AXIS CAPITAL HOLDINGS LTD
Form 10-Q
May 09, 2018
Table of Contents

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, 2018
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 website, 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
At May 1 2018, there were 83,518,960 Common Shares, $0.0125 par value per share, of the registrant outstanding.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED
INDEX TO FORM 10-Q

Table of Contents

PART I FINANCIAL INFORMATION

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the United States securities laws. In some cases, these statements can be identified by the use of forward-looking words such as "may”, "should”, "could", "anticipate", "estimate", "expect", "plan", "believe", "predict", "potential", and "intend". Forward-looking statements contained in this report may include information regarding our estimates of losses related to catastrophes and other large losses, measurements of potential losses in the fair value of our investment portfolio and derivative contracts, our expectations regarding the performance of our business, our financial results, our liquidity and capital resources and the outcome of our strategic initiatives, our expectations regarding estimated synergies and the success of the integration of acquired entities, our expectations regarding the estimated benefits and synergies relating to the Company's transformation program, our expectations regarding pricing and other market conditions, our growth prospects, and valuations of the potential impact of movements in interest rates, equity securities 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 cyclical nature of the re(insurance) business leading to periods with excess underwriting capacity and unfavorable premium rates,
- the occurrence and magnitude of natural and man-made disasters,
- losses from war, terrorism and political unrest or other unanticipated losses,
- 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,
- our inability to purchase reinsurance or collect amounts due to us,
- the breach by third parties in our program business of their obligations to us,
- difficulties with technology and/or data security,
- the failure of our policyholders and intermediaries to pay premiums,
- 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 and credit risk due to our reliance on brokers,
- changes in accounting policies or practices,
- the use of industry catastrophe models and changes to these models,
- changes in governmental regulations and potential government intervention in our industry,
- failure to comply with certain laws and regulations relating to sanctions and foreign corrupt practices,
- increased competition,
- changes in the political environment of certain countries in which we operate or underwrite business including the United Kingdom's expected withdrawal from the European Union,

- fluctuations in interest rates, credit spreads, equity securities prices and/or currency values,
- the failure to successfully integrate acquired businesses or realize the expected synergies resulting from such acquisitions,
- the failure to realize the expected benefits or synergies relating to the Company's transformation program,

3

Table of Contents

- changes in tax laws, and
- the other factors including but not limited to those 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, 2017.

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

Table of Contents

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2018 (UNAUDITED) AND DECEMBER 31, 2017

	2018	2017
	(in thousands)	
Assets		
Investments:		
Fixed maturities, available for sale, at fair value (Amortized cost 2018: $11,898,060; 2017: $12,611,219)	$11,801,396	$12,622,006
Equity securities, at fair value (Cost 2018: $374,091; 2017: $552,867)	435,742	635,511
Mortgage loans, held for investment, at amortized cost and fair value	364,769	325,062
Other investments, at fair value	1,009,587	1,009,373
Equity method investments	108,597	108,597
Short-term investments, at amortized cost and fair value	56,246	83,661
Total investments	13,776,337	14,784,210
Cash and cash equivalents	1,227,736	948,626
Restricted cash and cash equivalents	416,844	415,160
Accrued interest receivable	73,928	81,223
Insurance and reinsurance premium balances receivable	3,892,957	3,012,419
Reinsurance recoverable on unpaid and paid losses	3,129,303	3,338,840
Deferred acquisition costs	721,820	474,061
Prepaid reinsurance premiums	1,015,163	809,274
Receivable for investments sold	19,433	11,621
Goodwill	102,003	102,003
Intangible assets	253,808	257,987
Value of business acquired	150,936	206,838
Other assets	307,041	317,915
Total assets	$25,087,309	$24,760,177
Liabilities		
Reserve for losses and loss expenses	$12,034,643	$12,997,553
Unearned premiums	4,659,858	3,641,399
Insurance and reinsurance balances payable	1,251,629	899,064
Senior notes and notes payable	1,376,835	1,376,529
Payable for investments purchased	144,315	100,589
Other liabilities	355,634	403,779
Total liabilities	19,822,914	19,418,913
Shareholders’ equity		
Preferred shares	775,000	775,000
Common shares (shares issued 2018: 176,580; 2017: 176,580 shares outstanding 2018: 83,518; 2017: 83,161)	2,206	2,206
Additional paid-in capital	2,289,497	2,299,166
Accumulated other comprehensive income (loss)	(85,216)	92,382
Retained earnings	6,076,294	5,979,666

Treasury shares, at cost (2018: 93,062; 2017: 93,419 shares)	(3,793,386)	(3,807,156)
Total shareholders' equity	5,264,395	5,341,264
Total liabilities and shareholders' equity	$25,087,309	$24,760,177

See accompanying notes to Consolidated Financial Statements.

6

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

	Three months ended	
	2018	2017
	(in thousands, except for per share amounts)	
Revenues		
Net premiums earned	$1,167,402	$938,703
Net investment income	100,999	98,664
Other insurance related income (losses)	6,606	(3,783)
Net investment losses:		
Other-than-temporary impairment ("OTTI") losses	(414)	(6,553)
Other realized and unrealized investment losses	(14,416)	(18,497)
Total net investment losses	(14,830)	(25,050)
Total revenues	1,260,177	1,008,534
Expenses		
Net losses and loss expenses	661,345	606,942
Acquisition costs	229,260	189,792
General and administrative expenses	169,837	161,260
Foreign exchange losses	37,860	21,465
Interest expense and financing costs	16,763	12,791
Reorganization expenses	13,054	—
Amortization of value of business acquired	57,110	—
Amortization of intangibles	2,782	—
Total expenses	1,188,011	992,250
Income before income taxes and interest in income (loss) of equity method investments	72,166	16,284
Income tax benefit	1,036	9,337
Interest in loss of equity method investments	—	(5,766)
Net income	73,202	19,855
Preferred share dividends	10,656	14,841
Net income available to common shareholders	$62,546	$5,014
Per share data		
Net income per common share:		
Basic net income	$0.75	$0.06
Diluted net income	$0.75	$0.06
Weighted average number of common shares outstanding - basic	83,322	86,022
Weighted average number of common shares outstanding - diluted	83,721	86,793
Cash dividends declared per common share	$0.39	$0.38

See accompanying notes to Consolidated Financial Statements.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

	Three months ended	
	2018	2017
	(in thousands)	
Net income	$73,202	$19,855
Other comprehensive income (loss), net of tax:		
Available for sale investments:		
Unrealized investment gains (losses) arising during the period	(112,191)	67,703
Adjustment for reclassification of net realized investment losses and OTTI losses recognized in net income	785	24,968
Unrealized investment gains (losses) arising during the period, net of reclassification adjustment	(111,406)	92,671
Foreign currency translation adjustment	1,270	29,869
Total other comprehensive income (loss), net of tax	(110,136)	122,540
Comprehensive income (loss)	$(36,934)	$142,395

See accompanying notes to Consolidated Financial Statements.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

	2018	2017
	(in thousands)	
Preferred shares		
Balance at beginning and end of period	$775,000	$1,126,074
Common shares (par value)		
Balance at beginning and end of period	2,206	2,206
Additional paid-in capital		
Balance at beginning of period	2,299,166	2,299,857
Treasury shares reissued	(19,272)	(37,363)
Share-based compensation expense	9,603	14,177
Balance at end of period	2,289,497	2,276,671
Accumulated other comprehensive income (loss)		
Balance at beginning of period	92,382	(121,841)
Unrealized gains (losses) on available for sale investments, net of tax:		
Balance at beginning of period	89,962	(82,323)
Cumulative effect of adoption of ASU No. 2018-02	2,142	—
Cumulative effect of adoption of ASU No. 2016-01, net of taxes	(69,604)	—
Unrealized gains (losses) arising during the period	(111,406)	92,671
Balance at end of period	(88,906)	10,348
Cumulative foreign currency translation adjustments, net of tax:		
Balance at beginning of period	2,420	(39,518)
Foreign currency translation adjustment	1,270	29,869
Balance at end of period	3,690	(9,649)
Balance at end of period	(85,216)	699
Retained earnings		
Balance at beginning of period	5,979,666	6,527,627
Cumulative effect of adoption of ASU No. 2018-02	(2,142)	—
Cumulative effect of adoption of ASU No. 2016-01, net of taxes	69,604	—
Net income	73,202	19,855
Preferred share dividends	(10,656)	(14,841)
Common share dividends	(33,380)	(33,379)
Balance at end of period	6,076,294	6,499,262
Treasury shares, at cost		
Balance at beginning of period	(3,807,156)	(3,561,553)
Shares repurchased	(7,163)	(151,242)
Shares reissued	20,933	38,248
Balance at end of period	(3,793,386)	(3,674,547)

Total shareholders’ equity	$5,264,395	$6,230,365

See accompanying notes to Consolidated Financial Statements.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

	2018	2017
	(in thousands)	
Cash flows from operating activities:		
Net income	$73,202	$19,855
Adjustments to reconcile net income to net cash used in operating activities:		
Net investment losses	8,909	25,050
Net realized and unrealized gains on other investments	(12,950)	(18,211)
Amortization of fixed maturities	9,895	12,498
Interest in loss of equity method investments	—	5,766
Other amortization and depreciation	68,397	6,467
Share-based compensation expense, net of cash payments	(1,481)	(24,758)
Non-cash foreign exchange losses	—	24,149
Changes in:		
Accrued interest receivable	3,350	5,596
Reinsurance recoverable balances	(113,656)	348,942
Deferred acquisition costs	(253,369)	(171,493)
Prepaid reinsurance premiums	(218,772)	(86,534)
Reserve for loss and loss expenses	184,511	(237,773)
Unearned premiums	1,056,045	654,475
Insurance and reinsurance balances, net	(854,993)	(559,456)
Other items	(36,973)	(40,834)
Net cash used in operating activities	(87,885)	(36,261)
Cash flows from investing activities:		
Purchases of:		
Fixed maturities	(2,474,418)	(2,670,518)
Equity securities	(42,522)	(98,559)
Mortgage loans	(59,838)	—
Other investments	(31,755)	(63,742)
Equity method investments	—	(1,000)
Short-term investments	(57,688)	(2,320)
Proceeds from the sale of:		
Fixed maturities	2,442,673	2,429,084
Equity securities	194,970	70,575
Other investments	44,493	131,777
Short-term investments	46,719	7,087
Proceeds from redemption of fixed maturities	319,526	521,716
Proceeds from redemption of short-term investments	16,022	111,931
Proceeds from the repayment of mortgage loans	20,237	10,233
Purchase of other assets	—	(4,427)
Net cash provided by investing activities	418,419	441,837

Cash flows from financing activities:		
Repurchase of common shares - open market	—	(120,549)
Taxes paid on withholding shares	(7,163)	(23,260)
Dividends paid - common shares	(35,273)	(38,541)
Dividends paid - preferred shares	(10,656)	(14,841)
Net cash used in financing activities	(53,092)	(197,191)
Effect of exchange rate changes on foreign currency cash, cash equivalents, and restricted cash	3,354	1,678
Increase in cash, cash equivalents, and restricted cash	280,796	210,063
Cash, cash equivalents, and restricted cash - beginning of period	1,363,786	1,241,507
Cash, cash equivalents, and restricted cash - end of period	$1,644,582	$1,451,570

Supplemental disclosures of cash flow information: Consideration paid related to an agreement for the Reinsurance to Close ("RITC") of the 2015 and prior years of account of Syndicate 2007 was $688 million in the quarter of which $513 million was settled by transfer of securities and was treated as a non cash activity on the Consolidated Statement of Cash Flows. Also refer to Note 6 'Reserve for Losses and Loss Expenses'.

See accompanying notes to Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These unaudited Consolidated Financial Statements (the "financial statements") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the U.S. Securities and Exchange Commission's ("SEC") instructions to Form 10-Q and Article 10 of Regulation S-X and include AXIS Capital Holdings Limited ("AXIS Capital") and its subsidiaries (the "Company"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. This Quarterly Report on Form 10-Q should be read in conjunction with the financial statements and related notes included in AXIS Capital's Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the Company's 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.

To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year's presentation. These reclassifications did not impact results of operations, financial condition or liquidity.

Tabular dollar and share amounts are in thousands, except per share amounts. All amounts are reported in U.S. dollars.

Significant Accounting Policies

There was one notable change in our significant accounting policies subsequent to our Annual Report on Form 10-K for the year ended December 31, 2017.

a) Investments
Recognition and Measurement of Financial Assets and Financial Liabilities
Fixed maturities and equity securities are reported at fair value at the balance sheet date (see Note 4 'Fair Value Measurements'). Effective January 1, 2018, the Company adopted ASU 2016-01 "Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities," which requires:

- equity investments (except those accounted for under the equity method of accounting, investments that are consolidated or those that meet a practicability exception) to be measured at fair value with changes in fair value recognized in net income,
- simplifies the impairment assessment of equity investments without readily determinable values by requiring a qualitative assessment to identify impairment, eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost,
- requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes,
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requires separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liabilities in accordance with the fair value option,

- requires the separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and
- clarifies that the reporting organization should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the organization's other deferred tax assets.

Upon adoption of this guidance, net unrealized gains on equity securities of $70 million, net of deferred income taxes of $13 million, were reclassified from accumulated other comprehensive income into retained earnings. As prescribed, the prior period has not been restated to conform to the current presentation.

Table of Contents

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards Adopted in 2018

Revenue From Contracts With Customers

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers (Topic 606)," using the modified retrospective transition approach. This guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards, such as accounting for insurance contracts. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company generated fee income of $10 million for the three months ended March 31, 2018 which is within the scope of this ASU. These fees represents service fees and reimbursement of expenses earned by the Company's reinsurance segment related to services provided to its strategic capital partners. These fees are recognized when the related services have been performed and are reported in other insurance related income (losses) in the Consolidated Statements of Operations. Given that the timing and measurement of revenue associated with impacted contracts did not change, the adoption of this guidance did not have a material impact on the Company's results of operations, financial condition and liquidity.

Classification of Certain Cash Receipts and Cash Payments

Effective January 1, 2018, the Company adopted ASU 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments," which addresses diversity in practice in how eight specific cash receipts and cash payments should be presented and classified on the statement of cash flows. The adoption of this guidance did not impact the Company's results of operations, financial condition and liquidity.

Restricted Cash

Effective January 1, 2018, the Company adopted ASU 2016-18, "Statement of Cash Flows (Topic 230) - Restricted Cash," which addresses diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows. This guidance requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. Transfers between cash and cash equivalents and restricted cash and restricted cash equivalents will no longer be presented on the statement of cash flows. To facilitate comparison of the Company's Consolidated Statements of Cash Flows, the Company adopted this guidance utilizing the full retrospective approach for all periods presented in the Company's Consolidated Financial Statements. As a result, the Company's Consolidated Statements of Cash Flows now explains the change during the period in the total of cash, cash equivalents, and restricted cash. Therefore, restricted cash is now included with cash and cash equivalents in the reconciliation of the beginning of period and end of period total amounts shown on the statement of cash flows. The adoption of this guidance did not impact the Company's results of operations, financial condition and liquidity.

Stock Compensation - Scope of Modification Accounting

Effective January 1, 2018, the Company adopted ASU 2017-09 "Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting," which provides clarity and reduces diversity in practice of applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. This ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The guidance states that an entity should account for the effects of a modification unless all the following are met:

1. the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified;
2. the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

Table of Contents

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this Update. The adoption of this guidance did not impact the Company's results of operations, financial condition and liquidity.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

Effective January 1, 2018, the Company adopted ASU 2018-02 "Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" which was a response to a financial reporting issue that arose as a consequence of the U.S. federal government tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 ("U.S. Tax Reform"), which was enacted on December 22, 2017.

U.S. GAAP currently requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. This guidance is applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income rather than in income from continuing operations. As the adjustment of deferred taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate is required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income (referred to as stranded tax effects for purposes of this Update) do not reflect the appropriate tax rate.

The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from U.S. Tax Reform. Consequently, the amendments eliminate the stranded tax effects resulting from U.S. Tax Reform and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of U.S. Tax Reform, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected.

As a consequence of U.S. Tax Reform, the Company recognized a tax benefit of $2 million related to the revaluation of net deferred tax liabilities associated with the reduction in the U.S. corporate income tax rate from 35% to 21%, attributable to net unrealized investment gains associated with investments held by the Company's U.S. domiciled entities. Upon adoption of this guidance, the tax benefit of $2 million was reclassified from accumulated other comprehensive income into retained earnings.

Recently Issued Accounting Standards Not Yet Adopted
Leases

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" which provides a new comprehensive model for lease accounting. The guidance will require a lessee to recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of this guidance on the Company's results of operations, financial condition and liquidity.

Measurement of Credit Losses on Financial Instrument

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments" which replaces the "incurred loss" impairment methodology with an approach based on "expected losses" to estimate credit losses on certain types of financial instruments and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses. The guidance also provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. This guidance is effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance on its results of operations, financial condition and liquidity.

Table of Contents

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment" that eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, an impairment charge will be based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on Step 1 of the current goodwill impairment test). This guidance is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The guidance will be adopted on a prospective basis.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued ASU 2017-08 "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities" which shortens the amortization period for certain purchased callable debt securities held at a premium. This guidance is effective for interim and annual reporting periods, beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of this guidance on our results of operations, financial condition and liquidity.

Table of Contents

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

2. SEGMENT INFORMATION

AXIS Capital's underwriting operations are organized around its global underwriting platforms, AXIS Insurance and AXIS Re. The Company has determined that it has two reportable segments, insurance and reinsurance. The Company does not allocate its assets by segment, with the exception of goodwill and intangible assets, as it evaluates the underwriting results of each segment separately from the results of its investment portfolio.

During the three months ended March 31, 2018, the Company realigned its accident and health business by integrating this business and its operations into the Company's insurance and reinsurance segments. Financial results relating to the Company's accident and health line of business were previously included in the Company's insurance segment. As a result of the realignment, accident and health results are included in the results of both the insurance and reinsurance segments of the Company with effect from January 1, 2018.

Insurance
The Company's insurance segment offers specialty insurance products to a variety of niche markets on a worldwide basis. The product lines in this segment are property, marine, terrorism, aviation, credit and political risk, professional lines, liability, accident and health, together with discontinued lines, which represents lines of business that Novae Group plc ("Novae") exited or placed into run-off in the three month period ended December 31, 2016 and in the three month period ended March 31, 2017.

Reinsurance
The Company's reinsurance segment provides non-life treaty reinsurance to insurance companies on a worldwide basis. The product lines in this segment are catastrophe, property, professional lines, credit and surety, motor, liability, agriculture, engineering, marine and other, accident and health, together with discontinued lines, which represents lines of business that Novae exited or placed into run-off in the three month period ended December 31, 2016 and in the three month period ended March 31, 2017. The reinsurance segment also wrote derivative based risk management products designed to address weather and commodity price risks until July 1, 2017.

Table of Contents

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

2. SEGMENT INFORMATION (CONTINUED)

The following tables present the underwriting results of the Company's reportable segments, as well as the carrying values of allocated goodwill and intangible assets:

	2018			2017		
Three months ended and at March 31,	Insurance	Reinsurance	Total	Insurance	Reinsurance	Total
Gross premiums written	$880,848	$1,781,947	$2,662,795	$545,261	$1,366,610	$1,911,871
Net premiums written	547,893	1,437,978	1,985,871	356,836	1,152,122	1,508,959
Net premiums earned	580,059	587,343	1,167,402	391,964	546,739	938,703
Other insurance related income (losses)	620	5,986	6,606	42	(3,825)	(3,783)
Net losses and loss expenses	(321,538)	(339,807)	(661,345)	(241,085)	(365,857)	(606,942)
Acquisition costs	(87,329)	(141,931)	(229,260)	(54,004)	(135,788)	(189,792)
General and administrative expenses	(102,370)	(37,296)	(139,666)	(85,256)	(36,545)	(121,801)
Underwriting income	$69,442	$74,295	143,737	$11,661	$4,724	16,385
Corporate expenses			(30,171)			(39,459)
Net investment income			100,999			98,664
Net investment losses			(14,830)			(25,050)
Foreign exchange losses			(37,860)			(21,465)
Interest expense and financing costs			(16,763)			(12,791)
Reorganization expenses			(13,054)			—
Amortization of value of business acquired			(57,110)			—
Amortization of intangibles			(2,782)			—
Income before income taxes and interest in income (loss) of equity method investments			$72,166			$16,284
Net loss and loss expense ratio	55.4%	57.9%	56.7%	61.5%	66.9%	64.7%
Acquisition cost ratio	15.1%	24.2%	19.6%	13.8%	24.8%	20.2%
General and administrative expense ratio	17.6%	6.3%	14.5%	21.8%	6.7%	17.2%
Combined ratio	88.1%	88.4%	90.8%	97.0%	98.4%	102.1%
Goodwill and intangible assets	$506,747	$—	$506,747	$84,613	$—	$84,613

Table of Contents

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

3. INVESTMENTS

a) Fixed Maturities and Equity securities

Fixed maturities

The amortized cost and fair values of the Company's fixed maturities classified as available for sale were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI in AOCI[5]
At March 31, 2018					
Fixed maturities					
U.S. government and agency	$1,821,951	$908	$(25,894)	$1,796,965	$ —
Non-U.S. government	649,396	21,084	(9,256)	661,224	—
Corporate debt	4,670,815	40,698	(71,082)	4,640,431	—
Agency RMBS[1]	1,956,394	4,644	(46,193)	1,914,845	—
CMBS[2]	1,042,704	1,964	(14,047)	1,030,621	—
Non-Agency RMBS	39,930	1,997	(530)	41,397	(866)
ABS[3]	1,566,484	4,932	(4,718)	1,566,698	—
Municipals[4]	150,386	781	(1,952)	149,215	—
Total fixed maturities	$11,898,060	$77,008	$(173,672)	$11,801,396	$ (866)
At December 31, 2017					
Fixed maturities					
U.S. government and agency	$1,727,643	$1,735	$(16,909)	$1,712,469	$ —
Non-U.S. government	798,582	17,240	(9,523)	806,299	—
Corporate debt	5,265,795	61,922	(29,851)	5,297,866	—
Agency RMBS[1]	2,414,720	8,132	(27,700)	2,395,152	—
CMBS[2]	776,715	4,138	(3,125)	777,728	—
Non-Agency RMBS	45,713	1,917	(799)	46,831	(853)
ABS[3]	1,432,884	5,391	(1,994)	1,436,281	—
Municipals[4]	149,167	1,185	(972)	149,380	—
Total fixed maturities	$12,611,219	$101,660	$(90,873)	$12,622,006	$ (853)

(1) Residential mortgage-backed securities ("RMBS") originated by U.S. government-sponsored agencies.
(2) Commercial mortgage-backed securities ("CMBS").
(3) Asset-backed securities (ABS) include debt tranched securities collateralized primarily by auto loans, student loans, credit card receivables collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs").
(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, maturities and redemptions. It does not include the change in fair value subsequent to the impairment measurement date.

Table of Contents

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

3. INVESTMENTS (CONTINUED)

Equity Securities

The cost and fair values of the Company's equity securities were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At March 31, 2018				
Equity securities				
Common stocks	$23,251	$ 1,668	$ (977)	$23,942
Exchange-traded funds	211,301	51,843	(514)	262,630
Bond mutual funds	139,539	9,631	—	149,170
Total equity securities	$374,091	$ 63,142	$ (1,491)	$435,742
At December 31, 2017				
Equity securities				
Common stocks	$22,836	$ 3,412	$ (590)	$25,658
Exchange-traded funds	356,252	71,675	(294)	427,633
Bond mutual funds	173,779	9,440	(999)	182,220
Total equity securities	$552,867	$ 84,527	$ (1,883)	$635,511

In the normal course of investing activities, the Company actively manages allocations to non-controlling tranches of structured securities (variable interests) issued by Variable Interest Entities ("VIEs"). These structured securities include RMBS, CMBS and ABS . The Company also invests in limited partnerships (hedge funds, direct lending funds, private equity funds and real estate funds) and CLO equity tranched securities, which are all variable interests issued by VIEs (see Note 3(c) 'Other Investments'). The Company does not have the power to direct the activities that are most significant to the economic performance of the VIEs therefore the Company is not the primary beneficiary of any of these VIEs. The maximum exposure to loss on these interests is limited to the amount of investment by the Company. The Company has not provided financial or other support with respect to these structured securities other than the original investment.

Table of Contents

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

3. INVESTMENTS (CONTINUED)

Contractual Maturities

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. The contractual maturities of fixed maturities are shown below:

	Amortized Cost	Fair Value	% of Total Fair Value	
At March 31, 2018				
Maturity				
Due in one year or less	$513,226	$507,980	4.3	%
Due after one year through five years	4,642,999	4,626,323	39.2	%
Due after five years through ten years	1,942,501	1,911,664	16.2	%
Due after ten years	193,822	201,868	1.7	%
	7,292,548	7,247,835	61.4	%
Agency RMBS	1,956,394	1,914,845	16.2	%
CMBS	1,042,704	1,030,621	8.7	%
Non-Agency RMBS	39,930	41,397	0.4	%
ABS	1,566,484	1,566,698	13.3	%
Total	$11,898,060	$11,801,396	100.0	%
At December 31, 2017				
Maturity				
Due in one year or less	$486,659	$484,663	3.8	%
Due after one year through five years	4,906,207	4,912,189	38.9	%
Due after five years through ten years	2,338,964	2,350,433	18.6	%
Due after ten years	209,357	218,729	1.7	%
	7,941,187	7,966,014	63.0	%
Agency RMBS	2,414,720	2,395,152	19.0	%
CMBS	776,715	777,728	6.2	%
Non-Agency RMBS	45,713	46,831	0.4	%
ABS	1,432,884	1,436,281	11.4	%
Total	$12,611,219	$12,622,006	100.0	%

Table of Contents

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

3. INVESTMENTS (CONTINUED)

Gross Unrealized Losses

The following table summarizes fixed maturities and equity securities 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, 2018[1]						
Fixed maturities						
U.S. government and agency	$179,214	$(7,184)	$1,219,143	$(18,710)	$1,398,357	$(25,894)
Non-U.S. government	47,017	(4,693)	214,545	(4,563)	261,562	(9,256)
Corporate debt	335,415	(15,212)	2,853,336	(55,870)	3,188,751	(71,082)
Agency RMBS	603,008	(24,241)	1,011,088	(21,952)	1,614,096	(46,193)
CMBS	29,098	(1,272)	684,264	(12,775)	713,362	(14,047)
Non-Agency RMBS	8,089	(453)	108,548	(77)	116,637	(530)
ABS	43,804	(455)	547,077	(4,263)	590,881	(4,718)
Municipals	11,101	(375)	93,140	(1,577)	104,241	(1,952)
Total fixed maturities	$1,256,746	$(53,885)	$6,731,141	$(119,787)	$7,987,887	$(173,672)
At December 31, 2017						
Fixed maturities						
U.S. government and agency	$194,916	$(5,963)	$1,389,792	$(10,946)	$1,584,708	$(16,909)
Non-U.S. government	62,878	(6,806)	204,110	(2,717)	266,988	(9,523)
Corporate debt	407,300	(11,800)	2,041,845	(18,051)	2,449,145	(29,851)
Agency RMBS	759,255	(17,453)	1,172,313	(10,247)	1,931,568	(27,700)
CMBS	31,607	(703)	348,943	(2,422)	380,550	(3,125)
Non-Agency RMBS	8,029	(788)	4,197	(11)	12,226	(799)
ABS	57,298	(570)	392,170	(1,424)	449,468	(1,994)
Municipals	11,230	(269)	65,632	(703)	76,862	(972)
Total fixed maturities	$1,532,513	$(44,352)	$5,619,002	$(46,521)	$7,151,515	$(90,873)
Equity securities						
Common stocks	$—	$—	$3,202	$(590)	$3,202	$(590)
Exchange-traded funds	—	—	12,323	(294)	12,323	(294)
Bond mutual funds	—	—	12,184	(999)	12,184	(999)
Total equity securities	$—	$—	$27,709	$(1,883)	$27,709	$(1,883)

(1) Effective January 1, 2018, the Company adopted ASU No. 2016-01 which requires equity securities to be measured at fair value with changes in fair value recognized in net income therefore equity securities at fair value are excluded from the table above at March 31, 2018.

Fixed Maturities

At March 31, 2018, 2,940 fixed maturities (2017: 2,424) were in an unrealized loss position of $174 million (2017: $91 million), of which $11 million (2017: $7 million) was related to securities below investment grade or not rated.

At March 31, 2018, 555 fixed maturities (2017: 627) had been in a continuous unrealized loss position for twelve months or greater and had a fair value of $1,257 million (2017: $1,533 million). Following a credit impairment review, it was concluded that these securities as well as the remaining securities in an unrealized loss position were temporarily impaired at March 31, 2018, and were expected to recover in value as the securities approach maturity. At March 31, 2018, the Company did not intend to sell the securities

Table of Contents

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

3. INVESTMENTS (CONTINUED)

in an unrealized loss position and it is more likely than not that the Company will not be required to sell these securities before the anticipated recovery of their amortized costs.

b) Mortgage Loans

The following table provides a breakdown of the Company's mortgage loans held-for-investment:

	March 31, 2018		December 31, 2017	
	Carrying Value	% of Total	Carrying Value	% of Total
Mortgage Loans held-for-investment:				
Commercial	$364,769	100%	$325,062	100%
	364,769	100%	325,062	100%
Valuation allowances	—	— %	—	— %
Total Mortgage Loans held-for-investment	$364,769	100%	$325,062	100%

The primary credit quality indicator for commercial mortgage loans 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 which compares the unpaid principal balance of the loan to the estimated fair value of the underlying collateral (generally, the higher the loan-to-value ratio, the higher the risk of experiencing a credit loss). The debt service coverage ratio and loan-to-value ratio, as well as the values utilized in calculating these ratios, are updated annually, on a rolling basis.

The Company has a high quality mortgage loan portfolio with weighted average debt service coverage ratios in excess of 2.9x and weighted average loan-to-value ratios of less than 60%. At March 31, 2018 there are no credit losses associated with the commercial mortgage loans held by the Company.

At March 31, 2018, there are no past due amounts.

Table of Contents

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

3. INVESTMENTS (CONTINUED)

c) Other Investments

The following tables provide a breakdown of the Company's other investments, together with additional information relating to the liquidity of each category:

	Fair Value		Redemption Frequency (if currently eligible)	Redemption Notice Period
At March 31, 2018				
Long/short equity funds	$ 25,489	3 %	Annually	60 days
Multi-strategy funds	283,298	28 %	Quarterly, Semi-annually	60-95 days
Event-driven funds	37,680	4 %	Annually	45 days
Direct lending funds	261,902	26 %	n/a	n/a
Private equity funds	65,811	7 %	n/a	n/a
Real estate funds	54,720	5 %	n/a	n/a
CLO-Equities	28,556	2 %	n/a	n/a
Other privately held investments	48,787	5 %	n/a	n/a
Overseas deposits	203,344	20 %	n/a	n/a
Total other investments	$ 1,009,587	100 %		
At December 31, 2017				
Long/short equity funds	$ 38,470	4 %	Annually	60 days
Multi-strategy funds	286,164	28 %	Quarterly, Semi-annually	60-95 days
Event-driven funds	39,177	4 %	Annually	45 days
Direct lending funds	250,681	25 %	n/a	n/a
Private equity funds	68,812	7 %	n/a	n/a
Real estate funds	50,009	5 %	n/a	n/a
CLO-Equities	31,413	2 %	n/a	n/a
Other privately held investments	46,430	5 %	n/a	n/a
Overseas deposits	198,217	20 %	n/a	n/a
Total other investments	$ 1,009,373	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 equity securities.

- 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.
- Direct lending funds: Seek to achieve attractive risk-adjusted returns, including current income generation, by investing in funds which provide financing directly to borrowers.
- Private equity funds: Seek to achieve attractive risk-adjusted returns by investing in private transactions over the course of several years.

Table of Contents

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.

Two common redemption restrictions which may impact the Company's ability to redeem 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 the three months ended March 31, 2018 and 2017, neither of these restrictions impacted the Company's redemption requests. At March 31, 2018, $25 million (2017: $38 million), representing 7% (2017: 11%) of total hedge funds, relate to a holding where the Company is still within the lockup period. The expiration of this lockup period is in March 2019.

At March 31, 2018, the Company had $128 million (2017: $137 million) of unfunded commitments as a limited partner 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 five to ten years and the General Partners of certain funds have the option to extend the term by up to three years.
At March 31, 2018, the Company had $17 million (2017: $16 million) of unfunded commitments as a limited partner in multi-strategy hedge 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 after the completion of the funds' investment term. These funds have investment terms ranging from two years to the dissolution of the underlying fund.
At March 31, 2018, the Company had $105 million (2017: $115 million) of unfunded commitments as a limited partner in funds which invest in real estate and real estate securities and businesses. These funds have investment terms ranging from seven years to the dissolution of the underlying fund.

At March 31, 2018, the Company had $18 million (2017: $21 million) of unfunded commitments as a limited partner in a private equity fund. The life of the fund is subject to the dissolution of the underlying funds. The Company expects the overall holding period to be over ten years.

During 2015, the Company made a $50 million commitment as a limited partner of a bank revolver opportunity fund. The fund has 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, 2018, this commitment remains unfunded. It is not anticipated that the full amount of this fund will be drawn.

During 2017, the Company made a $75 million commitment as a limited partner of an open-ended commercial mortgage income fund. At March 31, 2018, this commitment remains unfunded.

Syndicate 2007 holds overseas deposits which include investments in private funds where the underlying investments are primarily U.S. government, Non-U.S. government and corporate debt securities. The funds do not trade on an exchange therefore are not included within available for sale investments.

Table of Contents

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

3. INVESTMENTS (CONTINUED)

d) Equity Method Investments

During 2016, the Company paid $108 million including direct transaction costs to acquire 19% of the common equity of Harrington Reinsurance Holdings Limited ("Harrington"), the parent company of Harrington Re Ltd. ("Harrington Re"), an independent reinsurance company jointly sponsored by AXIS Capital and The Blackstone Group L.P. ("Blackstone"). Through long-term service agreements, AXIS Capital will serve as Harrington Re's reinsurance underwriting manager and Blackstone will serve as exclusive investment management service provider. As an investor, the Company expects to benefit from underwriting profit generated by Harrington Re and the income and capital appreciation Blackstone seeks to deliver through its investment management services. In addition, the Company has entered into an arrangement with Blackstone under which underwriting and investment related fees will be shared equally. Harrington is not a variable interest entity. Given that the Company exercises significant influence over the operating and financial policies of this investee, the Company accounts for the ownership in Harrington under the equity method of accounting. The Company's proportionate share of the underlying equity in net assets resulted in a basis difference of $5 million which represents initial transactions costs.

During the three months ended March 31, 2017, the Company recorded an impairment charge of $6 million, related to a U.S. based insurance company, which reduced the carrying value of the investment from $9 million to $3 million. During the three months ended June 30, 2017, the carrying value of the investment was reduced to $nil. These charges were included in interest in income (loss) of equity method investments in the Consolidated Statement of Operations.

e) Net Investment Income

Net investment income was derived from the following sources:

	Three months ended March 31,	
	2018	2017
Fixed maturities	$83,958	$77,407
Other investments	13,704	18,962
Equity securities	1,758	3,478
Mortgage loans	3,125	2,477
Cash and cash equivalents	4,153	3,095
Short-term investments	875	438
Gross investment income	107,573	105,857
Investment expenses	(6,574)	(7,193)
Net investment income	$100,999	$98,664

Table of Contents

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

3. INVESTMENTS (CONTINUED)

f) Net Investment Losses

The following table provides an analysis of net investment losses:

	Three months ended March 31, 2018	2017
Gross realized investment gains		
Fixed maturities and short-term investments	$31,628	$20,777
Equity securities	17,557	15,783
Gross realized investment gains	49,185	36,560
Gross realized investment losses		
Fixed maturities and short-term investments	(43,535)	(52,935)
Equity securities	(1,276)	(189)
Gross realized investment losses	(44,811)	(53,124)
Net OTTI recognized in net income	(414)	(6,553)
Change in fair value of investment derivatives(1)	2,023	(1,933)
Net unrealized gains (losses) on equity securities(2)	(20,813)	—
Net investment losses	$(14,830)	$(25,050)

(1) Refer to Note 5 'Derivative Instruments'.
(2) Effective January 1, 2018, the Company adopted ASU No. 2016-01. The change in fair value of equity securities is now recognized in net investment losses.

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

	Three months ended March 31, 2018	2017
Fixed maturities:		
Non-U.S. government	$—	$4,282
Corporate debt	414	2,271
Total OTTI recognized in net income	$414	$6,553

25

Table of Contents

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

3. INVESTMENTS (CONTINUED)

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

	Three months ended March 31, 2018	2017
Balance at beginning of period	$1,494	$1,493
Credit impairments recognized on securities not previously impaired	—	—
Additional credit impairments recognized on securities previously impaired	—	—
Change in timing of future cash flows on securities previously impaired	—	—
Intent to sell of securities previously impaired	—	—
Securities sold/redeemed/matured	(10)	(10)
Balance at end of period	$1,484	$1,483

g) Reverse Repurchase Agreements

At March 31, 2018, the Company held $24 million (2017: $37 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 in the Company's Consolidated Balance Sheets. 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, the Company receives principal and interest income. The Company monitors 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.

Table of Contents

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. U.S. GAAP prescribes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement. 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 the Company has 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 the Company's 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 the Company to change the selection of valuation technique (from market to cash flow approach) or may cause the Company 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.

Valuation Techniques

The valuation techniques, including significant inputs and assumptions generally used to determine the fair values of the Company's financial instruments as well as the classification of the fair values of its financial instruments in the fair value hierarchy are described in detail below.

Fixed Maturities

At each valuation date, the Company uses the market approach valuation technique to estimate the fair value of its 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 the Company maintains a vendor hierarchy by asset type based on historical pricing experience and vendor expertise. When prices are unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers who are active in the corresponding markets. The valuation techniques including significant inputs generally used to determine the fair values of the Company's fixed maturities by asset class as well as the classifications of the fair values of these securities in the fair value hierarchy are described in detail below.

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

4. FAIR VALUE MEASUREMENTS (CONTINUED)

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 U.S. Treasury securities are based on unadjusted market prices in active markets, these securities are classified as Level 1. The fair values of U.S. government agency securities are determined using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads are observable market inputs, the fair values of U.S. government agency securities are classified as Level 2.

Non-U.S. government

Non-U.S. government securities include bonds issued by non-U.S. governments and their agencies along with supranational organizations (collectively also known as sovereign debt securities). The fair values of these securities are based on prices obtained from international indices or valuation models that include inputs such as 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 used to price these securities are observable market inputs, the fair values of non-U.S. government securities are classified as 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 the yields for the risk-free yield curve and the spreads are observable market inputs, the fair values of corporate debt securities are classified as Level 2. Where pricing is unavailable from pricing services, the Company obtains 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, the fair values of these securities are classified as Level 3.

Agency RMBS

Agency RMBS 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 used to price these securities are observable market inputs, the fair values of Agency RMBS are classified as 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 used to price these securities are observable market inputs, the fair values of CMBS securities are classified as Level 2. Where pricing is unavailable from pricing services, the Company obtains 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, the fair values of these securities are classified as 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 used to price these securities are observable market inputs, the fair values of Non-Agency RMBS are classified as Level 2.

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

4. FAIR VALUE MEASUREMENTS (CONTINUED)

ABS

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including auto loans, student loans, credit card receivables, CDOs and CLO debt originated by a variety of financial institutions. The fair values of these securities are determined using a model which uses prepayment speeds and spreads sourced primarily from the new issue market. As the significant inputs used to price these securities are observable market inputs, the fair values of ABS are classified as Level 2. Where pricing is unavailable from pricing services, the Company obtains 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, the fair values of these securities are classified as Level 3.

Municipals

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

Equity Securities

Equity securities include common stocks, exchange-traded funds and bond mutual funds. As the fair values of common stocks and exchange-traded funds are based on unadjusted quoted market prices in active markets, these securities are classified as Level 1.
As bond mutual funds have daily liquidity with redemptions based on the Net Asset Values per share ("NAV") of the funds, the fair values of these securities are classified as Level 2.

Other Investments

Other privately held securities include convertible preferred shares, convertible notes and notes payable. These securities are initially valued at cost which approximates fair value. In subsequent measurement periods, the fair values of these securities are determined using an income approach valuation technique, specifically an internally developed discounted cash flow model. As the significant inputs used to price these securities are unobservable, the fair value of these securities are classified as Level 3.

Indirect investments in CLO-Equities are classified as Level 3 as the fair values of these securities are estimated using an income approach valuation technique, specifically an externally developed discounted cash flow model due to the lack of observable and relevant trades in secondary markets. Direct investments in CLO-Equities are also classified as Level 3 as the fair values of these securities are estimated using a liquidation valuation.

Overseas deposits include investments in private funds held by Syndicate 2007 where the underlying investments are primarily U.S. government, Non-U.S. government and corporate debt securities. The funds do not trade on an exchange therefore are not included within available for sale investments. As the significant inputs used to price the underlying investments are observable market inputs, the fair values of overseas deposits are classified as Level 2.

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 as Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their amortized cost approximates fair value.

Derivative Instruments

Derivative instruments include foreign currency forward contracts, exchange traded interest rate swaps and commodity contracts that are customized to the Company's economic hedging strategies and trade in the over-the-counter derivative market. The fair values of these derivatives are determined using a market approach valuation technique based on significant observable market inputs from third party pricing vendors, non-binding broker-dealer quotes and/or recent trading activity. As the significant inputs used to price these securities are observable market inputs,, the fair values of these derivatives are classified as Level 2.

Table of Contents

4. FAIR VALUE MEASUREMENTS (CONTINUED)

Other underwriting-related derivatives include insurance and reinsurance contracts that are accounted for as derivatives. These derivative contracts are initially valued at cost which approximates fair value. In subsequent measurement periods, the fair values of these derivatives are determined using an income approach valuation technique, specifically internally developed discounted cash flow models. As the significant inputs used to price these derivatives are unobservable, the fair values of these contracts are classified as Level 3.

Insurance-linked Securities

Insurance-linked securities comprise an investment in a catastrophe bond. As pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers to estimate the fair value of this security. Pricing is generally unavailable when there is a low volume of trading activity and current transactions are not orderly therefore the fair value of this security is classified as Level 3.

Cash Settled Awards

Cash settled awards comprise restricted stock units that form part of the Company's compensation program. Although the fair values of these awards are determined using observable quoted market prices in active markets, the restricted stock units are not actively traded. As the significant inputs used to price these securities are observable market inputs, the fair values of these liabilities are classified as Level 2.

Table of Contents

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

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, 2018					
Assets					
Fixed maturities					
U.S. government and agency	$ 1,769,810	$ 27,155	$ —	$—	$1,796,965
Non-U.S. government	—	661,224	—	—	661,224
Corporate debt	—	4,596,960	43,471	—	4,640,431
Agency RMBS	—	1,914,845	—	—	1,914,845
CMBS	—	1,030,621	—	—	1,030,621
Non-Agency RMBS	—	41,397	—	—	41,397
ABS	—	1,566,698	—	—	1,566,698
Municipals	—	149,215	—	—	149,215
	1,769,810	9,988,115	43,471	—	11,801,396
Equity securities					
Common stocks	23,942	—	—	—	23,942
Exchange-traded funds	262,630	—	—	—	262,630
Bond mutual funds	—	149,170	—	—	149,170
	286,572	149,170	—	—	435,742
Other investments					
Hedge funds [(1)]	—	—	—	346,467	346,467
Direct lending funds	—	—	—	261,902	261,902
Private equity funds	—	—	—	65,811	65,811
Real estate funds	—	—	—	54,720	54,720
Other privately held investments	—	—	48,787	—	48,787
CLO-Equities	—	—	28,556	—	28,556
Overseas deposits	—	203,344	—	—	203,344
	—	203,344	77,343	728,900	1,009,587
Short-term investments	—	56,246	—	—	56,246
Other assets					
Derivative instruments (see Note 5)	—	5,283	—	—	5,283
Insurance-linked securities	—	—	25,000	—	25,000
Total Assets	$ 2,056,382	$ 10,402,158	$ 145,814	$728,900	$13,333,254
Liabilities					
Derivative instruments (see Note 5)	$ —	$ 3,439	$ 10,942	$—	$14,381
Cash settled awards (see Note 8)	—	8,789	—	—	8,789
Total Liabilities	$ —	$ 12,228	$ 10,942	$—	$23,170

(1) Includes Long/short equity, Multi-strategy and Event-driven funds.

Table of Contents

AXIS CAPITAL HOLDINGS LIMITED
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, 2017					
Assets					
Fixed maturities					
U.S. government and agency	$ 1,658,622	$ 53,847	$ —	$—	$1,712,469
Non-U.S. government	—	806,299	—	—	806,299
Corporate debt	—	5,244,969	52,897	—	5,297,866
Agency RMBS	—	2,395,152	—	—	2,395,152
CMBS	—	777,728	—	—	777,728
Non-Agency RMBS	—	46,831	—	—	46,831
ABS	—	1,436,281	—	—	1,436,281
Municipals	—	149,380	—	—	149,380
	1,658,622	10,910,487	52,897	—	12,622,006
Equity securities					
Common stocks	25,658	—	—	—	25,658
Exchange-traded funds	427,633	—	—	—	427,633
Bond mutual funds	—	182,220	—	—	182,220
	453,291	182,220	—	—	635,511
Other investments					
Hedge funds [(1)]	—	—	—	363,811	363,811
Direct lending funds	—	—	—	250,681	250,681
Private equity funds	—	—	—	68,812	68,812
Real estate funds	—	—	—	50,009	50,009
Other privately held investments	—	—	46,430	—	46,430
CLO-Equities	—	—	31,413	—	31,413
Overseas deposits	—	198,217	—	—	198,217
	—	198,217	77,843	733,313	1,009,373
Short-term investments	—	83,661	—	—	83,661
Other assets					
Derivative instruments (see Note 5)	—	5,125	—	—	5,125
Insurance-linked securities	—	—	25,090	—	25,090
Total Assets	$ 2,111,913	$ 11,379,710	$ 155,830	$733,313	$14,380,766
Liabilities					