | 424,819           | 538,803    |
| Amounts attributable from noncontrolling interests   | —                  | (6,160 )   | —                 | (3,365 )   |
| Comprehensive income attributable to AXIS Capital  | \$218,115          | \$39,396   | \$424,819         | \$542,168  |

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 NINE MONTHS ENDED SEPTEMBER 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   | 11             | 16           |
| Balance at end of period  | 2,202          | 2,190        |
| Additional paid-in capital  |                |              |
| Balance at beginning of period  | 2,285,016      | 2,240,125    |
| Shares issued - common shares   | 2,472          | 1,138        |
| Cost of treasury shares reissued  | (17,674 )      | (11,711 )    |
| Unsettled accelerated share repurchase  | (60,000 )      | —            |
| Stock options exercised   | 558            | 3,898        |
| Share-based compensation expense  | 19,906         | 39,660       |
| Balance at end of period  | 2,230,278      | 2,273,110    |
| Accumulated other comprehensive income (loss)                                   |                |              |
| Balance at beginning of period  | (45,574 )      | 117,825      |
| Unrealized gains (losses) on available for sale investments, net of tax:        |                |              |
| Balance at beginning of period  | (28,192 )      | 124,945      |
| Unrealized losses arising during the period, net of reclassification adjustment | (48,168 )      | (91,339 )    |
| Non-credit portion of OTTI losses   | —              | —            |
| Balance at end of period  | (76,360 )      | 33,606       |
| Cumulative foreign currency translation adjustments, net of tax:                |                |              |
| Balance at beginning of period  | (17,382 )      | (7,120 )     |
| Foreign currency translation adjustments  | (23,851 )      | (3,551 )     |
| Balance at end of period  | (41,233 )      | (10,671 )    |
| Balance at end of period  | (117,593 )     | 22,935       |
| Retained earnings   |                |              |
| Balance at beginning of period  | 5,715,504      | 5,062,706    |
| Net income  | 496,838        | 633,693      |
| Amounts attributable from noncontrolling interests                              | —              | 3,365        |
| Preferred share dividends   | (30,066 )      | (30,066 )    |
| Common share dividends  | (88,379 )      | (87,756 )    |
| Balance at end of period  | 6,093,897      | 5,581,942    |
| Treasury shares, at cost  |                |              |
| Balance at beginning of period  | (2,763,859 )   | (2,232,711 ) |
| Shares repurchased for treasury   | (264,076 )     | (468,531 )   |
| Cost of treasury shares reissued  | 17,674         | 11,711       |

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|   |              |              |
|---|--------------|--------------|
| Balance at end of period                                | (3,010,261 ) | (2,689,531 ) |
| Total shareholders' equity attributable to AXIS Capital | 5,826,366    | 5,818,489    |
| Noncontrolling interests                                | —            | 61,635       |
| Total shareholders' equity                              | \$5,826,366  | \$5,880,124  |

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

|   | 2015           | 2014         |
|---|----------------|--------------|
|   | (in thousands) |              |
| Cash flows from operating activities:   |                |              |
| Net income  | \$496,838      | \$633,693    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                |              |
| Net realized investment losses (gains)  | 123,618        | (121,329 )   |
| Net realized and unrealized gains on other investments                            | (17,616 )      | (45,868 )    |
| Amortization of fixed maturities  | 75,645         | 84,412       |
| Other amortization and depreciation   | 26,219         | 17,669       |
| Share-based compensation expense, net of cash payments                            | 25,435         | 45,074       |
| Changes in:   |                |              |
| Accrued interest receivable   | 7,128          | 5,231        |
| Reinsurance recoverable balances  | (158,362 )     | (26,419 )    |
| Deferred acquisition costs  | (77,348 )      | (100,461 )   |
| Prepaid reinsurance premiums  | (69,016 )      | (22,271 )    |
| Reserve for loss and loss expenses  | 212,066        | 184,881      |
| Unearned premiums   | 380,610        | 458,058      |
| Insurance and reinsurance balances, net   | (330,128 )     | (412,603 )   |
| Other items   | 7,841          | 35,674       |
| Net cash provided by operating activities   | 702,930        | 735,741      |
| Cash flows from investing activities:   |                |              |
| Purchases of:   |                |              |
| Fixed maturities  | (8,110,841)    | (8,782,175 ) |
| Equity securities   | (240,415 )     | (510,332 )   |
| Mortgage loans  | (129,431 )     | —            |
| Other investments   | (61,591 )      | (60,272 )    |
| Short-term investments  | (34,147 )      | (562,427 )   |
| Proceeds from the sale of:  |                |              |
| Fixed maturities  | 6,797,585      | 7,625,717    |
| Equity securities   | 112,794        | 597,820      |
| Other investments   | 244,353        | 205,112      |
| Short-term investments  | 112,694        | 429,679      |
| Proceeds from redemption of fixed maturities                                      | 1,107,175      | 785,183      |
| Proceeds from redemption of short-term investments                                | 22,337         | 64,071       |
| Purchase of other assets  | (18,401 )      | (20,306 )    |
| Change in restricted cash and cash equivalents                                    | 99,645         | (52,884 )    |
| Impact of the deconsolidation of a variable interest entity                       | (71,649 )      | —            |
| Net cash used in investing activities   | (169,892 )     | (280,814 )   |
| Cash flows from financing activities:   |                |              |
| Dividends paid - common shares  | (89,611 )      | (90,092 )    |

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|   |            |             |
|---|------------|-------------|
| Repurchase of common shares   | (332,097 ) | (468,531 )  |
| Dividends paid - preferred shares   | (30,066 )  | (30,066 )   |
| Proceeds from issuance of common shares                                       | 3,042      | 5,052       |
| Net proceeds from issuance of senior notes                                    | —          | 494,344     |
| Sales of shares to noncontrolling interests                                   | —          | 25,000      |
| Return of capital to noncontrolling interests                                 | —          | (10,000 )   |
| Net cash used in financing activities   | (448,732 ) | (74,293 )   |
| Effect of exchange rate changes on foreign currency cash and cash equivalents | (13,883 )  | (13,583 )   |
| Increase in cash and cash equivalents   | 70,423     | 367,051     |
| Cash and cash equivalents - beginning of period                               | 921,830    | 923,326     |
| Cash and cash equivalents - end of period                                     | \$992,253  | \$1,290,377 |

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

These interim consolidated financial statements include the accounts of AXIS Capital Holdings Limited (“AXIS Capital”) and its subsidiaries (herein referred to as “we,” “us,” “our,” or the “Company”).

The consolidated balance sheet at September 30, 2015 and the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the periods ended September 30, 2015 and 2014 have not been audited. The balance sheet at December 31, 2014 is derived from our audited financial statements.

These financial 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 (“SEC”) 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 adjustments) considered necessary for a fair presentation of our financial position and results of operations for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All inter-company accounts and transactions have been eliminated.

The following information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014. Tabular dollar and share amounts are in thousands, except per share amounts. All amounts are reported in U.S. dollars.

Significant Accounting Policies

There were no notable changes in our significant accounting policies subsequent to our Annual Report on Form 10-K for the year ended December 31, 2014, with the exception of the addition to our accounting policy for mortgage loans held-for-investment noted below.

Mortgage Loans Held-For-Investment

Mortgage loans held-for-investment are stated at amortized cost calculated as the unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, and are net of valuation allowances. Interest income and prepayment fees are recognized when earned. Interest income is recognized using an effective yield method giving effect to the amortization of premiums and accretion of discounts.

New Accounting Standards Adopted in 2015

Consolidation

During the second quarter of 2015, the Company early adopted the Accounting Standards Update (“ASU”) 2015-02, “Amendments to the Consolidation Analysis” issued by the Financial Accounting Standards Board (the “FASB”). The adoption of this amended accounting guidance resulted in the Company concluding that it no longer had a variable interest in AXIS Ventures Reinsurance Limited (“Ventures Re”) and therefore it was no longer required to consolidate

the results of operations and the financial position of Ventures Re in its Consolidated Financial Statements. The Company adopted this revised accounting guidance using the modified retrospective approach and ceased to consolidate Ventures Re effective as of January 1, 2015. There was no impact from the adoption of ASU 2015-02 on the Company's cumulative retained earnings. Refer to Note 11 to the Consolidated Financial Statements "Noncontrolling Interests" for more information.

The new consolidation guidance did not have an impact on any other investments currently held by the Company.

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AXIS CAPITAL HOLDINGS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards Not Yet Adopted

Disclosures About Short-Duration Contracts

In May 2015, the FASB issued new guidance making targeted improvements to existing disclosure requirements for short-duration contracts. The guidance requires insurance entities to disclose additional information about the liability for unpaid claims and claim adjustment expenses. The guidance is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016, with early adoption permitted. The guidance will be applied retrospectively. As the new guidance is disclosure-related only, the adoption of this guidance is not expected to impact our results of operations, financial condition or liquidity.

Investments Measured Using The Net Asset Value Per Share ("NAV") Practical Expedient

In May 2015, the FASB issued new guidance eliminating the requirement to categorize investments measured using the NAV practical expedient in the fair value hierarchy table. This guidance is effective for reporting periods beginning after December 15, 2015, with early adoption permitted. The guidance will be applied retrospectively. As the new guidance is disclosure-related only, the adoption of this guidance is not expected to impact our results of operations, financial condition or liquidity.

2. SEGMENT INFORMATION

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 2. SEGMENT INFORMATION (CONTINUED)

The following tables summarize the underwriting results of our reportable segments, as well as the carrying values of allocated goodwill and intangible assets:

| Three months ended and at<br>September 30,  | 2015       |             |            | 2014       |             |            |   |
|---|------------|-------------|------------|------------|-------------|------------|---|
|   | Insurance  | Reinsurance | Total      | Insurance  | Reinsurance | Total      |   |
| Gross premiums written                      | \$606,704  | \$329,879   | \$936,583  | \$555,283  | \$341,531   | \$896,814  |   |
| Net premiums written                        | 381,118    | 296,099     | 677,217    | 363,571    | 323,652     | 687,223    |   |
| Net premiums earned                         | 444,550    | 474,791     | 919,341    | 461,805    | 504,333     | 966,138    |   |
| Other insurance related<br>income           | 542        | 616         | 1,158      | —          | 7,702       | 7,702      |   |
| Net losses and loss expenses                | (283,272 ) | (277,115 )  | (560,387 ) | (289,207 ) | (262,857 )  | (552,064 ) |   |
| Acquisition costs                           | (69,118 )  | (113,626 )  | (182,744 ) | (71,264 )  | (114,686 )  | (185,950 ) |   |
| General and administrative<br>expenses      | (85,814 )  | (35,309 )   | (121,123 ) | (85,750 )  | (36,612 )   | (122,362 ) |   |
| Underwriting income                         | \$6,888    | \$49,357    | 56,245     | \$15,584   | \$97,880    | 113,464    |   |
| Corporate expenses                          |            |             | (23,604 )  |            |             | (30,554 )  |   |
| Net investment income                       |            |             | 45,685     |            |             | 66,562     |   |
| Net realized investment gains<br>(losses)   |            |             | (69,957 )  |            |             | 77,448     |   |
| Foreign exchange gains                      |            |             | 28,088     |            |             | 72,292     |   |
| Interest expense and<br>financing costs     |            |             | (12,918 )  |            |             | (20,344 )  |   |
| Termination fee received                    |            |             | 280,000    |            |             | —          |   |
| Reorganization and related<br>expenses      |            |             | (45,867 )  |            |             | —          |   |
| Income before income taxes                  |            |             | \$257,672  |            |             | \$278,868  |   |
| Net loss and loss expense<br>ratio          | 63.7       | % 58.4      | % 61.0     | % 62.6     | % 52.1      | % 57.1     | % |
| Acquisition cost ratio                      | 15.5       | % 23.9      | % 19.9     | % 15.4     | % 22.7      | % 19.2     | % |
| General and administrative<br>expense ratio | 19.4       | % 7.4       | % 15.7     | % 18.6     | % 7.3       | % 15.9     | % |
| Combined ratio                              | 98.6       | % 89.7      | % 96.6     | % 96.6     | % 82.1      | % 92.2     | % |
| Goodwill and intangible<br>assets           | \$87,329   | \$—         | \$87,329   | \$88,740   | \$—         | \$88,740   |   |



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 2. SEGMENT INFORMATION (CONTINUED)

| Nine months ended and at<br>September 30,      | 2015         |              |              | 2014         |              |              |   |  |
|--|--------------|--------------|--------------|--------------|--------------|--------------|---|--|
|  | Insurance    | Reinsurance  | Total        | Insurance    | Reinsurance  | Total        |   |  |
| Gross premiums written                         | \$ 1,970,554 | \$ 1,833,374 | \$ 3,803,928 | \$ 1,911,102 | \$ 2,038,377 | \$ 3,949,479 |   |  |
| Net premiums written                           | 1,352,122    | 1,727,185    | 3,079,307    | 1,361,351    | 1,990,607    | 3,351,958    |   |  |
| Net premiums earned                            | 1,344,339    | 1,420,266    | 2,764,605    | 1,368,683    | 1,543,799    | 2,912,482    |   |  |
| Other insurance related<br>income              | 811          | 11,508       | 12,319       | —            | 12,468       | 12,468       |   |  |
| Net losses and loss<br>expenses                | (866,580 )   | (786,288 )   | (1,652,868 ) | (859,093 )   | (803,004 )   | (1,662,097 ) |   |  |
| Acquisition costs                              | (200,493 )   | (337,056 )   | (537,549 )   | (207,360 )   | (342,488 )   | (549,848 )   |   |  |
| General and<br>administrative expenses         | (261,924 )   | (110,701 )   | (372,625 )   | (257,208 )   | (106,987 )   | (364,195 )   |   |  |
| Underwriting income                            | \$ 16,153    | \$ 197,729   | 213,882      | \$ 45,022    | \$ 303,788   | 348,810      |   |  |
| Corporate expenses                             |              |              | (83,826 )    |              |              | (92,530 )    |   |  |
| Net investment income                          |              |              | 226,336      |              |              | 264,171      |   |  |
| Net realized investment<br>gains (losses)      |              |              | (123,618 )   |              |              | 121,329      |   |  |
| Foreign exchange gains                         |              |              | 69,200       |              |              | 58,353       |   |  |
| Interest expense and<br>financing costs        |              |              | (38,114 )    |              |              | (56,913 )    |   |  |
| Termination fee received                       |              |              | 280,000      |              |              | —            |   |  |
| Reorganization and<br>related expenses         |              |              | (45,867 )    |              |              | —            |   |  |
| Income before income<br>taxes                  |              |              | \$ 497,993   |              |              | \$ 643,220   |   |  |
| Net loss and loss expense<br>ratio             | 64.5         | % 55.4       | % 59.8       | % 62.8       | % 52.0       | % 57.1       | % |  |
| Acquisition cost ratio                         | 14.9         | % 23.7       | % 19.4       | % 15.2       | % 22.2       | % 18.9       | % |  |
| General and<br>administrative expense<br>ratio | 19.5         | % 7.8        | % 16.5       | % 18.7       | % 6.9        | % 15.6       | % |  |
| Combined ratio                                 | 98.9         | % 86.9       | % 95.7       | % 96.7       | % 81.1       | % 91.6       | % |  |
| Goodwill and intangible<br>assets              | \$ 87,329    | \$ —         | \$ 87,329    | \$ 88,740    | \$ —         | \$ 88,740    |   |  |

## 3. GOODWILL AND INTANGIBLES

On April 1, 2015, the Company announced that it completed the acquisition of Ternian Insurance Group LLC ("Ternian"), a leading provider of voluntary, limited benefit affordable health plans and other employee benefits coverage for hourly and part-time workers and their families. The Company recognized intangible assets of \$13 million associated with this acquisition.

During September 2015, as part of its profitability enhancement initiatives, the Company decided to wind-down all of its retail insurance operations in Australia. As a result of this decision, the Company recognized an impairment of an associated finite-lived intangible asset. The impaired intangible asset related to the purchase of an Australian distribution network in 2009, and had an initial expected useful life of thirty years. The impairment expense of \$13 million has been included as part of the reorganization and related expenses in the Consolidated Statement of Operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 3. GOODWILL AND INTANGIBLES (CONTINUED)

The following table shows an analysis of goodwill and intangible assets:

|   | Goodwill | Intangible<br>assets with an<br>indefinite life | Intangible<br>assets with a<br>finite life | Total    |
|---|----------|---|--|----------|
| Net balance at December 31, 2014        | \$47,148 | \$26,036  | \$15,776                                   | \$88,960 |
| Acquisition of Ternian                  | —        | —   | 13,330                                     | 13,330   |
| Amortization                            | n/a      | n/a   | (2,022)                                    | (2,022)  |
| Impairment charges                      | —        | —   | (12,939)                                   | (12,939) |
| Net balance at September 30, 2015       | \$47,148 | \$26,036  | \$14,145                                   | \$87,329 |
| Gross balance at September 30, 2015     | \$42,237 | \$26,036  | \$29,166                                   | \$97,439 |
| Accumulated amortization                | n/a      | n/a   | (15,021)                                   | (15,021) |
| Foreign currency translation adjustment | 4,911    | —   | —  | 4,911    |
| Net balance at September 30, 2015       | \$47,148 | \$26,036  | \$14,145                                   | \$87,329 |

n/a – not applicable

We estimate that the amortization expense for our total intangible assets with a finite life for the next three months will be less than \$1 million and annual amortization expense for 2016 through 2018 will be approximately \$2 million and 2019 through 2020 will be approximately \$1 million each year. The estimated remaining useful lives of these assets range from three to nine years.

Intangible assets with an indefinite life consist primarily of U.S. state licenses that provide a legal right to transact business indefinitely.

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## AXIS CAPITAL HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 4. INVESTMENTS

## a) Fixed Maturities and Equities

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

|                            | Amortized<br>Cost or<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Non-credit<br>OTTI<br>in AOCI <sup>(5)</sup> |
|----------------------------|------------------------------|------------------------------|-------------------------------|---------------|--|
| At September 30, 2015      |                              |                              |                               |               |  |
| Fixed maturities           |                              |                              |                               |               |  |
| U.S. government and agency | \$1,867,800                  | \$9,517                      | \$(12,859)                    | \$1,864,458   | \$—  |
| Non-U.S. government        | 835,965                      | 3,888                        | (67,139)                      | 772,714       | —  |
| Corporate debt             | 4,540,189                    | 29,437                       | (77,543)                      | 4,492,083     | —  |
| Agency RMBS <sup>(1)</sup> | 2,172,782                    | 38,239                       | (3,313)                       | 2,207,708     | —  |
| CMBS <sup>(2)</sup>        | 1,069,887                    | 11,623                       | (3,651)                       | 1,077,859     | —  |
| Non-Agency RMBS            | 103,180                      | 2,173                        | (1,456)                       | 103,897       | (886)  |
| ABS <sup>(3)</sup>         | 1,448,536                    | 2,138                        | (11,451)                      | 1,439,223     | —  |
| Municipals <sup>(4)</sup>  | 178,919                      | 3,780                        | (1,046)                       | 181,653       | —  |
| Total fixed maturities     | \$12,217,258                 | \$100,795                    | \$(178,458)                   | \$12,139,595  | \$(886)                                      |
| Equity securities          |                              |                              |                               |               |  |
| Exchange-traded funds      | 563,262                      | 21,835                       | (17,704)                      | 567,393       | —  |
| Bond mutual funds          | 122,200                      | —                            | (436)                         | 121,764       | —  |
| Total equity securities    | \$685,462                    | \$21,835                     | \$(18,140)                    | \$689,157     | —  |
| At December 31, 2014       |                              |                              |                               |               |  |
| Fixed maturities           |                              |                              |                               |               |  |
| U.S. government and agency | \$1,645,068                  | \$3,337                      | \$(28,328)                    | \$1,620,077   | \$—  |
| Non-U.S. government        | 1,080,601                    | 7,383                        | (54,441)                      | 1,033,543     | —  |
| Corporate debt             | 4,386,432                    | 40,972                       | (66,280)                      | 4,361,124     | —  |
| Agency RMBS <sup>(1)</sup> | 2,241,581                    | 40,762                       | (4,235)                       | 2,278,108     | —  |
| CMBS <sup>(2)</sup>        | 1,085,618                    | 13,289                       | (2,019)                       | 1,096,888     | —  |
| Non-Agency RMBS            | 71,236                       | 2,765                        | (915)                         | 73,086        | (889)  |
| ABS <sup>(3)</sup>         | 1,475,026                    | 2,748                        | (16,188)                      | 1,461,586     | —  |
| Municipals <sup>(4)</sup>  | 200,411                      | 5,282                        | (832)                         | 204,861       | —  |
| Total fixed maturities     | \$12,185,973                 | \$116,538                    | \$(173,238)                   | \$12,129,273  | \$(889)                                      |
| Equity securities          |                              |                              |                               |               |  |
| Exchange-traded funds      | 416,063                      | 43,583                       | (4,756)                       | 454,890       | —  |
| Bond mutual funds          | 115,585                      | —                            | (2,768)                       | 112,817       | —  |
| Total equity securities    | \$531,648                    | \$43,583                     | \$(7,524)                     | \$567,707     | —  |

(1) Residential mortgage-backed securities (RMBS) originated by U.S. agencies.

(2) Commercial mortgage-backed securities (CMBS).

(3)

Asset-backed securities (ABS) include debt tranching securities collateralized primarily by auto loans, student loans, credit cards, and other asset types. This asset class also includes collateralized loan obligations (CLOs) and collateralized debt obligations (CDOs).

- (4) Municipals include bonds issued by states, municipalities and political subdivisions.

(5) Represents the non-credit component of the other-than-temporary impairment (OTTI) losses, adjusted for subsequent sales of securities. It does not include the change in fair value subsequent to the impairment measurement date.

In the normal course of investing activities, we actively manage allocations to non-controlling tranches of structured securities (variable interests) issued by VIEs. These structured securities include RMBS, CMBS and ABS and are included in the above table. Additionally, within our other investments portfolio, we also invest in limited partnerships (hedge funds and drawdown funds) and

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## AXIS CAPITAL HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 4. INVESTMENTS (CONTINUED)

CLO equity tranching securities, which are all variable interests issued by VIEs (see Note 4(c)). For these variable interests, we do not have the power to direct the activities that are most significant to the economic performance of the VIEs and accordingly we are not the primary beneficiary for any of these VIEs. Our maximum exposure to loss on these interests is limited to the amount of our investment. We have not provided financial or other support with respect to these structured securities other than our original investment.

## Contractual Maturities

The contractual maturities of fixed maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|  | Amortized<br>Cost | Fair<br>Value | % of Total<br>Fair Value |   |
|--|-------------------|---------------|--------------------------|---|
| At September 30, 2015                  |                   |               |                          |   |
| Maturity                               |                   |               |                          |   |
| Due in one year or less                | \$430,729         | \$428,014     | 3.4                      | % |
| Due after one year through five years  | 4,472,042         | 4,429,743     | 36.5                     | % |
| Due after five years through ten years | 2,209,980         | 2,149,330     | 17.7                     | % |
| Due after ten years                    | 310,122           | 303,821       | 2.5                      | % |
|  | 7,422,873         | 7,310,908     | 60.1                     | % |
| Agency RMBS                            | 2,172,782         | 2,207,708     | 18.2                     | % |
| CMBS                                   | 1,069,887         | 1,077,859     | 8.9                      | % |
| Non-Agency RMBS                        | 103,180           | 103,897       | 0.9                      | % |
| ABS                                    | 1,448,536         | 1,439,223     | 11.9                     | % |
| Total                                  | \$12,217,258      | \$12,139,595  | 100.0                    | % |
| At December 31, 2014                   |                   |               |                          |   |
| Maturity                               |                   |               |                          |   |
| Due in one year or less                | \$424,077         | \$423,265     | 3.5                      | % |
| Due after one year through five years  | 4,925,780         | 4,892,411     | 40.3                     | % |
| Due after five years through ten years | 1,755,248         | 1,695,641     | 14.0                     | % |
| Due after ten years                    | 207,407           | 208,288       | 1.7                      | % |
|  | 7,312,512         | 7,219,605     | 59.5                     | % |
| Agency RMBS                            | 2,241,581         | 2,278,108     | 18.8                     | % |
| CMBS                                   | 1,085,618         | 1,096,888     | 9.0                      | % |
| Non-Agency RMBS                        | 71,236            | 73,086        | 0.6                      | % |
| ABS                                    | 1,475,026         | 1,461,586     | 12.1                     | % |
| Total                                  | \$12,185,973      | \$12,129,273  | 100.0                    | % |



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 4. INVESTMENTS (CONTINUED)

## Gross Unrealized Losses

The following table summarizes fixed maturities and equities in an unrealized loss position and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

|                            | 12 months or greater |                   | Less than 12 months |                   | Total       |                   |
|----------------------------|----------------------|-------------------|---------------------|-------------------|-------------|-------------------|
|                            | Fair Value           | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value  | Unrealized Losses |
| At September 30, 2015      |                      |                   |                     |                   |             |                   |
| Fixed maturities           |                      |                   |                     |                   |             |                   |
| U.S. government and agency | \$121,077            | \$(8,479)         | \$582,387           | \$(4,380)         | \$703,464   | \$(12,859)        |
| Non-U.S. government        | 137,816              | (46,343)          | 269,400             | (20,796)          | 407,216     | (67,139)          |
| Corporate debt             | 368,525              | (34,296)          | 2,056,431           | (43,247)          | 2,424,956   | (77,543)          |
| Agency RMBS                | 67,859               | (1,063)           | 493,436             | (2,250)           | 561,295     | (3,313)           |
| CMBS                       | 75,560               | (971)             | 271,340             | (2,680)           | 346,900     | (3,651)           |
| Non-Agency RMBS            | 6,294                | (675)             | 59,911              | (781)             | 66,205      | (1,456)           |
| ABS                        | 553,123              | (8,703)           | 489,771             | (2,748)           | 1,042,894   | (11,451)          |
| Municipals                 | 14,950               | (647)             | 32,970              | (399)             | 47,920      | (1,046)           |
| Total fixed maturities     | \$1,345,204          | \$(101,177)       | \$4,255,646         | \$(77,281)        | \$5,600,850 | \$(178,458)       |
| Equity securities          |                      |                   |                     |                   |             |                   |
| Exchange-traded funds      | 25,984               | (4,141)           | 281,414             | (13,563)          | 307,398     | (17,704)          |
| Bond mutual funds          | —                    | —                 | 121,733             | (436)             | 121,733     | (436)             |
| Total equity securities    | \$25,984             | \$(4,141)         | \$403,147           | \$(13,999)        | \$429,131   | \$(18,140)        |
| At December 31, 2014       |                      |                   |                     |                   |             |                   |
| Fixed maturities           |                      |                   |                     |                   |             |                   |
| U.S. government and agency | \$388,551            | \$(24,319)        | \$786,850           | \$(4,009)         | \$1,175,401 | \$(28,328)        |
| Non-U.S. government        | 143,602              | (29,171)          | 435,670             | (25,270)          | 579,272     | (54,441)          |
| Corporate debt             | 26,708               | (2,221)           | 2,199,672           | (64,059)          | 2,226,380   | (66,280)          |
| Agency RMBS                | 259,914              | (3,084)           | 333,288             | (1,151)           | 593,202     | (4,235)           |
| CMBS                       | 68,624               | (925)             | 256,225             | (1,094)           | 324,849     | (2,019)           |
| Non-Agency RMBS            | 6,689                | (613)             | 13,442              | (302)             | 20,131      | (915)             |
| ABS                        | 425,663              | (10,325)          | 750,679             | (5,863)           | 1,176,342   | (16,188)          |
| Municipals                 | 34,462               | (644)             | 25,284              | (188)             | 59,746      | (832)             |
| Total fixed maturities     | \$1,354,213          | \$(71,302)        | \$4,801,110         | \$(101,936)       | \$6,155,323 | \$(173,238)       |
| Equity securities          |                      |                   |                     |                   |             |                   |
| Exchange-traded funds      | —                    | —                 | 91,275              | (4,756)           | 91,275      | (4,756)           |
| Bond mutual funds          | —                    | —                 | 112,817             | (2,768)           | 112,817     | (2,768)           |
| Total equity securities    | \$—                  | \$—               | \$204,092           | \$(7,524)         | \$204,092   | \$(7,524)         |

## Fixed Maturities

At September 30, 2015, 1,712 fixed maturities (2014: 1,388) were in an unrealized loss position of \$178 million (2014: \$173 million), of which \$27 million (2014: \$36 million) was related to securities below investment grade or not rated.

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## AXIS CAPITAL HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 4. INVESTMENTS (CONTINUED)

At September 30, 2015, 390 (2014: 223) securities had been in a continuous unrealized loss position for 12 months or greater and had a fair value of \$1,345 million (2014: \$1,354 million). Following our credit impairment review, we concluded that these securities as well as the remaining securities in an unrealized loss position in the above table were temporarily impaired at September 30, 2015, and were expected to recover in value as the securities approach maturity. Further, at September 30, 2015, we did not intend to sell these securities in an unrealized loss position and it is more likely than not that we will not be required to sell these securities before the anticipated recovery of their amortized costs.

## Equity Securities

At September 30, 2015, 36 securities (2014: 9) were in an unrealized loss position of \$18 million (2014: \$8 million).

At September 30, 2015, 1 security (2014: none), was in a continuous unrealized loss position for 12 months or greater. Based on our impairment review process and our ability and intent to hold these securities for a reasonable period of time sufficient for a full recovery, we concluded that the above equities in an unrealized loss position were temporarily impaired at September 30, 2015.

## b) Mortgage Loans

The following table provides a breakdown of our mortgage loans held-for-investment:

|  | September 30, 2015 |            | December 31, 2014 |            |   |
|--|--------------------|------------|-------------------|------------|---|
|  | Carrying Value     | % of Total | Carrying Value    | % of Total |   |
| Mortgage Loans held-for-investment:      |                    |            |                   |            |   |
| Commercial                               | \$129,431          | 100        | % \$—             | —          | % |
|  | 129,431            | 100        | % —               | —          | % |
| Valuation allowances                     | —                  | —          | % —               | —          | % |
| Total Mortgage Loans held-for-investment | \$129,431          | 100        | % \$—             | —          | % |

For commercial mortgage loans, the primary credit quality indicator is the debt service coverage ratio (which compares a property's net operating income to amounts needed to service the principal and interest due under the loan, generally, the lower the debt service coverage ratio, the higher the risk of experiencing a credit loss) and the loan-to-value ratio (loan-to-value ratios compare the unpaid principal balance of the loan to the estimated fair value of the underlying collateral, generally, the higher the loan-to-value ratio, the higher the risk of experiencing a credit loss). The debt service coverage ratio and loan-to-value ratio, as well as the values utilized in calculating these ratios, are updated annually, on a rolling basis.

The commercial mortgage loans have debt service coverage ratios in excess of 1.5x and loan-to-value ratios of less than 65%; there are no credit losses associated with the commercial mortgage loans that we hold at September 30, 2015.

We have a high quality mortgage loan portfolio with no past due amounts at September 30, 2015.



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## 4. INVESTMENTS (CONTINUED)

## c) Other Investments

The following table provides a breakdown of our investments in hedge funds, direct lending funds, real estate funds and CLO Equities, together with additional information relating to the liquidity of each category:

|                           | Fair Value |     | Redemption Frequency<br>(if currently eligible) | Redemption<br>Notice Period |
|---------------------------|------------|-----|---|-----------------------------|
| At September 30, 2015     |            |     |   |                             |
| Long/short equity funds   | \$ 154,099 | 19  | % Quarterly, Semi-annually, Annually            | 45-60 days                  |
| Multi-strategy funds      | 341,452    | 43  | % Quarterly, Semi-annually                      | 60-95 days                  |
| Event-driven funds        | 140,343    | 18  | % Quarterly, Annually                           | 45-60 days                  |
| Leveraged bank loan funds | 75         | —   | % n/a   | n/a                         |
| Direct lending funds      | 79,283     | 10  | % n/a   | n/a                         |
| Real estate funds         | 4,369      | 1   | % n/a   | n/a                         |
| CLO - Equities            | 80,698     | 9   | % n/a   | n/a                         |
| Total other investments   | \$ 800,319 | 100 | %   |                             |
| At December 31, 2014      |            |     |   |                             |
| Long/short equity funds   | \$ 298,907 | 31  | % Quarterly, Semi-annually                      | 30-60 days                  |
| Multi-strategy funds      | 324,020    | 34  | % Quarterly, Semi-annually                      | 60-95 days                  |
| Event-driven funds        | 185,899    | 19  | % Quarterly, Annually                           | 45-60 days                  |
| Leveraged bank loan funds | 9,713      | 1   | % Quarterly                                     | 65 days                     |
| Direct lending funds      | 54,438     | 6   | % n/a   | n/a                         |
| Real estate funds         | —          | —   | % n/a   | n/a                         |
| CLO - Equities            | 92,488     | 9   | % n/a   | n/a                         |
| Total other investments   | \$ 965,465 | 100 | %   |                             |

n/a - not applicable

The investment strategies for the above funds are as follows:

**Long/short equity funds:** Seek to achieve attractive returns primarily by executing an equity trading strategy involving both long and short investments in publicly-traded equities.

**Multi-strategy funds:** Seek to achieve above-market returns by pursuing multiple investment strategies to diversify risks and reduce volatility. This category includes funds of hedge funds which invest in a large pool of hedge funds across a diversified range of hedge fund strategies.

**Event-driven funds:** Seek to achieve attractive returns by exploiting situations where announced or anticipated events create opportunities.

**Leveraged bank loan funds:** Seek to achieve attractive returns by investing primarily in bank loan collateral that has limited interest rate risk exposure.

Direct lending funds: Seek to achieve attractive risk-adjusted returns, including current income generation, by investing in funds which provide financing directly to borrowers.

Real estate funds: Seek to achieve attractive risk-adjusted returns by making and managing investments in real estate and real estate securities and businesses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 4. INVESTMENTS (CONTINUED)

Two common redemption restrictions which may impact our ability to redeem our hedge funds are gates and lockups. A gate is a suspension of redemptions which may be implemented by the general partner or investment manager of the fund in order to defer, in whole or in part, the redemption request in the event the aggregate amount of redemption requests exceeds a predetermined percentage of the fund's net assets which may otherwise hinder the general partner or investment manager's ability to liquidate holdings in an orderly fashion in order to generate the cash necessary to fund extraordinarily large redemption payouts. A lockup period is the initial amount of time an investor is contractually required to hold the security before having the ability to redeem. During 2015 and 2014, neither of these restrictions impacted our redemption requests. At September 30, 2015, \$90 million (2014: \$87 million), representing 14% (2014: 11%) of our total hedge funds, relate to holdings where we are still within the lockup period. The expiration of these lockup periods range from September 2015 to April 2018.

At September 30, 2015, we have \$234 million (2014: \$88 million) of unfunded commitments within our other investments portfolio relating to our future investments in direct lending funds. Once the full amount of committed capital has been called by the General Partner of each of these funds, the assets will not be fully returned until the completion of the fund's investment term. These funds have investment terms ranging from 5-10 years and the General Partners of certain funds have the option to extend the term by up to three years.

During 2013, we made a \$60 million commitment as a limited partner in a multi-strategy hedge fund. Once the full amount of committed capital has been called by the General Partner, the assets will not be fully returned until the completion of the fund's investment term which ends in March, 2019. The General Partner then has the option to extend the term by up to three years. At September 30, 2015, \$23 million of our commitment remains unfunded and the current fair value of the funds called to date are included in the multi-strategy funds line of the table above.

During 2015, we made a \$100 million commitment as a limited partner in a fund which invests in real estate and real estate securities and businesses. The fund is subject to a three year commitment period and a total fund life of eight years during which time we are not eligible to redeem our investment. At September 30, 2015, \$95 million of our commitment remains unfunded and the current fair value of the funds called to date are included in the real estate funds line of the table above.

During 2015, we made a \$50 million commitment as a limited partner of a bank revolver opportunity fund. The fund is subject to an investment term of seven years and the General Partners have the option to extend the term by up to two years. At September 30, 2015, this commitment remains unfunded. It is not anticipated that the full amount of this fund will be drawn.

## d) Net Investment Income

Net investment income was derived from the following sources:

|                           | Three months ended September |          | Nine months ended September |           |
|---------------------------|------------------------------|----------|-----------------------------|-----------|
|                           | 30,                          |          | 30,                         |           |
|                           | 2015                         | 2014     | 2015                        | 2014      |
| Fixed maturities          | \$75,980                     | \$74,996 | \$220,066                   | \$226,475 |
| Other investments         | (27,421                      | ) (3,384 | ) 17,616                    | 45,868    |
| Equity securities         | 3,445                        | 2,022    | 7,795                       | 9,609     |
| Mortgage loans            | 482                          | —        | 776                         | —         |
| Cash and cash equivalents | 993                          | 2,081    | 3,770                       | 9,127     |

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|                         |          |          |           |           |
|-------------------------|----------|----------|-----------|-----------|
| Short-term investments  | 83       | 141      | 277       | 600       |
| Gross investment income | 53,562   | 75,856   | 250,300   | 291,679   |
| Investment expenses     | (7,877   | ) (9,294 | ) (23,964 | ) (27,508 |
| Net investment income   | \$45,685 | \$66,562 | \$226,336 | \$264,171 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 4. INVESTMENTS (CONTINUED)

## e) Net Realized Investment Gains (Losses)

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

|   | Three months ended September<br>30, |            | Nine months ended<br>September 30, |             |
|---|-------------------------------------|------------|------------------------------------|-------------|
|   | 2015                                | 2014       | 2015                               | 2014        |
| Gross realized gains  |                                     |            |                                    |             |
| Fixed maturities and short-term investments                   | \$12,126                            | \$17,638   | \$44,853                           | \$78,057    |
| Equities  | 232                                 | 81,888     | 447                                | 133,764     |
| Gross realized gains  | 12,358                              | 99,526     | 45,300                             | 211,821     |
| Gross realized losses   |                                     |            |                                    |             |
| Fixed maturities and short-term investments                   | (54,867                             | ) (8,527   | ) (111,432                         | ) (56,623   |
| Equities  | (1,559                              | ) (7,120   | ) (1,952                           | ) (12,104   |
| Gross realized losses   | (56,426                             | ) (15,647  | ) (113,384                         | ) (68,727   |
| Net OTTI recognized in earnings                               | (32,301                             | ) (9,431   | ) (62,762                          | ) (12,121   |
| Change in fair value of investment derivatives <sup>(1)</sup> | 6,412                               | 3,000      | 7,228                              | (9,644      |
| Net realized investment gains (losses)                        | \$(69,957                           | ) \$77,448 | \$(123,618                         | ) \$121,329 |

(1) Refer to Note 6 – Derivative Instruments

The following table summarizes the OTTI recognized in earnings by asset class:

|                                   | Three months ended September<br>30, |         | Nine months ended September<br>30, |          |
|-----------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                                   | 2015                                | 2014    | 2015                               | 2014     |
| Fixed maturities:                 |                                     |         |                                    |          |
| Non-U.S. government               | \$1,295                             | \$3,380 | \$2,717                            | \$5,192  |
| Corporate debt                    | 20,587                              | 1,031   | 38,396                             | 1,112    |
| Non-Agency RMBS                   | —                                   | —       | 4                                  | —        |
| ABS                               | 84                                  | —       | 124                                | 56       |
| Municipals                        | —                                   | 418     | —                                  | 418      |
|                                   | 21,966                              | 4,829   | 41,241                             | 6,778    |
| Equity Securities                 |                                     |         |                                    |          |
| Common stocks                     | —                                   | —       | —                                  | 741      |
| Exchange-traded funds             | 10,335                              | 4,602   | 10,335                             | 4,602    |
| Bond mutual funds                 | —                                   | —       | 11,186                             | —        |
|                                   | 10,335                              | 4,602   | 21,521                             | 5,343    |
| Total OTTI recognized in earnings | \$32,301                            | \$9,431 | \$62,762                           | \$12,121 |



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 4. INVESTMENTS (CONTINUED)

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

|  | Three months ended September 30, |         | Nine months ended September 30, |         |
|--|----------------------------------|---------|---------------------------------|---------|
|  | 2015                             | 2014    | 2015                            | 2014    |
| Balance at beginning of period   | \$1,564                          | \$1,581 | \$1,531                         | \$1,594 |
| Credit impairments recognized on securities not previously impaired        | —                                | —       | —                               | —       |
| Additional credit impairments recognized on securities previously impaired | —                                | —       | 33                              | —       |
| Change in timing of future cash flows on securities previously impaired    | —                                | —       | —                               | —       |
| Intent to sell of securities previously impaired                           | —                                | —       | —                               | —       |
| Securities sold/redeemed/matured   | (43                              | ) (23   | ) (43                           | ) (36   |
| Balance at end of period   | \$1,521                          | \$1,558 | \$1,521                         | \$1,558 |

## f) Reverse Repurchase Agreements

At September 30, 2015, we held \$157 million (2014: \$110 million) of reverse repurchase agreements. These loans are fully collateralized, are generally outstanding for a short period of time and are presented on a gross basis as part of cash and cash equivalents on our consolidated balance sheet. The required collateral for these loans is either cash or U.S. Treasuries at a minimum rate of 102% of the loan principal. Upon maturity, we receive principal and interest income. We monitor the estimated fair value of the securities loaned and borrowed on a daily basis with additional collateral obtained as necessary throughout the duration of the transaction.

## 5. FAIR VALUE MEASUREMENTS

## Fair Value Hierarchy

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants. We use a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The hierarchy is broken down into three levels as follows:

• Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access.

• 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.

•

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

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.

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5. FAIR VALUE MEASUREMENTS (CONTINUED)

Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This may lead us to change the selection of our valuation technique (from market to cash flow approach) or may cause us to use multiple valuation techniques to estimate the fair value of a financial instrument. This circumstance could cause an instrument to be reclassified between levels within the fair value hierarchy.

We used the following valuation techniques and assumptions in estimating the fair value of our financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy.

Fixed Maturities

At each valuation date, we use the market approach valuation technique to estimate the fair value of our fixed maturities portfolio, when possible. This market approach includes, but is not limited to, prices obtained from third party pricing services for identical or comparable securities and the use of “pricing matrix models” using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. Pricing from third party pricing services is sourced from multiple vendors, when available, and we maintain a vendor hierarchy by asset type based on historical pricing experience and vendor expertise. When prices are unavailable from pricing services, we obtain non-binding quotes from broker-dealers who are active in the corresponding markets.

The following describes the significant inputs generally used to determine the fair value of our fixed maturities by asset class.

U.S. government and agency

U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. As the fair values of our U.S. Treasury securities are based on unadjusted market prices in active markets, they are classified within Level 1. The fair values of U.S. government agency securities are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. government agency securities are classified within Level 2.

Non-U.S. government

Non-U.S. government securities comprise bonds issued by non-U.S. governments and their agencies along with supranational organizations (collectively also known as sovereign debt securities). The fair value of these securities is based on prices obtained from international indices or a valuation model that includes the following inputs: interest rate yield curves, cross-currency basis index spreads, and country credit spreads for structures similar to the sovereign bond in terms of issuer, maturity and seniority. As the significant inputs are observable market inputs, the fair value of non-U.S. government securities are classified within Level 2.

Corporate debt

Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are generally determined using the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As these spreads and the yields for the risk-free yield curve are observable market inputs, the fair values of our corporate debt securities are classified within Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, securities are classified within Level 3.

#### MBS

Our portfolio of RMBS and CMBS are originated by both agencies and non-agencies. The fair values of these securities are determined through the use of a pricing model (including Option Adjusted Spread) which uses prepayment speeds and spreads to determine the appropriate average life of the MBS. These spreads are generally obtained from the new issue market, secondary trading

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. FAIR VALUE MEASUREMENTS (CONTINUED)

and broker-dealer quotes. As the significant inputs used to price MBS are observable market inputs, the fair values of the MBS are classified within Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. These securities are classified within Level 3.

ABS

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and CLO Debt originated by a variety of financial institutions. Similarly to MBS, the fair values of ABS are priced through the use of a model which uses prepayment speeds and spreads sourced primarily from the new issue market. As the significant inputs used to price ABS are observable market inputs, the fair values of ABS are classified within Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. These securities are classified within Level 3.

Municipals

Our municipal portfolio comprises revenue and general obligation bonds issued by U.S. domiciled state and municipal entities. The fair value of these securities is determined using spreads obtained from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the municipals are observable market inputs, municipals are classified within Level 2.

Equity Securities

Equity securities include exchange-traded funds and bond mutual funds. For exchange-traded funds, we classified these within Level 1 as their fair values are based on unadjusted quoted market prices in active markets. Our investments in bond mutual funds have daily liquidity, with redemption based on the net asset value ("NAV") of the funds. Accordingly, we have classified these investments as Level 2.

Other Investments

As a practical expedient, we estimate fair values for hedge funds, direct lending funds and the CLO fund using NAVs as advised by external fund managers or third party administrators. For each of these funds, the NAV is based on the manager's or administrator's valuation of the underlying holdings in accordance with the fund's governing documents and in accordance with U.S. GAAP. For any funds for which we have not yet received a NAV concurrent with our period end date, we record an estimate of the change in fair value for the period subsequent to the most recent NAV. Such estimates are based on return estimates for the period between the most recently issued NAV and the period end date; these estimates are obtained from the relevant fund managers. Accordingly, we do not typically have a reporting lag in our fair value measurements for these funds. Historically, our valuation estimates incorporating these return estimates have not significantly diverged from the subsequent NAVs.

Within the hedge fund, direct lending fund and CLO fund industries, there is a general lack of transparency necessary to facilitate a detailed independent assessment of the values placed on the securities underlying the NAV provided by the fund manager or fund administrator. To address this, on a quarterly basis, we perform a number of monitoring

procedures designed to assist us in the assessment of the quality of the information provided by managers and administrators. These procedures include, but are not limited to, regular review and discussion of each fund's performance with its manager, regular evaluation of fund performance against applicable benchmarks and the backtesting of our fair value estimates against subsequently received NAVs. Backtesting involves comparing our previously reported values for each individual fund against NAVs per audited financial statements (for year-end values) and final NAVs from fund managers and fund administrators (for interim values).

For our hedge fund investments with liquidity terms allowing us to fully redeem our holdings at the applicable NAV in the near term, we have classified these investments as Level 2. Certain investments in hedge funds, all of our direct lending funds and our CLO fund have redemption restrictions (see Note 4(c) for further details) that prevent us from redeeming in the near term and therefore we have classified these investments as Level 3.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. FAIR VALUE MEASUREMENTS (CONTINUED)

At September 30, 2015, our direct investments in CLO - Equities were classified within Level 3 as we estimated the fair value for these securities using an income approach valuation technique (discounted cash flow model) due to the lack of observable and relevant trades in the secondary markets.

Short-Term Investments

Short-term investments primarily comprise highly liquid securities with maturities greater than three months but less than one year from the date of purchase. These securities are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their amortized cost approximates fair value.

Derivative Instruments

Our foreign currency forward contracts, interest rate swaps and commodity contracts are customized to our economic hedging strategies and trade in the over-the-counter derivative market. We use the market approach valuation technique to estimate the fair value for these derivatives based on significant observable market inputs from third party pricing vendors, non-binding broker-dealer quotes and/or recent trading activity. Accordingly, we classified these derivatives within Level 2.

We also participate in non-exchange traded derivative-based risk management products addressing weather risks. We use observable market inputs and unobservable inputs in combination with industry or internally-developed valuation and forecasting techniques to determine fair value. We classify these instruments within Level 3.

Insurance-linked Securities

Insurance-linked securities comprise investment in a catastrophe bond. We obtain non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. These securities are classified within Level 3.

Cash Settled Awards

Cash settled awards comprise restricted stock units that form part of our compensation program. Although the fair value of these awards is determined using observable quoted market prices in active markets, the stock units themselves are not actively traded. Accordingly, we have classified these liabilities within Level 2.

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## AXIS CAPITAL HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 5. FAIR VALUE MEASUREMENTS (CONTINUED)

The table below presents the financial instruments measured at fair value on a recurring basis:

|  | Quoted Prices in<br>Active Markets for<br>Identical Assets (Level 1) | Significant<br>Other Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) | Total Fair Value |
|--|--|---|---|------------------|
| At September 30, 2015                  |  |   |   |                  |
| Assets                                 |  |   |   |                  |
| Fixed maturities                       |  |   |   |                  |
| U.S. government and agency             | \$1,834,673  | \$29,785  | \$—   | \$1,864,458      |
| Non-U.S. government                    | —  | 772,714   | —   | 772,714          |
| Corporate debt                         | —  | 4,430,359   | 61,724  | 4,492,083        |
| Agency RMBS                            | —  | 2,207,708   | —   | 2,207,708        |
| CMBS                                   | —  | 1,066,541   | 11,318  | 1,077,859        |
| Non-Agency RMBS                        | —  | 103,897   | —   | 103,897          |
| ABS                                    | —  | 1,439,116   | 107   | 1,439,223        |
| Municipals                             | —  | 181,653   | —   | 181,653          |
|  | 1,834,673  | 10,231,773  | 73,149  | 12,139,595       |
| Equity securities                      |  |   |   |                  |
| Exchange-traded funds                  | 567,393  | —   | —   | 567,393          |
| Bond mutual funds                      | —  | 121,764   | —   | 121,764          |
|  | 567,393  | 121,764   | —   | 689,157          |
| Other investments                      |  |   |   |                  |
| Hedge funds                            | —  | 156,839   | 479,130   | 635,969          |
| Direct lending funds                   | —  | —   | 79,283  | 79,283           |
| Real estate funds                      | —  | —   | 4,369   | 4,369            |
| CLO - Equities                         | —  | —   | 80,698  | 80,698           |
|  | —  | 156,839   | 643,480   | 800,319          |
| Short-term investments                 | —  | 7,152   | —   | 7,152            |
| Derivative instruments<br>(see Note 6) | —  | 2,573   | 35  | 2,608            |
| Insurance-linked securities            | —  | —   | 25,012  | 25,012           |
| Total Assets                           | \$2,402,066  | \$10,520,101  | \$741,676                                       | \$13,663,843     |
| Liabilities                            |  |   |   |                  |
| Derivative instruments<br>(see Note 6) | \$—  | \$9,345   | \$6,962   | \$16,307         |
| Cash settled awards (see<br>Note 8)    | —  | 22,837  | —   | 22,837           |
| Total Liabilities                      | \$—  | \$32,182  | \$6,962   | \$39,144         |

At December 31, 2014

Assets

Fixed maturities

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|                                     |             |              |           |              |
|-------------------------------------|-------------|--------------|-----------|--------------|
| U.S. government and agency          | \$1,497,922 | \$122,155    | \$—       | \$1,620,077  |
| Non-U.S. government                 | —           | 1,033,543    | —         | 1,033,543    |
| Corporate debt                      | —           | 4,345,287    | 15,837    | 4,361,124    |
| Agency RMBS                         | —           | 2,278,108    | —         | 2,278,108    |
| CMBS                                | —           | 1,079,125    | 17,763    | 1,096,888    |
| Non-Agency RMBS                     | —           | 73,086       | —         | 73,086       |
| ABS                                 | —           | 1,421,555    | 40,031    | 1,461,586    |
| Municipals                          | —           | 204,861      | —         | 204,861      |
|                                     | 1,497,922   | 10,557,720   | 73,631    | 12,129,273   |
| Equity securities                   |             |              |           |              |
| Exchange-traded funds               | 454,890     | —            | —         | 454,890      |
| Bond mutual funds                   | —           | 112,817      | —         | 112,817      |
|                                     | 454,890     | 112,817      | —         | 567,707      |
| Other investments                   |             |              |           |              |
| Hedge funds                         | —           | 347,621      | 470,918   | 818,539      |
| Direct lending funds                | —           | —            | 54,438    | 54,438       |
| Real estate funds                   | —           | —            | —         | —            |
| CLO - Equities                      | —           | —            | 92,488    | 92,488       |
|                                     | —           | 347,621      | 617,844   | 965,465      |
| Short-term investments              | —           | 107,534      | —         | 107,534      |
| Derivative instruments (see Note 6) | —           | 7,153        | 111       | 7,264        |
| Insurance-linked securities         | —           | —            | —         | —            |
| Total Assets                        | \$1,952,812 | \$11,132,845 | \$691,586 | \$13,777,243 |
| Liabilities                         |             |              |           |              |
| Derivative instruments (see Note 6) | \$—         | \$3,041      | \$15,288  | \$18,329     |
| Cash settled awards (see Note 8)    | —           | 20,518       | —         | 20,518       |
| Total Liabilities                   | \$—         | \$23,559     | \$15,288  | \$38,847     |

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## 5. FAIR VALUE MEASUREMENTS (CONTINUED)

During 2015 and 2014, we had no transfers between Levels 1 and 2.

## Level 3 Fair Value Measurements

Except for hedge funds, direct lending funds and our CLO fund priced using NAV as a practical expedient and certain fixed maturities and insurance-linked securities priced using broker-dealer quotes (underlying inputs are not available), the following table quantifies the significant unobservable inputs we have used in estimating fair value at September 30, 2015 for our investments classified as Level 3 in the fair value hierarchy. These significant unobservable inputs have not changed significantly from December 31, 2014.

|   | Fair Value | Valuation<br>Technique  | Unobservable Input            | Range                    | Weighted<br>Average |
|---|------------|-------------------------|-------------------------------|--------------------------|---------------------|
| Other investments - CLO -<br>Equities     | \$34,996   | Discounted cash<br>flow | Default rates                 | 4.0% - 5.0%              | 4.3%                |
|   |            |                         | Loss severity rate            | 53.5%                    | 53.5%               |
|   |            |                         | Collateral spreads            | 3.0% - 3.5%              | 3.3%                |
|   |            |                         | Estimated maturity dates      | 2.6 - 4.1<br>years       | 3.3 years           |
| Derivatives - Weather<br>derivatives, net | \$(6,927 ) | Simulation model        | Weather curve                 | 30 - 2830 <sup>(1)</sup> | n/a <sup>(2)</sup>  |
|   |            |                         | Weather standard<br>deviation | 78 - 240 <sup>(1)</sup>  | n/a <sup>(2)</sup>  |

(1) Measured in Heating Degree Days ("HDD") which is the number of degrees the daily temperature is below a reference temperature. The cumulative HDD for the duration of the derivatives contract is compared to the strike value to determine the necessary settlement.

Due to the diversity of the portfolio, the range of unobservable inputs can be widespread; therefore, presentation of (2) a weighted average is not useful. Weather parameters may include various temperature and/or precipitation measures that will naturally vary by geographic location of each counterparty's operations.

The CLO - Equities market continues to be mostly inactive with only a small number of transactions being observed in the market and fewer still involving transactions in our CLO - Equities. Accordingly, we continue to rely on the use of our internal discounted cash flow model (income approach) to estimate fair value of our direct investments in CLO - Equities. Of the significant inputs into this model, the default and loss severity rates are the most judgmental unobservable market inputs to which the valuation of CLO - Equities is most sensitive. A significant increase (decrease) in either of these significant inputs in isolation would result in lower (higher) fair value estimates for direct investments in our CLO - Equities and, in general, a change in default rate assumptions will be accompanied by a directionally similar change in loss severity rate assumptions. Collateral spreads and estimated maturity dates are less judgmental inputs as they are based on the historical average of actual spreads and the weighted average life of the current underlying portfolios, respectively. A significant increase (decrease) in either of these significant inputs in isolation would result in higher (lower) fair value estimates for direct investments in our CLO - Equities. In general, these inputs have no significant interrelationship with each other or with default and loss severity rates.

On a quarterly basis, our valuation processes for CLO - Equities includes a review of the underlying cash flows and key assumptions used in the discounted cash flow model. We review and update the above significant unobservable inputs based on information obtained from secondary markets, including from the managers of the CLOs we hold. These inputs are the responsibility of management and, in order to ensure fair value measurement is applied consistently and in accordance with U.S. GAAP, we update our assumptions through regular communication with industry participants and ongoing monitoring of the deals in which we participate (e.g. default and loss severity rate trends), we maintain a current understanding of the market conditions, historical results, as well as emerging trends that may impact future cash flows. By maintaining this current understanding, we are able to assess the reasonableness of the inputs we ultimately use in our model.

Weather derivatives relate to non-exchange traded risk management products addressing weather risks. We use observable market inputs and unobservable inputs in combination with industry or internally-developed simulation models to determine fair value; these models may reference market price information for similar instruments. The pricing models are internally reviewed by Risk Management personnel prior to implementation and are reviewed periodically thereafter.

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AXIS CAPITAL HOLDINGS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Observable and unobservable inputs to these models vary by contract type and would typically include the following:

- Observable inputs: market prices for similar instruments, notional, option strike, term to expiry, contractual limits;
- Unobservable inputs: correlation; and
- Both observable and unobservable inputs: weather curves, weather standard deviation.

In general, weather curves are the most significant contributing input to fair value determination; changes in this variable can result in higher or lower fair value depending on the underlying position. In addition, changes in any or all of the unobservable inputs identified above may contribute positively or negatively to overall portfolio value. The correlation input will quantify the interrelationship, if any, amongst the other variables.

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## AXIS CAPITAL HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 5. FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables present changes in Level 3 for financial instruments measured at fair value on a recurring basis for the periods indicated:

|  | Opening<br>Balance | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 | Included in<br>earnings <sup>(1)</sup> | Included<br>in OCI <sup>(2)</sup> | Purchases | Sales | Settlements/<br>Distribution | Closing<br>Balance | Change in<br>unrealized<br>investment<br>gain/(loss) <sup>(3)</sup> |
|--|--------------------|------------------------------|--------------------------------|--|-----------------------------------|-----------|-------|------------------------------|--------------------|---|
| Three months ended September 30,<br>2015 |                    |                              |                                |  |                                   |           |       |                              |                    |   |
| Fixed maturities                         |                    |                              |                                |  |                                   |           |       |                              |                    |   |
| Corporate debt                           | \$43,008           | \$—                          | \$—                            | \$(2 )                                 | \$300                             | \$22,821  | \$—   | \$(4,403 )                   | \$61,724           | \$—   |
| CMBS                                     | 21,900             | —                            | (9,902 )                       | —                                      | (219 )                            | —         | —     | (461 )                       | 11,318             | —   |
| ABS                                      | 110                | —                            | —                              | —                                      | —                                 | —         | —     | (3 )                         | 107                | —   |
|  | 65,018             | —                            | (9,902 )                       | (2 )                                   | 81                                | 22,821    | —     | (4,867 )                     | 73,149             | —   |
| Other investments                        |                    |                              |                                |  |                                   |           |       |                              |                    |   |
| Hedge funds                              | 524,736            | —                            | —                              | (20,606 )                              | —                                 | —         | —     | (25,000 )                    | 479,130            | (20,606 )   |
| Direct lending<br>funds                  | 73,628             | —                            | —                              | 2,337                                  | —                                 | 4,610     | —     | (1,292 )                     | 79,283             | 2,337   |
| Real estate funds                        | 3,000              | —                            | —                              | (1,131 )                               | —                                 | 2,500     | —     | —                            | 4,369              | (1,131 )  |
| CLO - Equities                           | 90,814             | —                            | —                              | (3,938 )                               | —                                 | —         | —     | (6,178 )                     | 80,698             | (3,938 )  |
|  | 692,178            | —                            | —                              | (23,338 )                              | —                                 | 7,110     | —     | (32,470 )                    | 643,480            | (23,338 )   |
| Other assets                             |                    |                              |                                |  |                                   |           |       |                              |                    |   |
| Derivative<br>instruments                | 240                | —                            | —                              | 35                                     | —                                 | —         | —     | (240 )                       | 35                 | 35  |
| Insurance-linked<br>securities           | 24,837             | —                            | —                              | 175                                    | —                                 | —         | —     | —                            | 25,012             | 175   |
|  | 25,077             | —                            | —                              | 210                                    | —                                 | —         | —     | (240 )                       | 25,047             | 210   |
| Total assets                             | \$782,273          | \$—                          | \$(9,902 )                     | \$(23,130)                             | \$81                              | \$29,931  | \$—   | \$(37,577)                   | \$741,676          | \$(23,128)  |
| Other liabilities                        |                    |                              |                                |  |                                   |           |       |                              |                    |   |
| Derivative<br>instruments                | \$818              | \$—                          | \$—                            | \$(331 )                               | \$—                               | \$6,475   | \$—   | \$—                          | \$6,962            | \$(331 )  |
| Total liabilities                        | \$818              | \$—                          | \$—                            | \$(331 )                               | \$—                               | \$6,475   | \$—   | \$—                          | \$6,962            | \$(331 )  |
| Nine months ended September 30,<br>2015  |                    |                              |                                |  |                                   |           |       |                              |                    |   |
| Fixed maturities                         |                    |                              |                                |  |                                   |           |       |                              |                    |   |
| Corporate debt                           | \$15,837           | \$—                          | \$—                            | \$(2 )                                 | \$724                             | \$54,445  | \$—   | \$(9,280 )                   | \$61,724           | \$—   |
| CMBS                                     | 17,763             | 5,072                        | (9,902 )                       | —                                      | (543 )                            | —         | —     | (1,072 )                     | 11,318             | —   |
| ABS                                      | 40,031             | —                            | (39,851 )                      | —                                      | 105                               | —         | —     | (178 )                       | 107                | —   |
|  | 73,631             | 5,072                        | (49,753 )                      | (2 )                                   | 286                               | 54,445    | —     | (10,530 )                    | 73,149             | —   |
| Other<br>investments                     |                    |                              |                                |  |                                   |           |       |                              |                    |   |
| Hedge funds                              | 470,918            | —                            | —                              | 6,688                                  | —                                 | 32,000    | —     | (30,476 )                    | 479,130            | 6,688   |

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|                             |           |         |            |            |       |           |               |           |          |  |
|-----------------------------|-----------|---------|------------|------------|-------|-----------|---------------|-----------|----------|--|
| Direct lending funds        | 54,438    | —       | —          | 3,844      | —     | 24,091    | — (3,090 )    | 79,283    | 3,844    |  |
| Real estate funds           | —         | —       | —          | (1,131 )   | —     | 5,500     | — —           | 4,369     | (1,131 ) |  |
| CLO - Equities              | 92,488    | —       | —          | 7,259      | —     | —         | — (19,049 )   | 80,698    | 7,259    |  |
|                             | 617,844   | —       | —          | 16,660     | —     | 61,591    | — (52,615 )   | 643,480   | 16,660   |  |
| Other assets                |           |         |            |            |       |           |               |           |          |  |
| Derivative instruments      | 111       | —       | —          | (792 )     | —     | —         | — 716         | 35        | 35       |  |
| Insurance-linked securities | —         | —       | —          | 12         | —     | 25,000    | — —           | 25,012    | 12       |  |
|                             | 111       | —       | —          | (780 )     | —     | 25,000    | — 716         | 25,047    | 47       |  |
| Total assets                | \$691,586 | \$5,072 | \$(49,753) | \$15,878   | \$286 | \$141,036 | \$—\$(62,429) | \$741,676 | \$16,707 |  |
| Other liabilities           |           |         |            |            |       |           |               |           |          |  |
| Derivative instruments      | \$15,288  | \$—     | \$—        | \$(12,053) | \$—   | \$8,698   | \$—\$(4,971 ) | \$6,962   | \$(318 ) |  |
| Total liabilities           | \$15,288  | \$—     | \$—        | \$(12,053) | \$—   | \$8,698   | \$—\$(4,971 ) | \$6,962   | \$(318 ) |  |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 5. FAIR VALUE MEASUREMENTS (CONTINUED)

|  | Opening<br>Balance | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 | Included in<br>earnings <sup>(1)</sup> | Included<br>in OCI <sup>(2)</sup> | Purchases | Sales | Settlements/<br>Distributions | Closing<br>Balance | Change in<br>unrealized<br>investment<br>gain/(loss) <sup>(3)</sup> |
|--|--------------------|------------------------------|--------------------------------|--|-----------------------------------|-----------|-------|-------------------------------|--------------------|---|
| Three months ended September 30,<br>2014 |                    |                              |                                |  |                                   |           |       |                               |                    |   |
| Fixed maturities                         |                    |                              |                                |  |                                   |           |       |                               |                    |   |
| Corporate debt                           | \$—                | \$—                          | \$—                            | \$—                                    | \$—                               | \$—       | \$—   | \$—                           | \$—                | \$—   |
| CMBS                                     | 3,933              | 10,795                       | —                              | —                                      | (31 )                             | —         | —     | (77 )                         | 14,620             | —   |
| ABS                                      | 30,883             | 42,039                       | —                              | —                                      | 882                               | —         | —     | (13,269 )                     | 60,535             | —   |
|  | 34,816             | 52,834                       | —                              | —                                      | 851                               | —         | —     | (13,346 )                     | 75,155             | —   |
| Other investments                        |                    |                              |                                |  |                                   |           |       |                               |                    |   |
| Hedge funds                              | 476,808            | —                            | (32,255 )                      | (4,205 )                               | —                                 | 6,000     | —     | (1,857 )                      | 444,491            | (4,344 )  |
| Direct lending funds                     | 33,467             | —                            | —                              | 627                                    | —                                 | 10,086    | —     | (344 )                        | 43,836             | 627   |
| Real estate funds                        | —                  | —                            | —                              | —                                      | —                                 | —         | —     | —                             | —                  | —   |
| CLO - Equities                           | 91,106             | —                            | —                              | 5,729                                  | —                                 | 6,674     | —     | (6,376 )                      | 97,133             | 5,729   |
|  | 601,381            | —                            | (32,255 )                      | 2,151                                  | —                                 | 22,760    | —     | (8,577 )                      | 585,460            | 2,012   |
| Other assets                             |                    |                              |                                |  |                                   |           |       |                               |                    |   |
| Derivative instruments                   | —                  | —                            | —                              | 228                                    | —                                 | —         | —     | —                             | 228                | 228   |
| Insurance-linked securities              | —                  | —                            | —                              | —                                      | —                                 | —         | —     | —                             | —                  | —   |
|  | —                  | —                            | —                              | 228                                    | —                                 | —         | —     | —                             | 228                | 228   |
| Total assets                             | \$636,197          | \$52,834                     | \$(32,255)                     | \$2,379                                | \$851                             | \$22,760  | \$—   | \$(21,923)                    | \$660,843          | \$2,240   |
| Other liabilities                        |                    |                              |                                |  |                                   |           |       |                               |                    |   |
| Derivative instruments                   | \$750              | \$—                          | \$—                            | \$(272 )                               | \$—                               | \$7,587   | \$—   | \$(419 )                      | \$7,646            | \$59  |
| Total liabilities                        | \$750              | \$—                          | \$—                            | \$(272 )                               | \$—                               | \$7,587   | \$—   | \$(419 )                      | \$7,646            | \$59  |
| Nine months ended September 30,<br>2014  |                    |                              |                                |  |                                   |           |       |                               |                    |   |
| Fixed maturities                         |                    |                              |                                |  |                                   |           |       |                               |                    |   |
| Corporate debt                           | \$—                | \$—                          | \$—                            | \$—                                    | \$—                               | \$—       | \$—   | \$—                           | \$—                | \$—   |
| CMBS                                     | 4,018              | 10,795                       | —                              | —                                      | (74 )                             | —         | —     | (119 )                        | 14,620             | —   |
| ABS                                      | 30,799             | 42,167                       | —                              | —                                      | 1,060                             | —         | —     | (13,491 )                     | 60,535             | —   |
|  | 34,817             | 52,962                       | —                              | —                                      | 986                               | —         | —     | (13,610 )                     | 75,155             | —   |
| Other investments                        |                    |                              |                                |  |                                   |           |       |                               |                    |   |
| Hedge funds                              | 461,055            | —                            | (32,255 )                      | 16,718                                 | —                                 | 13,500    | —     | (14,527 )                     | 444,491            | 16,579  |
|  | 22,134             | —                            | —                              | 1,546                                  | —                                 | 20,831    | —     | (675 )                        | 43,836             | 1,546   |

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|                             |           |          |            |          |       |          |               |           |          |   |
|-----------------------------|-----------|----------|------------|----------|-------|----------|---------------|-----------|----------|---|
| Direct lending funds        |           |          |            |          |       |          |               |           |          |   |
| Real estate funds           | —         | —        | —          | —        | —     | —        | —             | —         | —        | — |
| CLO - Equities              | 73,866    | —        | —          | 17,060   | —     | 25,941   | — (19,734 )   | 97,133    | 17,060   |   |
|                             | 557,055   | —        | (32,255 )  | 35,324   | —     | 60,272   | — (34,936 )   | 585,460   | 35,185   |   |
| Other assets                |           |          |            |          |       |          |               |           |          |   |
| Derivative instruments      | 984       | —        | —          | 5,239    | —     | —        | — (5,995 )    | 228       | 228      |   |
| Insurance-linked securities | —         | —        | —          | —        | —     | —        | —             | —         | —        |   |
|                             | 984       | —        | —          | 5,239    | —     | —        | — (5,995 )    | 228       | 228      |   |
| Total assets                | \$592,856 | \$52,962 | \$(32,255) | \$40,563 | \$986 | \$60,272 | \$—\$(54,541) | \$660,843 | \$35,413 |   |
| Other liabilities           |           |          |            |          |       |          |               |           |          |   |
| Derivative instruments      | \$815     | \$—      | \$—        | \$624    | \$—   | \$8,427  | \$—\$(2,220 ) | \$7,646   | \$59     |   |
| Total liabilities           | \$815     | \$—      | \$—        | \$624    | \$—   | \$8,427  | \$—\$(2,220 ) | \$7,646   | \$59     |   |

Gains and losses included in earnings on fixed maturities are included in net realized investment gains (losses).

(1) Gains and (losses) included in earnings on other investments are included in net investment income. Gains (losses) on weather derivatives included in earnings are included in other insurance-related income.

(2) Gains and losses included in other comprehensive income (“OCI”) on fixed maturities are included in unrealized gains (losses) arising during the period.

(3) Change in unrealized investment gain (loss) relating to assets held at the reporting date.

The transfers into and out of fair value hierarchy levels reflect the fair value of the securities at the end of the reporting period.

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5. FAIR VALUE MEASUREMENTS (CONTINUED)

Transfers into Level 3 from Level 2

There were no transfers to Level 3 from Level 2 made during the three months ended September 30, 2015. The transfers to Level 3 from Level 2 made during the three and nine months ended September 30, 2014 and during the nine months ended September 30, 2015 were primarily due to the lack of observable market inputs and multiple quotes from pricing vendors and broker-dealers for certain fixed maturities.

Transfers out of Level 3 into Level 2

The transfers to Level 2 from Level 3 made during the three and nine months ended September 30, 2015 were primarily due to the availability of observable market inputs and quotes from pricing vendors on certain fixed maturities. The transfers to Level 2 from Level 3 made during the three and nine months ended September 30, 2014 related to certain hedge funds where we have the ability to liquidate holdings at the reported NAV in the near term due to the expiry of lockup provisions.

Financial Instruments Not Carried at Fair Value

U.S. GAAP guidance over disclosures about the fair value of financial instruments are also applicable to financial instruments not carried at fair value, except for certain financial instruments, including insurance contracts.

The carrying values of cash equivalents (including restricted amounts), accrued investment income, receivable for investments sold, certain other assets, payable for investments purchased and certain other liabilities approximated their fair values at September 30, 2015, due to their respective short maturities. As these financial instruments are not actively traded, their respective fair values are classified within Level 2.

The carrying value of mortgage loans held-for-investment approximated their fair value at September 30, 2015, due to the fact that the loans were issued during the year. The estimated fair value of mortgage loans is primarily determined by estimating expected future cash flows and discounting them using current interest rates for similar mortgage loans with similar credit risk, or is determined from pricing for similar loans. Mortgage loans are not actively traded, their respective fair values are classified within Level 3.

At September 30, 2015, our senior notes are recorded at amortized cost with a carrying value of \$992 million (2014: \$991 million) and have a fair value of \$1,081 million (2014: \$1,089 million). The fair values of these securities were obtained from a third party pricing service and pricing was based on the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As these spreads and the yields for the risk-free yield curve are observable market inputs, the fair values of our senior notes are classified within Level 2.

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## AXIS CAPITAL HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 6. DERIVATIVE INSTRUMENTS

The following table summarizes the balance sheet classification of derivatives recorded at fair values. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated and is presented in the table to quantify the volume of our derivative activities. Notional amounts are not reflective of credit risk.

|   | September 30, 2015         |  |  | December 31, 2014          |  |  |
|---|----------------------------|--|--|----------------------------|--|--|
|   | Derivative Notional Amount | Derivative Asset Fair Value <sup>(1)</sup> | Derivative Liability Fair Value <sup>(1)</sup> | Derivative Notional Amount | Derivative Asset Fair Value <sup>(1)</sup> | Derivative Liability Fair Value <sup>(1)</sup> |
| Derivatives not designated as hedging instruments |                            |  |  |                            |  |  |
| Relating to investment portfolio:                 |                            |  |  |                            |  |  |
| Foreign exchange forward contracts                | \$218,921                  | \$1,422                                    | \$22   | \$161,678                  | \$3,925                                    | \$12   |
| Interest rate swaps                               | —                          | —  | —  | 140,000                    | —  | 248  |
| Relating to underwriting portfolio:               |                            |  |  |                            |  |  |
| Foreign exchange forward contracts                | 712,136                    | —  | 9,323  | 577,836                    | 3,228                                      | 2,781  |
| Weather-related contracts                         | 53,206                     | 35   | 6,962  | 58,124                     | 111  | 15,288   |
| Commodity contracts                               | 77,875                     | 1,151                                      | —  | —                          | —  | —  |
| Total derivatives                                 |                            | \$2,608                                    | \$16,307                                       |                            | \$7,264                                    | \$18,329                                       |

(1) Asset and liability derivatives are classified within other assets and other liabilities in the Consolidated Balance Sheets.

## Offsetting Assets and Liabilities

Our derivative instruments are generally traded under International Swaps and Derivatives Association master netting agreements, which establish terms that apply to all transactions. In the event of a bankruptcy or other stipulated event, master netting agreements provide that individual positions be replaced with a new amount, usually referred to as the termination amount, determined by taking into account market prices and converting into a single currency.

Effectively, this contractual close-out netting reduces credit exposure from gross to net exposure. The table below presents a reconciliation of our gross derivative assets and liabilities to the net amounts presented in our Consolidated Balance Sheets, with the difference being attributable to the impact of master netting agreements.

|                        | September 30, 2015 |                      |                            | December 31, 2014 |                      |                            |
|------------------------|--------------------|----------------------|----------------------------|-------------------|----------------------|----------------------------|
|                        | Gross Amounts      | Gross Amounts Offset | Net Amounts <sup>(1)</sup> | Gross Amounts     | Gross Amounts Offset | Net Amounts <sup>(1)</sup> |
| Derivative assets      | \$8,943            | \$(6,335)            | \$2,608                    | \$15,125          | \$(7,861)            | \$7,264                    |
| Derivative liabilities | \$22,642           | \$(6,335)            | \$16,307                   | \$26,190          | \$(7,861)            | \$18,329                   |

(1) Net asset and liability derivatives are classified within other assets and other liabilities in the Consolidated Balance Sheets.

Refer to Note 4 - Investments for information on reverse repurchase agreements.

Derivative Instruments not Designated as Hedging Instruments

a) Relating to Investment Portfolio

Foreign Currency Risk

Within our investment portfolio we are exposed to foreign currency risk. Accordingly, the fair values for our investment portfolio are partially influenced by the change in foreign exchange rates. We may enter into foreign exchange forward contracts to manage the effect of this foreign currency risk. These foreign currency hedging activities are not designated as specific hedges for financial reporting purposes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 6. DERIVATIVE INSTRUMENTS (CONTINUED)

## Interest Rate Risk

Our investment portfolio contains a large percentage of fixed maturities which exposes us to significant interest rate risk. As part of our overall management of this risk, we may use interest rate swaps.

## b) Relating to Underwriting Portfolio

## Foreign Currency Risk

Our (re)insurance subsidiaries and branches operate in various foreign countries. Consequently, some of our business is written in currencies other than the U.S. dollar and, therefore, our underwriting portfolio is exposed to significant foreign currency risk. We manage foreign currency risk by seeking to match our foreign-denominated net liabilities under (re)insurance contracts with cash and investments that are denominated in such currencies. We may also use derivative instruments, specifically forward contracts and currency options, to economically hedge foreign currency exposures.

The increase in the notional amount of underwriting related derivatives since December 31, 2014, was primarily due to new business written in the first half of 2015.

## Weather Risk

During 2013, we began to write derivative-based risk management products designed to address weather risks with the objective of generating profits on a portfolio basis. The majority of this business consists of receiving a payment at contract inception in exchange for bearing the risk of variations in a quantifiable weather-related phenomenon, such as temperature. Where a client wishes to minimize the upfront payment, these transactions may be structured as swaps or collars. In general, our portfolio of such derivative contracts is of short duration, with contracts being predominantly seasonal in nature. In order to economically hedge a portion of this portfolio, we may also purchase weather derivatives.

## Commodity Risk

Within our (re)insurance portfolio we are exposed to commodity price risk. We may hedge a portion of this price risk by entering into commodity derivative contracts.

The total unrealized and realized gains (losses) recognized in earnings for derivatives not designated as hedges were as follows:

| Location of Gain (Loss) Recognized<br>in Income on Derivative                          | Three months ended    |                       | Nine months ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | September 30,<br>2014 |
| Derivatives not designated as hedging instruments<br>Relating to investment portfolio: |                       |                       |                       |                       |
| Foreign exchange forward contracts   | \$6,412               | \$7,034               | \$11,234              | \$3,350               |

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|                                     |   |          |            |           |           |
|-------------------------------------|---|----------|------------|-----------|-----------|
|                                     | Net realized investment gains<br>(losses) |          |            |           |           |
| Interest rate swaps                 | Net realized investment gains<br>(losses) | —        | (4,034 )   | (4,006 )  | (12,994 ) |
| Relating to underwriting portfolio: |   |          |            |           |           |
| Foreign exchange forward contracts  | Foreign exchange losses (gains)           | (5,210 ) | (21,915 )  | (21,494 ) | (8,784 )  |
| Weather-related contracts           | Other insurance related income            | 307      | 668        | 11,274    | 4,730     |
| Commodity contracts                 | Other insurance related income            | (33 )    | 7,530      | (923 )    | 9,243     |
| Total                               |   | \$1,476  | \$(10,717) | \$(3,915) | \$(4,455) |

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## 7. RESERVE FOR LOSSES AND LOSS EXPENSES

The following table presents a reconciliation of our beginning and ending gross reserve for losses and loss expenses and net reserve for unpaid losses and loss expenses for the periods indicated:

| Nine months ended September 30,                                      | 2015         | 2014         |
|--|--------------|--------------|
| Gross reserve for losses and loss expenses, beginning of period      | \$9,596,797  | \$9,582,140  |
| Less reinsurance recoverable on unpaid losses, beginning of period   | (1,890,280 ) | (1,900,112 ) |
| Net reserve for unpaid losses and loss expenses, beginning of period | 7,706,517    | 7,682,028    |
| Net incurred losses and loss expenses related to:                    |              |              |
| Current year   | 1,818,672    | 1,855,482    |
| Prior years  | (165,804 )   | (193,385 )   |
|  | 1,652,868    | 1,662,097    |
| Net paid losses and loss expenses related to:                        |              |              |
| Current year   | (185,953 )   | (202,364 )   |
| Prior years  | (1,293,776 ) | (1,165,215 ) |
|  | (1,479,729 ) | (1,367,579 ) |
| Foreign exchange and other   | (183,360 )   | (139,313 )   |
| Net reserve for unpaid losses and loss expenses, end of period       | 7,696,296    | 7,837,233    |
| Reinsurance recoverable on unpaid losses, end of period              | 2,007,287    | 1,914,670    |
| Gross reserve for losses and loss expenses, end of period            | \$9,703,583  | \$9,751,903  |

Prior year reserve development arises from changes to loss and loss expense estimates recognized in the current year but relating to losses incurred in previous calendar years. Such development is summarized by segment in the following table:

|             | Three months ended September 30, |          | Nine months ended September 30, |           |
|-------------|----------------------------------|----------|---------------------------------|-----------|
|             | 2015                             | 2014     | 2015                            | 2014      |
| Insurance   | \$2,444                          | \$9,488  | \$21,225                        | \$54,059  |
| Reinsurance | 42,681                           | 55,050   | 144,579                         | 139,326   |
| Total       | \$45,125                         | \$64,538 | \$165,804                       | \$193,385 |

The majority of the net favorable prior year reserve development in each period related to short-tail lines of business. Net favorable prior year reserve development in liability, motor, credit and surety and professional reinsurance lines in the three and nine months ended September 30, 2015 also contributed. The net favorable prior year reserve development was partially offset by net adverse prior year reserve development in the professional and liability insurance lines in the three and nine months ended September 30, 2015, and the credit and political risk line which impacted the nine months ended September 30, 2015.

For the three and nine months ended September 30, 2014, net favorable prior year reserve development was also reported in the professional, motor and liability reinsurance lines. The net favorable prior year development in the three and nine months ended September 30, 2014, was partially offset by net adverse prior year reserve development in the liability insurance line.

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AXIS CAPITAL HOLDINGS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. RESERVE FOR LOSSES AND LOSS EXPENSES (CONTINUED)

The underlying exposures in the property, marine and aviation reserving classes within our insurance segment and the property reserving class within our reinsurance segment largely relate to short-tail business. Development from these classes contributed \$38 million and \$61 million of the total net favorable prior year reserve development for the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, these short-tail lines contributed \$112 million and \$162 million, respectively, of the net favorable prior year reserve development. The net favorable development for these classes primarily reflected the recognition of better than expected loss emergence.

Our medium-tail business consists primarily of professional insurance and reinsurance lines, credit and political risk insurance lines and credit and surety reinsurance business. In the three and nine months ended September 30, 2015, the reinsurance professional lines contributed \$1 million and \$25 million of net favorable development, respectively, and in the three and nine months ended September 30, 2014, these lines contributed \$10 million and \$22 million, respectively. This prior year reserve development was driven by increased weight being given to experience based actuarial methods in selecting our ultimate loss estimates for accident years 2010 and prior. As our loss experience has generally been better than expected, this resulted in the recognition of net favorable development. In the three and nine months ended September 30, 2015, the insurance professional lines recorded adverse prior year reserve development of \$15 million and \$16 million, respectively. This adverse development was primarily the result of strengthening in our Australian book of business during the third quarter of 2015.

In the three and nine months ended September 30, 2015, the credit and surety lines recorded net favorable prior year reserve development of \$7 million and \$19 million, respectively. This net favorable development reflected the recognition of better than expected loss emergence. In the nine months ended September 30, 2015, we recorded net adverse prior year reserve development of \$15 million in our credit and political risk insurance lines relating primarily to an increase in loss estimates for one specific claim.

Our long-tail business consists primarily of liability and motor lines. Our liability reinsurance lines and motor business contributed additional net favorable prior year reserve development of \$20 million and \$8 million in the three months ended September 30, 2015, and 2014, respectively. In the nine months ended September 30, 2015 and 2014, these long-tail lines contributed \$64 million and \$19 million, respectively. The net favorable development for these classes primarily reflected the greater weight management is giving to experience based indications and our experience which has generally been favorable for the 2003 through 2010 accident years. In the three and nine months ended September 30, 2015, we recorded net adverse prior year reserve development of \$6 million and \$23 million, respectively, in our liability insurance lines, while in the three and nine months ended September 30, 2014, we recorded net adverse prior year reserve development of \$14 million in both periods. The net adverse development in the insurance liability lines related primarily to an increase in loss estimates for specific individual claim reserves as well as a higher frequency of large auto liability claims.

The frequency and severity of catastrophe and weather-related activity was high in recent years and our September 30, 2015 net reserve for losses and loss expenses continues to include estimated amounts for numerous events. We caution that the magnitude and/or complexity of losses arising from certain of these events, in particular Storm Sandy, the Japanese earthquake and tsunami, the three New Zealand earthquakes and the Tianjin port explosion, inherently increases the level of uncertainty and, therefore, the level of management judgment involved in arriving at our estimated net reserves for losses and loss expenses. As a result, our actual losses for these events may ultimately differ

materially from our current estimates.

#### 8. SHARE-BASED COMPENSATION

For the three months ended September 30, 2015, we incurred share-based compensation costs of \$11 million (2014: \$18 million) and recorded associated tax benefits of \$3 million (2014: \$4 million). For the nine months ended September 30, 2015, we incurred share-based compensation costs of \$41 million (2014: \$54 million) and recorded associated tax benefits of \$11 million (2014: \$10 million).

The fair value of shares vested during the nine months ended September 30, 2015 was \$73 million (2014: \$66 million). At September 30, 2015 there were \$107 million of unrecognized share-based compensation costs, which are expected to be recognized over the weighted average period of 2.3 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 8. SHARE-BASED COMPENSATION (CONTINUED)

## Awards to settle in shares

The following table provides a reconciliation of the beginning and ending balance of nonvested restricted stock (including restricted stock units) for the nine months ended September 30, 2015:

|  | Performance-based Stock Awards |  | Service-based Stock Awards |  |
|--|--------------------------------|--|----------------------------|--|
|  | Number of Restricted Stock     | Weighted Average Grant Date Fair Value | Number of Restricted Stock | Weighted Average Grant Date Fair Value |
| Nonvested restricted stock - beginning of period | 347                            | \$ 37.34                               | 2,768                      | \$ 38.70                               |
| Granted  | 104                            | 53.32                                  | 556                        | 51.69                                  |
| Vested   | —                              | —                                      | (1,131 )                   | 36.35                                  |
| Forfeited  | (250 )                         | 34.42                                  | (249 )                     | 43.07                                  |
| Nonvested restricted stock - end of period       | 201                            | \$ 49.24                               | 1,944                      | \$ 43.21                               |

## Cash-settled awards

During 2015 we also granted 486,508 restricted stock units that will settle in cash rather than shares when the awards ultimately vest; of which 18,659 restricted stock units are performance based and 467,849 restricted stock units are service based. At September 30, 2015, the corresponding liability for cash-settled units, included in other liabilities on the Consolidated Balance Sheets, was \$23 million (2014: \$14 million).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 9. EARNINGS PER COMMON SHARE

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

|   | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |           |
|---|-------------------------------------|-----------|------------------------------------|-----------|
|   | 2015                                | 2014      | 2015                               | 2014      |
| Basic earnings per common share                                     |                                     |           |                                    |           |
| Net income  | \$257,642                           | \$282,966 | \$496,838                          | \$633,693 |
| Less: Amounts attributable from noncontrolling interests            | —                                   | (6,160 )  | —                                  | (3,365 )  |
| Less: preferred share dividends                                     | 10,022                              | 10,022    | 30,066                             | 30,066    |
| Net income available to common shareholders                         | 247,620                             | 279,104   | 466,772                            | 606,992   |
| Weighted average common shares outstanding - basic <sup>(1)</sup>   | 98,226                              | 102,945   | 99,464                             | 105,683   |
| Basic earnings per common share                                     | \$2.52                              | \$2.71    | \$4.69                             | \$5.74    |
| Diluted earnings per common share                                   |                                     |           |                                    |           |
| Net income available to common shareholders                         | \$247,620                           | \$279,104 | \$466,772                          | \$606,992 |
| Weighted average common shares outstanding - basic <sup>(1)</sup>   | 98,226                              | 102,945   | 99,464                             | 105,683   |
| Stock compensation plans  | 898                                 | 1,302     | 1,004                              | 1,270     |
| Weighted average common shares outstanding - diluted <sup>(1)</sup> | 99,124                              | 104,247   | 100,468                            | 106,953   |
| Diluted earnings per common share                                   | \$2.50                              | \$2.68    | \$4.65                             | \$5.68    |
| Anti-dilutive shares excluded from the dilutive computation —       |                                     | 3         | 219                                | 376       |

On August 17, 2015, the Company entered into an Accelerated Share Repurchase (“ASR”) agreement (see 'Note 10 - Shareholders' Equity' for additional detail). The weighted-average number of shares outstanding used in the computation of basic and diluted earnings per share reflects the Company’s initial receipt of 4,149,378 shares pursuant to the ASR program for the three and nine months ended September 30, 2015. The weighted-average number of shares outstanding used in the computation of basic and diluted earnings per share does not include additional shares, if any, the Company may receive upon final settlement of the ASR program.

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## AXIS CAPITAL HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 10. SHAREHOLDERS' EQUITY

The following table presents our common shares issued and outstanding:

|   | Three months ended September<br>30,<br>2015 |   | 2014    |   | Nine months ended September<br>30,<br>2015 |   | 2014    |   |
|---|---|---|---------|---|--|---|---------|---|
| Shares issued, balance at beginning of period   | 176,206                                     |   | 175,315 |   | 175,478                                    |   | 174,134 |   |
| Shares issued                                   | 16  |   | 84      |   | 744  |   | 1,265   |   |
| Total shares issued at end of period            | 176,222                                     |   | 175,399 |   | 176,222                                    |   | 175,399 |   |
| Treasury shares, balance at beginning of period | (75,922                                     | ) | (71,409 | ) | (76,052                                    | ) | (64,649 | ) |
| Shares repurchased                              | (4,257                                      | ) | (3,169  | ) | (4,607                                     | ) | (10,263 | ) |
| Shares reissued from treasury                   | 6   |   | 6       |   | 486  |   | 340     |   |
| Total treasury shares at end of period          | (80,173                                     | ) | (74,572 | ) | (80,173                                    | ) | (74,572 | ) |
| Total shares outstanding                        | 96,049                                      |   | 100,827 |   | 96,049                                     |   | 100,827 |   |

## Treasury Shares

The following table presents our share repurchases:

|  | Three months ended September<br>30,<br>2015 |  | 2014      |  | Nine months ended September<br>30,<br>2015 |  | 2014      |  |
|--|---|--|-----------|--|--|--|-----------|--|
| In the open market:                    |   |  |           |  |  |  |           |  |
| Total shares <sup>(1)</sup>            | 4,248                                       |  | 3,159     |  | 4,264                                      |  | 9,838     |  |
| Total cost                             | \$245,658                                   |  | \$150,000 |  | \$246,490                                  |  | \$450,000 |  |
| Average price per share <sup>(2)</sup> | \$57.83                                     |  | \$47.49   |  | \$57.80                                    |  | \$45.74   |  |
| From employees:                        |   |  |           |  |  |  |           |  |
| Total shares                           | 9   |  | 10        |  | 343  |  | 425       |  |
| Total cost                             | \$489                                       |  | \$449     |  | \$17,586                                   |  | \$18,532  |  |
| Average price per share <sup>(2)</sup> | \$55.59                                     |  | \$45.39   |  | \$51.28                                    |  | \$43.65   |  |
| Total shares repurchased:              |   |  |           |  |  |  |           |  |
| Total shares                           | 4,257                                       |  | 3,169     |  | 4,607                                      |  | 10,263    |  |
| Total cost                             | \$246,147                                   |  | \$150,449 |  | \$264,076                                  |  | \$468,532 |  |
| Average price per share <sup>(2)</sup> | \$57.83                                     |  | \$47.48   |  | \$57.32                                    |  | \$45.65   |  |

(1) Includes 4,149,378 shares initially acquired under the accelerated share repurchase program (see below for more detail).

(2) Calculated using whole figures.



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AXIS CAPITAL HOLDINGS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

10. SHAREHOLDERS' EQUITY (CONTINUED)

Accelerated Share Repurchase Program

On August 17, 2015, the Company entered into an Accelerated Share Repurchase ("ASR") agreement with Goldman, Sachs & Co. ("Goldman Sachs") to repurchase an aggregate of \$300 million of the Company's ordinary shares under an accelerated share repurchase program.

During August, 2015, under the terms of this agreement, the Company paid \$300 million to Goldman Sachs and initially repurchased 4,149,378 ordinary shares. The initial shares acquired represented 80% of the \$300 million total paid to Goldman Sachs and were calculated using the Company's stock price at activation of the program. The ASR program is accounted for as an equity transaction. Accordingly, \$240 million of shares repurchased are included as treasury shares in the Consolidated Balance Sheet with the remaining \$60 million included as a reduction to additional paid-in capital until the completion of the ASR agreement.

The scheduled termination date of the ASR agreement is February 18, 2016 but Goldman Sachs may accelerate the termination at any time on, or after, November 18, 2015. The final number of shares to be delivered will be based on the Company's volume-weighted average price ("VWAP") for the period from August 18, 2015 to the termination date, less a discount.

Had the ASR agreement settled on September 30, 2015, Goldman Sachs would have been required to deliver to the Company an additional 1,372,048 shares of the Company's common stock. Under the terms of the ASR agreement, if the Company's VWAP over the full reference period is 10% higher than the VWAP calculated at September 30, 2015, Goldman Sachs will be required to deliver 865,066 ordinary shares; if the Company's VWAP decreases by 10%, Goldman Sachs will be required to deliver 1,993,077 ordinary shares.

11. NONCONTROLLING INTERESTS

During November 2013, the Company formed AXIS Ventures Reinsurance Limited ("Ventures Re"), a Bermuda domiciled insurer. Ventures Re was formed to write reinsurance on a fully collateralized basis. Ventures Re is considered to be a variable interest entity.

Prior to the adoption of ASU 2015-02, the Company had concluded that it was the primary beneficiary of Ventures Re and following this determination, Ventures Re was consolidated by the Company. Shareholders' equity attributable to Ventures Re's third party investors was recorded in the Consolidated Financial Statements as noncontrolling interests.

During the second quarter of 2015, the Company early adopted ASU 2015-02, "Amendments to the Consolidation Analysis" issued by the FASB. Following the adoption of the new ASU, the Company determined that it no longer had a variable interest in Ventures Re and therefore it was no longer required to consolidate the results of operations and the financial position of Ventures Re. The Company adopted this revised accounting guidance using the modified retrospective approach and ceased to consolidate Ventures Re effective as of January 1, 2015. There was no impact from the adoption of ASU 2015-02 on the Company's cumulative retained earnings.

At December 31, 2014, total assets of Ventures Re were \$97 million, consisting primarily of cash and cash equivalents and insurance receivables. Total liabilities were \$38 million consisting primarily of loss reserves and unearned premium. The assets of Ventures Re can only be used to settle its own liabilities, and there is no recourse to the

Company for any liabilities incurred by this entity.

The reconciliation of the beginning and ending balances of the noncontrolling interests in Ventures Re for the periods indicated below was as follows:

| Nine months ended September 30,   | 2015      | 2014      |
|---|-----------|-----------|
| Balance at beginning of period  | \$58,819  | \$50,000  |
| Increase from issuance of preferred equity to noncontrolling interests                  | —         | 25,000    |
| Decrease from return of capital to noncontrolling interests                             | —         | (10,000 ) |
| Amounts attributable from noncontrolling interests                                      | —         | (3,365 )  |
| Adjustment due to the adoption of revised accounting guidance effective January 1, 2015 | (58,819 ) | —         |
| Balance at end of period  | \$—       | \$61,635  |

AXIS CAPITAL HOLDINGS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

12. DEBT AND FINANCING ARRANGEMENTS

On March 31, 2015, the Company entered into an amendment to reduce the maximum aggregate utilization capacity of our secured letter of credit facility with Citibank Europe plc (the "LOC Facility") from \$750 million to \$500 million. All other material terms and conditions remained unchanged.

At September 30, 2015, letters of credit outstanding under the LOC Facility totaled \$345 million.

13. COMMITMENTS AND CONTINGENCIES

Reinsurance Agreements

We purchase reinsurance coverage for various lines of our business. The minimum reinsurance premiums are contractually due in advance on a quarterly basis. Accordingly at September 30, 2015, we have outstanding reinsurance purchase commitments of \$33 million, of which \$3 million is due in 2015 while the remaining \$30 million is due in 2016. Actual payments under the reinsurance contracts will depend on the underlying subject premium and may exceed the minimum premium.

Amalgamation Agreement with PartnerRe Ltd.

On January 25, 2015, the Company entered into an Agreement and Plan of Amalgamation (the "Amalgamation Agreement") with PartnerRe Ltd., a Bermuda exempted company ("PartnerRe") pursuant to which the Company would amalgamate with PartnerRe, and the two companies would continue as a single Bermuda exempted company. On August 3, 2015, the Company announced that it has accepted a request from PartnerRe to terminate the Amalgamation Agreement. PartnerRe paid the Company \$315 million to immediately terminate the Amalgamation Agreement, the amount comprising a termination fee of \$280 million and a reimbursement of merger related expenses of \$35 million.

Investments

At September 30, 2015, we have a \$47 million commitment to purchase commercial mortgage loans. In addition we have a \$20 million commitment to purchase securities with one of our fixed income managers.

Refer 'Note 4 - Investments' for information on commitments related to our other investments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 14. OTHER COMPREHENSIVE LOSS

The tax effects allocated to each component of other comprehensive loss were as follows:

|  | 2015              |                       |                   | 2014              |                       |                   |
|--|-------------------|-----------------------|-------------------|-------------------|-----------------------|-------------------|
|  | Before Tax Amount | Tax (Expense) Benefit | Net of Tax Amount | Before Tax Amount | Tax (Expense) Benefit | Net of Tax Amount |
| Three months ended September 30,<br>Available for sale investments:  |                   |                       |                   |                   |                       |                   |
| Unrealized losses arising during the period  | \$(102,810)       | \$ 3,099              | \$(99,711 )       | \$(176,278)       | \$ 9,218              | \$(167,060)       |
| Adjustment for reclassification of net realized investment gains (losses) and OTTI losses recognized in net income | 76,368            | (1,558 )              | 74,810            | (74,306 )         | 1,636                 | (72,670 )         |
| Unrealized losses arising during the period, net of reclassification adjustment                                    | (26,442 )         | 1,541                 | (24,901 )         | (250,584 )        | 10,854                | (239,730 )        |
| Non-credit portion of OTTI losses  | —                 | —                     | —                 | —                 | —                     | —                 |
| Foreign currency translation adjustment  | (14,626 )         | —                     | (14,626 )         | (10,000 )         | —                     | (10,000 )         |
| Total other comprehensive loss, net of tax   | \$(41,068 )       | \$ 1,541              | \$(39,527 )       | \$(260,584)       | \$ 10,854             | \$(249,730)       |
| Nine months ended September 30,<br>Available for sale investments:   |                   |                       |                   |                   |                       |                   |
| Unrealized gains (losses) arising during the period  | \$(183,822)       | \$ 6,884              | \$(176,938)       | \$ 37,858         | \$(12,984)            | \$ 24,874         |
| Adjustment for reclassification of net realized investment gains (losses) and OTTI losses recognized in net income | 130,858           | (2,088 )              | 128,770           | (130,634 )        | 14,421                | (116,213 )        |
| Unrealized losses arising during the period, net of reclassification adjustment                                    | (52,964 )         | 4,796                 | (48,168 )         | (92,776 )         | 1,437                 | (91,339 )         |
| Non-credit portion of OTTI losses  | —                 | —                     | —                 | —                 | —                     | —                 |
| Foreign currency translation adjustment  | (23,851 )         | —                     | (23,851 )         | (3,551 )          | —                     | (3,551 )          |
| Total other comprehensive loss, net of tax   | \$(76,815 )       | \$ 4,796              | \$(72,019 )       | \$(96,327 )       | \$ 1,437              | \$(94,890 )       |

Reclassifications out of AOCI into net income available to common shareholders were as follows:

| Details About AOCI Components                               | Consolidated Statement of Operations Line Item That Includes Reclassification | Amount Reclassified from AOCI <sup>(1)</sup> |           |                                 |            |
|---|---|--|-----------|---------------------------------|------------|
|   |   | Three months ended September 30,             |           | Nine months ended September 30, |            |
|   |   | 2015   | 2014      | 2015                            | 2014       |
| Unrealized gains (losses) on available for sale investments |   |  |           |                                 |            |
|   | Other realized investment gains (losses)                                      | \$(44,067 )                                  | \$ 83,737 | \$(68,096 )                     | \$ 142,755 |
|   | OTTI losses   | (32,301 )                                    | (9,431 )  | (62,762 )                       | (12,121 )  |

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|                              |           |   |          |          |            |         |           |
|------------------------------|-----------|---|----------|----------|------------|---------|-----------|
| Total before tax             | (76,368   | ) | 74,306   | (130,858 | )          | 130,634 |           |
| Income tax (expense) benefit | 1,558     |   | (1,636   | )        | 2,088      | (14,421 | )         |
| Net of tax                   | \$(74,810 | ) | \$72,670 |          | \$(128,770 | )       | \$116,213 |

(1) Amounts in parentheses are debits to net income available to common shareholders.

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AXIS CAPITAL HOLDINGS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

15. REORGANIZATION AND RELATED EXPENSES

During the third quarter of 2015, the Company implemented a number of profitability enhancement initiatives which resulted in a recognition of reorganization and related expenses of \$46 million and additional corporate expenses of \$5 million in the Consolidated Statement of Operations in the three months ended September 30, 2015. The reorganization and related expenses charge included staff severance and related costs, the write-off of certain information technology assets, lease cancellation costs and an impairment of certain customer-based intangibles following the decision to wind down Company's Australian retail insurance operations. Refer Note 3 to the Consolidated Financial Statements "Goodwill and Intangibles" for additional information on the intangible impairment charge.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**


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The following is a discussion and analysis of our financial condition and results of operations. This should be read in conjunction with the consolidated financial statements and related notes included in Item 1 of this report and also our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2014. Tabular dollars are in thousands, except per share amounts. Amounts in tables may not reconcile due to rounding differences.

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THIRD QUARTER 2015 FINANCIAL HIGHLIGHTS

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Third Quarter 2015 Consolidated Results of Operations

- Net income available to common shareholders of \$248 million, or \$2.52 per common share and \$2.50 per diluted common share
- Operating income of \$51 million, or \$0.51 per diluted common share<sup>(1)</sup>
- Gross premiums written of \$937 million
- Net premiums written of \$677 million
- Net premiums earned of \$919 million
- Net favorable prior year reserve development of \$45 million
- Estimated catastrophe and weather-related pre-tax net losses of \$43 million, primarily related to the Tianjin port explosion loss of \$30 million and U.S Weather events, compared to \$22 million in catastrophe and weather-related losses incurred during the third quarter of 2014;
- Underwriting income of \$56 million and combined ratio of 96.6%
- Net investment income of \$46 million
- Net realized investment losses of \$70 million
- Foreign exchange gains of \$28 million
- Total fee of \$315 million received following the cancellation of the amalgamation agreement with PartnerRe Ltd. ("PartnerRe"), including \$35 million received as reimbursement for merger related expenses
- Pre-tax charges of \$51 million relating to profitability enhancement initiatives including reorganization and related expenses of \$46 million and incremental corporate expenses of \$5 million

Third Quarter 2015 Consolidated Financial Condition

- Total cash and investments of \$14.9 billion; fixed maturities, cash and short-term securities comprise 89% of total cash and investments and have an average credit rating of AA-
  - Total assets of \$20.6 billion
    - Reserve for losses and loss expenses of \$9.7 billion and reinsurance recoverable of \$2.0 billion
  - Total debt of \$1.0 billion and the debt to total capital ratio of 14.5%
- Following the termination of the definitive amalgamation agreement with PartnerRe on August 3, 2015, the Company reinstated its share repurchase program. The share repurchase program allows the Company to effect repurchases in open market or privately negotiated transactions. As part of this program, the Company entered into an accelerated share repurchase agreement to repurchase an aggregate of \$300 million of the Company's ordinary shares. Refer to Item 1, Note 10 to the Consolidated Financial Statements for additional information. At October 29, 2015 the remaining authorization under the repurchase program approved by our Board of Directors was \$444 million
- Common shareholders' equity of \$5.2 billion and diluted book value per common share of \$53.68

(1) Operating income is a non-GAAP financial measure as defined in SEC Regulation G. Refer 'Non-GAAP Financial Measures' for reconciliation to nearest GAAP financial measure (net income available to common shareholders).



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EXECUTIVE SUMMARY

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Business Overview

We are a Bermuda-based global provider of specialty lines insurance and treaty reinsurance products with operations in Bermuda, the United States, Europe, Singapore, Canada, Australia and Latin America. Our underwriting operations are organized around our two global underwriting platforms, AXIS Insurance and AXIS Re.

Our mission is to provide our clients and distribution partners with a broad range of risk transfer products and services and meaningful capacity, backed by significant financial strength. We manage our portfolio holistically, aiming to construct the optimum consolidated portfolio of funded and unfunded risks, consistent with our risk appetite and development of our franchise. We nurture an ethical, entrepreneurial and disciplined culture that promotes outstanding client service, intelligent risk taking and the achievement of superior risk-adjusted returns for our shareholders. We believe that the achievement of our objectives will position us as a leading global, diversified specialty insurance and reinsurance company, as measured by quality, sustainability and profitability. Our execution on this strategy in the first nine months of 2015 included:

- continued rebalancing of our portfolio towards less-volatile lines of business that carry attractive rates;

- development and implementation of specific initiatives designed to support profitable growth and enhance shareholder value by better aligning and deploying resources to focus on attractive opportunities, while delivering both greater efficiencies and increased levels of client and broker support around the world;

- increased use of available reinsurance and retrocessional protection to optimize the risk-adjusted returns on our portfolio;

- continued expansion of our third-party capital capabilities through AXIS Ventures Reinsurance Limited which was launched to manage capital for investors interested in deploying funds directly into the property-catastrophe and other short-tail business;

- growth of our Weather and Commodity Markets business unit which offers parametric risk management solutions to clients whose profit margins are exposed to adverse weather and commodity price risks;

- growth of our syndicate at Lloyd's which provides us with access to Lloyd's worldwide licenses and an extensive distribution network; and

- continued growth of our accident and health line, which launched in 2010 and is focused on specialty accident and health products.

Amalgamation with PartnerRe Ltd.

On January 25, 2015, the Company entered into an Agreement and Plan of Amalgamation (the "Amalgamation Agreement") with PartnerRe Ltd., a Bermuda exempted company ("PartnerRe") pursuant to which the Company would amalgamate with PartnerRe, and the two companies would continue as a single Bermuda exempted company.

On August 3, 2015, the Company announced that it has accepted a request from PartnerRe to terminate the Amalgamation Agreement. PartnerRe paid the Company \$315 million to immediately terminate the Amalgamation Agreement, the amount comprising a termination fee of \$280 million and a reimbursement of merger-related expenses of \$35 million.

#### Purchase of Ternian Insurance Group

On April 1, 2015, the Company announced that it completed the acquisition of Ternian Insurance Group LLC, a leading provider of voluntary, limited benefit, affordable health plans and other employee benefits coverage for hourly and part-time workers and their families.

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## Profitability Enhancement Initiatives

During the third quarter of 2015, the Company implemented a number of profitability enhancement initiatives which resulted in a recognition of reorganization and related expenses of \$46 million and additional corporate expenses of \$5 million in the Consolidated Statement of Operations in the three months ended September 30, 2015.

Refer to Item 1, Note 15 to the Consolidated Financial Statements for additional information.

## Results of Operations

|  | Three months ended September 30, |          |           | Nine months ended September 30, |          |            |
|--|----------------------------------|----------|-----------|---------------------------------|----------|------------|
|  | 2015                             | % Change | 2014      | 2015                            | % Change | 2014       |
| Underwriting income:                               |                                  |          |           |                                 |          |            |
| Insurance  | \$6,888                          | (56%)    | \$15,584  | \$16,153                        | (64%)    | \$45,022   |
| Reinsurance  | 49,357                           | (50%)    | 97,880    | 197,729                         | (35%)    | 303,788    |
| Net investment income                              | 45,685                           | (31%)    | 66,562    | 226,336                         | (14%)    | 264,171    |
| Net realized investment gains (losses)             | (69,957 )                        | nm       | 77,448    | (123,618 )                      | nm       | 121,329    |
| Other revenues (expenses), net                     | (8,464 )                         | nm       | 25,492    | (53,895 )                       | (46%)    | (100,617 ) |
| Termination fee received                           | 280,000                          | nm       | —         | 280,000                         | nm       | —          |
| Reorganization and related fees                    | (45,867 )                        | nm       | —         | (45,867 )                       | nm       | —          |
| Net income   | 257,642                          | (9%)     | 282,966   | 496,838                         | (22%)    | 633,693    |
| Amounts attributable from noncontrolling interests | —                                | nm       | 6,160     | —                               | nm       | 3,365      |
| Preferred share dividends                          | (10,022 )                        | —%       | (10,022 ) | (30,066 )                       | —%       | (30,066 )  |
| Net income available to common shareholders        | \$247,620                        | (11%)    | \$279,104 | \$466,772                       | (23%)    | \$606,992  |
| Operating income                                   | \$51,031                         | (62%)    | \$132,770 | \$280,682                       | (37%)    | \$442,581  |

nm – not meaningful

## Underwriting Results

Total underwriting income in the three months ended September 30, 2015 was \$56 million, a decrease of \$57 million compared to \$113 million in the three months ended September 30, 2014. The decrease in underwriting income was primarily driven by an increase in catastrophe and weather-related losses, a decrease in net favorable prior year development, lower net earned premiums and an increase in the acquisition cost ratio. This was partially offset by the impact of a decrease in the current accident year loss ratio excluding catastrophe and weather-related losses. Catastrophe and weather-related losses increased by \$21 million, while net favorable prior year development decreased \$19 million driven by variances reported in the reinsurance segment. Net earned premium decreases reflected reductions in both segments. The increase in our acquisition cost ratio was driven by the reinsurance segment. The improved current accident year loss ratio excluding catastrophe and weather-related losses was attributable to the insurance and reinsurance segments.

The reinsurance segment underwriting income decreased by \$49 million in the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The decrease in underwriting income was primarily driven by an increase in catastrophe and weather-related losses, lower net favorable prior year development, a reduction in other income, an increase in the acquisition cost ratio and lower net earned premium. Catastrophe and weather-related losses increased by \$21 million, driven by \$20 million of losses attributable to the Tianjin port explosion. Net favorable prior year development decreased by \$12 million. The increase in acquisition costs ratio was related to higher acquisition costs paid in certain lines of business, changes in the business mix and the impact of loss sensitive features.

The insurance segment underwriting income decreased by \$9 million in the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The reduction was primarily due to a \$7 million decrease in net favorable prior year reserve development.

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Total underwriting income in the nine months ended September 30, 2015 was \$214 million, a decrease of \$135 million compared to \$349 million in the nine months ended September 30, 2014. The decrease in underwriting income was primarily driven by the impact of the increase in the current accident year loss ratio, a decrease in net favorable prior year development in the insurance segment, lower net earned premium, higher acquisition costs ratio in the reinsurance segment, and an increase in underwriting related general and administrative expenses.

The reinsurance segment underwriting income decreased by \$106 million in the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The decrease in underwriting income was primarily driven by the impact of the increase in the current accident year loss ratio, primarily attributable to catastrophe and weather related losses, as well as changes in the business mix and the impact of lower rates. An increase in the acquisition cost ratio and a decrease in net premiums earned also contributed to the overall decrease. Partially offsetting these decreases was a \$5 million increase in net favorable prior year reserve development.

The insurance segment underwriting income decreased by \$29 million in the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The reduction was primarily due to a \$33 million decrease in net favorable prior year reserve development and a decrease in net premium earned partially offset by a decrease in catastrophe and weather-related losses.

Net Investment Income

Net investment income was \$46 million in the three months ended September 30, 2015, a decrease of \$21 million from \$67 million in the three months ended September 30, 2014. The decrease was primarily driven by our other investments; these investments generated a loss of \$27 million this quarter, compared to a loss of \$3 million in the third quarter of 2014. Net investment income for the nine months ended September 30, 2015 was \$226 million, a decrease of \$38 million compared to the same period in 2014. The decrease was mainly attributable to lower income from other investments. Income from other investments decreased in both periods as a result of a decrease in income from hedge funds. Income from hedge funds is impacted by the performance of the global equity markets which declined during the three months ended September 30, 2015.

Net Realized Investment Gains (Losses)

During the three and nine months ended September 30, 2015, we realized losses of \$70 million and \$124 million, compared to realized gains of \$77 million and \$121 million for the same periods of 2014, respectively. The losses were mainly attributable to foreign currency losses on non-U.S. denominated securities as a result of the strengthening of the U.S. dollar and by other-than-temporary impairment (“OTTI”) charges. The previous year reflected gains taken as a result of the strong performance of the global equity markets during the second half of 2013 and first half of 2014. OTTI charges were \$32 million and \$63 million for the three and nine months ended September 30, 2015, compared to \$9 million and \$12 million for the same periods in 2014, respectively. The increase in OTTI during 2015 was driven by impairments of high yield corporate debt securities as a result of the widening of credit spreads and by exchange-traded-funds which are unlikely to recover in the near term. In addition, nine months ended September 30, 2015 included impairments on non-U.S. denominated bond mutual funds that we were no longer able to assert that we have the intent to hold until full recovery.

Other Revenues (Expenses), Net

Depreciation of the Sterling and Australian Dollar against the U.S. dollar resulted in foreign exchange gains of \$28 million in the three months ended September 30, 2015, while depreciation of the euro, Sterling and Australian Dollar against the U.S Dollar drove foreign exchange gains of \$69 million for the nine months ended September 30, 2015. In the three and nine months ended September 30, 2014, depreciation of the euro and Sterling against the U.S. Dollar was the primary driver of the foreign exchange gains. Foreign exchange gains in both periods primarily reflected the remeasurement of our foreign-denominated net insurance-related liabilities. Excluding these foreign exchange-related amounts, net other expenses were \$37 million and \$123 million for the three and nine months ended September 30, 2015, respectively, compared to \$47 million and \$159 million for the three and nine months ended September 30, 2014, respectively.

Corporate expenses decreased from \$31 million in the three months ended September 30, 2014, to \$24 million in the three months ended September 30, 2015. The quarterly decrease in corporate expenses was primarily attributable to the PartnerRe merger expense reimbursement of \$35 million and lower operational excellence initiatives costs, partially offset by merger expenses incurred during the quarter of \$27 million and reorganization related corporate expenses of \$5 million. In the nine months ended September 30, 2015,

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corporate expenses decreased to \$84 million from \$93 million in the nine months ended September 30, 2014. The decrease was attributable to the PartnerRe merger expense reimbursement, adjustments to senior leadership executive stock-compensation awards and lower performance-based incentive accruals partially offset by actual PartnerRe merger expenses incurred.

Our effective tax rate, which is calculated as income tax expense (benefit) divided by net income (loss) before tax, was insignificant and 0.2% in the three and nine months ended September 30, 2015 compared to (1.5%) and 1.5% in the same periods of 2014, respectively. The effective tax rate can vary between periods depending on the distribution of net income amongst tax jurisdictions, as well as other factors. The primary factor in the change in effective tax rate in the three and nine months ended September 30, 2015 was the geographical distribution of our net income.

A \$7 million and \$19 million decrease in interest expense and financing costs for the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014, primarily reflected the repayment of the \$500 million 5.75% senior unsecured notes which were due on December 1, 2014.

### Termination Fee Received

On August 3, 2015, AXIS Capital announced that we have accepted a request from PartnerRe to terminate the Amalgamation Agreement with the Company. PartnerRe paid the Company \$315 million to immediately terminate the Amalgamation Agreement, the amount comprising a termination fee of \$280 million and a reimbursement of merger related expenses of \$35 million.

### Reorganization and Related Expenses

During the third quarter of 2015, the Company implemented a number of profitability enhancement initiatives which resulted in a recognition of reorganization and related expenses of \$46 million and additional corporate expenses of \$5 million in the Consolidated Statement of Operations in the three months ended September 30, 2015. The reorganization and related expenses included staff severance and related costs, the write-off of certain information technology assets, lease cancellation costs and an impairment of certain customer-based intangibles following the decision to wind down our Australian retail insurance operations. Refer Item 1, Note 3 to the Consolidated Financial Statements for additional information on the intangible impairment charge.

### Amounts Attributable from Noncontrolling Interests

During the second quarter of 2015, the Company early adopted ASU 2015-02, "Amendments to the Consolidated Analysis" issued by the FASB. Following the adoption of this ASU, effective as of January 1, 2015, the Company no longer consolidates the results of AXIS Ventures Reinsurance Limited, a variable interest entity, in its Consolidated Financial Statements. Refer Item 1, Note 1 and Note 11 to our Consolidated Financial Statements for additional information.

### Outlook

The insurance markets remain very competitive. We have observed price reductions across most lines of business, led by property and certain specialty lines of business, with decreases in international markets generally more severe than those observed in the United States. We expect this trend to continue in the short-term but believe that there are still attractive risks in the market. Casualty lines in the United States continue to be well-priced and we expect new opportunities to arise in these lines of business as the U.S. economy improves. We believe that access to the business

and risk selections are increasingly an important differentiator in the markets, and that AXIS Capital is very well positioned in that regard. Our business production will continue to emphasize targeting those areas that provide the most attractive risk-adjusted returns.

The reinsurance markets continue to reflect challenging market conditions in most classes of business and regions. Competitive pressures affecting the markets have not changed. Excess capacity generated by the new lower-cost capital attracted by the market, strong balance sheets of established market participants reflecting benign recent loss trends, and a consolidation of buying continue to pressure reinsurance pricing across most lines of business. This has been coupled with some pressure on contract terms and conditions. We continue to observe the demand for multi-year commitments, broadly impacting all lines of business. However, generally we believe that the pace of pricing erosion appears to be stabilizing. Property in the United States, which has shown declines, is now leveling off and casualty remains relatively stable. Likewise, requests for increased ceding commissions are being resisted by the reinsurers. In this challenging environment, we are looking to expand in many areas that still provide attractive opportunities, such as agriculture and weather, while remaining focused on managing our exposure to preserve our risk-adjusted returns.

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## Financial Measures

We believe the following financial indicators are important in evaluating our performance and measuring the overall growth in value generated for our common shareholders:

|  | Three months ended and at<br>September 30, |         | Nine months ended and at<br>September 30, |         |   |
|--|--|---------|---|---------|---|
|  | 2015                                       | 2014    | 2015                                      | 2014    |   |
| ROACE (annualized) <sup>(1)</sup>                                      | 18.8                                       | % 21.2  | % 12.0                                    | % 15.6  | % |
| Operating ROACE (annualized) <sup>(2)</sup>                            | 3.9  | % 10.1  | % 7.2                                     | % 11.4  | % |
| DBV per common share <sup>(3)(4)</sup>                                 | \$53.68                                    | \$49.88 | \$53.68                                   | \$49.88 |   |
| Cash dividends declared per common share                               | \$0.29                                     | \$0.27  | \$0.87                                    | \$0.81  |   |
| Increase in diluted book value per common share adjusted for dividends | \$2.16                                     | \$0.46  | \$4.67                                    | \$4.89  |   |

Return on average common equity ("ROACE") is calculated by dividing annualized net income available to common (1)shareholders for the period by the average shareholders' equity determined by using the common shareholders' equity balances at the beginning and end of the period.

Operating ROACE is calculated by dividing annualized operating income for the period by the average common shareholders' equity determined by using the common shareholders' equity balances at the beginning and end of the (2)period. Annualized operating ROACE is a non-GAAP financial measure as defined in SEC Regulation G. Refer 'Non-GAAP Financial Measures' for additional information and reconciliation to the nearest GAAP financial measure (ROACE).

Diluted book value ("DBV") per common share represents total common shareholders' equity divided by the number (3)of common shares and diluted common share equivalents outstanding, determined using the treasury stock method. Cash settled awards are excluded from the denominator.

Calculation of DBV per common share at September 30, 2015 includes 1,372,048 additional shares expected to be delivered to the Company under the Company's Accelerated Share Repurchase ("ASR") agreement. The additional (4)shares expected to be settled under the ASR have been calculated based on the VWAP for the period from August 18, 2015 to September 30, 2015, less a discount. See Item 1, Note 10 to the Consolidated Financial Statements for information relating to the ASR.

## Return on Equity

The decrease in ROACE in the three months ended September 30, 2015, compared to the three months ended September 30, 2014, was primarily driven by the net realized investment losses in the three months ended September 30, 2015, compared to net realized gains for the three months ended September 30, 2014, a decrease in underwriting income, reorganization and related expenses incurred, a decrease in foreign exchange gains and a decrease in net investment income, partially offset by the termination fee received from PartnerRe.

The decrease in ROACE in the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, was primarily driven by the net realized investment losses in the nine months ended September 30, 2015, compared to net realized gains in the nine months ended September 30, 2014, a decrease in underwriting income, reorganization and related expenses, a decrease in net investment income, partially offset by the termination fee received from PartnerRe.

The same factors that impacted the decrease in ROACE in the three and nine months ended September 30, 2015, compared to the three and nine months ended September 30, 2014, drove the comparative decreases in operating ROACE for the same periods, however the decrease was more significant primarily due to the exclusion of the termination fee received from the operating ROACE measure.

## Diluted Book Value per Common Share

Our DBV per common share increase of 8% from \$49.88 at September 30, 2014, to \$53.68 at September 30, 2015, primarily reflected the generation of \$630 million in net income available to common shareholders over the past twelve months. This increase was partially offset by the increase over the last twelve months in unrealized losses on investments which are included in accumulated other comprehensive income, primarily reflecting the negative performance of equity markets, widening of credit spreads in non-government bonds and the impact of the strengthening U.S. dollar, foreign exchange losses included in the cumulative foreign currency translation adjustments and the common dividends declared.

**Diluted Book Value per Common Share Adjusted for Dividends**

Taken together, we believe that growth in diluted book value per common share and common share dividends declared represent the total value created for our common shareholders. As companies in the insurance industry have differing dividend payout policies, we

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believe investors use the DBV per common share adjusted for dividends metric to measure comparable performance across the industry.

During the three and nine months ended September 30, 2015, total value created consisted primarily of our diluted net income per share of \$2.50 and \$4.65 in the three and nine months ended September 30, 2015, respectively, and dividends declared, partially offset by an increase in unrealized losses on investments and foreign exchange losses included in the cumulative foreign currency translation adjustments.

During the three and nine months ended September 30, 2014, total value created consisted primarily of our diluted net income per share of \$2.68 and \$5.68, in the three and nine months ended September 30, 2015, respectively, and dividends declared, which were partially offset by decreases in unrealized gains on investments included in other comprehensive income.

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**UNDERWRITING RESULTS – GROUP**


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The following table provides our group underwriting results for the periods indicated. Underwriting income is a pre-tax measure of underwriting profitability that takes into account net premiums earned and other insurance related income as revenues and net losses and loss expenses, acquisition costs and underwriting-related general and administrative costs as expenses.

|   | Three months ended September 30, |          |            | Nine months ended September 30, |          |              |
|---|----------------------------------|----------|------------|---------------------------------|----------|--------------|
|   | 2015                             | % Change | 2014       | 2015                            | % Change | 2014         |
| <b>Revenues:</b>  |                                  |          |            |                                 |          |              |
| Gross premiums written  | \$936,583                        | 4%       | \$896,814  | \$3,803,928                     | (4%)     | \$3,949,479  |
| Net premiums written  | 677,217                          | (1%)     | 687,223    | 3,079,307                       | (8%)     | 3,351,958    |
| Net premiums earned   | 919,341                          | (5%)     | 966,138    | 2,764,605                       | (5%)     | 2,912,482    |
| Other insurance related income  | 1,158                            | (85%)    | 7,702      | 12,319                          | (1%)     | 12,468       |
| <b>Expenses:</b>  |                                  |          |            |                                 |          |              |
| Current year net losses and loss expenses                               | (605,512 )                       |          | (616,602 ) | (1,818,672 )                    |          | (1,855,482 ) |
| Prior year reserve development  | 45,125                           |          | 64,538     | 165,804                         |          | 193,385      |
| Acquisition costs   | (182,744 )                       |          | (185,950 ) | (537,549 )                      |          | (549,848 )   |
| Underwriting-related general and administrative expenses <sup>(1)</sup> | (121,123 )                       |          | (122,362 ) | (372,625 )                      |          | (364,195 )   |
| Underwriting income <sup>(2)(3)</sup>                                   | \$56,245                         | (50%)    | \$113,464  | \$213,882                       | (39%)    | \$348,810    |
| <br>  |                                  |          |            |                                 |          |              |
| General and administrative expenses <sup>(1)</sup>                      | \$144,727                        |          | \$152,916  | \$456,451                       |          | \$456,725    |
| Income before income taxes <sup>(2)</sup>                               | \$257,672                        |          | \$278,868  | \$497,993                       |          | \$643,220    |

(1) Underwriting-related general and administrative expenses is a non-GAAP measure as defined in SEC Regulation

G. Our total general and administrative expenses also included corporate expenses of \$23,604 and \$30,554 for the three months ended September 30, 2015 and 2014, respectively; and \$83,826 and \$92,530 for the nine months ended September 30, 2015 and 2014, respectively; refer to 'Other Expenses (Revenues), Net' for additional information related to these corporate expenses. Also, refer 'Non-GAAP Financial Measures' for further information.

Group (or consolidated) underwriting income is a non-GAAP financial measure as defined in SEC Regulation G. Refer to Item 1, Note 2 to the Consolidated Financial Statements for a reconciliation of consolidated underwriting (2) income to the nearest GAAP financial measure (income before income taxes) for the periods indicated above.

Refer 'Non-GAAP Financial Measures' for additional information related to the presentation of consolidated underwriting income.

AXIS Capital cedes certain of its reinsurance business to AXIS Ventures Reinsurance Limited ("Ventures Re"), the Company's third-party capital vehicle, on a fully collateralized basis. The collateral has been provided by third party investors. Ventures Re is a variable interest entity and as the Company had initially concluded that it was the primary beneficiary of this entity, Ventures Re was consolidated by the Company with the net impact of the (3) cessions included in amounts attributable from noncontrolling interest. During the second quarter of 2015, the Company early adopted ASU 2015-02, "Amendments to the Consolidation Analysis". Following the adoption of the ASU and effective as of January 1, 2015, the Company determined that it was no longer required to consolidate the results of operations and the financial position of Ventures Re. Refer to Item 1, Note 11 to the Consolidated Financial Statements for more information. For the three and nine months ended September 30, 2014 amounts attributable from noncontrolling interests were \$6,160 and \$3,365 respectively.

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## UNDERWRITING REVENUES

## Premiums Written:

Gross and net premiums written, by segment, were as follows:

|                                  | Gross Premiums Written                   |          |                                 | Nine months ended September 30, |          |             |
|----------------------------------|--|----------|---------------------------------|---------------------------------|----------|-------------|
|                                  | Three months ended September 30,<br>2015 | % Change | 2014                            | 2015                            | % Change | 2014        |
| Insurance                        | \$606,704                                | 9%       | \$555,283                       | \$1,970,554                     | 3%       | \$1,911,102 |
| Reinsurance                      | 329,879                                  | (3%)     | 341,531                         | 1,833,374                       | (10%)    | 2,038,377   |
| Total                            | \$936,583                                | 4%       | \$896,814                       | \$3,803,928                     | (4%)     | \$3,949,479 |
| <br>                             |  |          |                                 |                                 |          |             |
| % ceded                          |  |          |                                 |                                 |          |             |
| Insurance                        | 37%                                      | 2 pts    | 35%                             | 31%                             | 2 pts    | 29%         |
| Reinsurance                      | 10%                                      | 5 pts    | 5%                              | 6%                              | 4 pts    | 2%          |
| Total                            | 28%                                      | 5 pts    | 23%                             | 19%                             | 4 pts    | 15%         |
| <br>                             |  |          |                                 |                                 |          |             |
| Net Premiums Written             |  |          | Nine months ended September 30, |                                 |          |             |
| Three months ended September 30, |  |          | 2014                            |                                 |          |             |
| 2015                             |  |          | % Change                        |                                 |          |             |
| Insurance                        | \$381,118                                | 5%       | \$363,571                       | \$1,352,122                     | (1%)     | \$1,361,351 |
| Reinsurance                      | 296,099                                  | (9%)     | 323,652                         | 1,727,185                       | (13%)    | 1,990,607   |
| Total                            | \$677,217                                | (1%)     | \$687,223                       | \$3,079,307                     | (8%)     | \$3,351,958 |

Gross premiums written in the three months ended September 30, 2015, increased by \$40 million or 4% (on a constant currency basis, premiums increased 6%) compared to the three months ended September 30, 2014 due to increases in the insurance segment, partially offset by decreases in the reinsurance segment.

Our insurance segment's gross written premiums increased by \$51 million in the three months ended September 30, 2015, compared to the same period of 2014. The increase was driven by the accident and health lines, driven by new business, liability lines reflecting continued growth in the U.S. primary and excess casualty markets, and the credit and political risk lines. These increases were partially offset by decreases in the aviation lines, driven by timing differences.

The decrease in the reinsurance segment in the three months ended September 30, 2015, compared to the same period of 2014 was significantly impacted by treaties written on a multi-year basis and foreign exchange movements. The three months ended September 30, 2014, included a number of treaties written on a multi-year basis which reduced premiums available for renewal during the current year. In addition, during the three months ended September 30, 2015, the segment reported a decrease in the level of new multi-year contracts written compared to the same period in 2014. The strength of the U.S. dollar also drove comparative premium decreases in the treaties denominated in foreign currencies. After adjusting for the impact of the multi-year contracts and foreign exchange movements, our gross premiums written increased by \$59 million. The increase was driven by liability lines, driven by increased treaty participations and new business, and property lines, primarily due to a large new pro-rata treaty. These increases were partially offset by a decrease in catastrophe lines driven by difficult market conditions resulting in treaty

restructurings.

Gross premiums written in the nine months ended September 30, 2015, decreased by \$146 million or 4% (on a constant currency basis, premiums decreased 1%) compared to the nine months ended September 30, 2014 due to decreases in the reinsurance segment, partially offset by increases in the insurance segment.

Similarly to the quarterly result, the decrease in the reinsurance segment's written premiums in the nine months ended September 30, 2015, compared to the same period of 2014 was significantly impacted by treaties written on a multi-year basis and foreign exchange movements. After adjusting for the impact of the multi-year contracts and foreign exchange movements, our gross premiums written

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increased by \$23 million. The increase was driven by motor lines, due to new business and favorable premium adjustments, and new business in property and liability lines. These increases were partially offset by decreases in catastrophe, agriculture and professional lines driven by treaty restructurings and non-renewals.

Our insurance segment's gross written premiums increased by \$59 million in the nine months ended September 30, 2015, compared to the same period of 2014. The increase was driven by the accident and health lines, due to new business and the liability lines driven by growth in the U.S. primary and excess casualty markets. These increases were partially offset by decreases in the property lines reflecting continued competitive market conditions.

In the three and nine months ended September 30, 2015, the ceded gross written premium ratio increased by 5% and 4%, respectively, compared to the three and nine months ended September 30, 2014, with increases in both segments. The increase in the insurance segment was driven by increased reinsurance protection purchased primarily in the professional lines and changes in the business mix. The increase in the reinsurance segment in both periods was due to the purchase of new retrocessional treaties covering primarily catastrophe business.

## Net Premiums Earned:

Net premiums earned by segment were as follows:

|             | Three months ended September 30, |       |           | Nine months ended September 30, |      |             |       |             |       |      |
|-------------|----------------------------------|-------|-----------|---------------------------------|------|-------------|-------|-------------|-------|------|
|             | 2015                             | 2014  | % Change  | 2015                            | 2014 | % Change    |       |             |       |      |
| Insurance   | \$444,550                        | 48 %  | \$461,805 | 48 %                            | (4%) | \$1,344,339 | 49 %  | \$1,368,683 | 47 %  | (2%) |
| Reinsurance | 474,791                          | 52 %  | 504,333   | 52 %                            | (6%) | 1,420,266   | 51 %  | 1,543,799   | 53 %  | (8%) |
| Total       | \$919,341                        | 100 % | \$966,138 | 100 %                           | (5%) | \$2,764,605 | 100 % | \$2,912,482 | 100 % | (5%) |

Changes in net premiums earned reflect period to period changes in net premiums written and business mix, together with normal variability in premium earning patterns.

Net premiums earned decreased by 5% (3% on a constant currency basis) and 5% (3% on a constant currency basis), in the three and nine months ended September 30, 2015, compared to the same periods in 2014, respectively. A combination of reductions in written premiums in the reinsurance segment during recent periods, along with an increase in premiums ceded across the group drove the decreases.

Reductions in the business written in the catastrophe and credit and surety lines in recent periods, as well as an increase in premiums ceded, reflecting increased retrocessional covers purchased primarily in the catastrophe lines, drove the decrease in the reinsurance segment net premiums earned for the three months ended September 30, 2015 compared to the same period in 2014. The decrease in the nine months ended September 30, 2015 was further impacted by lower earned premiums in the professional and agriculture lines. The three and nine month period decreases were partially offset by increases in our motor lines.

The decreases in net premiums earned in the insurance segment in the three and nine months ended September 30, 2015 compared to the same periods in 2014 were driven by increases in our purchases of reinsurance protection in recent periods.



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## UNDERWRITING EXPENSES

The following table provides a breakdown of our combined ratio:

|   | Three months ended September 30, |                |      | Nine months ended September 30, |                |      |    |
|---|----------------------------------|----------------|------|---------------------------------|----------------|------|----|
|   | 2015                             | % Point Change | 2014 | 2015                            | % Point Change | 2014 |    |
| Current accident year loss ratio                        | 65.9                             | % 2.1          | 63.8 | % 65.8                          | % 2.1          | 63.7 | %  |
| Prior year reserve development                          | (4.9                             | %) 1.8         | (6.7 | %) (6.0                         | %) 0.6         | (6.6 | %) |
| Acquisition cost ratio                                  | 19.9                             | % 0.7          | 19.2 | % 19.4                          | % 0.5          | 18.9 | %  |
| General and administrative expense ratio <sup>(1)</sup> | 15.7                             | % (0.2)        | 15.9 | % 16.5                          | % 0.9          | 15.6 | %  |
| Combined ratio  | 96.6                             | % 4.4          | 92.2 | % 95.7                          | % 4.1          | 91.6 | %  |

(1) The general and administrative expense ratio includes corporate expenses not allocated to reportable segments of 2.6% and 3.2% for the three months ended September 30, 2015 and 2014, respectively, and 3.0% and 3.2% for the nine months ended September 30, 2015 and 2014, respectively. These costs are further discussed in the 'Other Expenses (Revenues), Net' section.

## Current Accident Year Loss Ratio:

The current accident year loss ratio increased to 65.9% and 65.8% in the three and nine months ended September 30, 2015, respectively, from 63.8% and 63.7% in the three and nine months ended September 30, 2014, respectively. In the three and nine months ended September 30, 2015, we incurred catastrophe and weather-related losses of \$43 million and \$90 million, respectively. In the three and nine months ended September 30, 2014, we incurred catastrophe and weather-related losses of \$22 million and \$72 million, respectively. After adjusting for these losses our current accident year loss ratio for the quarter ended September 30, 2015, decreased modestly driven by improvements in loss provisions in the reinsurance agriculture lines which were partially offset by a change in the business mix and the impact of lower rates. On the same basis, our current accident year loss ratio for the nine months ended September 30, 2015, increased by 1.3% driven by the impact of lower rates and a change in the business mix, primarily reflecting the reduction in catastrophe exposures, which were partially offset by the improvements in the reinsurance agriculture lines.

## Prior Year Reserve Development:

Our favorable prior year reserve development was the net result of several underlying reserve developments on prior accident years, identified during our quarterly reserve review process. The following table provides a breakdown of prior year reserve development by segment:

|             | Three months ended September 30, |          | Nine months ended September 30, |           |
|-------------|----------------------------------|----------|---------------------------------|-----------|
|             | 2015                             | 2014     | 2015                            | 2014      |
| Insurance   | \$2,444                          | \$9,488  | \$21,225                        | \$54,059  |
| Reinsurance | 42,681                           | 55,050   | 144,579                         | 139,326   |
| Total       | \$45,125                         | \$64,538 | \$165,804                       | \$193,385 |

## Overview

The majority of the net favorable prior year reserve development in each period related to short-tail lines of business. Net favorable prior year reserve development in liability, motor, credit and surety and professional reinsurance lines in the three and nine months ended September 30, 2015 also contributed. The net favorable prior year reserve development was partially offset by net adverse prior year reserve development in the professional and liability insurance lines in the three and nine months ended September 30, 2015, and the credit and political risk line which impacted the nine months ended September 30, 2015.

For the three and nine months ended September 30, 2014, net favorable prior year reserve development was also reported in the professional, motor and liability reinsurance lines. The net favorable prior year development in the three and nine months ended September 30, 2014, was partially offset by net adverse prior year reserve development in the liability insurance line.

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The underlying exposures in the property, marine and aviation reserving classes within our insurance segment and the property reserving class within our reinsurance segment largely relate to short-tail business. Development from these classes contributed \$38 million and \$61 million of the total net favorable prior year reserve development for the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, these short-tail lines contributed \$112 million and \$162 million, respectively, of the net favorable prior year reserve development. The net favorable development for these classes primarily reflected the recognition of better than expected loss emergence.

Our medium-tail business consists primarily of professional insurance and reinsurance lines, credit and political risk insurance lines and credit and surety reinsurance business. In the three and nine months ended September 30, 2015, the reinsurance professional lines contributed \$1 million and \$25 million of net favorable development, respectively, and in the three and nine months ended September 30, 2014 these lines contributed \$10 million and \$22 million, respectively. This prior year reserve development was driven by increased weight being given to experience based actuarial methods in selecting our ultimate loss estimates for accident years 2010 and prior. As our loss experience has generally been better than expected, this resulted in the recognition of net favorable development. In the three and nine months ended September 30, 2015, the insurance professional lines recorded net adverse prior year reserve development of \$15 million and \$16 million, respectively. This adverse development was primarily the result of strengthening in our Australian book of business during the third quarter of 2015.

In the three and nine months ended September 30, 2015, the credit and surety lines recorded favorable prior year net reserve development of \$7 million and \$19 million, respectively. This net favorable development reflected the recognition of better than expected loss emergence. In the nine months ended September 30, 2015, we recorded net adverse prior year reserve development of \$15 million in our credit and political risk insurance lines relating primarily to an increase in loss estimates for one specific claim.

Our long-tail business consists primarily of liability and motor lines. Our liability reinsurance lines and motor business contributed additional net favorable prior year reserve development of \$20 million and \$8 million in the three months ended September 30, 2015, and 2014, respectively. In the nine months ended September 30, 2015 and 2014, these long-tail lines contributed \$64 million and \$19 million, respectively. The net favorable development for these classes primarily reflected the greater weight management is giving to experience based indications and our experience which has generally been favorable for the 2003 through 2010 accident years. In the three and nine months ended September 30, 2015, we recorded net adverse prior year reserve development of \$6 million and \$23 million, respectively, in our liability insurance lines, while in the three and nine months ended September 30, 2014, we recorded net adverse prior year reserve development of \$14 million in both periods. The adverse development in the insurance liability lines related primarily to an increase in loss estimates for specific individual claim reserves as well as a higher frequency of large auto liability claims.

We caution that conditions and trends that impacted the development of our liabilities in the past may not necessarily occur in the future.

Estimates of Catastrophe and Weather-Related Losses

The frequency and severity of catastrophe and weather-related activity was high in recent years and our September 30, 2015 net reserve for losses and loss expenses continues to include estimated amounts for numerous events. We caution that the magnitude and/or complexity of losses arising from certain of these events, in particular Storm Sandy, the Japanese earthquake and tsunami, the three New Zealand earthquakes and the Tianjin port explosion, inherently

increases the level of uncertainty and, therefore, the level of management judgment involved in arriving at our estimated net reserves for losses and loss expenses. As a result, our actual losses for these events may ultimately differ materially from our current estimates.

Our estimated net losses for catastrophe and weather-related events are derived from ground-up assessments of our in-force contracts and treaties providing coverage in the affected regions. These assessments take into account the latest information available from clients, brokers and loss adjusters. In addition, we consider industry insured loss estimates, market share analyses and catastrophe modeling analyses, when appropriate. Our estimates remain subject to change, as additional loss data becomes available.

The following sections provide further details on prior year reserve development by segment, reserving class and accident year.

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## Insurance Segment:

|                           | Three months ended September 30, |           | Nine months ended September 30, |           |
|---------------------------|----------------------------------|-----------|---------------------------------|-----------|
|                           | 2015                             | 2014      | 2015                            | 2014      |
| Property and other        | \$20,518                         | \$19,543  | \$49,705                        | \$49,019  |
| Marine                    | 2,831                            | 1,108     | 23,156                          | 5,752     |
| Aviation                  | 667                              | 2,807     | 2,884                           | 8,454     |
| Credit and political risk | (28                              | ) (33     | ) (15,427                       | ) 3,960   |
| Professional lines        | (15,279                          | ) 212     | (15,887                         | ) 444     |
| Liability                 | (6,265                           | ) (14,149 | ) (23,206                       | ) (13,570 |
| Total                     | \$2,444                          | \$9,488   | \$21,225                        | \$54,059  |

In the three months ended September 30, 2015, we recognized \$2 million of net favorable prior year reserve development, the principal components of which were:

- \$21 million of net favorable prior year reserve development on property and other business, driven by better than expected loss emergence including reserve reductions related to Storm Sandy of \$15 million.

- \$6 million of net adverse prior year reserve development on liability business, primarily related to a higher frequency of large auto liability claims in accident year 2014.

- \$15 million of net adverse prior year reserve development on professional lines business, predominately reflecting reserve strengthening resulting from updated actuarial assumptions for our Australian professional lines and impacting accident years 2010 to 2014, partially offset by favorable development in certain US professional lines.

In the three months ended September 30, 2014, we recognized \$9 million of net favorable prior year reserve development, the principal components of which were:

- \$20 million of net favorable prior year reserve development on property and other business, related to the 2012 and prior accident years and driven by better than expected loss emergence.

- \$14 million of net adverse prior year reserve development on liability business, related to specific claims impacting accident years 2008 and 2009.

In the nine months ended September 30, 2015, we recognized \$21 million of net favorable prior year reserve development, the principal components of which were:

- \$50 million of net favorable prior year reserve development on property and other business, related to the 2012 and 2013 accident years and driven by better than expected loss emergence, including reserve reductions related to Storm Sandy of \$16 million.

- \$23 million of net favorable prior year reserve development on marine business, largely related to better than expected loss emergence in our energy offshore business spanning multiple years, particularly accident year 2014.

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\$15 million of net adverse prior year reserve development on credit and political risk business, related to updated information on one specific claim impacting accident year 2014.

- \$16 million of net adverse prior year reserve development on professional lines business, predominately reflecting reserve strengthening resulting from updated actuarial assumptions for our Australian professional lines and impacting accident years 2010 to 2014, partially offset by favorable development in certain US professional lines.

\$23 million of net adverse prior year reserve development on liability business, related to strengthening of specific individual claim reserves and a higher frequency of large auto liability claims in accident year 2014.

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In the nine months ended September 30, 2014, we recognized \$54 million of net favorable prior year reserve development, the principal components of which were:

- \$49 million of net favorable prior year reserve development on property and other business, related to the 2012 and prior accident years and driven by better than expected loss emergence.

- \$8 million of net favorable prior year reserve development on aviation business, spanning a number of accident years and driven by better than expected loss emergence.

- \$14 million of net adverse prior year reserve development on liability business, related to specific claims impacting accident years 2008 and 2009.

## Reinsurance Segment:

|                    | Three months ended September |          | Nine months ended September |           |
|--------------------|------------------------------|----------|-----------------------------|-----------|
|                    | 30,<br>2015                  | 2014     | 30,<br>2015                 | 2014      |
| Property and other | \$14,115                     | \$37,346 | \$36,120                    | \$98,759  |
| Credit and surety  | 7,051                        | 290      | 18,851                      | (503 )    |
| Professional lines | 1,250                        | 9,754    | 25,331                      | 21,619    |
| Motor              | 8,997                        | 7,580    | 27,321                      | 7,251     |
| Liability          | 11,268                       | 80       | 36,956                      | 12,200    |
| Total              | \$42,681                     | \$55,050 | \$144,579                   | \$139,326 |

In the three months ended September 30, 2015, we recognized \$43 million of net favorable prior year reserve development, the principal components of which were:

- \$14 million of net favorable prior year reserve development on property and other business, related to multiple prior accident years and driven by better than expected loss emergence.

- \$11 million of net favorable prior year reserve development on liability business, primarily related to the 2003 through 2010 accident years, for reasons discussed in the overview.

- \$9 million of net favorable prior year reserve development on motor business, largely related to favorable loss emergence trends on several classes spanning multiple accident years.

- \$7 million of net favorable prior year reserve development on credit and surety business, related to the 2012 accident year and driven by additional information obtained about a specific claim.

In the three months ended September 30, 2014, we recognized \$55 million of net favorable prior year reserve development, the principal components of which were:

- \$37 million of net favorable prior year reserve development on property and other business, spanning a number of accident years and driven by better than expected loss emergence.

\$10 million of net favorable prior year reserve development on professional lines business, primarily related to the 2004 through 2007 accident years, for reasons discussed in the overview.

\$8 million of net favorable prior year reserve development on motor business, largely related to accident years 2005 and prior, driven by an better than expected loss emergence on certain European exposures.

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In the nine months ended September 30, 2015, we recognized \$145 million of net favorable prior year reserve development, the principal components of which were:

\$37 million of net favorable prior year reserve development on liability business, primarily related to the 2003 through 2010 accident years, for reasons discussed in the overview.

\$36 million of net favorable prior year reserve development on property and other business, spanning a number of accident years and driven by better than expected loss emergence. Included in this net development is \$20 million of adverse development on agriculture reserves relating to loss developments on the 2014 accident year driven by lower than expected crop yields reported for two specific treaties.

\$27 million of net favorable prior year reserve development on motor business, predominantly related to non-proportional business in accident years 2011 and prior, driven by better than expected loss emergence.

\$25 million of net favorable prior year reserve development on professional lines business, primarily related to the 2009 through 2010 accident years, for reasons discussed in the overview.

\$19 million of net favorable prior year reserve development on credit and surety business, spanning multiple accident years and driven by better than expected loss emergence, as well as additional information obtained about a specific claim.

In the nine months ended September 30, 2014, we recognized \$139 million of net favorable prior year reserve development, the principal components of which were:

\$99 million of net favorable prior year reserve development on property and other business, spanning a number of accident years and driven by better than expected loss emergence. Included in this net development was \$26 million of favorable reserve development relating to natural catastrophe and weather-related losses incurred during 2013. In addition, the net development included \$11 million of adverse development on agriculture reserves relating to loss experience on events occurring late in the 2013 accident year.

\$22 million of net favorable prior year reserve development on professional lines business, primarily related to the 2004 through 2007 accident years, for reasons discussed in the overview.

\$12 million of net favorable prior year reserve development on liability business related to accident years 2008 and prior, for reasons discussed in the overview. This favorable development was partially offset by strengthening of the reserves related to the 2009 through 2013 accident years.

**Acquisition Cost Ratio:** The increase in the acquisition cost ratio in the three and nine months ended September 30, 2015 to 19.9% and 19.4%, respectively, compared to 19.2% and 18.9% in the three and nine months ended September 30, 2014, respectively, was driven by increases in our reinsurance segment. The reinsurance segment's increase in the acquisition cost ratios was primarily due to higher acquisition costs paid in certain lines of business, changes in the business mix and adjustments related to loss-sensitive features in reinsurance contracts, primarily due to prior year loss reserve releases.

**General and Administrative Expense Ratio:** The general and administrative expense ratio in the three months ended September 30, 2015, decreased to 15.7%, compared to 15.9% in the three months ended September 30, 2014. The decrease in the ratios between periods was primarily driven by the receipt of amalgamation expense reimbursements

from PartnerRe Ltd. of \$35 million and lower operational excellence initiatives costs, partially offset by amalgamation related expenses incurred during the quarter of \$27 million and reorganization related corporate expenses of \$5 million and was also impacted by the reduction in net earned premiums.

The general and administrative expense ratio for the nine months ended September 30, 2015, increased to 16.5%, compared to 15.6% in the nine months ended September 30, 2014. The variance in the ratios between the periods was driven by the decrease in net earned premiums.

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**RESULTS BY SEGMENT**

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**INSURANCE SEGMENT**

Results from our insurance segment were as follows:

|   | Three months ended September 30, |                |            | Nine months ended September 30, |                |             |    |
|---|----------------------------------|----------------|------------|---------------------------------|----------------|-------------|----|
|   | 2015                             | % Change       | 2014       | 2015                            | % Change       | 2014        |    |
| <b>Revenues:</b>                          |                                  |                |            |                                 |                |             |    |
| Gross premiums written                    | \$606,704                        | 9%             | \$555,283  | \$1,970,554                     | 3%             | \$1,911,102 |    |
| Net premiums written                      | 381,118                          | 5%             | 363,571    | 1,352,122                       | (1%)           | 1,361,351   |    |
| Net premiums earned                       | 444,550                          | (4%)           | 461,805    | 1,344,339                       | (2%)           | 1,368,683   |    |
| Other insurance related income            | 542                              | nm             | —          | 811                             | nm             | —           |    |
| <b>Expenses:</b>                          |                                  |                |            |                                 |                |             |    |
| Current year net losses and loss expenses | (285,716 )                       |                | (298,695 ) | (887,805 )                      |                | (913,152 )  |    |
| Prior year reserve development            | 2,444                            |                | 9,488      | 21,225                          |                | 54,059      |    |
| Acquisition costs                         | (69,118 )                        |                | (71,264 )  | (200,493 )                      |                | (207,360 )  |    |
| General and administrative expenses       | (85,814 )                        |                | (85,750 )  | (261,924 )                      |                | (257,208 )  |    |
| Underwriting income                       | \$6,888                          | (56%)          | \$15,584   | \$16,153                        | (64%)          | \$45,022    |    |
| <b>Ratios:</b>                            |                                  |                |            |                                 |                |             |    |
|   |                                  | % Point Change |            |                                 | % Point Change |             |    |
| Current year loss ratio                   | 64.3                             | % (0.4)        | 64.7       | % 66.0                          | % (0.7)        | 66.7        | %  |
| Prior year reserve development            | (0.6                             | %) 1.5         | (2.1       | %) (1.5                         | %) 2.4         | (3.9        | %) |
| Acquisition cost ratio                    | 15.5                             | % 0.1          | 15.4       | % 14.9                          | % (0.3)        | 15.2        | %  |
| General and administrative expense ratio  | 19.4                             | % 0.8          | 18.6       | % 19.5                          | % 0.8          | 18.7        | %  |
| Combined ratio                            | 98.6                             | % 2.0          | 96.6       | % 98.9                          | % 2.2          | 96.7        | %  |

nm – not meaningful

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## Gross Premiums Written:

The following table provides gross premiums written by line of business:

|                           | Three months ended September 30, |       |           | Nine months ended September 30, |       |             |       |             |       |      |
|---------------------------|----------------------------------|-------|-----------|---------------------------------|-------|-------------|-------|-------------|-------|------|
|                           | 2015                             | 2014  | % Change  | 2015                            | 2014  | % Change    |       |             |       |      |
| Property                  | \$139,488                        | 24 %  | \$143,236 | 27 %                            | (3%)  | \$465,929   | 24 %  | \$490,953   | 26 %  | (5%) |
| Marine                    | 38,817                           | 6 %   | 41,529    | 7 %                             | (7%)  | 215,885     | 11 %  | 212,084     | 11 %  | 2%   |
| Terrorism                 | 11,192                           | 2 %   | 11,055    | 2 %                             | 1%    | 25,737      | 1 %   | 27,511      | 1 %   | (6%) |
| Aviation                  | 10,222                           | 2 %   | 17,735    | 3 %                             | (42%) | 29,755      | 2 %   | 31,020      | 2 %   | (4%) |
| Credit and Political Risk | 8,542                            | 1 %   | 3,782     | 1 %                             | 126%  | 29,640      | 2 %   | 29,268      | 2 %   | 1%   |
| Professional lines        | 196,218                          | 32 %  | 196,576   | 35 %                            | —%    | 598,370     | 30 %  | 594,835     | 31 %  | 1%   |
| Liability                 | 104,666                          | 17 %  | 94,833    | 17 %                            | 10%   | 300,204     | 15 %  | 275,842     | 14 %  | 9%   |
| Accident and Health       | 97,559                           | 16 %  | 46,537    | 8 %                             | 110%  | 305,034     | 15 %  | 249,589     | 13 %  | 22%  |
| Total                     | \$606,704                        | 100 % | \$555,283 | 100 %                           | 9%    | \$1,970,554 | 100 % | \$1,911,102 | 100 % | 3%   |

Gross premiums written in the three and nine months ended September 30, 2015, increased by \$51 million or 9% (11% on a constant currency basis) and \$59 million or 3% (5% on a constant currency basis) compared to the three and nine months ended September 30, 2014, respectively.

The increase in the three months ended September 30, 2015 compared to the same period in 2014, was attributable to our accident and health, liability and credit and political risk lines. The increase in our accident and health lines was driven by new business. The liability increase reflected continued growth in the U.S. primary and excess casualty markets. The credit and political risk line reported an increased level of new business during the third quarter of 2015. These increases were partially offset by reductions in the aviation lines, driven by timing differences.

For the nine months ended September 30, 2015 compared to the same period in 2014, increased premiums written were driven by our accident and health and liability lines for the same reasons discussed in the quarterly increase above. These increases were partially offset by decreases in the property lines reflecting continued competitive market conditions.

Premiums Ceded: In the three and nine months ended September 30, 2015, premiums ceded were \$226 million, or 37% of gross premiums written and \$618 million, or 31% of gross premiums written, respectively, compared to \$192 million, or 35% of gross premiums written and \$550 million or 29% of gross premiums written, in the three and nine months ended September 30, 2014, respectively. The increase in premium ceded related to an increase in reinsurance protection purchased primarily in our professional lines and a change in the business mix.



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## Net Premiums Earned:

The following table provides net premiums earned by line of business:

|                           | Three months ended September 30, |       |           | Nine months ended September 30, |       |             |       |             |       |      |
|---------------------------|----------------------------------|-------|-----------|---------------------------------|-------|-------------|-------|-------------|-------|------|
|                           | 2015                             | 2014  | % Change  | 2015                            | 2014  | % Change    |       |             |       |      |
| Property                  | \$112,017                        | 27 %  | \$111,700 | 25 %                            | —%    | \$324,720   | 24 %  | \$335,279   | 24 %  | (3%) |
| Marine                    | 36,837                           | 8 %   | 46,710    | 10 %                            | (21%) | 143,878     | 11 %  | 135,239     | 10 %  | 6%   |
| Terrorism                 | 7,985                            | 2 %   | 9,395     | 2 %                             | (15%) | 26,565      | 2 %   | 26,312      | 2 %   | 1%   |
| Aviation                  | 9,982                            | 2 %   | 10,149    | 2 %                             | (2%)  | 32,097      | 2 %   | 30,174      | 2 %   | 6%   |
| Credit and Political Risk | 14,671                           | 3 %   | 15,338    | 3 %                             | (4%)  | 45,993      | 3 %   | 48,032      | 4 %   | (4%) |
| Professional lines        | 148,110                          | 33 %  | 158,222   | 34 %                            | (6%)  | 451,944     | 34 %  | 474,489     | 35 %  | (5%) |
| Liability                 | 41,817                           | 9 %   | 37,041    | 8 %                             | 13%   | 120,181     | 9 %   | 108,171     | 8 %   | 11%  |
| Accident and Health       | 73,131                           | 16 %  | 73,250    | 16 %                            | —%    | 198,961     | 15 %  | 210,987     | 15 %  | (6%) |
| Total                     | \$444,550                        | 100 % | \$461,805 | 100 %                           | (4%)  | \$1,344,339 | 100 % | \$1,368,683 | 100 % | (2%) |

Net premiums earned in the three and nine months ended September 30, 2015, decreased \$17 million or 4% (3% on a constant currency basis) and \$24 million or 2% (1% on a constant currency basis) compared to the three and nine months ended September 30, 2014, respectively. The decreases in net premiums earned were primarily driven by increases in our ceded reinsurance programs.

## Loss Ratio:

The table below shows the components of our loss ratio:

|                                | Three months ended September 30, |                |      | Nine months ended September 30, |                |      |    |
|--------------------------------|----------------------------------|----------------|------|---------------------------------|----------------|------|----|
|                                | 2015                             | % Point Change | 2014 | 2015                            | % Point Change | 2014 |    |
| Current accident year          | 64.3                             | % (0.4)        | 64.7 | % 66.0                          | % (0.7)        | 66.7 | %  |
| Prior year reserve development | (0.6                             | %) 1.5         | (2.1 | %) (1.5                         | %) 2.4         | (3.9 | %) |
| Loss ratio                     | 63.7                             | % 1.1          | 62.6 | % 64.5                          | % 1.7          | 62.8 | %  |

## Current Accident Year Loss Ratio:

The current accident year loss ratios decreased to 64.3% and 66.0% in the three and nine months ended September 30, 2015, respectively, from 64.7% and 66.7% in the three and nine months ended September 30, 2014, respectively. During the three months ended September 30, 2015, we incurred pre-tax losses related to catastrophe and weather-related losses of \$19 million, including \$10 million related to the Tianjin port explosion, which were comparable to catastrophe and weather-related losses of \$19 million incurred in the three months ended September 30, 2014. The decrease in the current accident year loss ratio for the three months ended September 30, 2015 compared to the same period in 2014 was primarily driven by improved loss experience in our property, professional and credit and

political risk lines and changes in the business mix, which were partially offset by an increase in mid-size loss experience in our marine lines and the impact of lower rates.

The decrease in the nine months ended September 30, 2015 was primarily driven by a reduced level of catastrophe and weather-related losses. During the nine months ended September 30, 2015, we incurred pre-tax losses related to catastrophe and weather-related losses of \$45 million, compared to \$55 million incurred in catastrophe and weather-related losses in the nine months ended September 30, 2014. After adjusting for the impact of these losses, our current accident year loss ratio in the nine months ended September 30, 2015 was comparable to the same period in 2014, with decreases in property mid-sized losses, decreases in professional lines due to profit improvement actions, as well as improvements due to changes in the business mix offset by an increase in marine mid-sized losses, an increase in the credit and political risk loss ratio and the impact of lower rates.

Refer to the 'Prior Year Reserve Development' section for further details.

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Acquisition Cost Ratio: The acquisition cost ratio was comparable at 15.5% in the three months ended September 30, 2015 to the same period in 2014. The acquisition cost ratio decreased in the nine months ended September 30, 2015 to 14.9%, compared to 15.2% for the nine months ended September 30, 2014. The decrease was primarily driven by changes in the mix of business and higher ceded commissions received which were partially offset by higher commissions paid on certain lines of business.

General and Administrative Expense Ratio: The insurance segment's general and administrative expense ratio increased in both the three and nine months ended September 30, 2015, compared to the three and nine months ended September 30, 2014, driven by the decrease in net earned premium in both periods.

## REINSURANCE SEGMENT

Results from our reinsurance segment were as follows:

|   | Three months ended September 30,<br>2015 |                | % Change   |             | 2014           |             | Nine months ended September 30,<br>2015 |  | % Change |                | 2014 |    |
|---|--|----------------|------------|-------------|----------------|-------------|---|--|----------|----------------|------|----|
| Revenues:                                 |  |                |            |             |                |             |   |  |          |                |      |    |
| Gross premiums written                    | \$329,879                                | (3%)           | \$341,531  | \$1,833,374 | (10%)          | \$2,038,377 |   |  |          |                |      |    |
| Net premiums written                      | 296,099                                  | (9%)           | 323,652    | 1,727,185   | (13%)          | 1,990,607   |   |  |          |                |      |    |
| Net premiums earned                       | 474,791                                  | (6%)           | 504,333    | 1,420,266   | (8%)           | 1,543,799   |   |  |          |                |      |    |
| Other insurance related income            | 616                                      | (92%)          | 7,702      | 11,508      | (8%)           | 12,468      |   |  |          |                |      |    |
| Expenses:                                 |  |                |            |             |                |             |   |  |          |                |      |    |
| Current year net losses and loss expenses | (319,796 )                               |                | (317,907 ) | (930,867 )  |                | (942,330 )  |   |  |          |                |      |    |
| Prior year reserve development            | 42,681                                   |                | 55,050     | 144,579     |                | 139,326     |   |  |          |                |      |    |
| Acquisition costs                         | (113,626 )                               |                | (114,686 ) | (337,056 )  |                | (342,488 )  |   |  |          |                |      |    |
| General and administrative expenses       | (35,309 )                                |                | (36,612 )  | (110,701 )  |                | (106,987 )  |   |  |          |                |      |    |
| Underwriting income <sup>(1)</sup>        | \$49,357                                 | (50%)          | \$97,880   | \$197,729   | (35%)          | \$303,788   |   |  |          |                |      |    |
| Ratios:                                   |  |                |            |             |                |             |   |  |          |                |      |    |
|   |  | % Point Change |            |             | % Point Change |             |   |  |          | % Point Change |      |    |
| Current year loss ratio                   | 67.4                                     | % 4.4          | 63.0       | % 65.5      | % 4.5          | 61.0        | %                                       |  |          |                |      | %  |
| Prior year reserve development            | (9.0                                     | %) 1.9         | (10.9      | %) (10.1    | %) (1.1)       | (9.0        | %)                                      |  |          |                |      | %) |
| Acquisition cost ratio                    | 23.9                                     | % 1.2          | 22.7       | % 23.7      | % 1.5          | 22.2        | %                                       |  |          |                |      | %  |
| General and administrative expense ratio  | 7.4                                      | % 0.1          | 7.3        | % 7.8       | % 0.9          | 6.9         | %                                       |  |          |                |      | %  |
| Combined ratio                            | 89.7                                     | % 7.6          | 82.1       | % 86.9      | % 5.8          | 81.1        | %                                       |  |          |                |      | %  |

(1) AXIS Capital cedes certain of its reinsurance business to AXIS Ventures Reinsurance Limited ("Ventures Re"), the Company's third-party capital vehicle, on a fully collateralized basis. The collateral has been provided by third party investors. Ventures Re is a variable interest entity and as the Company had initially concluded that it was the

primary beneficiary of this entity, Ventures Re was consolidated by the Company with the net impact of the cessions included in amounts attributable from noncontrolling interest. During the second quarter of 2015, the Company early adopted ASU 2015-02, "Amendments to the Consolidation Analysis". Following the adoption of the ASU and effective as of January 1, 2015, the Company determined that it was no longer required to consolidate the results of operations and the financial position of Ventures Re. Refer to Item 1, Note 11 to the Consolidated Financial Statements for more information. For the three and nine months ended September 30, 2014 amounts attributable from noncontrolling interests were \$6,160 and \$3,365 respectively.

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## Gross Premiums Written:

The following table provides gross premiums written by line of business for the periods indicated:

|                    | Three months ended September 30, |       |          | Nine months ended September 30, |       |          |
|--------------------|----------------------------------|-------|----------|---------------------------------|-------|----------|
|                    | 2015                             | 2014  | % Change | 2015                            | 2014  | % Change |
| Catastrophe        | \$56,693                         | 18 %  |          | \$283,562                       | 15 %  | (21%)    |
| Property           | 67,539                           | 20 %  |          | 307,809                         | 17 %  | 50%      |
| Professional lines | 45,509                           | 14 %  |          | 204,685                         | 11 %  | (11%)    |
| Credit and Surety  | 23,390                           | 7 %   |          | 230,958                         | 13 %  | (2%)     |
| Motor              | 21,359                           | 6 %   |          | 333,245                         | 18 %  | 126%     |
| Liability          | 111,361                          | 34 %  |          | 258,862                         | 14 %  | (23%)    |
| Agriculture        | (3,303 )                         | (1 %) |          | 139,135                         | 8 %   | (68%)    |
| Engineering        | 4,397                            | 1 %   |          | 58,163                          | 3 %   | 70%      |
| Other              | 2,934                            | 1 %   |          | 16,955                          | 1 %   | —%       |
| Total              | \$329,879                        | 100 % |          | \$1,833,374                     | 100 % | (3%)     |

Gross premiums written decreased by \$12 million and \$205 million in the three and nine months ended September 30, 2015, compared to the same periods in 2014, respectively. The decrease in the gross premiums written in the three and nine months ended September 30, 2015, were significantly impacted by treaties written on a multi-year basis and foreign exchange movements.

In the comparative periods ended September 30, 2014, we entered into a number of treaties on a multi-year basis which increased prior periods' gross premiums and also reduced premiums available for renewal during the current year, most notably in the liability, property, motor and catastrophe lines. During the three and nine months ended September 30, 2015, the segment reported a decrease in the level of multi-year contracts written compared to the same periods in 2014, with new treaties primarily benefiting catastrophe lines of business in the three and nine months ended September 30, 2015, as well as motor and property in the nine months ended September 30, 2015. On a comparative basis the impact of the multi-year premiums resulted in a decrease in gross premiums written of \$65 million and \$155 million in the three and nine months ended September 30, 2015, compared to the same periods in 2014, respectively.

The decrease in written premiums was also significantly impacted by foreign exchange movements in the three and nine months ended September 30, 2015, compared to the same periods in 2014, as the strength of the U.S. dollar drove comparative premium decreases in the treaties denominated in foreign currencies. Foreign exchange movements resulted in a decrease of \$6 million and \$73 million in gross premiums written in the three and nine months ended September 30, 2015, compared to the same periods in 2014, respectively.

After adjusting for the impact of multi-year contracts and on a constant currency basis, our gross premiums written increased by \$59 million, or 17% and \$23 million or 1% in the three and nine months ended September 30, 2015, compared to the same periods in 2014, respectively. Both periods reported an increases in the liability, property and motor lines. The increases in the liability and property lines both reflected new business, with increased treaty participations also impacting the liability lines. The increase in the motor lines was attributable to favorable premium

adjustments and new European business. The increase for the three months ended September 30, 2015 was partially offset by a decrease in the catastrophe lines driven by difficult market conditions resulting in treaty restructurings. The increase for the nine months ended September 30, 2015 was partially offset by decreases in the catastrophe, agriculture and professional lines driven by treaty restructurings and non-renewals.

Premiums Ceded: In the three and nine months ended September 30, 2015, the ratio of ceded premium to gross written premium increased to 10% and 6%, respectively, from 5% and 2% in the three and nine months ended September 30, 2014, respectively. Both periods increases were due to new retrocessional treaties primarily covering our catastrophe business.

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## Net Premiums Earned:

The following table provides net premiums earned by line of business:

|                    | Three months ended September 30, |       |           | Nine months ended September 30, |       |             |       |             |       |       |
|--------------------|----------------------------------|-------|-----------|---------------------------------|-------|-------------|-------|-------------|-------|-------|
|                    | 2015                             | 2014  | % Change  | 2015                            | 2014  | % Change    |       |             |       |       |
| Catastrophe        | \$51,116                         | 11 %  | \$82,415  | 15 %                            | (38%) | \$165,840   | 12 %  | \$246,314   | 16 %  | (33%) |
| Property           | 78,343                           | 17 %  | 74,387    | 15 %                            | 5%    | 235,828     | 17 %  | 238,309     | 15 %  | (1%)  |
| Professional lines | 81,986                           | 17 %  | 84,764    | 17 %                            | (3%)  | 231,024     | 16 %  | 257,884     | 17 %  | (10%) |
| Credit and Surety  | 59,601                           | 13 %  | 69,140    | 14 %                            | (14%) | 182,508     | 13 %  | 198,424     | 13 %  | (8%)  |
| Motor              | 72,893                           | 15 %  | 64,502    | 13 %                            | 13%   | 228,433     | 16 %  | 200,535     | 13 %  | 14%   |
| Liability          | 77,441                           | 16 %  | 75,406    | 15 %                            | 3%    | 218,829     | 15 %  | 213,869     | 14 %  | 2%    |
| Agriculture        | 33,684                           | 7 %   | 34,389    | 7 %                             | (2%)  | 101,335     | 7 %   | 127,463     | 8 %   | (20%) |
| Engineering        | 15,128                           | 3 %   | 14,152    | 3 %                             | 7%    | 43,133      | 3 %   | 45,271      | 3 %   | (5%)  |
| Other              | 4,599                            | 1 %   | 5,178     | 1 %                             | (11%) | 13,336      | 1 %   | 15,730      | 1 %   | (15%) |
| Total              | \$474,791                        | 100 % | \$504,333 | 100 %                           | (6%)  | \$1,420,266 | 100 % | \$1,543,799 | 100 % | (8%)  |

Net premiums earned decreased by \$30 million or 6% and \$124 million or 8% in the three and nine months ended September 30, 2015, compared to the same periods in 2014, respectively (on a constant currency basis, net premiums earned decreased 3% and 6% for the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014). The decrease was primarily driven by the reductions in the business written in the catastrophe and credit and surety lines in recent periods as well as an increase in the premiums ceded, reflecting increased retrocessional covers purchased primarily in the catastrophe lines. In addition the year to date decrease was also impacted by lower earned premiums in professional and agriculture lines. These quarterly and year to date decreases were partially offset by growth in the motor lines.

## Other Insurance Related Income:

The decrease in other insurance related income of \$7 million in the three months ended September 30, 2015, compared to the same period in 2014, reflected the favorable fair value adjustments to the economic hedges purchased to protect our agriculture line of business against fluctuations in commodity prices that we recorded in the prior year.

The other insurance related income in the nine months ended September 30, 2015, was comparable to the same period in 2014. We reported an increase in the net results of our weather and commodity business during 2015, while mark to market gains on agricultural hedges drove the income in the same period of 2014 .

## Loss Ratio:

The table below shows the components of our loss ratio:

| Three months ended September 30, |                | Nine months ended September 30, |      |                |      |
|----------------------------------|----------------|---------------------------------|------|----------------|------|
| 2015                             | % Point Change | 2014                            | 2015 | % Point Change | 2014 |

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|                                |      |    |     |       |    |       |    |       |      |    |
|--------------------------------|------|----|-----|-------|----|-------|----|-------|------|----|
| Current accident year          | 67.4 | %  | 4.4 | 63.0  | %  | 65.5  | %  | 4.5   | 61.0 | %  |
| Prior year reserve development | (9.0 | %) | 1.9 | (10.9 | %) | (10.1 | %) | (1.1) | (9.0 | %) |
| Loss ratio                     | 58.4 | %  | 6.3 | 52.1  | %  | 55.4  | %  | 3.4   | 52.0 | %  |

Current Accident Year Loss Ratio:

The current accident year loss ratio increased to 67.4% and 65.5% in the three and nine months ended September 30, 2015, respectively, from 63.0% and 61.0% in the three and nine months ended September 30, 2014, respectively. The increases for both periods were impacted by an increased level of catastrophe and weather-related losses. During the three and nine months ended September 30, 2015, we incurred pre-tax losses related to catastrophe and weather-related losses of \$24 million and \$45 million,

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respectively, including \$20 million related to the Tianjin port explosion, compared to \$3 million and \$17 million related to catastrophes and weather-related losses incurred in the three and nine months ended September 30, 2014, respectively. After adjusting for the impact of these losses, our current accident year loss ratio in the three months ended September 30, 2015 was comparable to the same period in 2014. Increases due to changes in the business mix, increased loss experience in the credit and surety lines and the impact of lower rates, were offset by an improvement in the agriculture loss provisions.

After adjusting for the impact of catastrophe and weather-related losses, our current accident year loss ratio in the nine months ended September 30, 2015 was 62.3%, compared to 59.9% in the nine months ended September 30, 2014, with the increase driven by changes in the business mix, primarily reflecting the reduction in our catastrophe exposures, and the impact of lower rates, partially offset by an improvement in agriculture loss provisions.

Refer 'Prior Year Reserve Development' for further details.

**Acquisition Cost Ratio:** The reinsurance segment's acquisition cost ratio increased in both the three and nine months ended September 30, 2015 compared to the same periods in 2014, driven by higher acquisition costs paid in certain lines of business, changes in the business mix and variances in the adjustments related to loss-sensitive features in reinsurance contracts, primarily due to prior year loss reserve releases.

**General and Administrative Expense Ratio:** The reinsurance segment's general and administrative expense ratio was slightly higher for the three months ended September 30, 2015 at 7.4% compared to 7.3% for the same period in 2014, driven by decreased net earned premiums, largely offset by a reduction in the allocation of certain corporate expenses. The general and administrative expense ratio increased in the nine months ended September 30, 2015 to 7.8% compared to 6.9% for the same period in 2014. The increase in the general and administrative expense ratio primarily reflects the impact of decreased net earned premiums and increased costs associated with new growth initiatives.

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**OTHER EXPENSES (REVENUES), NET**


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The following table provides a breakdown of our other expenses (revenues), net:

|                                      | Three months ended September 30, 2015 |       | % Change    |           | 2014  |           | Nine months ended September 30, 2015 |  | % Change |  | 2014 |  |
|--------------------------------------|---------------------------------------|-------|-------------|-----------|-------|-----------|--------------------------------------|--|----------|--|------|--|
| Corporate expenses                   | \$23,604                              | (23%) | \$30,554    | \$83,826  | (9%)  | \$92,530  |                                      |  |          |  |      |  |
| Foreign exchange gains               | (28,088 )                             | (61%) | (72,292 )   | (69,200 ) | 19%   | (58,353 ) |                                      |  |          |  |      |  |
| Interest expense and financing costs | 12,918                                | (37%) | 20,344      | 38,114    | (33%) | 56,913    |                                      |  |          |  |      |  |
| Income tax expense (benefit)         | 30                                    | nm    | (4,098 )    | 1,155     | (88%) | 9,527     |                                      |  |          |  |      |  |
| Total                                | \$8,464                               | nm    | \$(25,492 ) | \$53,895  | (46%) | \$100,617 |                                      |  |          |  |      |  |

nm – not meaningful

**Corporate Expenses:** 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. As a percentage of net premiums earned, corporate expenses were 2.6% and 3.0% for the three and nine months ended September 30, 2015, compared to 3.2% for each of the respective periods in 2014. The quarterly decrease in corporate

expenses is primarily attributable to the PartnerRe merger-related expense reimbursement of \$35 million and lower operational excellence initiatives costs, partially offset by merger-related expenses incurred during the quarter of \$27 million and reorganization related corporate expenses of \$5 million. The year-to-date decrease was attributable to adjustments to senior leadership executive stock-compensation awards and lower performance-based incentive accruals partially offset by PartnerRe merger-related expenses incurred, net of the expense reimbursement fee received.

Foreign Exchange Gains: Some of our business is written in currencies other than the U.S. Dollar. The foreign exchange gains for the periods presented were largely driven by the re-measurement of our net insurance related liabilities. The foreign exchange gains for the three months ended September 30, 2015 were primarily driven by depreciation of the Sterling and Australian Dollar against the U.S. Dollar. The foreign exchange gains for the nine months ended September 30, 2015 were primarily driven by the depreciation of

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the euro, Sterling and Australian Dollar. Comparatively, for the three and nine months ended September 30, 2014, depreciation of the euro and Sterling against the U.S. Dollar was the primary driver of the foreign exchange gains.

**Interest Expense and Financing Costs:** Interest expense and financing costs, which primarily related to interest due on our senior notes, decreased in the three and nine months ended September 30, 2015 compared to the same periods of 2014, as a result of the repayment of the \$500 million of our 5.75% senior unsecured notes which matured on December 1, 2014.

**Income Tax Expense (Benefit):** Income tax expense (benefit) primarily results from income (loss) generated by our foreign operations in the United States and Europe. Our effective tax rate, which is calculated as income tax expense (benefit) divided by net income before tax, was insignificant and 0.2% in the three and nine months ended September 30, 2015. This effective rate can vary between periods depending on the distribution of net income amongst tax jurisdictions, as well as other factors. The primary factor in the change in effective tax rate in the three and nine months ended September 30, 2015 was the geographical distribution of income, as while we generated consolidated pre-tax net income in the three and nine months ended September 30, 2015, the majority of our operating income as well as the PartnerRe merger termination fees received were recognized in Bermuda. The tax expense was further impacted by realized losses on investments in our European entities.

The effective tax rates in the three and nine months ended September 30, 2014 were (1.5%) and 1.5%, respectively. The primary factor in the effective tax rate for each period was the geographical distribution of income. We generated consolidated pre-tax net income in the three and nine months ended September 30, 2014, however the magnitude of underwriting losses borne by our operations in the United States drove the recognition of an income tax benefit in the three months ended September 30, 2014, and a lowered tax expense in the nine months ended September 30, 2014.

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**NET INVESTMENT INCOME AND NET REALIZED INVESTMENT GAINS (LOSSES)**


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**Net Investment Income**

The following table provides a breakdown of income earned from our cash and investment portfolio by major asset class:

|                           | Three months ended September 30, 2015 |  | % Change |  | 2014     |  | Nine months ended September 30, 2015 |       | % Change |           | 2014 |  |
|---------------------------|---------------------------------------|--|----------|--|----------|--|--------------------------------------|-------|----------|-----------|------|--|
| Fixed maturities          | \$75,980                              |  | 1%       |  | \$74,996 |  | \$220,066                            | (3%)  |          | \$226,475 |      |  |
| Other investments         | (27,421 )                             |  | (710%)   |  | (3,384 ) |  | 17,616                               | (62%) |          | 45,868    |      |  |
| Equity securities         | 3,445                                 |  | 70%      |  | 2,022    |  | 7,795                                | (19%) |          | 9,609     |      |  |
| Mortgage loans            | 482                                   |  | nm       |  | —        |  | 776                                  | nm    |          | —         |      |  |
| Cash and cash equivalents | 993                                   |  | (52%)    |  | 2,081    |  | 3,770                                | (59%) |          | 9,127     |      |  |
| Short-term investments    | 83                                    |  | (41%)    |  | 141      |  | 277                                  | (54%) |          | 600       |      |  |
| Gross investment income   | 53,562                                |  | (29%)    |  | 75,856   |  | 250,300                              | (14%) |          | 291,679   |      |  |
| Investment expense        | (7,877 )                              |  | (15%)    |  | (9,294 ) |  | (23,964 )                            | (13%) |          | (27,508 ) |      |  |
| Net investment income     | \$45,685                              |  | (31%)    |  | \$66,562 |  | \$226,336                            | (14%) |          | \$264,171 |      |  |

Pre-tax yield:<sup>(1)</sup>

|                  |      |      |      |      |
|------------------|------|------|------|------|
| Fixed maturities | 2.5% | 2.4% | 2.4% | 2.4% |
|------------------|------|------|------|------|

nm - not meaningful

(1) Pre-tax yield is annualized and calculated as net investment income divided by the average month-end amortized cost balances for the periods indicated.

#### Fixed Maturities

The decrease in year-to-date investment income from fixed maturities was primarily due to smaller average investment balances, following the repayment of \$500 million of our senior notes during December 2014.

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## Other Investments

The following table provides a breakdown of total net investment income from other investments:

|  | Three months ended September 30, |            | Nine months ended September 30, |          |
|--|----------------------------------|------------|---------------------------------|----------|
|  | 2015                             | 2014       | 2015                            | 2014     |
| Hedge, direct lending and real estate funds        | \$(23,483 )                      | \$(9,113 ) | \$10,357                        | \$28,808 |
| CLO - Equities                                     | (3,938 )                         | 5,729      | 7,259                           | 17,060   |
| Total net investment income from other investments | \$(27,421 )                      | \$(3,384 ) | \$17,616                        | \$45,868 |
| Pre-tax return on other investments <sup>(1)</sup> | (3.3 %)                          | (0.3 %)    | 2.0 %                           | 4.6 %    |

(1) The pre-tax return on other investments is non-annualized and calculated by dividing total net investment income from other investments by the average month-end fair value balances held for the periods indicated.

The total net investment income from other investments decreased this quarter and year-to-date over the comparable periods of 2014 primarily due to a decline in the performance of the global equity markets which translated into lower valuations on our hedge funds.

The decline in value of CLO - Equities in the quarter reflected the decline in the underlying loan valuations.

## Net Realized Investment Gains (Losses)

The following table provides a breakdown of net realized investment gains (losses):

|  | Three months ended September 30, |          | Nine months ended September 30, |           |
|--|----------------------------------|----------|---------------------------------|-----------|
|  | 2015                             | 2014     | 2015                            | 2014      |
| On sale of investments:                        |                                  |          |                                 |           |
| Fixed maturities and short-term investments    | \$(42,741 )                      | \$9,111  | \$(66,579 )                     | \$21,434  |
| Equity securities                              | (1,327 )                         | 74,768   | (1,505 )                        | 121,660   |
|  | (44,068 )                        | 83,879   | (68,084 )                       | 143,094   |
| OTTI charges recognized in earnings            | (32,301 )                        | (9,431 ) | (62,762 )                       | (12,121 ) |
| Change in fair value of investment derivatives | 6,412                            | 3,000    | 7,228                           | (9,644 )  |
| Net realized investment gains (losses)         | \$(69,957 )                      | \$77,448 | \$(123,618 )                    | \$121,329 |

## On sale of investments

Generally, sales of individual securities occur when there are changes in the relative value, credit quality or duration of a particular issue. We may also sell to rebalance our investment portfolio in order to change exposure to particular asset classes or sectors. Net losses during the current quarter and year-to-date are primarily due to foreign exchange losses on non-U.S. denominated securities, as a result of the strengthening of the U.S. dollar.

## OTTI charges

For the three months ended September 30, 2015, OTTI charges were driven by impairments on high yield corporate debt securities as a result of the widening of credit spreads and by exchange-traded funds (ETFs) which are unlikely to recover in the near term. The nine months ended September 30, 2015 also included impairments on non-U.S. denominated bond mutual funds that we were no longer able to assert that we had the intent to hold until full recovery of cost due to the future reallocation to other asset classes.

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## Change in fair value of investment derivatives

From time to time, we may economically hedge the foreign exchange exposure of non-U.S. denominated securities by entering into foreign exchange forward contracts. During the current quarter, our foreign exchange hedges resulted in \$6 million of net gains which related primarily to securities denominated in the Australian dollar and Mexican Peso.

## Total Return

The following table provides a breakdown of the total return on cash and investments for the period indicated:

|   | Three months ended September |              | Nine months ended September |              |
|---|------------------------------|--------------|-----------------------------|--------------|
|   | 30,<br>2015                  | 2014         | 30,<br>2015                 | 2014         |
| Net investment income   | \$45,685                     | \$66,562     | \$226,336                   | \$264,171    |
| Net realized investments gains (losses)                       | (69,957 )                    | 77,448       | (123,618 )                  | 121,329      |
| Change in net unrealized gains/losses                         | (26,441 )                    | (250,583 )   | (52,965 )                   | (92,776 )    |
| Total   | \$(50,713 )                  | \$(106,573 ) | \$49,753                    | \$292,724    |
| Average cash and investments <sup>(1)</sup>                   | \$14,893,376                 | \$15,622,534 | \$14,919,752                | \$15,339,759 |
| Total return on average cash and investments,<br>pre-tax:     |                              |              |                             |              |
| Inclusive of investment related foreign exchange<br>movements | (0.3 %)                      | (0.7 %)      | 0.3 %                       | 1.9 %        |
| Exclusive of investment related foreign exchange<br>movements | (0.1 %)                      | (0.1 %)      | 0.9 %                       | 2.4 %        |

(1) The average cash and investments balance is calculated by taking the average of the month-end fair value balances held for the periods indicated.

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**CASH AND INVESTMENTS**


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The table below provides a breakdown of our cash and investments:

|                        | September 30, 2015        |              | December 31, 2014         |              |
|------------------------|---------------------------|--------------|---------------------------|--------------|
|                        | Amortized Cost<br>or Cost | Fair Value   | Amortized Cost<br>or Cost | Fair Value   |
| Fixed maturities       | \$12,217,258              | \$12,139,595 | \$12,185,973              | \$12,129,273 |
| Equities               | 685,462                   | 689,157      | 531,648                   | 567,707      |
| Mortgage loans         | 129,431                   | 129,431      | —                         | —            |
| Other investments      | 630,180                   | 800,319      | 736,599                   | 965,465      |
| Short-term investments | 7,152                     | 7,152        | 107,534                   | 107,534      |
| Total investments      | \$13,669,483              | \$13,765,654 | \$13,561,754              | \$13,769,979 |

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| Cash and cash equivalents <sup>(1)</sup> | \$1,180,473 | \$1,180,473 | \$1,209,695 | \$1,209,695 |
|--|-------------|-------------|-------------|-------------|

(1) Includes restricted cash and cash equivalents of \$188 million and \$288 million at September 30, 2015 and at December 31, 2014, respectively.

The fair value of our total investments decreased by \$4 million as net investment purchases during the period were more than offset by the widening of credit spreads on both investment grade and high-yield corporates and the strengthening of the US dollar on foreign currency denominated holdings.

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The following provides a further analysis on our investment portfolio by asset classes:

## Fixed Maturities

The following provides a breakdown of our investment in fixed maturities:

|                            | September 30, 2015 |            | December 31, 2014 |            |   |
|----------------------------|--------------------|------------|-------------------|------------|---|
|                            | Fair Value         | % of Total | Fair Value        | % of Total |   |
| Fixed maturities:          |                    |            |                   |            |   |
| U.S. government and agency | \$ 1,864,458       | 15         | % \$ 1,620,077    | 12         | % |
| Non-U.S. government        | 772,714            | 6          | % 1,033,543       | 9          | % |
| Corporate debt             | 4,492,083          | 37         | % 4,361,124       | 36         | % |
| Agency RMBS                | 2,207,708          | 18         | % 2,278,108       | 19         | % |
| CMBS                       | 1,077,859          | 9          | % 1,096,888       | 9          | % |
| Non-Agency RMBS            | 103,897            | 1          | % 73,086          | 1          | % |
| ABS                        | 1,439,223          | 12         | % 1,461,586       | 12         | % |
| Municipals <sup>(1)</sup>  | 181,653            | 2          | % 204,861         | 2          | % |
| Total                      | \$ 12,139,595      | 100        | % \$ 12,129,273   | 100        | % |
| Credit ratings:            |                    |            |                   |            |   |
| U.S. government and agency | \$ 1,864,458       | 15         | % \$ 1,620,077    | 12         | % |
| AAA <sup>(2)</sup>         | 4,251,593          | 35         | % 4,720,852       | 39         | % |
| AA                         | 1,319,101          | 11         | % 1,034,047       | 9          | % |
| A                          | 2,274,959          | 19         | % 2,204,984       | 18         | % |
| BBB                        | 1,404,478          | 12         | % 1,516,815       | 13         | % |
| Below BBB <sup>(3)</sup>   | 1,025,006          | 8          | % 1,032,498       | 9          | % |
| Total                      | \$ 12,139,595      | 100        | % \$ 12,129,273   | 100        | % |

(1)Includes bonds issued by states, municipalities, and political subdivisions.

(2)Includes U.S. government-sponsored agency RMBS.

(3)Non-investment grade securities.

At September 30, 2015, our fixed maturities had a weighted average credit rating of AA- (2014: AA-) and an average duration of 3.1 years (2014: 3.0 years). The interest rate swap positions introduced in 2013, which reduced duration to 2.9 years at December 31, 2014, were closed during the first quarter of 2015. When incorporating short-term investments and cash and cash equivalents into the calculation (bringing the total to \$13.3 billion), the average credit rating would be AA- (2014: AA-) and duration (including interest rate swaps) would be 2.9 years (2014: 2.7 years).

During the year, net unrealized losses on fixed maturities increased from \$57 million at December 31, 2014 to \$78 million at September 30, 2015.

## Equities

During the year, net unrealized gains on equities decreased from \$36 million at December 31, 2014 to \$4 million at September 30, 2015. The decrease was due to a decline in valuations reflective of performance of the global equity markets.

## Mortgage Loans

During the year, we invested in \$129 million of commercial mortgage loans. The commercial mortgage loans are high quality and collateralized by a variety of commercial properties and are diversified both geographically throughout the United States and by property type to reduce the risk of concentration.

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## Other Investments

The composition of our other investments portfolio is summarized as follows:

|   | September 30, 2015 |     | December 31, 2014 |            |     |   |
|---|--------------------|-----|-------------------|------------|-----|---|
| Hedge funds                                       |                    |     |                   |            |     |   |
| Long/short equity funds                           | \$ 154,099         | 19  | %                 | \$ 298,907 | 31  | % |
| Multi-strategy funds                              | 341,452            | 43  | %                 | 324,020    | 34  | % |
| Event-driven funds                                | 140,343            | 18  | %                 | 185,899    | 19  | % |
| Leveraged bank loan funds                         | 75                 | —   | %                 | 9,713      | 1   | % |
| Total hedge funds                                 | 635,969            | 80  | %                 | 818,539    | 85  | % |
| Direct lending funds                              | 79,283             | 10  | %                 | 54,438     | 6   | % |
| Real estate funds                                 | 4,369              | 1   | %                 | —          | —   | % |
| Total hedge, direct lending and real estate funds | 719,621            | 91  | %                 | 872,977    | 91  | % |
| CLO - Equities                                    | 80,698             | 9   | %                 | 92,488     | 9   | % |
| Total other investments                           | \$ 800,319         | 100 | %                 | \$ 965,465 | 100 | % |

The \$183 million decrease in the fair value of our total hedge funds in 2015 was driven by \$190 million of net redemptions offset by \$7 million of price appreciation.

We have made total commitments of \$310 million to managers of direct lending funds. To date, \$76 million of our total commitment has been called.

During 2015, we made a \$100 million commitment to a real estate fund, of which \$5 million has been called to date.

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**LIQUIDITY AND CAPITAL RESOURCES**


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Refer to the 'Liquidity and Capital Resources' section included under Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014 for a general discussion of our liquidity and capital resources. During the nine months ended September 30, 2015, we:

- reduced the maximum aggregate utilization capacity of our letter of credit facility with Citibank Europe plc from \$750 million to \$500 million;

- on August 3, 2015, we accepted a request from PartnerRe to immediately terminate the Amalgamation Agreement with the Company. PartnerRe paid AXIS Capital a \$315 million fee in connection with the termination. Following the termination of the Amalgamation Agreement the Company reinstated its share repurchase program. As part of this program, the Company entered into an Accelerated Share Repurchase agreement ("ASR") to repurchase an aggregate

of \$300 million of the Company's ordinary shares. The proceeds from the termination of the amalgamation were the primary source of funds used for the ASR. At October 29, 2015 the remaining authorization under the repurchase program approved by our Board of Directors was \$444 million.

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The following table summarizes our consolidated capital for the periods indicated:

|   | September 30,<br>2015 | December 31,<br>2014 |  |   |
|---|-----------------------|----------------------|--|---|
| Senior notes  | \$991,562             | \$990,790            |  |   |
| Preferred shares                                    | 627,843               | 627,843              |  |   |
| Common equity                                       | 5,198,523             | 5,193,278            |  |   |
| Shareholders' equity attributable to AXIS Capital   | 5,826,366             | 5,821,121            |  |   |
| Total capital                                       | \$6,817,928           | \$6,811,911          |  |   |
| Ratio of debt to total capital                      | 14.5                  | % 14.5               |  | % |
| Ratio of debt and preferred equity to total capital | 23.8                  | % 23.8               |  | % |

We finance our operations with a combination of debt and equity capital. Our debt to total capital and debt and preferred equity to total capital ratios provide an indication of our capital structure, along with some insight into our financial strength. A company with higher ratios in comparison to industry average may show weak financial strength because the cost of its debts may adversely affect results of operations and/or increase its default risk. We believe that our financial flexibility remains strong.

#### Secured Letter of Credit Facility

On March 31, 2015, the Company entered into an amendment to reduce the maximum aggregate utilization capacity of our secured letter of credit facility with Citibank Europe plc ("LOC Facility") from \$750 million to \$500 million. All other material terms and conditions remained unchanged.

#### Common Equity

During the nine months ended September 30, 2015, our common equity increased by \$5 million. The following table reconciles our opening and closing common equity positions:

| Nine months ended September 30,   | 2015        |
|---|-------------|
| Common equity - opening   | \$5,193,278 |
| Net income attributable to AXIS Capital   | 496,838     |
| Shares repurchased for treasury   | (264,076 )  |
| Unsettled accelerated share repurchase  | (60,000 )   |
| Change in unrealized appreciation on available for sale investments, net of tax | (48,168 )   |
| Common share dividends  | (88,379 )   |
| Preferred share dividends   | (30,066 )   |
| Share-based compensation expense recognized in equity                           | 19,906      |
| Foreign currency translation adjustment   | (23,851 )   |
| Shares issued and stock options exercised                                       | 3,041       |
| Common equity - closing   | \$5,198,523 |

In August, 2015, under the terms of the ASR, the Company paid \$300 million to Goldman Sachs and repurchased an initial 4,149,378 ordinary shares. The initial shares acquired were transacted based on 80% of the \$300 million total paid to Goldman Sachs. Accordingly, \$240 million of shares repurchased are included as treasury shares in the Consolidated Balance Sheet with the remaining \$60 million included as a reduction to additional paid-in capital until the completion of the ASR agreement. Refer to Item 1, Note 10 to the Consolidated Financial Statements for more information related to the ASR agreement.

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At October 29, 2015, the remaining authorization under the common share repurchase program approved by our Board of Directors was \$444 million (refer to Part II, Item 2 'Unregistered Sales of Equity Securities and Use of Proceeds' for additional information).

We continue to expect that cash flows generated from our operations, combined with the liquidity provided by our investment portfolio, will be sufficient to cover our required cash outflows and other contractual commitments through the foreseeable future.

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## CRITICAL ACCOUNTING ESTIMATES

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Our Consolidated Financial Statements include certain amounts that are inherently uncertain and judgmental in nature. As a result, we are required to make assumptions and best estimates in order to determine the reported values. We consider an accounting estimate to be critical if: (1) it requires that significant assumptions be made in order to deal with uncertainties and (2) changes in the estimate could have a material impact on our results of operations, financial condition or liquidity.

As disclosed in our 2014 Annual Report on Form 10-K, we believe that the material items requiring such subjective and complex estimates are our:

- reserves for losses and loss expenses;
- reinsurance recoverable balances;
- premiums;
- fair value measurements for our financial assets and liabilities; and
- assessments of other-than-temporary impairments.

We believe that the critical accounting estimates discussion in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014, continues to describe the significant estimates and judgments included in the preparation of our Consolidated Financial Statements.

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## NEW ACCOUNTING STANDARDS

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Refer to Item 8, Note 2 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2014, for a discussion of recently issued accounting pronouncements that we have not yet adopted. Refer to Item 1, 'Note 1 - Basis of Presentation and Accounting Policies' to the Consolidated Financial Statements for a discussion on the early adoption of the new consolidation standard ASU 2015-02.

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## OFF-BALANCE SHEET AND SPECIAL PURPOSE ENTITY ARRANGEMENTS

At September 30, 2015, we have not entered into any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K.

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NON-GAAP FINANCIAL MEASURES

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In this report, we present operating income, consolidated underwriting income and underwriting-related general and administrative expenses, which are “non-GAAP financial measures” as defined in Regulation G.

Operating income represents after-tax operational results without consideration of after-tax net realized investment gains (losses), foreign exchange losses (gains), termination fee received and reorganization and related expenses. We also present diluted operating income per common share and operating return on average common equity (“operating ROACE”), which are derived from the non-GAAP operating income measure.

Consolidated underwriting income is a pre-tax measure of underwriting profitability that takes into account net premiums earned and other insurance related income as revenues and net losses and loss expenses, acquisition costs and underwriting-related general and administrative costs as expenses. Underwriting-related general and administrative expenses include those general and administrative expenses that are incremental and/or directly attributable to our individual underwriting operations. While these measures are presented in Item 1, Note 2 to our Consolidated Financial Statements, they are considered non-GAAP financial measures when presented elsewhere on a consolidated basis.

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Operating income, diluted operating income per common share and operating ROACE can be reconciled to the nearest GAAP financial measures as follows:

|  | Three months ended September 30, |             | Nine months ended September 30, |             |   |
|--|----------------------------------|-------------|---------------------------------|-------------|---|
|  | 2015                             | 2014        | 2015                            | 2014        |   |
| Net income available to common shareholders  | \$247,620                        | \$279,104   | \$466,772                       | \$606,992   |   |
| Net realized investment (gains) losses, net of tax <sup>(1)</sup>                    | 67,897                           | (75,966 )   | 119,442                         | (107,377 )  |   |
| Foreign exchange gains, net of tax <sup>(2)</sup>                                    | (27,410 )                        | (70,368 )   | (68,456 )                       | (57,034 )   |   |
| Termination fee received <sup>(3)</sup>  | (280,000 )                       | —           | (280,000 )                      | —           |   |
| Reorganization and related expenses, net of tax <sup>(4)</sup>                       | 42,924                           | —           | 42,924                          | —           |   |
| Operating income   | \$51,031                         | \$132,770   | \$280,682                       | \$442,581   |   |
| Earnings per common share - diluted  | \$2.50                           | \$2.68      | \$4.65                          | \$5.68      |   |
| Net realized investment (gains) losses, net of tax                                   | 0.68                             | (0.73 )     | 1.19                            | (1.00 )     |   |
| Foreign exchange gains, net of tax   | (0.28 )                          | (0.68 )     | (0.69 )                         | (0.54 )     |   |
| Termination fee received   | (2.82 )                          | —           | (2.79 )                         | —           |   |
| Reorganization and related expenses, net of tax                                      | 0.43                             | —           | 0.43                            | —           |   |
| Operating income per common share - diluted  | \$0.51                           | \$1.27      | \$2.79                          | \$4.14      |   |
| Weighted average common shares and common share equivalents - diluted <sup>(5)</sup> | 99,124                           | 104,247     | 100,468                         | 106,953     |   |
| Average common shareholders' equity  | \$5,259,619                      | \$5,259,257 | \$5,195,901                     | \$5,190,383 |   |
| ROACE (annualized)   | 18.8                             | % 21.2      | % 12.0                          | % 15.6      | % |
| Operating ROACE (annualized)   | 3.9                              | % 10.1      | % 7.2                           | % 11.4      | % |

(1) Tax cost (benefit) of (\$2,060) and \$1,482 for the three months ended September 30, 2015 and 2014, respectively, and (\$4,176) and \$13,952 for the nine months ended September 30, 2015 and 2014, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the ability to utilize capital losses.

(2) Tax cost of \$678 and \$1,924 for the three months ended September 30, 2015 and 2014, respectively, and \$744 and \$1,319 for the nine months ended September 30, 2015 and 2014, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the tax status of specific foreign exchange transactions.

(3) Tax impact is nil.

(4) Tax benefit of \$2,943 and nil for the three months ended September 30, 2015 and 2014, respectively, and \$2,943 and nil for the nine months ended September 30, 2015 and 2014, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, reflecting the jurisdictional apportionment and related tax treatment of the individual components of the reorganization and related expenses.

(5) Refer to Item 1, Note 9 to our Consolidated Financial Statements for further details on the dilution calculation.

A reconciliation of consolidated underwriting income to income before income taxes (the nearest GAAP financial measure) can be found in Item 1, Note 2 to the Consolidated Financial Statements. Underwriting-related general and administrative expenses are reconciled to general and administrative expenses (the nearest GAAP financial measure) within 'Underwriting Results - Group'.

We present our results of operations in the way we believe will be most meaningful and useful to investors, analysts, rating agencies and others who use our financial information to evaluate our performance. This includes the presentation of "operating income", (in total and on a per share basis), "annualized operating ROACE" (which is based on the "operating income" measure) and "consolidated underwriting income", which incorporates "underwriting-related general and administrative expenses".

#### Operating Income

Although the investment of premiums to generate income and realized investment gains (or losses) is an integral part of our operations, the determination to realize investment gains (or losses) is independent of the underwriting process and is heavily influenced by the availability of market opportunities. Furthermore, many users believe that the timing of the realization of investment gains (or losses) is somewhat opportunistic for many companies.

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Foreign exchange gains (or losses) in our Consolidated Statements of Operations are primarily driven by the impact of foreign exchange rate movements on net insurance related-liabilities. However, this movement is only one element of the overall impact of foreign exchange rate fluctuations on our financial position. In addition, we recognize unrealized foreign exchange gains (or losses) on our available-for-sale investments in other comprehensive income and foreign exchange gains (or losses) realized upon the sale of these investments in net realized investments gains (or losses). These unrealized and realized foreign exchange rate movements generally offset a large portion of the foreign exchange gains (or losses) reported separately in earnings, thereby minimizing the impact of foreign exchange rate movements on total shareholders' equity. As such, the Statement of Operations foreign exchange gains (or losses) in isolation are not a fair representation of the performance of our business.

The termination fee received represents the break-up fee paid by PartnerRe Ltd. following the cancellation of the amalgamation agreement with AXIS Capital and is not indicative of future revenues of the Company.

Reorganization and related expenses are primarily driven by business decisions, the nature and timing of which is unrelated to the underwriting process and which are not representative of underlying business performance.

In this regard, certain users of our financial statements evaluate earnings excluding after-tax net realized investment gains (or losses), foreign exchange gains (or losses), termination fee received and reorganization and related expenses to understand the profitability of recurring sources of income.

We believe that showing net income available to common shareholders exclusive of net realized gains (or losses), foreign exchange gains (or losses), termination fee received and reorganization and related expenses reflects the underlying fundamentals of our business. In addition, we believe that this presentation enables investors and other users of our financial information to analyze performance in a manner similar to how our management analyzes the underlying business performance. We also believe this measure follows industry practice and, therefore, facilitates comparison of our performance with our peer group. We believe that equity analysts and certain rating agencies that follow us, and the insurance industry as a whole, generally exclude these items from their analyses for the same reasons.

Consolidated Underwriting Income/Underwriting-Related General and Administrative Expenses

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. As these costs are not incremental and/or directly attributable to our individual underwriting operations, we exclude them from underwriting-related general and administrative expenses and, therefore, consolidated underwriting income. Interest expense and financing costs primarily relate to interest payable on our senior notes and are excluded from consolidated underwriting income for the same reason.

We evaluate our underwriting results separately from the performance of our investment portfolio. As such, we believe it appropriate to exclude net investment income and net realized investment gains (or losses) from our underwriting profitability measure.

As noted above, foreign exchange gains (or losses) in our Consolidated Statements of Operations primarily relate to our net insurance-related liabilities. However, we manage our investment portfolio in such a way that unrealized and realized foreign exchange rate gains (or losses) on our investment portfolio generally offset a large portion of the foreign exchange gains (or losses) arising from our underwriting portfolio. As a result, we believe that foreign exchange gains (or losses) are not a meaningful contributor to our underwriting performance and, therefore, exclude

them from consolidated underwriting income.

Termination fee received represents the break-up fee received on the cancellation of the amalgamation agreement between PartnerRe Ltd. and AXIS Capital and should be excluded from consolidated underwriting income since it is not related to underwriting operations.

Reorganization and related expenses are driven by business decisions, the nature and timing of which are unrelated to the underwriting process and for this reason they are excluded from consolidated underwriting income.

We believe that presentation of underwriting-related general and administrative expenses and consolidated underwriting income provides investors with an enhanced understanding of our results of operations, by highlighting the underlying pre-tax profitability of our underwriting activities.

Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Refer to Item 7A included in our 2014 Form 10-K. With the exception of the changes in exposure to foreign currency risk presented below, there have been no material changes to this item since December 31, 2014.

**Foreign Currency Risk**

The table below provides a sensitivity analysis of our total net foreign currency exposures.

|   | AUD        | NZD         | CAD       | EUR         | GBP        | JPY       | Other     | Total       |   |
|---|------------|-------------|-----------|-------------|------------|-----------|-----------|-------------|---|
| At<br>September<br>30, 2015   |            |             |           |             |            |           |           |             |   |
| Net managed<br>assets<br>(liabilities),<br>excluding<br>derivatives                           | \$4,056    | \$(108,680) | \$63,062  | \$(236,160) | \$(99,712) | \$25,474  | \$39,197  | \$(312,763) |   |
| Foreign<br>currency<br>derivatives,<br>net  | (33,319 )  | 110,529     | (67,921 ) | 257,715     | 135,421    | (12,534 ) | 25,199    | 415,090     |   |
| Net managed<br>foreign<br>currency<br>exposure  | (29,263 )  | 1,849       | (4,859 )  | 21,555      | 35,709     | 12,940    | 64,396    | 102,327     |   |
| Other net<br>foreign<br>currency<br>exposure  | 1,188      | —           | —         | 57,463      | 6,455      | —         | 112,043   | 177,149     |   |
| Total net<br>foreign<br>currency<br>exposure  | \$(28,075) | \$1,849     | \$(4,859) | \$79,018    | \$42,164   | \$12,940  | \$176,439 | \$279,476   |   |
| Net foreign<br>currency<br>exposure as a<br>percentage of<br>total<br>shareholders'<br>equity | (0.5 %)    | — %         | (0.1 %)   | 1.4 %       | 0.7 %      | 0.2 %     | 3.0 %     | 4.8 %       | % |
| Pre-tax<br>impact of net<br>foreign   | \$(2,808 ) | \$185       | \$(486 )  | \$7,902     | \$4,216    | \$1,294   | \$17,644  | \$27,947    |   |

currency  
exposure on  
shareholders'  
equity given  
a  
hypothetical  
10% rate  
movement<sup>(1)</sup>

(1) Assumes 10% change in underlying currencies relative to the U.S. dollar.

#### Total Net Foreign Currency Exposure

At September 30, 2015, our total net foreign currency exposure was \$279 million net long, driven by other net foreign currency exposures which include assets managed by specific investment managers who have the discretion to hold foreign currency exposures as part of their total return strategy. Our emerging market debt portfolio is the primary contributor to this group of assets.

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#### ITEM 4. CONTROLS AND PROCEDURES

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The Company's management has performed an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) as of September 30, 2015. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2015, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

The Company's management has performed an evaluation, with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer, of changes in the Company's internal control over financial reporting that occurred during the three months ended September 30, 2015. Based upon that evaluation, there were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

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**ITEM 1. LEGAL PROCEEDINGS**

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From time to time, we are subject to routine legal proceedings, including arbitrations, arising in the ordinary course of business. These legal proceedings generally relate to claims asserted by or against us in the ordinary course of insurance or reinsurance operations; estimated amounts payable under such proceedings are included in the reserve for losses and loss expenses in our Consolidated Balance Sheets.

We are not a party to any material legal proceedings arising outside the ordinary course of business.

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**ITEM 1A. RISK FACTORS**

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There were no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

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**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

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The following table sets forth information regarding the number of shares we repurchased during the three months ended September 30, 2015:

**ISSUER PURCHASES OF EQUITY SECURITIES**

## Common Shares

| Period                           | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup> | Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Announced Plans or Programs <sup>(2)</sup> |
|----------------------------------|----------------------------------|------------------------------|---|---|
| July 1-31, 2015                  | 3,665                            | \$54.36                      | —   | \$749.2 million   |
| August 1-31, 2015 <sup>(3)</sup> | 4,251,452                        | \$57.83                      | 4,247,824   | \$443.5 million   |
| September 1-30, 2015             | 1,511                            | \$54.84                      | —   | \$443.5 million   |
| Total                            | 4,256,628                        |                              | 4,247,824   | \$443.5 million   |

From time to time, we purchase shares in connection with the vesting of restricted stock awards granted to our (1) employees under our 2007 Long-Term Equity Compensation Plan. The purchase of these shares is separately authorized and is not part of our Board-authorized share repurchase program, described below.

On December 5, 2014, our Board of Directors authorized a share repurchase plan to repurchase up to \$750 million of our common shares through to December 31, 2016. The share repurchase authorization which became effective (2) on January 1, 2015, replaced the previous plan which had \$225.8 million available at the end of 2014. Share repurchases may be effected from time to time in open market or privately negotiated transactions, depending on market conditions.

(3) Includes 4,149,378 shares initially acquired under the accelerated share repurchase program. Refer Item 1, Note 10 to our Consolidated Financial Statements for additional details.

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ITEM 6. EXHIBITS

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- 2.1 Termination Agreement, dated August 2, 2015, by and between AXIS Capital Holdings Limited and PartnerRe Ltd. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 3, 2015).
- 3.1 Certificate of Incorporation and Memorandum of Association (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1(Amendment No. 1) (No. 333-103620) filed on April 16, 2003).
- 3.2 Amended and Restated Bye-Laws (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed on May 15, 2009).
- 4.1 Specimen Common Share Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 3) (No. 333-103620) filed on June 10, 2003).
- 4.2 Certificate of Designations establishing the specific rights, preferences, limitations and other terms of the Series B Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 23, 2005).
- 4.3 Certificate of Designations establishing the specific rights, preferences, limitations and other terms of the Series C Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 19, 2012).
- 4.4 Certificate of Designations establishing the specific rights, preferences, limitations and other terms of the Series D Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 20, 2013).
- 10.1 Master Confirmation and form of Supplemental Confirmation, dated August 17, 2015, by and between AXIS Capital Holdings Limited and Goldman, Sachs & Co. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 19, 2015).
- †31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- †31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- †32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- †32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- †101 The following financial information from AXIS Capital Holdings Limited's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 formatted in XBRL: (i) Consolidated Balance Sheets at September 30, 2015 and December 31, 2014; (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014; (iv) Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2015 and 2014; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014; and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

Filed herewith.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.



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SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: October 29, 2015

AXIS CAPITAL HOLDINGS LIMITED

By:

/S/ ALBERT BENCHIMOL  
Albert Benchimol  
President and Chief Executive Officer

/S/ JOSEPH HENRY  
Joseph Henry  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)