

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

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of 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

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This quarterly report contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the United States securities laws. In some cases, these statements can be identified by the use of forward-looking words such as “may”, “should”, “could”, “anticipate”, “estimate”, “expect”, “plan”, “believe”, “predict”, “potential” and “intend”. Forward-looking statements contained in this report may include information regarding our estimates of losses related to catastrophes and other large losses, measurements of potential losses in the fair value of our investment portfolio and derivative contracts, our expectations regarding pricing and other market conditions, our growth prospects, and valuations of the potential impact of movements in interest rates, equity prices, credit spreads and foreign currency rates. Forward-looking statements only reflect our expectations and are not guarantees of performance.

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

- the occurrence and magnitude of natural and man-made disasters,
- actual claims exceeding our loss reserves,
- general economic, capital and credit market conditions,
- the failure of any of the loss limitation methods we employ,
- the effects of emerging claims, coverage and regulatory issues, including uncertainty related to coverage definitions, limits, terms and conditions,
- the failure of our cedants to adequately evaluate risks,
- inability to obtain additional capital on favorable terms, or at all,
- the loss of one or more key executives,
- a decline in our ratings with rating agencies,
- loss of business provided to us by our major brokers,
- changes in accounting policies or practices,
- the use of industry catastrophe models and changes to these models,
- changes in governmental regulations,
- increased competition,
- changes in the political environment of certain countries in which we operate or underwrite business,
- fluctuations in interest rates, credit spreads, equity prices and/or currency values,

the other matters set forth under Item 1A, ‘Risk Factors’ and Item 7, ‘Management’s Discussion and Analysis of Financial Condition and Results of Operations’ included in our Annual Report on Form 10-K for the year ended December 31, 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.

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**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
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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)	
<b>Preferred shares</b>		
Balance at beginning of period	\$627,843	\$627,843
Shares repurchased	(2,843 )	—
Balance at end of period	625,000	627,843
<b>Common shares (par value)</b>		
Balance at beginning of period	2,202	2,191
Shares issued	4	9
Balance at end of period	2,206	2,200
<b>Additional paid-in capital</b>		
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
<b>Accumulated other comprehensive income (loss)</b>		
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 )
<b>Retained earnings</b>		
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
<b>Treasury shares, at cost</b>		
Balance at beginning of period	(3,010,439 )	(2,763,859 )
Shares repurchased for treasury	(196,011 )	(14,772 )

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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)

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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.

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

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

The consolidated balance sheet at 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:

Three months ended and at March 31,	2016			2015			
	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 <sup>(5)</sup>
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 <sup>(1)</sup>	2,377,262	45,420	(1,381)	2,421,301	—
CMBS <sup>(2)</sup>	1,099,346	13,221	(5,883)	1,106,684	—
Non-Agency RMBS	94,704	1,584	(1,266)	95,022	(862)
ABS <sup>(3)</sup>	1,359,752	1,199	(17,801)	1,343,150	—
Municipals <sup>(4)</sup>	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 <sup>(1)</sup>	2,236,138	22,773	(9,675)	2,249,236	—
CMBS <sup>(2)</sup>	1,088,595	3,885	(9,182)	1,083,298	—
Non-Agency RMBS	99,989	1,992	(973)	101,008	(875)
ABS <sup>(3)</sup>	1,387,919	952	(17,601)	1,371,270	—
Municipals <sup>(4)</sup>	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).

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

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

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.

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

## Contractual Maturities

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

	Amortized 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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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
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At March 31, 2016