AXIS CAPITAL HOLDINGS LTD
Form 10-Q
April 28, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-31721
AXIS CAPITAL HOLDINGS LIMITED
(Exact name of registrant as specified in its charter)
BERMUDA
(State or other jurisdiction of incorporation or organization)
98-0395986
(I.R.S. Employer Identification No.)
92 Pitts Bay Road, Pembroke, Bermuda HM 08
(Address of principal executive offices and zip code)
(441) 496-2600
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of April 20, 2016, there were 92,922,203 Common Shares, $0.0125 par value per share, of the registrant outstanding.

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PART I FINANCIAL INFORMATION

This quarterly report contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the United States securities laws. In some cases, these statements can be identified by the use of forward-looking words such as “may”, “should”, “could”, “anticipate”, “estimate”, “expect”, “plan”, “believe”, “predict”, “potential” and “inten
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, 2015.

We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2016 (UNAUDITED) AND DECEMBER 31, 2015

	2016	2015
	(in thousands)	
Assets		
Investments:		
Fixed maturities, available for sale, at fair value (Amortized cost 2016: $11,812,782; 2015: $11,897,639)	$11,838,068	$11,719,749
Equity securities, available for sale, at fair value (Cost 2016: $605,291; 2015: $575,776)	637,325	597,998
Mortgage loans, held for investment, at amortized cost and fair value	267,589	206,277
Other investments, at fair value	859,639	816,756
Short-term investments, at amortized cost and fair value	29,540	34,406
Total investments	13,632,161	13,375,186
Cash and cash equivalents	777,320	988,133
Restricted cash and cash equivalents	174,991	186,618
Accrued interest receivable	71,475	73,729
Insurance and reinsurance premium balances receivable	2,690,400	1,967,535
Reinsurance recoverable on unpaid and paid losses	2,116,090	2,096,104
Deferred acquisition costs	646,919	471,782
Prepaid reinsurance premiums	436,382	396,201
Receivable for investments sold	1,614	26,478
Goodwill and intangible assets	86,446	86,858
Other assets	344,392	313,267
Total assets	$20,978,190	$19,981,891
Liabilities		
Reserve for losses and loss expenses	$9,716,487	$9,646,285
Unearned premiums	3,586,307	2,760,889
Insurance and reinsurance balances payable	344,181	356,417
Senior notes	992,091	991,825
Payable for investments purchased	135,647	9,356
Other liabilities	253,218	350,237
Total liabilities	15,027,931	14,115,009
Shareholders’ equity		
Preferred shares	625,000	627,843
Common shares (2016: 176,556; 2015: 176,240 shares issued and 2016: 92,903; 2015: 96,066 shares outstanding)	2,206	2,202
Additional paid-in capital	2,296,533	2,241,388
Accumulated other comprehensive income (loss)	17,646	(188,465)
Retained earnings	6,198,932	6,194,353
Treasury shares, at cost (2016: 83,653; 2015: 80,174 shares)	(3,190,058)	(3,010,439)
Total shareholders’ equity	5,950,259	5,866,882

Total liabilities and shareholders' equity	$20,978,190	$19,981,891

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015

	Three months ended	
	2016	2015
	(in thousands, except for per share amounts)	
Revenues		
Net premiums earned	$902,340	$904,053
Net investment income	49,164	92,107
Other insurance related income (losses)	(203)	7,676
Net realized investment losses:		
Other-than-temporary impairment ("OTTI") losses	(9,729)	(17,568)
Other realized investment losses	(56,779)	(24,985)
Total net realized investment losses	(66,508)	(42,553)
Total revenues	884,793	961,283
Expenses		
Net losses and loss expenses	498,962	512,328
Acquisition costs	180,635	171,542
General and administrative expenses	149,901	163,241
Foreign exchange losses (gains)	616	(63,220)
Interest expense and financing costs	12,833	12,257
Total expenses	842,947	796,148
Income before income taxes	41,846	165,135
Income tax benefit	(6,540)	(690)
Net income	48,386	165,825
Preferred share dividends	9,969	10,022
Net income available to common shareholders	$38,417	$155,803
Per share data		
Net income per common share:		
Basic net income	$0.41	$1.56
Diluted net income	$0.41	$1.54
Weighted average number of common shares outstanding - basic	94,035	99,910
Weighted average number of common shares outstanding - diluted	94,853	101,139
Cash dividends declared per common share	$0.35	$0.29

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015

	Three months ended	
	2016	2015
	(in thousands)	
Net income	$48,386	$165,825
Other comprehensive income, net of tax:		
Available for sale investments:		
Unrealized investment gains (losses) arising during the period	138,634	(5,187)
Adjustment for reclassification of net realized investment losses and OTTI losses recognized in net income	59,281	45,104
Unrealized investment gains arising during the period, net of reclassification adjustment	197,915	39,917
Foreign currency translation adjustment	8,196	(11,413)
Total other comprehensive income, net of tax	206,111	28,504
Comprehensive income	$254,497	$194,329

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 THREE MONTHS ENDED MARCH 31, 2016 AND 2015

	2016	2015
	(in thousands)	
Preferred shares		
Balance at beginning of period	$627,843	$627,843
Shares repurchased	(2,843)	—
Balance at end of period	625,000	627,843
Common shares (par value)		
Balance at beginning of period	2,202	2,191
Shares issued	4	9
Balance at end of period	2,206	2,200
Additional paid-in capital		
Balance at beginning of period	2,241,388	2,285,016
Shares issued - common shares	1,779	2,294
Cost of treasury shares reissued	(15,007)	(13,517)
Settlement of accelerated share repurchase	60,000	—
Stock options exercised	—	560
Share-based compensation expense	8,373	12,712
Balance at end of period	2,296,533	2,287,065
Accumulated other comprehensive income (loss)		
Balance at beginning of period	(188,465)	(45,574)
Unrealized gains (losses) on available for sale investments, net of tax:		
Balance at beginning of period	(149,585)	(28,192)
Unrealized gains arising during the period, net of reclassification adjustment	197,915	39,917
Non-credit portion of OTTI losses	—	—
Balance at end of period	48,330	11,725
Cumulative foreign currency translation adjustments, net of tax:		
Balance at beginning of period	(38,880)	(17,382)
Foreign currency translation adjustments	8,196	(11,413)
Balance at end of period	(30,684)	(28,795)
Balance at end of period	17,646	(17,070)
Retained earnings		
Balance at beginning of period	6,194,353	5,715,504
Net income	48,386	165,825
Preferred share dividends	(9,969)	(10,022)
Common share dividends	(33,838)	(29,068)
Balance at end of period	6,198,932	5,842,239
Treasury shares, at cost		
Balance at beginning of period	(3,010,439)	(2,763,859)
Shares repurchased for treasury	(196,011)	(14,772)

Cost of treasury shares reissued	16,392	13,517
Balance at end of period	(3,190,058)	(2,765,114)
Total shareholders' equity	$5,950,259	$5,977,163

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015

	Three months ended 2016	2015
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 48,386	$ 165,825
Adjustments to reconcile net income to net cash used in operating activities:		
Net realized investment losses	66,508	42,553
Net realized and unrealized gains (losses) on other investments	27,177	(30,935)
Amortization of fixed maturities	19,100	31,372
Other amortization and depreciation	5,294	6,581
Share-based compensation expense, net of cash payments	(1,357)	4,834
Changes in:		
Accrued interest receivable	2,616	3,101
Reinsurance recoverable balances	(6,668)	(10,133)
Deferred acquisition costs	(175,038)	(149,786)
Prepaid reinsurance premiums	(37,732)	(6,926)
Reserve for loss and loss expenses	50,132	(122,508)
Unearned premiums	820,947	553,642
Insurance and reinsurance balances, net	(737,185)	(419,218)
Other items	(96,430)	(96,490)
Net cash used in operating activities	(14,250)	(28,088)

Cash flows from investing activities:				
Purchases of:				
Fixed maturities	(2,556,709	)	(3,036,497	)
Equity securities	(102,963	)	(41,239	)
Mortgage loans	(61,263	)	—	
Other investments	(117,622	)	(21,418	)
Short-term investments	(13,931	)	(14,513	)
Proceeds from the sale of:				
Fixed maturities	2,473,167		2,823,044	
Equity securities	85,254		522	
Other investments	47,562		78,812	
Short-term investments	16,331		79,657	
Proceeds from redemption of fixed maturities	246,147		280,864	
Proceeds from redemption of short-term investments	2,282		4,632	
Purchase of other assets	(44,721	)	(4,647	)
Change in restricted cash and cash equivalents	11,627		19,240	
Net cash provided by (used in) investing activities	(14,839	)	168,457	
Cash flows from financing activities:				
Repurchase of common shares	(136,011	)	(22,581	)
Dividends paid - common shares	(36,636	)	(30,103	)
Dividends paid - preferred shares	(10,003	)	(10,022	)
Proceeds from issuance of common shares	1,783		2,863	
Repurchase of preferred shares	(2,843	)	—	
Net cash used in financing activities	(183,710	)	(59,843	)
Effect of exchange rate changes on foreign currency cash and cash equivalents	1,986		(16,122	)

Increase (decrease) in cash and cash equivalents	(210,813)	64,404
Cash and cash equivalents - beginning of period	988,133	921,830
Cash and cash equivalents - end of period	$ 777,320	$ 986,234

See accompanying notes to Consolidated Financial Statements.

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 March 31, 2016 and the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the periods ended March 31, 2016 and 2015 have not been audited. The balance sheet at December 31, 2015 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, 2015. 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, 2015.

New Accounting Standards Adopted in 2016

Share-Based Compensation

Effective January 1, 2016, the Company adopted the Accounting Standards Update ("ASU") 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period" issued by the Financial Accounting Standards Board (the "FASB"). This guidance requires that compensation costs be recognized in the period in which it becomes probable that the performance target will be achieved and to represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This guidance was issued to clarify treatment where there was a divergence in accounting practice and its adoption did not impact the results of our operations, our financial condition or liquidity.

Debt Issuance Costs

Effective January 1, 2016, the Company adopted ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" issued by the FASB. This guidance requires the debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. This guidance was issued to simplify the presentation of debt issuance costs and to resolve conflicting guidance. This guidance did not impact our results of operations, financial condition or liquidity.

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

Effective January 1, 2016, the Company adopted ASU 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)" issued by the FASB. This guidance eliminated the requirement to categorize investments measured using the NAV practical expedient in the fair value hierarchy table. As this new guidance related solely to disclosures, the adoption did not impact our results of operations, financial condition or liquidity. The updated disclosures have been provided in Note 4 'Fair Value Measurements'.

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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

Leases

In February 2016, the FASB issued guidance that provides a new comprehensive model for lease accounting. The guidance will require most leases to be recognized on the balance sheet by recording a right-of-use asset and a corresponding lease liability. This guidance is effective for reporting periods beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted. The Company is currently evaluating the impact of this guidance on our results of operations, financial condition and liquidity.

Transition To Equity Method Of Accounting

In March 2016, the FASB issued new guidance eliminating the requirement that an investor retrospectively apply equity method accounting when an existing investment qualifies for equity method accounting. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those fiscal years with early adoption permitted. The guidance will be adopted on a prospective basis. The adoption of this guidance is not expected to materially impact our results of operations, financial condition or liquidity.

Share-Based Compensation Accounting

In March 2016, the FASB issued new guidance that will change the accounting for certain aspects of share-based compensation payments to employees. The guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. The guidance will also allow employers to increase the amounts withheld to cover income taxes on share-based compensation awards without requiring liability classification. Additionally, companies will be required to elect whether they will account for award forfeitures by recognizing forfeitures only as they occur or by estimating the number of awards expected to be forfeited. This guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those fiscal years with early adoption permitted. The Company is currently evaluating the impact of this guidance on our results of operations, financial condition and liquidity.

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

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.

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

	2016			2015		
Three months ended and at March 31,	Insurance	Reinsurance	Total	Insurance	Reinsurance	Total
Gross premiums written	$653,349	$1,305,812	$1,959,161	$602,724	$1,076,208	$1,678,932
Net premiums written	473,163	1,212,643	1,685,806	436,740	1,018,806	1,455,546
Net premiums earned	438,678	463,662	902,340	447,467	456,586	904,053
Other insurance related income (loss)	137	(340)	(203)	—	7,676	7,676
Net losses and loss expenses	(274,405)	(224,557)	(498,962)	(285,773)	(226,555)	(512,328)
Acquisition costs	(61,398)	(119,237)	(180,635)	(64,455)	(107,087)	(171,542)
General and administrative expenses	(85,576)	(38,013)	(123,589)	(87,689)	(39,380)	(127,069)
Underwriting income	$17,436	$81,515	98,951	$9,550	$91,240	100,790
Corporate expenses			(26,312)			(36,172)
Net investment income			49,164			92,107
Net realized investment losses			(66,508)			(42,553)
Foreign exchange (losses) gains			(616)			63,220
Interest expense and financing costs			(12,833)			(12,257)
Income before income taxes			$41,846			$165,135
Net loss and loss expense ratio	62.6%	48.4%	55.3%	63.9%	49.6%	56.7%
Acquisition cost ratio	14.0%	25.7%	20.0%	14.4%	23.5%	19.0%
General and administrative expense ratio	19.5%	8.2%	16.6%	19.6%	8.6%	18.0%
Combined ratio	96.1%	82.3%	91.9%	97.9%	81.7%	93.7%
Goodwill and intangible assets	$86,446	$—	$86,446	$88,508	$—	$88,508

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

3. INVESTMENTS

a) Fixed Maturities and Equities

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

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI in AOCI(5)
At March 31, 2016					
Fixed maturities					
U.S. government and agency	$1,552,689	$20,614	$(3,123)	$1,570,180	$ —
Non-U.S. government	753,923	6,718	(39,918)	720,723	—
Corporate debt	4,423,369	55,031	(53,358)	4,425,042	—
Agency RMBS(1)	2,377,262	45,420	(1,381)	2,421,301	—
CMBS(2)	1,099,346	13,221	(5,883)	1,106,684	—
Non-Agency RMBS	94,704	1,584	(1,266)	95,022	(862)
ABS(3)	1,359,752	1,199	(17,801)	1,343,150	—
Municipals(4)	151,737	4,758	(529)	155,966	—
Total fixed maturities	$11,812,782	$148,545	$(123,259)	$11,838,068	$ (862)
Equity securities					
Common stocks	$292	$96	$(210)	$178	
Exchange-traded funds	471,879	32,339	(3,550)	500,668	
Bond mutual funds	133,120	3,359	—	136,479	
Total equity securities	$605,291	$35,794	$(3,760)	$637,325	
At December 31, 2015					
Fixed maturities					
U.S. government and agency	$1,673,617	$1,545	$(23,213)	$1,651,949	$ —
Non-U.S. government	809,025	2,312	(72,332)	739,005	—
Corporate debt	4,442,315	16,740	(96,286)	4,362,769	—
Agency RMBS(1)	2,236,138	22,773	(9,675)	2,249,236	—
CMBS(2)	1,088,595	3,885	(9,182)	1,083,298	—
Non-Agency RMBS	99,989	1,992	(973)	101,008	(875)
ABS(3)	1,387,919	952	(17,601)	1,371,270	—
Municipals(4)	160,041	2,319	(1,146)	161,214	—
Total fixed maturities	$11,897,639	$52,518	$(230,408)	$11,719,749	$ (875)
Equity securities					
Common stocks	$—	$—	$—	$—	
Exchange-traded funds	447,524	31,211	(4,762)	473,973	
Bond mutual funds	128,252	—	(4,227)	124,025	
Total equity securities	$575,776	$31,211	$(8,989)	$597,998	

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

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

(3) Asset-backed securities (ABS) include debt tranched 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.

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

3. INVESTMENTS (CONTINUED)

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, direct lending funds and private equity funds) and CLO equity tranched 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 Cost	Fair Value	% of Total Fair Value	
At March 31, 2016				
Maturity				
Due in one year or less	$295,599	$291,510	2.5	%
Due after one year through five years	3,994,127	3,985,100	33.7	%
Due after five years through ten years	2,263,573	2,264,238	19.1	%
Due after ten years	328,419	331,063	2.8	%
	6,881,718	6,871,911	58.1	%
Agency RMBS	2,377,262	2,421,301	20.5	%
CMBS	1,099,346	1,106,684	9.3	%
Non-Agency RMBS	94,704	95,022	0.8	%
ABS	1,359,752	1,343,150	11.3	%
Total	$11,812,782	$11,838,068	100.0	%
At December 31, 2015				
Maturity				
Due in one year or less	$291,368	$289,571	2.5	%
Due after one year through five years	4,217,515	4,142,802	35.3	%
Due after five years through ten years	2,263,684	2,181,525	18.6	%
Due after ten years	312,431	301,039	2.6	%
	7,084,998	6,914,937	59.0	%
Agency RMBS	2,236,138	2,249,236	19.2	%
CMBS	1,088,595	1,083,298	9.2	%
Non-Agency RMBS	99,989	101,008	0.9	%
ABS	1,387,919	1,371,270	11.7	%
Total	$11,897,639	$11,719,749	100.0	%

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

3. 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 March 31, 2016						
Fixed maturities						
U.S. government and agency	$84,342	$(3,030)	$146,502	$(93)	$230,844	$(3,123)
Non-U.S. government	135,920	(30,440)	220,140	(9,478)	356,060	(39,918)
Corporate debt	388,621	(24,425)	1,019,187	(28,933)	1,407,808	(53,358)
Agency RMBS	179,155	(850)	143,472	(531)	322,627	(1,381)
CMBS	102,506	(1,775)	392,674	(4,108)	495,180	(5,883)
Non-Agency RMBS	5,419	(275)	58,771	(991)	64,190	(1,266)
ABS	579,638	(11,397)	536,264	(6,404)	1,115,902	(17,801)
Municipals	14,966	(509)	2,635	(20)	17,601	(529)
Total fixed maturities	$1,490,567	$(72,701)	$2,519,645	$(50,558)	$4,010,212	$(123,259)
Equity securities						
Common stocks	$—	$—	$—	$(210)	$—	$(210)
Exchange-traded funds	—	—	72,146	(3,550)	72,146	(3,550)
Bond mutual funds	—	—	—	—	—	—
Total equity securities	$—	$—	$72,146	$(3,760)	$72,146	$(3,760)
At December 31, 2015						
Fixed maturities						
U.S. government and agency	$84,179	$(7,622)	$1,474,202	$(15,591)	$1,558,381	$(23,213)
Non-U.S. government	170,269	(50,841)	317,693	(21,491)	487,962	(72,332)
Corporate debt	340,831	(33,441)	2,845,375	(62,845)	3,186,206	(96,286)
Agency RMBS	64,792	(1,609)	1,073,566	(8,066)	1,138,358	(9,675)
CMBS	75,627	(1,579)	659,480	(7,603)	735,107	(9,182)
Non-Agency RMBS	5,283	(210)	43,199	(763)	48,482	(973)
ABS	562,599	(11,158)	667,448	(6,443)	1,230,047	(17,601)
Municipals	14,214	(310)	64,104	(836)	78,318	(1,146)
Total fixed maturities	$1,317,794	$(106,770)	$7,145,067	$(123,638)	$8,462,861	$(230,408)
Equity securities						
Common stocks	$—	$—	$—	$—	$—	$—
Exchange-traded funds	2,331	(313)	110,972	(4,449)	113,303	(4,762)
Bond mutual funds	—	—	124,025	(4,227)	124,025	(4,227)
Total equity securities	$2,331	$(313)	$234,997	$(8,676)	$237,328	$(8,989)

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

3. INVESTMENTS (CONTINUED)

Fixed Maturities

At March 31, 2016, 1,382 fixed maturities (2015: 2,314) were in an unrealized loss position of $123 million (2015: $230 million), of which $26 million (2015: $39 million) was related to securities below investment grade or not rated.

At March 31, 2016, 438 (2015: 383) securities had been in a continuous unrealized loss position for 12 months or greater and had a fair value of $1,491 million (2015: $1,318 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 March 31, 2016, and were expected to recover in value as the securities approach maturity. Further, at March 31, 2016, 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 March 31, 2016, 29 securities (2015: 35) were in an unrealized loss position of $4 million (2015: $9 million).

At March 31, 2016, there were no securities (2015: 1) 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 March 31, 2016.

b) Mortgage Loans

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

	March 31, 2016		December 31, 2015	
	Carrying Value	% of Total	Carrying Value	% of Total
Mortgage Loans held-for-investment:				
Commercial	$267,589	100%	$206,277	100%
	267,589	100%	206,277	100%
Valuation allowances	—	— %	—	— %
Total Mortgage Loans held-for-investment	$267,589	100%	$206,277	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.

We have a high quality mortgage portfolio with debt service coverage ratios in excess of 1.3x and loan-to-value ratios of less than 65%; there are no credit losses associated with the commercial mortgage loans that we hold at March 31, 2016.

There are no past due amounts at March 31, 2016.

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

3. INVESTMENTS (CONTINUED)

c) Other Investments

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

	Fair Value		Redemption Frequency (if currently eligible)	Redemption Notice Period
At March 31, 2016				
Long/short equity funds	$128,502	15 %	Quarterly, Semi-annually, Annually	45-60 days
Multi-strategy funds	312,211	36 %	Quarterly, Semi-annually	60-95 days
Event-driven funds	146,428	17 %	Quarterly, Annually	45-60 days
Leveraged bank loan funds	65	— %	n/a	n/a
Direct lending funds	112,889	13 %	n/a	n/a
Private equity funds	93,783	11 %	n/a	n/a
Real estate funds	5,390	1 %	n/a	n/a
CLO - Equities	60,371	7 %	n/a	n/a
Total other investments	$859,639	100%		
At December 31, 2015				
Long/short equity funds	$154,348	19 %	Quarterly, Semi-annually, Annually	45-60 days
Multi-strategy funds	355,073	43 %	Quarterly, Semi-annually	60-95 days
Event-driven funds	147,287	18 %	Quarterly, Annually	45-60 days
Leveraged bank loan funds	65	— %	n/a	n/a
Direct lending funds	90,120	11 %	n/a	n/a
Private equity funds	—	— %	n/a	n/a
Real estate funds	4,929	1 %	n/a	n/a
CLO - Equities	64,934	8 %	n/a	n/a
Total other investments	$816,756	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.

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

3. INVESTMENTS (CONTINUED)

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

- Private equity funds: Seek to achieve attractive risk-adjusted returns by investing in private transactions over the course of several years.

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 2016 and 2015, neither of these restrictions impacted our redemption requests. At March 31, 2016, $59 million (2015: $66 million), representing 10% (2015: 10%) of our total hedge funds, relate to holdings where we are still within the lockup period. The expiration of these lockup periods range from March 2016 to April 2018.

At March 31, 2016, we have $198 million (2015: $222 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.
At March 31, 2016, we have $12 million (2015: $12 million) of unfunded commitments 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 March 31, 2016, we have $95 million (2015: $95 million) of unfunded commitments 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.

During 2016, we made a $135 million commitment as a limited partner in a private equity fund. At March 31, 2016, $41 million of our commitment remains unfunded and the current fair value of the funds called to date are included in the private equity funds line of the table above. The fund invests in underlying private equity funds and the life of the fund is subject to the dissolution of the underlying funds. We expect the overall holding period to be over ten years.

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 March 31, 2016, this commitment remains unfunded. It is not anticipated that the full amount of this fund will be drawn.

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

3. INVESTMENTS (CONTINUED)

d) Net Investment Income

Net investment income was derived from the following sources:

	Three months ended March 31, 2016	2015
Fixed maturities	$75,975	$66,088
Other investments	(26,878)	30,935
Equity securities	5,145	1,676
Mortgage loans	1,684	13
Cash and cash equivalents	1,434	1,099
Short-term investments	206	69
Gross investment income	57,566	99,880
Investment expenses	(8,402)	(7,773)
Net investment income	$49,164	$92,107

e) Net Realized Investment Losses

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

	Three months ended March 31, 2016	2015
Gross realized gains		
Fixed maturities and short-term investments	$16,164	$15,661
Equities	3,541	38
Gross realized gains	19,705	15,699
Gross realized losses		
Fixed maturities and short-term investments	(59,177)	(43,091)
Equities	(14,787)	(124)
Gross realized losses	(73,964)	(43,215)
Net OTTI recognized in earnings	(9,729)	(17,568)
Change in fair value of investment derivatives[1]	(2,520)	2,531
Net realized investment losses	$(66,508)	$(42,553)

(1) Refer to Note 5 – Derivative Instruments

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

3. INVESTMENTS (CONTINUED)

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

	Three months ended March 31,	
	2016	2015
Fixed maturities:		
Non-U.S. government	$—	$1,422
Corporate debt	7,169	16,120
Non-Agency RMBS	—	4
ABS	—	22
	7,169	17,568
Equity Securities		
Exchange-traded funds	2,560	—
	2,560	—
Total OTTI recognized in earnings	$9,729	$17,568

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 March 31,	
	2016	2015
Balance at beginning of period	$1,506	$1,531
Credit impairments recognized on securities not previously impaired	—	—
Additional credit impairments recognized on securities previously impaired	—	10
Change in timing of future cash flows on securities previously impaired	—	—
Intent to sell of securities previously impaired	—	—
Securities sold/redeemed/matured	—	—
Balance at end of period	$1,506	$1,541

f) Reverse Repurchase Agreements

At March 31, 2016, we held $77 million (2015: $30 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.

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

4. 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.

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.

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AXIS CAPITAL HOLDINGS LIMITED
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4. FAIR VALUE MEASUREMENTS (CONTINUED)

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.

Agency RMBS

Agency RMBS securities consist of bonds issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. The fair values of these securities are priced using a mortgage pool specific model which uses daily inputs from the active to be announced market and the spread associated with each mortgage pool based on vintage. As the significant inputs are observable market inputs, the fair values of Agency RMBS securities are classified within Level 2.

CMBS

CMBS include mostly investment-grade bonds originated by non-agencies. The fair values of these securities are determined using a pricing model which uses dealer quotes and other available trade information along with security level characteristics to determine deal specific spreads. As the significant inputs are observable market inputs, the fair values of CMBS securities are classified within Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from brokerdealers 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.

Non-Agency RMBS

Non-Agency RMBS include mostly investment-grade bonds originated by non-agencies. The fair values of these securities are determined using an option adjusted spread model or other relevant models, which use inputs including available trade information or broker quotes, prepayment and default projections based on historical statistics of the underlying collateral and current market data. As the significant inputs are observable market inputs, the fair values of Non-Agency RMBS securities are classified withing Level 2.

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. 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.

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

4. FAIR VALUE MEASUREMENTS (CONTINUED)

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 common stocks, exchange-traded funds and bond mutual funds. For common stocks and 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 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, private equity funds and real estate funds 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 hedge funds, direct lending funds and real estate funds any funds that 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, and the inclusion of any subscriptions, redemptions, drawdowns and distributions. 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. For private equity funds the typical reporting lag is three months before NAV statements are released. We estimate fair value for our private equity funds by starting with the prior quarter-end NAV and adjusting for capital calls, redemptions and distributions.

Within the hedge fund, direct lending fund, real estate fund and private equity 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).

The fair value of our hedge funds, direct lending funds, private equity funds and real estate funds are measured using the NAV practical expedient and therefore have not been categorized with the fair value hierarchy.

At March 31, 2016, our 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.

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

4. FAIR VALUE MEASUREMENTS (CONTINUED)

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 an 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.

Strategic Investments

Strategic investments comprise investments with our strategic (re)insurance partners. The investments can take the form of convertible preferred shares, convertible notes and notes payable. As all the investments in this category were made during the first quarter of 2016, the cost of these investments is believed to approximate fair value at March 31, 2016. 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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4. FAIR VALUE MEASUREMENTS (CONTINUED)

The tables below present the financial instruments measured at fair value on a recurring basis for the periods indicated:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair value based on NAV practical expedient	Total Fair Value
At March 31, 2016					
Assets					
Fixed maturities					
U.S. government and agency	$ 1,503,841	$ 66,339	$ —	$—	$1,570,180
Non-U.S. government	—	720,723	—	—	720,723
Corporate debt	—	4,384,792	40,250	—	4,425,042
Agency RMBS	—	2,421,301	—	—	2,421,301
CMBS	—	1,096,133	10,551	—	1,106,684
Non-Agency RMBS	—	95,022	—	—	95,022
ABS	—	1,343,150	—	—	1,343,150
Municipals	—	155,966	—	—	155,966
	1,503,841	10,283,426	50,801	—	11,838,068
Equity securities					
Common stocks	178	—	—	—	178
Exchange-traded funds	500,668	—	—	—	500,668
Bond mutual funds	—	136,479	—	—	136,479
	500,846	136,479	—	—	637,325
Other investments					
Hedge funds	—	—	—	587,206	587,206
Direct lending funds	—	—	—	112,889	112,889
Private equity funds	—	—	—	93,783	93,783
Real estate funds	—	—	—	5,390	5,390
CLO - Equities	—	—	60,371	—	60,371
	—	—	60,371	799,268	859,639
Short-term investments	—	29,540	—	—	29,540
Other assets					
Derivative instruments (see Note 5)	—	5,980	5,977	—	11,957
Insurance-linked securities	—	—	24,916	—	24,916
Strategic investments	—	—	36,712	—	36,712
Total Assets	$ 2,004,687	$ 10,455,425	$ 178,777	$799,268	$13,438,157
Liabilities					
Derivative instruments (see Note 5)	$ —	$ 6,841	$ 15,028	$—	$21,869
Cash settled awards (see Note 7)	—	22,101	—	—	22,101
Total Liabilities	$ —	$ 28,942	$ 15,028	$—	$43,970

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. FAIR VALUE MEASUREMENTS (CONTINUED)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair value based on NAV practical expedient	Total Fair Value
At December 31, 2015					
Assets					
Fixed maturities					
U.S. government and agency	$ 1,632,355	$ 19,594	$ —	$—	$1,651,949
Non-U.S. government	—	739,005	—	—	739,005
Corporate debt	—	4,324,251	38,518	—	4,362,769
Agency RMBS	—	2,249,236	—	—	2,249,236
CMBS	—	1,072,376	10,922	—	1,083,298
Non-Agency RMBS	—	101,008	—	—	101,008
ABS	—	1,371,270	—	—	1,371,270
Municipals	—	161,214	—	—	161,214
	1,632,355	10,037,954	49,440	—	11,719,749
Equity securities					
Common stocks	—	—	—	—	—
Exchange-traded funds	473,973	—	—	—	473,973
Bond mutual funds	—	124,025	—	—	124,025
	473,973	124,025	—	—	597,998
Other investments					
Hedge funds	—	—	—	656,773	656,773
Direct lending funds	—	—	—	90,120	90,120
Private equity funds	—	—	—	—	—
Real estate funds	—	—	—	4,929	4,929
CLO - Equities	—	—	27,257	37,677	64,934
	—	—	27,257	789,499	816,756
Short-term investments	—	34,406	—	—	34,406
Other assets					
Derivative instruments (see Note 5)	—	2,072	4,395	—	6,467
Insurance-linked securities	—	—	24,925	—	24,925
Strategic investments	—	—	—	—	—
Total Assets	$ 2,106,328	$ 10,198,457	$ 106,017	$789,499	$13,200,301
Liabilities					
Derivative instruments (see Note 5)	$ —	$ 7,692	$ 10,937	$—	$18,629
Cash settled awards (see Note 7)	—	33,215	—	—	33,215
Total Liabilities	$ —	$ 40,907	$ 10,937	$—	$51,844

During 2016 and 2015, we had no transfers between Levels 1 and 2.

Level 3 Fair Value Measurements

Except for hedge funds, direct lending funds, private equity funds and real estate funds 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 March 31, 2016 for our investments classified as Level 3 in the fair value hierarchy.

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AXIS CAPITAL HOLDINGS LIMITED
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4. FAIR VALUE MEASUREMENTS (CONTINUED)

	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
Other investments - CLO - Equities	$ 39,616	Discounted cash flow	Default rates	4.0%	4.0%
			Loss severity rate	35.0% - 53.5%	36.5%
			Collateral spreads	3.2% - 4.0%	3.9%
			Estimated maturity dates	3 - 7 years	7 years
	20,755	Liquidation value	Fair value of collateral	100%	100%
			Discount margin	0.7% - 25.9%	5.5%
Derivatives - Weather derivatives, net	$ (9,051)	Simulation model	Weather curve	1 - 2331 (1)	n/a (2)
			Weather standard deviation	1 - 165 (1)	n/a (2)

(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.

(2) Due to the diversity of the portfolio, the range of unobservable inputs can be widespread; therefore, presentation of 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 rely on the use of models to estimate the fair value of our investments in CLO - Equities. With all of our direct investments in CLO - Equities past the end of their reinvestment period, there is uncertainty over the remaining time until maturity. As such our direct investments in CLO - Equities are valued at the lower of the liquidation value and our internal discounted cash flow modelled estimate of fair value. The liquidation valuation is based on the fair value of the net underlying collateral which is determined by applying market discount margins by credit quality bucket. An increase (decrease) in the market discount margin would result in a decrease (increase) in value of our CLO - Equities. Regarding the discounted cash flow 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 process for CLO - Equities includes a review of the underlying cash flows and key assumptions used in the discounted cash flow model, and a review of the underlying collateral along with related discount margin by credit quality bucket. 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
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4. 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.

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

	Opening Balance	Transfers into Level 3	Transfers out of Level 3	Included in earnings [1]	Included in OCI [2]	Purchases	Sales	Settlements/ Distributions	Closing Balance	Change in unrealized investment gain/(loss) [3]
Three months ended March 31, 2016										
Fixed maturities										
Corporate debt	$38,518	$—	$(1,955)	$2	$(76)	$5,821	$(1,910)	$(150)	$40,250	$—
CMBS	10,922	—	—	—	(144)	—	—	(227)	10,551	—
ABS	—	—	—	—	—	—	—	—	—	—
	49,440	—	(1,955)	2	(220)	5,821	(1,910)	(377)	50,801	—
Other investments										
CLO - Equities	27,257	36,378	—	(1,016)	—	—	—	(2,248)	60,371	(1,016)
	27,257	36,378	—	(1,016)	—	—	—	(2,248)	60,371	(1,016)
Other assets										
Derivative instruments	4,395	—	—	2,948	—	1,359	—	(2,725)	5,977	1,479
Insurance-linked securities	24,925	—	—	(9)	—	—	—	—	24,916	(9)
Strategic investments	—	—	—	—	—	36,712	—	—	36,712	—
	29,320	—	—	2,939	—	38,071	—	(2,725)	67,605	1,470
Total assets	$106,017	$36,378	$(1,955)	$1,925	$(220)	$43,892	$(1,910)	$(5,350)	$178,777	$454
Other liabilities										
Derivative instruments	$10,937	$—	$—	$3,423	$—	$(1,025)	$—	$1,693	$15,028	$3,682
Total liabilities	$10,937	$—	$—	$3,423	$—	$(1,025)	$—	$1,693	$15,028	$3,682

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

4. FAIR VALUE MEASUREMENTS (CONTINUED)

	Opening Balance	Transfers into Level 3	Transfers out of Level 3	Included in earnings (1)	Included in OCI (2)	Purchases	Sales	Settlements/ Distributions	Closing Balance	Change in unrealized investment gain/(loss) (3)
Three months ended March 31, 2015										
Fixed maturities										
Corporate debt	$ 15,837	$ —	$ —	$ —	$ 180	$ 10,910	$ —	$ (70)	$ 26,857	$ —
CMBS	17,763	—	—	—	(204)	—	—	(498)	17,061	—
ABS	40,031	—	—	—	62	—	—	(172)	39,921	—
	73,631	—	—	—	38	10,910	—	(740)	83,839	—
Other investments										
CLO - Equities	37,046	—	—	3,530	—	—	—	(3,616)	36,960	3,530
	37,046	—	—	3,530	—	—	—	(3,616)	36,960	3,530
Other assets										
Derivative instruments	111	—	—	(1,067)	—	—	—	956	—	—
Insurance-linked securities	—	—	—	—	—	25,000	—	—	25,000	—
Strategic investments	—	—	—	—	—	—	—	—	—	—
	111	—	—	(1,067)	—	25,000	—	956	25,000	—
Total assets	$ 110,788	$ —	$ —	$ 2,463	$ 38	$ 35,910	$ —	$ (3,400)	$ 145,799	$ 3,530
Other liabilities										
Derivative instruments	$ 15,288	$ —	$ —	$ (8,551)	$ —	$ 1,082	$ —	$ (511)	$ 7,308	$ (2,058)
Total liabilities	$ 15,288	$ —	$ —	$ (8,551)	$ —	$ 1,082	$ —	$ (511)	$ 7,308	$ (2,058)

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

Transfers into Level 3 from Level 2

There were no transfers to Level 3 from Level 2 made during the three months ended March 31, 2016 and 2015.

The transfers into Level 3 during the three months ended March 31, 2016 were the result of a change in valuation methodology relating to our CLO equity fund. An income approach valuation technique (discounted cash flow model) is used to estimate fair value at March 31, 2016. As the NAV practical expedient is no longer used the CLO equity fund is now categorized within the fair value hierarchy.

Transfers out of Level 3 into Level 2

The transfers to Level 2 from Level 3 made during the three months ended March 31, 2016 were primarily due to the availability of observable market inputs and quotes from pricing vendors on certain fixed maturities. There were no transfers to Level 2 from Level 3 made during the three months ended March 31, 2015.

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 March 31, 2016, due to their respective short maturities. As these financial instruments are not actively traded, their respective fair values are classified within Level 2.

4. FAIR VALUE MEASUREMENTS (CONTINUED)

The carrying value of mortgage loans held-for-investment approximated their fair value at March 31, 2016, due to the fact that the loans are within their first year of issue. 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 March 31, 2016, our senior notes are recorded at amortized cost with a carrying value of $992 million (2015: $992 million) and have a fair value of $1,068 million (2015: $1,058 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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5. 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.

None of our derivative instruments are designated as hedges under current accounting guidance.

	March 31, 2016			December 31, 2015		
	Derivative Notional Amount	Derivative Asset Fair Value(1)	Derivative Liability Fair Value(1)	Derivative Notional Amount	Derivative Asset Fair Value(1)	Derivative Liability Fair Value(1)
Relating to investment portfolio:						
Foreign exchange forward contracts	$166,189	$ 592	$ 4,182	$198,406	$ 490	$ 837
Interest rate swaps	—	—	—	—	—	—
Relating to underwriting portfolio:						
Foreign exchange forward contracts	643,673	4,839	2,659	692,023	1,582	6,855
Weather-related contracts	27,519	5,977	15,028	51,395	4,395	10,937
Commodity contracts	39,500	549	—	—	—	—
Total derivatives		$ 11,957	$ 21,869		$ 6,467	$ 18,629

(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.

	March 31, 2016			December 31, 2015		
	Gross Amounts	Gross Amounts Offset	Net Amounts(1)	Gross Amounts	Gross Amounts Offset	Net Amounts(1)
Derivative assets	$18,302	$(6,345)	$ 11,957	$14,336	$(7,869)	$ 6,467
Derivative liabilities	$28,214	$(6,345)	$ 21,869	$26,498	$(7,869)	$ 18,629

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

Refer to Note 3 - 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

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AXIS CAPITAL HOLDINGS LIMITED
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5. DERIVATIVE INSTRUMENTS (CONTINUED)

effect of this foreign currency risk. These foreign currency hedging activities are not designated as specific hedges for financial reporting purposes.

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.

Weather Risk

We 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 in Income on Derivative	Three months ended March 31, 2016	2015
Derivatives not designated as hedging instruments			
Relating to investment portfolio:			
Foreign exchange forward contracts	Net realized investment gains (losses)	$(2,520)	$6,537
Interest rate swaps	Net realized investment gains (losses)	—	(4,006)

Relating to underwriting portfolio:			
Foreign exchange forward contracts	Foreign exchange losses (gains)	3,202	(15,273)
Weather-related contracts	Other insurance related income (losses)	(475)	7,342
Commodity contracts	Other insurance related income (losses)	243	—
Total		$450	$(5,400)

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AXIS CAPITAL HOLDINGS LIMITED
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6. 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:

Three months ended March 31,	2016	2015
Gross reserve for losses and loss expenses, beginning of period	$9,646,285	$9,596,797
Less reinsurance recoverable on unpaid losses, beginning of period	(2,031,309)	(1,890,280)
Net reserve for unpaid losses and loss expenses, beginning of period	7,614,976	7,706,517
Net incurred losses and loss expenses related to:		
Current year	569,356	568,394
Prior years	(70,394)	(56,066)
	498,962	512,328
Net paid losses and loss expenses related to:		
Current year	(21,740)	(23,527)
Prior years	(534,532)	(474,030)
	(556,272)	(497,557)
Foreign exchange and other	87,420	(198,705)
Net reserve for unpaid losses and loss expenses, end of period	7,645,086	7,522,583
Reinsurance recoverable on unpaid losses, end of period	2,071,401	1,920,639
Gross reserve for losses and loss expenses, end of period	$9,716,487	$9,443,222

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 March 31,	
	2016	2015
Insurance	$2,427	$3,361
Reinsurance	67,967	52,705
Total	$70,394	$56,066

Overall, 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 motor and liability reinsurance lines in the three months ended March 31, 2016 and 2015 also contributed, with professional reinsurance providing additional favorable loss development in the three months ended March 31, 2015. The net favorable prior year reserve development in the three months ended March 31, 2015 was partially offset by net adverse prior year reserve development in the political risk and liability insurance lines.

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 $48 million and $34 million of the total net favorable prior year reserve development for the three months ended March 31, 2016 and 2015, respectively. 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 months ended March 31, 2016 and March 31, 2015, the reinsurance

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6. RESERVE FOR LOSSES AND LOSS EXPENSES (CONTINUED)

professional lines contributed net favorable prior year reserve development of $2 million and $20 million, respectively. The favorable prior year development on these lines in the first quarter of 2015 continued to reflect the generally favorable experience on earlier accident years as we continued to transition to more experience based methods on these years. The reduction in the favorable prior year reserve development in the first quarter of 2016 was reflective of the emerging experience on more recent accident years which has generally been more in line with expectations. In the three months ended March 31, 2015, we recorded adverse prior year reserve development of $11 million in our insurance credit and political risk 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 motor and liability reinsurance lines contributed additional net favorable prior year reserve development of $23 million and $19 million in the three months ended March 31, 2016 and March 31, 2015, respectively. The net favorable development for the motor lines related to favorable loss emergence trends on several classes of business spanning multiple accident years. The net favorable development for the liability reinsurance lines primarily reflected the progressively increased weight given by management to experience based indications on older accident years, which has generally been favorable. In the three months ended March 31, 2015, we recorded net adverse prior year reserve development of $11 million in our insurance liability lines related primarily to an increase in loss estimates for one specific claim.

Our March 31, 2016 net reserve for losses and loss expenses includes estimated amounts for numerous catastrophe events. We caution that the magnitude and/or complexity of losses arising from certain of these events, in particular Storm Sandy, the 2011 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.

7. SHARE-BASED COMPENSATION

For the three months ended March 31, 2016, we incurred share-based compensation costs of $17 million (2015: $19 million) and recorded associated tax benefits of $4 million (2015: $4 million).

The total fair value of restricted stock, restricted stock units and cash settled awards vested during the three months ended March 31, 2016 was $57 million (2015: $63 million). At March 31, 2016 there were $143 million of unrecognized compensation costs, which are expected to be recognized over the weighted average period of 2.7 years.

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 three months ended March 31, 2016:

	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(1)

Nonvested restricted stock - beginning of period	201	$ 49.24	1,954	$ 43.34
Granted	104	53.80	577	53.83
Vested	—	—	(714)	38.82
Forfeited	—	—	(1)	41.89
Nonvested restricted stock - end of period	305	$ 50.79	1,816	$ 48.42

(1) Fair value is based on the closing price of our common shares on the New York Stock Exchange on the day of the grant.

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7. SHARE-BASED COMPENSATION (CONTINUED)

Cash-settled awards

The following table provides a reconciliation of the beginning and ending balance of nonvested cash settled restricted stock units for the three months ended March 31, 2016:

	Performance-based Cash Settled RSUs	Service-based Cash Settled RSUs
	Number of Restricted Stock Units	Number of Restricted Stock Units
Nonvested restricted stock units - beginning of period	70	1,433
Granted	18	485
Vested	—	(346)
Forfeited	—	(1)
Nonvested restricted stock units - end of period	88	1,571

At March 31, 2016, the corresponding liability for cash-settled units, included in other liabilities on the Consolidated Balance Sheets, was $22 million (2015: $13 million).

8. EARNINGS PER COMMON SHARE

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

	Three months ended March 31, 2016	2015
Basic earnings per common share		
Net income	$48,386	$165,825
Less: preferred share dividends	9,969	10,022
Net income available to common shareholders	38,417	155,803
Weighted average common shares outstanding - basic(1)	94,035	99,910
Basic earnings per common share	$0.41	$1.56
Diluted earnings per common share		
Net income available to common shareholders	$38,417	$155,803
Weighted average common shares outstanding - basic(1)	94,035	99,910
Share based compensation plans	818	1,229
Weighted average common shares outstanding - diluted(1)	94,853	101,139
Diluted earnings per common share	$0.41	$1.54

Anti-dilutive shares excluded from the dilutive computation	670	569

(1) On August 17, 2015, the Company entered into an Accelerated Share Repurchase ("ASR") agreement (see 'Note 9 - 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 receipt of 4,149,378 common shares delivered to the Company on August 20, 2015, and 1,358,380 common shares delivered to the company on January 15, 2016 under the Company's ASR agreement.

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9. SHAREHOLDERS' EQUITY

The following table presents our common shares issued and outstanding:

	Three months ended March 31,	
	2016	2015
Shares issued, balance at beginning of period	176,240	175,478
Shares issued	316	712
Total shares issued at end of period	176,556	176,190
Treasury shares, balance at beginning of period	(80,174)	(76,052)
Shares repurchased	(3,910)	(290)
Shares reissued from treasury	431	371
Total treasury shares at end of period	(83,653)	(75,971)
Total shares outstanding	92,903	100,219

Treasury Shares

The following table presents our share repurchases:

	Three months ended March 31,	
	2016	2015
In the open market:		
Total shares(1)	3,704	16
Total cost	$185,000	$832
Average price per share(2)	$49.94	$50.69
From employees:		
Total shares	206	274
Total cost	$11,011	$13,939
Average price per share(2)	$53.45	$50.97
Total shares repurchased:		
Total shares	3,910	290
Total cost	$196,011	$14,771
Average price per share(2)	$50.13	$50.95

(1) Amounts in 2016 include 1,358,380 common shares acquired under the accelerated share repurchase program (see below for more detail).
(2) Calculated using whole figures.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9. SHAREHOLDERS' EQUITY (CONTINUED)

Accelerated Share Repurchase Program

On August 17, 2015, the Company entered into an Accelerated Share Repurchase 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, as at December 31, 2015, $240 million of common shares repurchased were included as treasury shares in the Consolidated Balance Sheet with the remaining $60 million included as a reduction to additional paid-in capital.

On January 15, 2016, Goldman Sachs early terminated the ASR agreement and delivered 1,358,380 additional common shares to the Company, resulting in the reduction from additional paid-in capital of $60 million being reclassified to treasury shares. In total, the Company repurchased 5,507,758 common shares under the ASR agreement at an average price of 54.47.

Series B Preferred Shares

On January 27, 2016 we redeemed the remaining 28,430 Series B preferred shares, for an aggregate liquidation preference of
$3 million.

10. 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 March 31, 2016, we have outstanding reinsurance purchase commitments of $36 million, of which $35 million is due in 2016 while the remaining $1 million is due in 2017. Actual payments under the reinsurance contracts will depend on the underlying subject premium and may exceed the minimum premium.

Investments

At March 31, 2016, we have a $20 million commitment to purchase commercial mortgage loans.

Refer 'Note 3 - Investments' for information on commitments related to our other investments.

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

11. OTHER COMPREHENSIVE INCOME

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

	2016 Before Tax Amount	Tax Expense	Net of Tax Amount	2015 Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Three months ended March 31,						
Available for sale investments:						
Unrealized investment gains (losses) arising during the period	$148,831	$(10,197)	$138,634	$5,063	$(10,250)	$(5,187)
Adjustment for reclassification of net realized investment losses and OTTI losses recognized in net income	63,992	(4,711)	59,281	45,098	6	45,104
Unrealized investment gains arising during the period, net of reclassification adjustment	212,823	(14,908)	197,915	50,161	(10,244)	39,917
Non-credit portion of OTTI losses	—	—	—	—	—	—
Foreign currency translation adjustment	8,196	—	8,196	(11,413)	—	(11,413)
Total other comprehensive income	$221,019	$(14,908)	$206,111	$38,748	$(10,244)	$28,504

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(1) Three months ended March 31, 2016	2015
Unrealized gains (losses) on available for sale investments			
	Other realized investment losses	$(54,263)	$(27,530)
	OTTI losses	(9,729)	(17,568)
	Total before tax	(63,992)	(45,098)
	Income tax (expense) benefit	4,711	(6)
	Net of tax	$(59,281)	$(45,104)

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

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

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, 2015. Tabular dollars are in thousands, except per share amounts. Amounts in tables may not reconcile due to rounding differences.

FIRST QUARTER 2016 FINANCIAL HIGHLIGHTS

First Quarter 2016 Consolidated Results of Operations

- Net income available to common shareholders of $38 million, or $0.41 per common share and $0.41 per diluted common share
- Operating income of $101 million, or $1.07 per diluted common share[1]
- Gross premiums written of $2.0 billion
- Net premiums written of $1.7 billion
- Net premiums earned of $902 million
- Net favorable prior year reserve development of $70 million
- Low level of catastrophe and weather-related pre-tax net losses
- Underwriting income of $99 million and combined ratio of 91.9%
- Net investment income of $49 million
- Net realized investment losses of $67 million

First Quarter 2016 Consolidated Financial Condition

- Total cash and investments of $14.6 billion; fixed maturities, cash and short-term securities comprise 88% of total cash and investments and have an average credit rating of AA-
- Total assets of $21.0 billion
- Reserve for losses and loss expenses of $9.7 billion and reinsurance recoverable of $2.1 billion
- Total debt of $1.0 billion and the debt to total capital ratio of 14.3%
- Repurchased 3.9 million common shares, including 2.5 million of common shares repurchased for a total of $136 million and 1.4 million common shares acquired under an Accelerated Share Repurchase agreement ("ASR") which terminated on January 15, 2016. At April 28, 2016 the remaining authorization under the repurchase program approved by our Board of Directors was $625 million
- Common shareholders' equity of $5.3 billion and diluted book value per common share of $56.04

(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

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, Latin America and the Middle East. 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 global leader in specialty risks. Our execution on this strategy in the first three months of 2016 included:

- continued rebalancing of our portfolio towards less-volatile lines of business that carry attractive rates;
- 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. During the first quarter of 2016 we commenced writing business through our underwriting division at Lloyd's in China; and
- continued growth of our accident and health line, which launched in 2010 and is focused on specialty accident and health products.

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Results of Operations

	Three months ended March 31,		
	2016	% Change	2015
Underwriting income:			
Insurance	$17,436	83%	$9,550
Reinsurance	81,515	(11%)	91,240
Net investment income	49,164	(47%)	92,107
Net realized investment losses	(66,508)	56%	(42,553)
Other revenues (expenses), net	(33,221)	nm	15,481
Net income	48,386	(71%)	165,825
Preferred share dividends	(9,969)	(1%)	(10,022)
Net income available to common shareholders	$38,417	(75%)	$155,803
Operating income	$101,274	(26%)	$136,071

nm – not meaningful

Underwriting Results

Total underwriting income in the three months ended March 31, 2016 was $99 million, a decrease of $2 million compared to $101 million in the three months ended March 31, 2015. The modest decrease in underwriting income was primarily driven by an increase in the acquisition cost ratio, a reduction in other insurance related income and increased weather-related losses, which was largely offset by an increase in prior year development, a decrease in the current accident year loss ratio excluding weather-related losses and lower general and administrative expenses.

The reinsurance segment underwriting income decreased by $10 million in the three months ended March 31, 2016, compared to the three months ended March 31, 2015. The decrease in underwriting income was driven by a reduction in other insurance related income which primarily reflects the results of our weather and commodities derivative business. In addition, the decrease in segment underwriting income was due to an increase in acquisition costs, which were impacted by adjustments for loss-sensitive features in reinsurance contracts and higher commissions paid in certain lines of business, and increases in the current accident year loss ratio, reflecting changes in the business mix and the impact of rates and loss trends. These reductions in underwriting income were partially offset by an increase in favorable prior year development and a decrease in general and administrative expenses.

The insurance segment underwriting income increased by $8 million in the three months ended March 31, 2016, compared to the three months ended March 31, 2015. The increase was primarily due to a decrease in the current accident year loss ratio, following an improvement in the mid-size loss experience in our marine and property lines, a reduction in the acquisition cost ratio and lower general and administrative expenses.

Net Investment Income

Net investment income was $49 million in the three months ended March 31, 2016, a decrease of $43 million from $92 million in the three months ended March 31, 2015. The decrease was primarily driven by our other investments; these investments generated a loss of $27 million this quarter, compared to a gain of $31 million in the first quarter of 2015. Other investments were impacted by the poor performance of our hedge funds with two hedge funds in particular performing very poorly in the volatile global equity markets experienced during the first quarter of 2016.

Net Realized Investment Gains (Losses)

During the three months ended March 31, 2016, we realized losses of $67 million, compared to realized losses of $43 million for the same period of 2015. 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 comparative period in 2015 reflected losses related to the same factors. OTTI charges were $10 million for the three months ended March 31, 2016, compared to $18 million for the same period in 2015.

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Other Revenues (Expenses), Net

Appreciation of various currencies against the U.S dollar, partially offset by depreciation of the sterling against the U.S dollar resulted in a foreign exchange loss of $1 million in the three months ended March 31, 2016. In the three months ended March 31, 2015, depreciation of the euro and sterling against the U.S. Dollar was the primary driver of a foreign exchange gain of $63 million.

Corporate expenses decreased from $36 million in the three months ended March 31, 2015 to $26 million in the three months ended March 31, 2016. The quarterly decrease in corporate expenses was primarily attributable to non-recurring expenses incurred in the first quarter of 2015, including expenses related to the proposed amalgamation with PartnerRe and certain lease cancellation costs.

Our effective tax rate, which is calculated as income tax expense (benefit) divided by net income (loss) before tax, was (15.6)% in the three months ended March 31, 2016 compared to (0.4)% in the same period of 2015. The effective tax rate can vary between periods depending on the distribution of net income amongst tax jurisdictions, as well as other factors. The tax benefit in 2016 was primarily driven by realized investment losses in the United States and the reduction of a valuation allowance on European foreign tax credit carry forwards while the tax benefit in 2015 was the result of underwriting losses borne by our operations in the United States.

Outlook

Competitive conditions continue to impact the insurance markets with pricing pressures affecting most markets. Consistent with prior quarters, we observed the greatest pressure in the catastrophe exposed property and certain global specialty lines of business, with large accounts more competitive than smaller risks. While these competitive pressures have led to price reductions across most of lines of business, with decreases in the international markets generally more severe than those in the United States, we are beginning to see some moderation in the price decreases compared to prior periods. In response to these challenging market conditions, we continue to voluntarily reduce business where our profitability requirements are no longer met and actively pursue more attractive business. Where necessary we also continue to shift our business mix toward smaller accounts in order to achieve a better, more stable attritional experience with lower severity.
The reinsurance markets continue to be affected by the excess capacity which has shaped markets over a number of quarters, and conditions remain very challenging in the majority of lines of business and geographical regions. However, we have recently begun to observe resistance to irrational rate reductions in certain lines of business which was coupled with an increase in the number of cedants looking to buy more reinsurance protection. This has led to some moderation of pricing pressures and increased the resistance to cedant demands for greater commission rates and more generous terms and conditions. While overall the reinsurance markets remain very competitive, we are optimistic that the current year may approach a floor in pricing for many lines and markets, with some market disruptions creating opportunities for long-term, stable and credible market participants such as AXIS Capital.

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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 March 31,	
	2016	2015
ROACE (annualized)(1)	2.9 %	11.8 %
Operating ROACE (annualized)(2)	7.7 %	10.3 %
DBV per common share(3)	$56.04	$51.97
Cash dividends declared per common share	$0.35	$0.29
Increase in diluted book value per common share adjusted for dividends	$2.31	$1.63

(1) Return on average common equity ("ROACE") is calculated by dividing annualized net income available to common 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.

(2) 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 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).

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

Return on Equity

The decrease in ROACE in the three months ended March 31, 2016, compared to the three months ended March 31, 2015, was primarily driven by the decrease in foreign exchange gains and net investment income and the increase in net realized investment losses in the three months ended March 31, 2016 compared to the same period in 2015.

The decrease in operating ROACE for the three months ended March 31, 2016, compared to the three months ended March 31, 2015 was driven by the decrease in net investment income in the three months ended March 31, 2016 compared to the same period in 2015 which was partially offset by a decrease in corporate expenses. The decrease in operating ROACE was less pronounced compared to the decrease in ROACE primarily due to the exclusion of the foreign exchange gains (losses) and realized investment losses from the operating ROACE measure.

Diluted Book Value per Common Share

Our DBV per common share increase of 8% from $51.97 at March 31, 2015, to $56.04 at March 31, 2016, primarily reflected the generation of $484 million in net income available to common shareholders over the past twelve months and the increase over the last twelve months in unrealized gains on investments which are included in accumulated other comprehensive income, which was partially offset by common share 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 believe investors use the DBV per common share adjusted for dividends metric to measure comparable performance across the industry.

During the three months ended March 31, 2016, total value created consisted primarily of an increase in unrealized gains on investments, reported in accumulated other comprehensive income, and our net income.

During the three months ended March 31, 2015, total value created consisted primarily of our net income and increases in the unrealized gains on investments, which were partially offset by foreign exchange losses included in the cumulative foreign currency translation adjustments.

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UNDERWRITING RESULTS – GROUP

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 March 31,		
	2016	% Change	2015
Revenues:			
Gross premiums written	$1,959,161	17%	$1,678,932
Net premiums written	1,685,806	16%	1,455,546
Net premiums earned	902,340	—%	904,053
Other insurance related income	(203)	nm	7,676
Expenses:			
Current year net losses and loss expenses	(569,356)		(568,394)
Prior year reserve development	70,394		56,066
Acquisition costs	(180,635)		(171,542)
Underwriting-related general and administrative expenses(1)	(123,589)		(127,069)
Underwriting income(2)	$98,951	(2%)	$100,790
General and administrative expenses(1)	$149,901		$163,241
Income before income taxes(2)	$41,846		$165,135

nm – not meaningful

(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 $26,312 and $36,172 for the three months ended March 31, 2016 and 2015, respectively; refer to 'Other Expenses (Revenues), Net' for additional information related to these corporate expenses. Also, refer 'Non-GAAP Financial Measures' for further information.

(2) 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 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.

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UNDERWRITING REVENUES

Premiums Written:

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

	Gross Premiums Written		
	Three months ended March 31,		
	2016	% Change	2015
Insurance	$653,349	8%	$602,724
Reinsurance	1,305,812	21%	1,076,208
Total	$1,959,161	17%	$1,678,932
% ceded			
Insurance	28%	—	28%
Reinsurance	7%	2 pts	5%
Total	14%	1 pts	13%

	Net Premiums Written		
	Three months ended March 31,		
	2016	% Change	2015
Insurance	$473,163	8%	$436,740
Reinsurance	1,212,643	19%	1,018,806
Total	$1,685,806	16%	$1,455,546

Gross premiums written in the three months ended March 31, 2016, increased by $280 million or 17% (on a constant currency basis, premiums increased 20%) compared to the three months ended March 31, 2015 due to increases in both our reinsurance and insurance segments.

The increase in the reinsurance segment gross written premiums in the three months ended March 31, 2016, compared to the same period of 2015 was impacted by the increase in the level of premiums written on a multi-year basis during the first quarter of 2016 compared to 2015, most notably in our credit and surety and liability lines. This increase was partially offset by foreign exchange movements as the strength of the U.S. dollar drove comparative premium decreases in 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 $192 million. The increase was primarily driven by our marine and other, liability, motor and professional lines. The increase in our marine and other lines was due to a new large pro-rata marine treaty. The increase in the liability lines was due to new business and the timing of a large pro-rata treaty. The increase in our motor lines was due to new business and increased participations, partially offset by favorable premium adjustments recorded in the prior year that were not repeated in the current quarter. The increase in professional lines was primarily due to timing differences.

Our insurance segment's gross written premiums increased by $51 million in the three months ended March 31, 2016, compared to the same period of 2015. The increase was attributable to our accident and health, property and aviation lines. The increases in our accident and health and property lines were primarily driven by new business. The increase in the aviation lines was driven by timing differences. These increases were partially offset by a decrease in the marine and professional lines. The decrease in marine lines was driven by lower rates and timing differences. The reduction in professional lines was primarily driven by the exit of certain lines of business announced during 2015, which reduced premiums written in our Australian business.

In the three months ended March 31, 2016, the ceded gross written premium ratio increased by 1%, compared to the three months ended March 31, 2015, with the increase driven by the reinsurance segment due to increased reinsurance retrocessions in the property and catastrophe lines.

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Net Premiums Earned:

Net premiums earned by segment were as follows:

	Three months ended March 31,				
	2016		2015		% Change
Insurance	$438,678	49 %	$447,467	49 %	(2%)
Reinsurance	463,662	51 %	456,586	51 %	2%
Total	$902,340	100%	$904,053	100%	—%

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 were flat (increased by 3% on a constant currency basis) in the three months ended March 31, 2016, compared to the same period in 2015. A reduction in the insurance segment was offset by increases in the reinsurance segment.

The decrease in the insurance segment was primarily driven by a reduction in the professional lines, due to an increase in ceded premiums, and marine lines. These decreases were largely offset by an increase in business written in the accident and health lines in recent periods.

The increase in the reinsurance segment was driven by increased business in the marine and other and liability lines in recent periods, partially offset by increased reinsurance retrocessions in the property and catastrophe lines.

Other Insurance Related Income (Loss):

The decrease in other insurance related income of $8 million in the three months ended March 31, 2016, compared to the same period in 2015, primarily reflected the favorable impact of realized gains and mark-to-market adjustments on the reinsurance segment's weather and commodities derivative business in the first quarter of 2015 compared to an immaterial impact of this business in the first quarter of 2016.

UNDERWRITING EXPENSES

The following table provides a breakdown of our combined ratio:

	Three months ended March 31,		
	2016	% Point Change	2015
Current accident year loss ratio	63.1%	0.2	62.9%
Prior year reserve development	(7.8 %)	(1.6)	(6.2 %)
Acquisition cost ratio	20.0%	1.0	19.0%
General and administrative expense ratio[(1)]	16.6%	(1.4)	18.0%
Combined ratio	91.9%	(1.8)	93.7%

(1) The general and administrative expense ratio includes corporate expenses not allocated to reportable segments of 2.9% and 4.0% for the three months ended March 31, 2016 and 2015, respectively. These costs are further discussed in the ‘Other Expenses (Revenues), Net’ section.

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Current Accident Year Loss Ratio:

The current accident year loss ratio increased to 63.1% in the three months ended March 31, 2016, from 62.9% in the three months ended March 31, 2015. In the three months ended March 31, 2016, we incurred weather-related losses of $14 million. Comparatively, in the three months ended March 31, 2015, we incurred weather-related losses of $8 million. After adjusting for these losses our current accident year loss ratio for the quarter ended March 31, 2016, decreased due to improved mid-size loss experience in our insurance marine and property lines, which was partially offset by the impact of rate and loss trends and changes in the business mix.

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 March 31, 2016	Three months ended March 31, 2015
Insurance	$2,427	$3,361
Reinsurance	67,967	52,705
Total	$70,394	$56,066

Overview

Overall, 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 motor and liability reinsurance lines in the three months ended March 31, 2016 and 2015 also contributed, with professional reinsurance providing additional favorable loss development in the three months ended March 31, 2015. The net favorable prior year reserve development in the three months ended March 31, 2015 was partially offset by net adverse prior year reserve development in the political risk and liability insurance lines.

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 $48 million and $34 million of the total net favorable prior year reserve development for the three months ended March 31, 2016 and 2015, respectively. 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 months ended March 31, 2016 and March 31, 2015, the reinsurance professional lines contributed net favorable prior year reserve development of $2 million and $20 million, respectively. The favorable prior year development on these lines in the first quarter of 2015 continued to reflect the generally favorable experience on earlier accident years as we continued to transition to more experience based methods on these years. The reduction in the favorable prior year reserve development in the first quarter of 2016 was reflective of the emerging experience on more recent accident years which has generally been more in line with expectations. In the three months ended March 31, 2015, we recorded adverse prior year reserve development of $11 million in our insurance credit and political risk 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 motor and liability reinsurance lines contributed additional net favorable prior year reserve development of $23 million and $19 million in the three months ended March 31, 2016 and March 31, 2015, respectively. The net favorable development for the motor lines related to favorable loss emergence trends on several classes of business spanning multiple accident years. The net favorable development for the liability reinsurance lines primarily reflected the progressively increased weight given by management to experience based indications on older accident years, which has generally been favorable. In the three months ended March 31, 2015, we recorded net adverse prior year reserve development of $11 million in our insurance liability lines related primarily to an increase in loss estimates for one specific claim.

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 Significant Catastrophe Events

Our March 31, 2016 net reserve for losses and loss expenses includes estimated amounts for numerous catastrophe events. We caution that the magnitude and/or complexity of losses arising from certain of these events, in particular Storm Sandy, the 2011 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 in relation to the catastrophe events described above were 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.

Insurance Segment:

	Three months ended March 31,	
	2016	2015
Property and other	$3,060	$16,523
Marine	416	8,810
Aviation	964	242
Credit and political risk	(179)	(11,100)
Professional lines	(342)	(80)
Liability	(1,492)	(11,034)
Total	$2,427	$3,361

In the three months ended March 31, 2016, we recognized $2 million of net favorable prior year reserve development, the principal component of which was:

- $3 million of net favorable prior year reserve development on property and other business, driven by better than expected loss emergence across most accident years, partially offset by strengthening of the 2015 accident year related to late loss emergence on several large property losses.

In the three months ended March 31, 2015, we recognized $3 million of net favorable prior year reserve development, the principal components of which were:

- $17 million of net favorable prior year reserve development on property and other business, primarily related to the 2013 accident year and driven by better than expected loss emergence.

- $9 million of net favorable prior year reserve development on marine business, largely related to better than expected loss emergence in our energy offshore business on accident years 2011 through 2014.

- $11 million of net adverse prior year reserve development on liability business, related to the reserve strengthening for one specific claim impacting accident year 2009.

- $11 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.

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Reinsurance Segment:

	Three months ended March 31,	
	2016	2015
Property and other	$43,632	$8,377
Credit and surety	(123)	4,956
Professional lines	1,526	20,419
Motor	16,469	7,021
Liability	6,463	11,932
Total	$67,967	$52,705

In the three months ended March 31, 2016, we recognized $68 million of net favorable prior year reserve development, the principal components of which were:

- $44 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.
- $16 million of net favorable prior year reserve development on motor business, related to favorable loss emergence trends on several classes spanning multiple accident years.
- $6 million of net favorable prior year reserve development on liability business, primarily related to the 2006 through 2011 accident years, for reasons discussed in the overview.

In the three months ended March 31, 2015, we recognized $53 million of net favorable prior year reserve development, the principal components of which were:

- $20 million of net favorable prior year reserve development on professional lines business, primarily related to the 2004 through 2010 accident years, for reasons discussed in the overview.
- $12 million of net favorable prior year reserve development on liability business, primarily related to the 2005 through 2009 accident years, for reasons discussed in the overview.
- $8 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 $16 million of adverse development on agriculture reserves relating to loss development on the 2014 accident year driven by lower than expected crop yields reported for two specific treaties.
- $7 million of net favorable prior year reserve development on motor business, largely related to proportional business in accident years 2012 through 2013, driven by better than expected loss emergence.

Acquisition Cost Ratio: The increase in the acquisition cost ratio in the three months ended March 31, 2016 to 20.0%, compared to 19.0% in the three months ended March 31, 2015, was driven by increases in our reinsurance segment. The reinsurance segment's increase was primarily due to adjustments related to loss-sensitive features in reinsurance contracts, driven by prior year loss reserve releases, higher acquisition costs paid in certain lines of business and changes in the business mix.

General and Administrative Expense Ratio: The general and administrative expense ratio in the three months ended March 31, 2016, decreased to 16.6%, compared to 18.0% in the three months ended March 31, 2015. The decrease in expenses and the expense ratio between periods was primarily driven by non-recurring expenses related to the proposed PartnerRe amalgamation and certain lease cancellation costs incurred in the first quarter of 2015, as well as a decrease in personnel expenses during the first quarter of 2016 due to a lower headcount.

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RESULTS BY SEGMENT

INSURANCE SEGMENT

Results from our insurance segment were as follows:

	Three months ended March 31,				
	2016		% Change	2015	
Revenues:					
Gross premiums written	$653,349		8%	$602,724	
Net premiums written	473,163		8%	436,740	
Net premiums earned	438,678		(2%)	447,467	
Other insurance related income	137		nm	—	
Expenses:					
Current year net losses and loss expenses	(276,832	)		(289,134	)
Prior year reserve development	2,427			3,361	
Acquisition costs	(61,398	)		(64,455	)
General and administrative expenses	(85,576	)		(87,689	)
Underwriting income	$17,436		83%	$9,550	
Ratios:			% Point Change		
Current year loss ratio	63.1	%	(1.5)	64.6	%
Prior year reserve development	(0.5	%)	0.2	(0.7	%)
Acquisition cost ratio	14.0	%	(0.4)	14.4	%
General and administrative expense ratio	19.5	%	(0.1)	19.6	%
Combined ratio	96.1	%	(1.8)	97.9	%

nm – not meaningful

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Gross Premiums Written:

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

	Three months ended March 31,						
	2016			2015			% Change
Property	$146,592	23	%	$129,624	22	%	13%
Marine	73,532	11	%	91,586	15	%	(20%)
Terrorism	7,046	1	%	7,935	1	%	(11%)
Aviation	19,101	3	%	10,014	2	%	91%
Credit and Political Risk	8,917	1	%	8,117	1	%	10%
Professional Lines	145,451	22	%	150,422	25	%	(3%)
Liability	83,886	13	%	82,667	14	%	1%
Accident and Health	168,824	26	%	122,359	20	%	38%
Total	$653,349	100	%	$602,724	100	%	8%

Gross premiums written in the three months ended March 31, 2016, increased by $51 million or 8% (10% on a constant currency basis) compared to the three months ended March 31, 2015. The increase was attributable to our accident and health, property and aviation lines. The increase in our accident and health and property lines was driven by new business. The increase in the aviation lines was driven by timing differences. These increases were partially offset by a decrease in the marine and professional lines. The marine lines decreased primarily due to lower rates and timing differences. Professional lines decrease was due to the impact of exiting certain lines of business announced during 2015, which reduced premiums written in our Australian business.

Premiums Ceded: In the three months ended March 31, 2016, premiums ceded were $180 million, or 28% of gross premiums written, compared to $166 million, or 28% of gross premiums written in the three months ended March 31, 2015. An increase in reinsurance protection purchased in our professional lines was largely offset by a change in the business mix.

Net Premiums Earned:

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

	Three months ended March 31,						
	2016			2015			% Change
Property	$106,198	25	%	$102,488	24	%	4%
Marine	42,909	10	%	58,646	13	%	(27%)
Terrorism	8,614	2	%	9,059	2	%	(5%)
Aviation	13,853	3	%	10,540	2	%	31%
Credit and Political Risk	13,292	3	%	15,654	3	%	(15%)
Professional Lines	133,474	30	%	151,134	34	%	(12%)
Liability	40,909	9	%	41,320	9	%	(1%)
Accident and Health	79,429	18	%	58,626	13	%	35%
Total	$438,678	100	%	$447,467	100	%	(2%)

Net premiums earned in the three months ended March 31, 2016, decreased by $9 million or 2% (were flat on a constant currency basis) compared to the three months ended March 31, 2015. The change in net premiums earned was primarily driven by a reduction in business written in the marine lines in recent periods as well as increases in our professional lines ceded reinsurance programs, largely offset by growth in our accident and health lines.

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Loss Ratio:

The table below shows the components of our loss ratio:

	Three months ended March 31,		
	2016	% Point Change	2015
Current accident year	63.1%	(1.5)	64.6%
Prior year reserve development	(0.5 %)	0.2	(0.7 %)
Loss ratio	62.6%	(1.3)	63.9%

Current Accident Year Loss Ratio:

The current accident year loss ratios decreased to 63.1% in the three months ended March 31, 2016, from 64.6% in the three months ended March 31, 2015 primarily driven by an improvement in the mid-size loss experience in our marine and property lines. During the three months ended March 31, 2016, we incurred pre-tax losses related to weather-related losses of $10 million, compared to weather-related losses of $5 million incurred in the three months ended March 31, 2015.

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

Acquisition Cost Ratio: The acquisition cost ratio in the three months ended March 31, 2016 was 14.0% compared to 14.4% in the three months ended March 31, 2015, with the reduction in the ratio driven by an increase in ceded commissions received, primarily in our professional lines, following the expansion of our reinsurance protection programs. The increase in ceded commission received more than offset higher commissions paid on certain lines of business.

General and Administrative Expense Ratio: The modest decrease in the general and administrative expense ratio in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 primarily reflected lower personnel expenses.

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REINSURANCE SEGMENT

Results from our reinsurance segment were as follows:

	Three months ended March 31,		
	2016	% Change	2015
Revenues:			
Gross premiums written	$1,305,812	21%	$1,076,208
Net premiums written	1,212,643	19%	1,018,806
Net premiums earned	463,662	2%	456,586
Other insurance related income (losses)	(340)	nm	7,676
Expenses:			
Current year net losses and loss expenses	(292,524)		(279,260)
Prior year reserve development	67,967		52,705
Acquisition costs	(119,237)		(107,087)
General and administrative expenses	(38,013)		(39,380)
Underwriting income	$81,515	(11%)	$91,240
Ratios:		% Point Change	
Current year loss ratio	63.1%	1.9	61.2%
Prior year reserve development	(14.7%)	(3.1)	(11.6%)
Acquisition cost ratio	25.7%	2.2	23.5%
General and administrative expense ratio	8.2%	(0.4)	8.6%
Combined ratio	82.3%	0.6	81.7%

nm – not meaningful

Gross Premiums Written:

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

	Three months ended March 31,				
	2016		2015		% Change
Catastrophe	$146,847	11%	$131,216	12%	12%
Property	176,174	13%	182,012	17%	(3%)
Professional Lines	88,774	7%	65,024	6%	37%
Credit and Surety	258,111	20%	191,357	18%	35%
Motor	321,422	25%	297,690	28%	8%
Liability	149,990	11%	89,772	8%	67%
Agriculture	62,657	5%	69,729	6%	(10%)
Engineering	34,789	3%	38,059	4%	(9%)
Marine and Other	67,048	5%	11,349	1%	491%
Total	$1,305,812	100%	$1,076,208	100%	21%

Gross premiums written increased by $230 million in the three months ended March 31, 2016, compared to the same period in 2015. The increase in the gross premiums written in the three months ended March 31, 2016, was impacted by treaties written on a multi-year basis and foreign exchange movements.

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In the three months ended March 31, 2016, the reinsurance segment reported an increase in the level of multi-year contracts written compared to the same period in 2015. This increase in multi-year contracts increased the amount of premium recorded in the current period but relating to future years compared to the same period in 2015, most notably in the credit and surety and liability lines. On a comparative basis the impact of the multi-year premiums resulted in an increase in gross premiums written of $86 million in the three months ended March 31, 2016, compared to the same period in 2015.

The increase in written premiums was partially offset by the impact of foreign exchange movements in the three months ended March 31, 2016, compared to the same period in 2015, 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 relative decrease of $48 million in gross premiums written in the three months ended March 31, 2016, compared to the same period in 2015.

After adjusting for the impact of multi-year contracts and on a constant currency basis, our gross premiums written increased by $192 million in the three months ended March 31, 2016, compared to the same period in 2015, due to an increase in the marine and other, liability, motor and professional lines. The increase in our marine and other lines was due to a new large marine pro-rata treaty. The increase in the liability lines was due to new business and the timing of a large pro-rata treaty. The increase in our motor lines was due to new business and increased participation, partially offset by favorable premium adjustments recorded in the prior year that were not repeated in the current quarter. The increase in professional lines was primarily due to timing differences.

Premiums Ceded: In the three months ended March 31, 2016, the ratio of ceded premium to gross written premium increased to 7% from 5% in the three months ended March 31, 2015. The increase was largely due to increased reinsurance retrocessions primarily in our property and catastrophe business.

Net Premiums Earned:

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

	Three months ended March 31,						
	2016			2015			% Change
Catastrophe	$46,738	10	%	$60,674	13	%	(23%)
Property	68,596	15	%	76,008	17	%	(10%)
Professional Lines	76,394	16	%	70,310	15	%	9%
Credit and Surety	59,993	13	%	59,834	13	%	—%
Motor	77,508	17	%	83,439	18	%	(7%)
Liability	82,532	18	%	71,052	16	%	16%
Agriculture	19,654	4	%	19,603	4	%	—%
Engineering	15,613	3	%	11,900	3	%	31%
Marine and Other	16,634	4	%	3,766	1	%	342%
Total	$463,662	100	%	$456,586	100	%	2%

Net premiums earned increased by $7 million or 2% (6% on a constant currency basis) in the three months ended March 31, 2016, compared to the same period in 2015 . The increase was primarily driven by the growth in the business written in the marine and other and liability lines in recent periods, partially offset by increased reinsurance retrocessions in the catastrophe and property lines.

Other Insurance Related Income (Losses):

The decrease in other insurance related income of $8 million in the three months ended March 31, 2016, compared to the same period in 2015, reflected the impact of the realized gains and favorable mark-to-market adjustments on our weather and commodities derivative portfolio in the three months ended March 31, 2015. This derivative portfolio had an immaterial impact in the three months ended March 31, 2016.

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Loss Ratio:

The table below shows the components of our loss ratio:

	Three months ended March 31,		
	2016	% Point Change	2015
Current accident year	63.1 %	1.9	61.2 %
Prior year reserve development	(14.7%)	(3.1)	(11.6%)
Loss ratio	48.4 %	(1.2)	49.6 %

Current Accident Year Loss Ratio:

The current accident year loss ratio increased to 63.1% in the three months ended March 31, 2016, from 61.2% in the three months ended March 31, 2015. The current accident year loss ratio increased primarily due to changes in the business mix and the impact of rate and loss trends.

Refer ‘Prior Year Reserve Development’ for further details.

Acquisition Cost Ratio: The increase in the acquisition cost ratio in the three months ended March 31, 2016 to 25.7%, compared to 23.5% in the three months ended March 31, 2015, was due to adjustments related to loss-sensitive features in reinsurance contracts, primarily due to prior year reserve releases, higher acquisition costs paid in certain lines of business and changes in the business mix.

General and Administrative Expense Ratio: The general and administrative expense ratio in the three months ended March 31, 2016 was 8.2% compared to 8.6% in the three months ended March 31, 2015, with the decrease driven by lower personnel expenses due to a reduction in headcount and an increase in net premiums earned.

OTHER EXPENSES (REVENUES), NET

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

	Three months ended March 31,		
	2016	% Change	2015
Corporate expenses	$26,312	(27%)	$36,172
Foreign exchange losses (gains)	616	nm	(63,220)
Interest expense and financing costs	12,833	5%	12,257
Income tax benefit	(6,540)	nm	(690)
Total	$33,221	nm	$(15,481)

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 2.9% for the three months ended March 31, 2016, compared to 4.0% in the same period of 2015. The decrease reflects non-recurring expenses incurred in the first quarter of 2015, including expenses related to the proposed amalgamation with PartnerRe and certain lease cancellation costs.

Foreign Exchange Losses (Gains): Some of our business is written in currencies other than the U.S. Dollar. The foreign exchange losses (gains) for the periods presented were largely driven by the re-measurement of our net insurance related liabilities. The modest foreign exchange loss for the three months ended March 31, 2016 was primarily driven by the appreciation of various currencies

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against the U.S dollar, partially offset by the depreciation of the sterling against the U.S dollar. The foreign exchange gains for the three months ended March 31, 2015, were primarily driven by depreciation of the euro and sterling against the U.S. Dollar.

Income Tax 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 (15.6)% in the three months ended March 31, 2016, compared to (0.4)% in the three months ended March 31, 2015. This effective rate can vary between periods depending on the distribution of net income amongst tax jurisdictions, as well as other factors. We generated consolidated pre-tax net income in both the three months ended March 31, 2016 and March 31, 2015; however, in 2016 realized investment losses in the United States and the reduction of a valuation allowance on European foreign tax credit carry forwards resulted in the recognition of an income tax benefit, while in 2015 underwriting losses borne by our operations in the United States were the primary drivers of an income tax benefit.

NET INVESTMENT INCOME AND NET REALIZED INVESTMENT GAINS (LOSSES)

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 March 31,		
	2016	% Change	2015
Fixed maturities	$75,975	15%	$66,088
Other investments	(26,878)	nm	30,935
Equity securities	5,145	207%	1,676
Mortgage loans	1,684	nm	13
Cash and cash equivalents	1,434	30%	1,099
Short-term investments	206	199%	69
Gross investment income	57,566	(42%)	99,880
Investment expense	(8,402)	8%	(7,773)
Net investment income	$49,164		