AXIS CAPITAL HOLDINGS LTD
Form 10-Q
August 08, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-31721
AXIS CAPITAL HOLDINGS LIMITED
(Exact name of registrant as specified in its charter)
BERMUDA
(State or other jurisdiction of incorporation or organization)
98-0395986
(I.R.S. Employer Identification No.)
92 Pitts Bay Road, Pembroke, Bermuda HM 08
(Address of principal executive offices and zip code)
(441) 496-2600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

As of July 28 2017, there were 83,154,772 Common Shares, $0.0125 par value per share, of the registrant outstanding.

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PART I FINANCIAL INFORMATION

This quarterly report contains forward-looking statements within the meaning of the United States 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”, “pot “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 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 prices and/or currency values,
- with respect to the offer to acquire Novae Group plc, (i) the effect of the announcement of the offer on our business relationships, operating results, share price or business generally, (ii) the occurrence of any event or other

circumstances that could give rise to the termination or lapsing of the offer, (iii) the outcome of any legal proceedings that may be instituted against us relating to the offer and/or the acquisition, (iv) the failure to satisfy any of the conditions to completion of the acquisition, including the receipt of all required regulatory approvals and antitrust consents and (v) the failure to realize the expected synergies resulting from the acquisition, and

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- 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, 2016.

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
JUNE 30, 2017 (UNAUDITED) AND DECEMBER 31, 2016

	2017	2016
	(in thousands)	
Assets		
Investments:		
Fixed maturities, available for sale, at fair value (Amortized cost 2017: $11,420,810; 2016: $11,523,316)	$11,424,295	$11,397,114
Equity securities, available for sale, at fair value (Cost 2017: $651,656; 2016: $597,336)	738,489	638,744
Mortgage loans, held for investment, at amortized cost and fair value	349,916	349,969
Other investments, at fair value	813,617	830,219
Equity method investments	109,258	116,000
Short-term investments, at amortized cost and fair value	10,146	127,461
Total investments	13,445,721	13,459,507
Cash and cash equivalents	728,519	1,039,494
Restricted cash and cash equivalents	286,751	202,013
Accrued interest receivable	72,626	74,971
Insurance and reinsurance premium balances receivable	3,050,222	2,313,512
Reinsurance recoverable on unpaid and paid losses	2,184,934	2,334,922
Deferred acquisition costs	591,397	438,636
Prepaid reinsurance premiums	733,836	556,344
Receivable for investments sold	18,754	14,123
Goodwill and intangible assets	86,220	85,049
Other assets	300,658	295,120
Total assets	$21,499,638	$20,813,691
Liabilities		
Reserve for losses and loss expenses	$9,878,662	$9,697,827
Unearned premiums	3,704,003	2,969,498
Insurance and reinsurance balances payable	677,204	493,183
Senior notes	993,511	992,950
Payable for investments purchased	95,865	62,550
Other liabilities	257,698	325,313
Total liabilities	15,606,943	14,541,321
Shareholders’ equity		
Preferred shares	775,000	1,126,074
Common shares (2017: 176,580; 2016: 176,580 shares issued and 2017: 83,203; 2016: 86,441 shares outstanding)	2,206	2,206
Additional paid-in capital	2,283,523	2,299,857
Accumulated other comprehensive income (loss)	84,306	(121,841)
Retained earnings	6,551,801	6,527,627
Treasury shares, at cost (2017: 93,377; 2016: 90,139 shares)	(3,804,141)	(3,561,553)
Total shareholders’ equity	5,892,695	6,272,370

Total liabilities and shareholders' equity	$21,499,638	$20,813,691

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	Three months ended		Six months ended	
	2017	2016	2017	2016
	(in thousands, except for per share amounts)			
Revenues				
Net premiums earned	$981,431	$946,990	$1,920,133	$1,849,331
Net investment income	106,063	91,730	204,728	140,896
Other insurance related income (losses)	2,560	(892)	(1,222)	(1,094)
Bargain purchase gain	15,044	—	15,044	—
Net realized investment gains (losses):				
Other-than-temporary impairment ("OTTI") losses	(1,528)	(6,369)	(8,082)	(16,099)
Other realized investment gains (losses)	(2,864)	27,379	(21,361)	(29,401)
Total net realized investment gains (losses)	(4,392)	21,010	(29,443)	(45,500)
Total revenues	1,100,706	1,058,838	2,109,240	1,943,633
Expenses				
Net losses and loss expenses	605,332	632,294	1,212,273	1,131,256
Acquisition costs	204,361	189,125	394,153	369,761
General and administrative expenses	147,816	146,746	309,075	296,648
Foreign exchange losses (gains)	36,118	(56,602)	57,583	(55,986)
Interest expense and financing costs	12,751	12,914	25,543	25,747
Total expenses	1,006,378	924,477	1,998,627	1,767,426
Income before income taxes and interest in income (loss) of equity method investments	94,328	134,361	110,613	176,207
Income tax (expense) benefit	3,333	(4,901)	12,670	1,639
Interest in loss of equity method investments	(1,975)	—	(7,741)	—
Net income	95,686	129,460	115,542	177,846
Preferred share dividends	10,656	9,969	25,497	19,938
Net income available to common shareholders	$85,030	$119,491	$90,045	$157,908
Per share data				
Net income per common share:				
Basic net income	$1.01	$1.30	$1.06	$1.70
Diluted net income	$1.01	$1.29	$1.05	$1.69
Weighted average number of common shares outstanding - basic	84,141	91,926	85,076	92,980
Weighted average number of common shares outstanding - diluted	84,511	92,558	85,647	93,705
Cash dividends declared per common share	$0.38	$0.35	$0.76	$0.70

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	Three months ended		Six months ended	
	2017	2016	2017	2016
	(in thousands)			
Net income	$95,686	$129,460	$115,542	$177,846
Other comprehensive income, net of tax:				
Available for sale investments:				
Unrealized investment gains arising during the period	76,243	63,685	143,953	202,319
Adjustment for reclassification of net realized investment (gains) losses and OTTI losses recognized in net income	(1,503)	(14,019)	23,458	45,263
Unrealized investment gains arising during the period, net of reclassification adjustment	74,740	49,666	167,411	247,582
Foreign currency translation adjustment	8,867	(4,224)	38,736	3,972
Total other comprehensive income, net of tax	83,607	45,442	206,147	251,554
Comprehensive income	$179,293	$174,902	$321,689	$429,400

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 SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	2017	2016
	(in thousands)	
Preferred shares		
Balance at beginning of period	$1,126,074	$627,843
Shares repurchased	(351,074)	(2,843)
Balance at end of period	775,000	625,000
Common shares (par value)		
Balance at beginning of period	2,206	2,202
Shares issued	—	4
Balance at end of period	2,206	2,206
Additional paid-in capital		
Balance at beginning of period	2,299,857	2,241,388
Shares issued - common shares	—	(4)
Cost of treasury shares reissued	(38,840)	(17,631)
Settlement of accelerated share repurchase	—	60,000
Share-based compensation expense	22,506	18,804
Balance at end of period	2,283,523	2,302,557
Accumulated other comprehensive income (loss)		
Balance at beginning of period	(121,841)	(188,465)
Unrealized gains (losses) on available for sale investments, net of tax:		
Balance at beginning of period	(82,323)	(149,585)
Unrealized gains arising during the period, net of reclassification adjustment	167,411	247,582
Balance at end of period	85,088	97,997
Cumulative foreign currency translation adjustments, net of tax:		
Balance at beginning of period	(39,518)	(38,880)
Foreign currency translation adjustment	38,736	3,972
Balance at end of period	(782)	(34,908)
Balance at end of period	84,306	63,089
Retained earnings		
Balance at beginning of period	6,527,627	6,194,353
Net income	115,542	177,846
Preferred share dividends	(25,497)	(19,938)
Common share dividends	(65,871)	(66,458)
Balance at end of period	6,551,801	6,285,803
Treasury shares, at cost		
Balance at beginning of period	(3,561,553)	(3,010,439)
Shares repurchased for treasury	(282,313)	(323,050)
Cost of treasury shares reissued	39,725	19,017
Balance at end of period	(3,804,141)	(3,314,472)

Total shareholders’ equity	$5,892,695	$5,964,183

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	(in thousands)					
Cash flows from operating activities:						
Net income	$	115,542		$	177,846	
Adjustments to reconcile net income to net cash provided by operating activities:						
Net realized investment losses	29,443			45,500		
Net realized and unrealized gains (losses) on other investments	(40,226		)	14,406		
Amortization of fixed maturities	20,740			35,186		
Interest in loss of equity method investments	7,741			—		
Other amortization and depreciation	12,638			11,255		
Share-based compensation expense, net of cash payments	(10,846		)	16,617		
Non-cash foreign exchange losses	24,149			—		
Bargain purchase gain	(15,044		)	—		
Changes in:						
Accrued interest receivable	4,208			2,262		
Reinsurance recoverable balances	242,437			(103,215		)
Deferred acquisition costs	(151,633		)	(152,777		)
Prepaid reinsurance premiums	(180,107		)	(100,699		)
Reserve for loss and loss expenses	8,015			128,661		
Unearned premiums	724,407			937,950		
Insurance and reinsurance balances, net	(540,557		)	(859,502		)

Other items	(102,014	)	(90,954	)
Net cash provided by operating activities	148,893		62,536	
Cash flows from investing activities:				
Purchases of:				
Fixed maturities	(4,766,037	)	(4,687,409	)
Equity securities	(101,289	)	(215,324	)
Mortgage loans	(10,207	)	(120,923	)
Other investments	(107,020	)	(173,127	)
Equity method investments	(1,000	)	(103,548	)
Short-term investments	(9,029	)	(27,800	)
Proceeds from the sale of:				
Fixed maturities	3,955,065		4,559,910	
Equity securities	127,182		210,810	
Other investments	177,238		110,077	
Short-term investments	13,539		18,291	
Proceeds from redemption of fixed maturities	1,043,002		558,715	
Proceeds from redemption of short-term investments	116,111		2,539	
Proceeds from the repayment of mortgage loans	10,467		—	
Purchase of other assets	(12,205	)	(13,313	)
Change in restricted cash and cash equivalents	(84,738	)	(13,909	)
Purchase of subsidiary, net of cash acquired	(78,872	)	—	
Net cash provided by investing activities	272,207		104,989	
Cash flows from financing activities:				
Repurchase of common shares	(286,962	)	(263,050	)
Dividends paid - common shares	(71,189	)	(69,347	)
Dividends paid - preferred shares	(31,532	)	(19,971	)
	(351,074	)	(2,843	)

Repurchase of preferred shares				
Proceeds from issuance of common shares	—		8	
Net cash used in financing activities	(740,757	)	(355,203	)
Effect of exchange rate changes on foreign currency cash and cash equivalents	8,682		(7,510	)
Decrease in cash and cash equivalents	(310,975	)	(195,188	)
Cash and cash equivalents - beginning of period	1,039,494		988,133	
Cash and cash equivalents - end of period	$ 728,519		$ 792,945	

Supplemental disclosures of cash flow information: Non-cash foreign exchange losses were attributable to the reclass of the cumulative translation adjustment related to AXIS Specialty Australia from accumulated other comprehensive income to foreign exchange losses as the wind-down of this operation was substantially complete as of March 31, 2017. Also refer to Note 7 'Reserve for Losses and Loss Expenses' and Note 13 'Other Comprehensive Income'

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 June 30, 2017 and the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the periods ended June 30, 2017 and 2016 have not been audited. The balance sheet at December 31, 2016 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, 2016. 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, 2016.

New Accounting Standards Adopted in 2017

Stock Compensation - Improvements to Employee Share-Based Payment Accounting

Effective January 1, 2017, the Company adopted Accounting Standards Update ("ASU") ASU 2016-09, "Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting" which simplifies several aspects of the accounting for share-based payments to employees including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance requires all excess tax benefits and tax deficiencies to be recognized in the income statement with the tax effects of exercised or vested awards to be treated as discrete items in the reporting period in which they occur. Excess tax benefits should be classified along with other income tax cash flows as an operating activity on the statement of cash flows. In addition, companies will be required to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The guidance allows withholding up to the maximum statutory tax rates in the applicable jurisdictions to cover income taxes on share-based compensation awards without requiring liability classification. Cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The adoption of this guidance did not have a material impact on our results of operations, financial condition and liquidity.

Recently Issued Accounting Standards Not Yet Adopted

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.

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

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Stock Compensation - Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-08 "Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting" to provide clarity and reduce 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 (3) 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. 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. This guidance is effective for interim and annual reporting periods, beginning after December 15, 2017, 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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2. BUSINESS COMBINATIONS

On April 1, 2017 ("the closing date" or the "acquisition date"), the Company acquired a 100% ownership interest in Compagnie Belge d'Assurances Aviation NV/SA (“Aviabel”). Aviabel is an insurer operating under Belgian law that has its head office in Belgium, a branch office in the Netherlands and a re-insurance company, Aviabel RE S.A. (“Aviabel RE”), in Luxembourg. The Company acquired Aviabel to increase its scale and relevance in the global aviation market.

The purchase price was allocated to the acquired assets and liabilities of Aviabel based on estimated fair values on the closing date. Consequently, the Company recognized investments with a fair value of $182 million, reserves for losses and loss expenses with a fair value of $79 million, and a bargain purchase gain of $15 million. The bargain purchase gain arose as the fair values of the net identifiable assets acquired exceeded the fair value of the consideration transferred at the acquisition date.

The allocation of the purchase price was based on information included in unaudited financial statements prepared by Aviabel's management at March 31, 2017. The allocation is subject to change if additional information becomes available within the measurement period, which cannot exceed 12 months from the acquisition date. The fair values of the acquired assets and liabilities may be subject to adjustments, which may impact the amounts recorded for the acquired assets and liabilities, as well as the bargain purchase gain.

The underwriting results of Aviabel are included in the underwriting results of our insurance segment from the acquisition date.

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

3. 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.

Insurance

Our insurance segment provides insurance coverage on a worldwide basis. The product lines in this segment are property, marine, terrorism, aviation, credit and political risk, professional lines, liability and accident and health.

Reinsurance

Our 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 and marine and other. The reinsurance segment also writes derivative based risk management products designed to address weather and commodity price risks.

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

	2017			2016		
Three months ended and at June 30,	Insurance	Reinsurance	Total	Insurance	Reinsurance	Total
Gross premiums written	$796,023	$566,304	$1,362,327	$784,017	$536,417	$1,320,434
Net premiums written	527,678	428,339	956,017	526,764	480,586	1,007,350
Net premiums earned	493,836	487,595	981,431	439,279	507,711	946,990
Other insurance related income (losses)	508	2,052	2,560	(234)	(658)	(892)
Net losses and loss expenses	(325,728)	(279,604)	(605,332)	(306,141)	(326,153)	(632,294)
Acquisition costs	(81,276)	(123,085)	(204,361)	(61,829)	(127,296)	(189,125)
General and administrative expenses	(87,822)	(29,464)	(117,286)	(82,487)	(32,332)	(114,819)
Underwriting income (loss)	$(482)	$57,494	57,012	$(11,412)	$21,272	9,860
Corporate expenses			(30,530)			(31,927)
Net investment income			106,063			91,730
Net realized investment gains (losses)			(4,392)			21,010
Foreign exchange (losses) gains			(36,118)			56,602
Interest expense and financing costs			(12,751)			(12,914)
Bargain purchase gain			15,044			—
Income before income taxes and interest in income (loss) of equity method investments			$94,328			$134,361
Net loss and loss expense ratio	66.0%	57.3%	61.7%	69.7%	64.2%	66.8%

Acquisition cost ratio	16.5 %	25.2 %	20.8 %	14.1 %	25.1 %	20.0 %
General and administrative expense ratio	17.7 %	6.1 %	15.1 %	18.7 %	6.4 %	15.4 %
Combined ratio	100.2 %	88.6 %	97.6 %	102.5 %	95.7 %	102.2 %
Goodwill and intangible assets	$86,220	$—	$86,220	$85,954	$—	$85,954

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

3. SEGMENT INFORMATION (CONTINUED)

	2017			2016		
Six months ended and at June 30,	Insurance	Reinsurance	Total	Insurance	Reinsurance	Total
Gross premiums written	$1,490,030	$1,784,169	$3,274,199	$1,437,365	$1,842,230	$3,279,595
Net premiums written	1,033,008	1,431,968	2,464,976	999,926	1,693,230	2,693,156
Net premiums earned	952,265	967,868	1,920,133	877,958	971,373	1,849,331
Other insurance related income (losses)	551	(1,773)	(1,222)	(96)	(998)	(1,094)
Net losses and loss expenses	(612,630)	(599,643)	(1,212,273)	(580,546)	(550,710)	(1,131,256)
Acquisition costs	(149,433)	(244,720)	(394,153)	(123,227)	(246,534)	(369,761)
General and administrative expenses	(178,270)	(60,816)	(239,086)	(168,064)	(70,345)	(238,409)
Underwriting income	$12,483	$60,916	73,399	$6,025	$102,786	108,811
Corporate expenses			(69,989)			(58,239)
Net investment income			204,728			140,896
Net realized investment losses			(29,443)			(45,500)
Foreign exchange (losses) gains			(57,583)			55,986
Interest expense and financing costs			(25,543)			(25,747)
Bargain purchase gain			15,044			—
Income before income taxes and interest in income (loss) of equity method investments			$110,613			$176,207
Net loss and loss expense ratio	64.3%	62.0%	63.1%	66.1%	56.7%	61.2%
Acquisition cost ratio	15.7%	25.3%	20.5%	14.0%	25.4%	20.0%
General and administrative expense ratio	18.7%	6.2%	16.2%	19.2%	7.2%	16.0%
Combined ratio	98.7%	93.5%	99.8%	99.3%	89.3%	97.2%
Goodwill and intangible assets	$86,220	$—	$86,220	$85,954	$—	$85,954

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

4. INVESTMENTS

a) Fixed Maturities and Equities

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

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI in AOCI[5]
At June 30, 2017					
Fixed maturities					
U.S. government and agency	$1,644,697	$ 2,822	$(15,507)	$1,632,012	$ —
Non-U.S. government	545,812	9,988	(18,279)	537,521	—
Corporate debt	4,707,988	60,389	(32,210)	4,736,167	—
Agency RMBS[1]	2,314,585	11,654	(23,983)	2,302,256	—
CMBS[2]	649,645	6,312	(2,150)	653,807	—
Non-Agency RMBS	46,658	1,831	(1,071)	47,418	(868)
ABS[3]	1,370,118	3,772	(1,000)	1,372,890	—
Municipals[4]	141,307	1,471	(554)	142,224	—
Total fixed maturities	$11,420,810	$ 98,239	$(94,754)	$11,424,295	$ (868)
Equity securities					
Common stocks	$13,533	$ 779	$(565)	$13,747	
Exchange-traded funds	457,562	84,472	—	542,034	
Bond mutual funds	180,561	3,325	(1,178)	182,708	
Total equity securities	$651,656	$ 88,576	$(1,743)	$738,489	
At December 31, 2016					
Fixed maturities					
U.S. government and agency	$1,681,425	$ 1,648	$(27,004)	$1,656,069	$ —
Non-U.S. government	613,282	2,206	(49,654)	565,834	—
Corporate debt	4,633,834	42,049	(75,140)	4,600,743	—
Agency RMBS[1]	2,487,837	13,275	(35,977)	2,465,135	—
CMBS[2]	664,368	5,433	(3,564)	666,237	—
Non-Agency RMBS	57,316	1,628	(2,023)	56,921	(823)
ABS[3]	1,221,813	3,244	(2,843)	1,222,214	—
Municipals[4]	163,441	1,510	(990)	163,961	—
Total fixed maturities	$11,523,316	$ 70,993	$(197,195)	$11,397,114	$ (823)
Equity securities					
Common stocks	$379	$ 41	$(342)	$78	
Exchange-traded funds	463,936	53,405	(2,634)	514,707	
Bond mutual funds	133,051	—	(9,092)	123,959	
Total equity securities	$597,366	$ 53,446	$(12,068)	$638,744	

(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 cards, and other asset types. This asset class also includes collateralized loan obligations (CLOs) and collateralized debt obligations (CDOs).

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

(5) Represents the non-credit component of the other-than-temporary impairment (OTTI) losses, adjusted for subsequent sales, maturities and redemptions. 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)

4. INVESTMENTS (CONTINUED)

In the normal course of investing activities, we actively manage allocations to non-controlling tranches of structured securities (variable interests) issued by Variable Interest Entities ("VIEs"). These structured securities include RMBS, CMBS and ABS and are included in the above table. Additionally, within our other investments portfolio, we invest in limited partnerships (hedge funds, direct lending funds, private equity funds and real estate funds) and CLO equity tranched securities, which are 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 therefore we are not the primary beneficiary of 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 June 30, 2017				
Maturity				
Due in one year or less	$413,461	$405,807	3.5	%
Due after one year through five years	4,128,650	4,131,253	36.2	%
Due after five years through ten years	2,272,956	2,279,703	20.0	%
Due after ten years	224,737	231,161	2.0	%
	7,039,804	7,047,924	61.7	%
Agency RMBS	2,314,585	2,302,256	20.2	%
CMBS	649,645	653,807	5.7	%
Non-Agency RMBS	46,658	47,418	0.4	%
ABS	1,370,118	1,372,890	12.0	%
Total	$11,420,810	$11,424,295	100.0	%
At December 31, 2016				
Maturity				
Due in one year or less	$313,287	$305,972	2.8	%
Due after one year through five years	3,906,190	3,850,149	33.8	%
Due after five years through ten years	2,546,299	2,510,975	22.0	%
Due after ten years	326,206	319,511	2.8	%
	7,091,982	6,986,607	61.4	%
Agency RMBS	2,487,837	2,465,135	21.6	%
CMBS	664,368	666,237	5.8	%
Non-Agency RMBS	57,316	56,921	0.5	%
ABS	1,221,813	1,222,214	10.7	%
Total	$11,523,316	$11,397,114	100.0	%

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

4. INVESTMENTS (CONTINUED)

Gross Unrealized Losses

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

	12 months or greater		Less than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At June 30, 2017						
Fixed maturities						
U.S. government and agency	$65,015	$(2,795)	$1,303,677	$(12,712)	$1,368,692	$(15,507)
Non-U.S. government	103,740	(16,923)	180,768	(1,356)	284,508	(18,279)
Corporate debt	163,247	(14,667)	1,532,619	(17,543)	1,695,866	(32,210)
Agency RMBS	93,978	(1,760)	1,539,025	(22,223)	1,633,003	(23,983)
CMBS	22,821	(502)	190,379	(1,648)	213,200	(2,150)
Non-Agency RMBS	8,563	(1,070)	61	(1)	8,624	(1,071)
ABS	58,106	(576)	318,030	(424)	376,136	(1,000)
Municipals	763	(37)	44,800	(517)	45,563	(554)
Total fixed maturities	$516,233	$(38,330)	$5,109,359	$(56,424)	$5,625,592	$(94,754)
Equity securities						
Common stocks	$40	$(128)	$4,438	$(437)	$4,478	$(565)
Exchange-traded funds	—	—	—	—	—	—
Bond mutual funds	—	—	23,718	(1,178)	23,718	(1,178)
Total equity securities	$40	$(128)	$28,156	$(1,615)	$28,196	$(1,743)
At December 31, 2016						
Fixed maturities						
U.S. government and agency	$54,051	$(2,729)	$1,340,719	$(24,275)	$1,394,770	$(27,004)
Non-U.S. government	149,360	(38,683)	283,796	(10,971)	433,156	(49,654)
Corporate debt	230,218	(30,652)	1,948,976	(44,488)	2,179,194	(75,140)
Agency RMBS	76,694	(1,101)	1,724,170	(34,876)	1,800,864	(35,977)
CMBS	84,640	(749)	193,499	(2,815)	278,139	(3,564)
Non-Agency RMBS	13,642	(1,752)	7,194	(271)	20,836	(2,023)
ABS	362,110	(1,950)	266,763	(893)	628,873	(2,843)
Municipals	774	(29)	68,598	(961)	69,372	(990)
Total fixed maturities	$971,489	$(77,645)	$5,833,715	$(119,550)	$6,805,204	$(197,195)
Equity securities						
Common stocks	$—	$—	$37	$(342)	$37	$(342)
Exchange-traded funds	4,959	(461)	87,760	(2,173)	92,719	(2,634)
Bond mutual funds	—	—	123,954	(9,092)	123,954	(9,092)
Total equity securities	$4,959	$(461)	$211,751	$(11,607)	$216,710	$(12,068)

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

4. INVESTMENTS (CONTINUED)

Fixed Maturities

At June 30, 2017, 1,690 fixed maturities (2016: 1,881) were in an unrealized loss position of $95 million (2016: $197 million), of which $7 million (2016: $15 million) was related to securities below investment grade or not rated.

At June 30, 2017, 216 (2016: 330) securities had been in a continuous unrealized loss position for 12 months or greater and had a fair value of $516 million (2016: $971 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 June 30, 2017, and were expected to recover in value as the securities approach maturity. Further, at June 30, 2017, 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 June 30, 2017, 45 securities (2016: 23) were in an unrealized loss position of $2 million (2016: $12 million).

At June 30, 2017, 2 securities (2016: 3) was in a continuous unrealized loss position for 12 months or greater. Based on our impairment review process and our ability and intent to hold these securities for a reasonable period of time sufficient for a full recovery, we concluded that the above equities in an unrealized loss position were temporarily impaired at June 30, 2017.

b) Mortgage Loans

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

	June 30, 2017		December 31, 2016	
	Carrying Value	% of Total	Carrying Value	% of Total
Mortgage Loans held-for-investment:				
Commercial	$349,916	100%	$349,969	100%
	349,916	100%	349,969	100%
Valuation allowances	—	— %	—	— %
Total Mortgage Loans held-for-investment	$349,916	100%	$349,969	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 weighted average debt service coverage ratios in excess of 3.0x and weighted average loan-to-value ratios of less than 60%. There are no credit losses associated with the commercial mortgage loans that we hold at June 30, 2017.

There are no past due amounts at June 30, 2017.

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

4. 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, CLO-Equities and other privately held investments, together with additional information relating to the liquidity of each category:

	Fair Value		Redemption Frequency (if currently eligible)	Redemption Notice Period
At June 30, 2017				
Long/short equity funds	$ 61,372	8 %	Annually	60 days
Multi-strategy funds	284,028	35 %	Quarterly, Semi-annually	60-95 days
Event-driven funds	49,763	6 %	Annually	45 days
Direct lending funds	209,316	26 %	n/a	n/a
Private equity funds	74,740	9 %	n/a	n/a
Real estate funds	44,384	5 %	n/a	n/a
CLO-Equities	47,076	6 %	n/a	n/a
Other privately held investments	42,938	5 %	n/a	n/a
Total other investments	$ 813,617	100 %		
At December 31, 2016				
Long/short equity funds	$ 118,619	14 %	Semi-annually, Annually	45-60 days
Multi-strategy funds	285,992	34 %	Quarterly, Semi-annually	60-95 days
Event-driven funds	93,539	11 %	Annually	45 days
Direct lending funds	134,650	16 %	n/a	n/a
Private equity funds	81,223	10 %	n/a	n/a
Real estate funds	13,354	2 %	n/a	n/a
CLO-Equities	60,700	8 %	n/a	n/a
Other privately held investments	42,142	5 %	n/a	n/a
Total other investments	$ 830,219	100 %		

n/a - not applicable

The investment strategies for the above funds are as follows:

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

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

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

- 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.

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

4. 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 our ability to redeem our hedge funds are gates and lockups. A gate is a suspension of redemptions which may be implemented by the general partner or investment manager of the fund in order to defer, in whole or in part, the redemption request in the event the aggregate amount of redemption requests exceeds a predetermined percentage of the fund's net assets which may otherwise hinder the general partner or investment manager's ability to liquidate holdings in an orderly fashion in order to generate the cash necessary to fund extraordinarily large redemption payouts. A lockup period is the initial amount of time an investor is contractually required to hold the security before having the ability to redeem. During 2017 and 2016, neither of these restrictions impacted our redemption requests. At June 30, 2017, $61 million (2016: $60 million), representing 16% (2016: 12%) of our total hedge funds, relate to holdings where we are still within the lockup period. The expiration of these lockup periods range from September 2017 to March 2019.

At June 30, 2017, we had $151 million (2016: $176 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 5-10 years and the General Partners of certain funds have the option to extend the term by up to 3 years.
At June 30, 2017, we had $16 million (2016: $12 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 the completion of the funds' investment term. These funds have investment terms ranging from 2 years to the dissolution of the underlying fund.
At June 30, 2017, we had $122 million (2016: $140 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 7 years to the dissolution of the underlying fund.

At June 30, 2017, we had $21 million (2016: $24 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. We expect the overall holding period to be over 10 years.

During 2015, we made a $50 million commitment as a limited partner of a bank revolver opportunity fund. The fund is subject to an investment term of 7 years and the General Partners have the option to extend the term by up to 2 years. At June 30, 2017, this commitment remains unfunded. It is not anticipated that the full amount of this fund will be drawn.

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

4. INVESTMENTS (CONTINUED)

d) Equity Method Investments

During 2016, we 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, we expect 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, we have 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 we exercise significant influence over the operating and financial policies of this investee we account for our 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 six months ended June 30, 2017, we recorded an impairment charge of $9 million, related to a U.S. based insurance company, which reduced the carrying value of the investment to $nil. This charge is 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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Fixed maturities	$78,218	$77,621	$155,625	$153,596
Other investments	23,639	14,401	42,601	(12,477)
Equity securities	4,347	3,065	7,825	8,210
Mortgage loans	2,597	1,807	5,074	3,492
Cash and cash equivalents	3,433	1,868	6,529	3,303
Short-term investments	660	165	1,098	371
Gross investment income	112,894	98,927	218,752	156,495
Investment expenses	(6,831)	(7,197)	(14,024)	(15,599)
Net investment income	$106,063	$91,730	$204,728	$140,896

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

4. INVESTMENTS (CONTINUED)

f) Net Realized Investment Gains (Losses)

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Gross realized gains				
Fixed maturities and short-term investments	$17,451	$25,458	$38,228	$41,622
Equities	30	9,693	15,813	13,234
Gross realized gains	17,481	35,151	54,041	54,856
Gross realized losses				
Fixed maturities and short-term investments	(14,354)	(9,617)	(67,289)	(68,794)
Equities	(24)	(559)	(213)	(15,347)
Gross realized losses	(14,378)	(10,176)	(67,502)	(84,141)
Net OTTI recognized in earnings	(1,528)	(6,369)	(8,082)	(16,099)
Change in fair value of investment derivatives(1)	(5,967)	2,404	(7,900)	(116)
Net realized investment gains (losses)	$(4,392)	$21,010	$(29,443)	$(45,500)

(1) Refer to Note 6 'Derivative Instruments'

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Fixed maturities:				
Non-U.S. government	$—	$497	$4,282	$497
Corporate debt	1,528	5,872	3,800	13,042
	1,528	6,369	8,082	13,539
Equity Securities				
Exchange-traded funds	—	—	—	2,560
	—	—	—	2,560
Total OTTI recognized in earnings	$1,528	$6,369	$8,082	$16,099

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4. INVESTMENTS (CONTINUED)

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Balance at beginning of period	$1,483	$1,506	$1,493	$1,506
Credit impairments recognized on securities not previously impaired	—	—	—	—
Additional credit impairments recognized on securities previously impaired	—	7	—	7
Change in timing of future cash flows on securities previously impaired	—	—	—	—
Intent to sell of securities previously impaired	—	—	—	—
Securities sold/redeemed/matured	(2)	—	(12)	—
Balance at end of period	$1,481	$1,513	$1,481	$1,513

g) Reverse Repurchase Agreements

At June 30, 2017, we held $41 million (December 31, 2016: $176 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 Consolidated Balance Sheet. The required collateral for these loans is either cash or U.S. Treasuries at a minimum rate of 102% of the loan principal. Upon maturity, we receive principal and interest income. We monitor the estimated fair value of the securities loaned and borrowed on a daily basis with additional collateral obtained as necessary throughout the duration of the transaction.

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

5. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. 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 we have the ability to access.

- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

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

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment.

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

Valuation Techniques

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

Fixed Maturities

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

5. 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, we obtain non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, 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, we obtain non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, 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.

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

5. FAIR VALUE MEASUREMENTS (CONTINUED)

ABS

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and CLO debt originated by a variety of financial institutions. 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, we obtain non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, 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 redemption 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 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 (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 these securities are estimated using a liquidation valuation.

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 our economic hedging strategies and trade in the over-the-counter derivative market. The fair values of these derivatives are determined using the 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. Accordingly, the fair values of these derivatives are classified as Level 2.

Weather derivatives relate to non-exchange traded derivative-based risk management products addressing weather risks. The fair values of these derivatives are determined using observable market inputs and unobservable inputs in combination with industry or internally developed valuation and forecasting techniques. Accordingly, the fair values of these derivatives are classified as Level 3.

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5. FAIR VALUE MEASUREMENTS (CONTINUED)

Other underwriting-related derivatives include insurance and reinsurance contracts that are required to be 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 internally developed discounted cash flow models. As the significant inputs used to price these derivatives are unobservable, the fair value 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, we obtain non-binding quotes from broker-dealers to estimate the fair values of these securities. Pricing is generally unavailable when there is a low volume of trading activity and current transactions are not orderly. Accordingly, the fair values of these securities are classified as Level 3.

Cash Settled Awards

Cash settled awards comprise restricted stock units that form part of our 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. Accordingly, the fair values of these liabilities are classified as Level 2.

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

5. 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 June 30, 2017					
Assets					
Fixed maturities					
U.S. government and agency	$ 1,533,316	$ 98,696	$ —	$—	$1,632,012
Non-U.S. government	—	537,521	—	—	537,521
Corporate debt	—	4,667,847	68,320	—	4,736,167
Agency RMBS	—	2,302,256	—	—	2,302,256
CMBS	—	653,807	—	—	653,807
Non-Agency RMBS	—	47,418	—	—	47,418
ABS	—	1,366,891	5,999	—	1,372,890
Municipals	—	142,224	—	—	142,224
	1,533,316	9,816,660	74,319	—	11,424,295
Equity securities					
Common stocks	13,747	—	—	—	13,747
Exchange-traded funds	542,034	—	—	—	542,034
Bond mutual funds	—	182,708	—	—	182,708
	555,781	182,708	—	—	738,489
Other investments					
Hedge funds	—	—	—	395,163	395,163
Direct lending funds	—	—	—	209,316	209,316
Private equity funds	—	—	—	74,740	74,740
Real estate funds	—	—	—	44,384	44,384
Other privately held investments	—	—	42,938	—	42,938
CLO-Equities	—	—	47,076	—	47,076
	—	—	90,014	723,603	813,617
Short-term investments	—	10,146	—	—	10,146
Other assets					
Derivative instruments (see Note 6)	—	6,912	—	—	6,912
Insurance-linked securities	—	—	25,047	—	25,047
Total Assets	$ 2,089,097	$ 10,016,426	$ 189,380	$723,603	$13,018,506
Liabilities					
Derivative instruments (see Note 6)	$ —	$ 1,067	$ 12,209	$—	$13,276
Cash settled awards (see Note 9)	—	14,193	—	—	14,193
Total Liabilities	$ —	$ 15,260	$ 12,209	$—	$27,469

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

5. 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, 2016					
Assets					
Fixed maturities					
U.S. government and agency	$ 1,583,106	$ 72,963	$ —	$—	$1,656,069
Non-U.S. government	—	565,834	—	—	565,834
Corporate debt	—	4,524,868	75,875	—	4,600,743
Agency RMBS	—	2,465,135	—	—	2,465,135
CMBS	—	663,176	3,061	—	666,237
Non-Agency RMBS	—	56,921	—	—	56,921
ABS	—	1,204,750	17,464	—	1,222,214
Municipals	—	163,961	—	—	163,961
	1,583,106	9,717,608	96,400	—	11,397,114
Equity securities					
Common stocks	78	—	—	—	78
Exchange-traded funds	514,707	—	—	—	514,707
Bond mutual funds	—	123,959	—	—	123,959
	514,785	123,959	—	—	638,744
Other investments					
Hedge funds	—	—	—	498,150	498,150
Direct lending funds	—	—	—	134,650	134,650
Private equity funds	—	—	—	81,223	81,223
Real estate funds	—	—	—	13,354	13,354
Other privately held investments	—	—	42,142	—	42,142
CLO-Equities	—	—	60,700	—	60,700
	—	—	102,842	727,377	830,219
Short-term investments	—	127,461	—	—	127,461
Other assets					
Derivative instruments (see Note 6)	—	14,365	2,532	—	16,897
Insurance-linked securities	—	—	25,023	—	25,023
Total Assets	$ 2,097,891	$ 9,983,393	$ 226,797	$727,377	$13,035,458
Liabilities					
Derivative instruments (see Note 6)	$ —	$ 9,076	$ 6,500	$—	$15,576
Cash settled awards (see Note 9)	—	48,432	—	—	48,432
Total Liabilities	$ —	$ 57,508	$ 6,500	$—	$64,008

During 2017 and 2016, there were no transfers between Levels 1 and 2.

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

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Except certain fixed maturities and insurance-linked securities priced using broker-dealer quotes (underlying inputs are not available), the following table quantifies the significant unobservable inputs used in estimating fair values at June 30, 2017 for investments classified as Level 3 in the fair value hierarchy.

	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
Other investments - CLO-Equities	$33,266	Discounted cash flow	Default rates	3.8%	3.8%
			Loss severity rate	35.0%	35.0%
			Collateral spreads	3.0%	3.0%
			Estimated maturity dates	7 years	7 years
	13,810	Liquidation value	Fair value of collateral	100%	100%
			Discount margin	0% - 16.2%	2.0%
Other investments - Other privately held investments	42,938	Discounted cash flow	Discount rate	6.0% - 8.0%	7.5%
Derivatives - Weather derivatives, net	$(74)	Simulation model	Weather curve	4526[1]	n/a [2]
			Weather standard deviation	360[1]	n/a [2]
Derivatives - Other underwriting-related derivatives	$(12,135)	Discounted cash flow	Discount rate	2.5%	2.5%

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

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

The CLO-Equities market continues to be relatively inactive with only a small number of transactions being observed, particularly as it relates to transactions involving our CLO-Equities. Accordingly, fair values of investments in CLO-Equities are determined using models. Given that all of our direct investments in CLO-Equities are past their reinvestment period, there is uncertainty over the remaining time to maturity. As such our direct investments in CLO-Equities are estimated using a liquidation valuation. Indirect investments in CLO-Equities are valued using a discounted cash flow model prepared by an external manager.

The liquidation valuation is based on the fair values of the net underlying collateral which is determined by applying market discount margins by credit quality bucket. An increase (decrease) in the market discount margin would result in a decrease (increase) in value of our CLO-Equities.

Regarding the discounted cash flow model, the default and loss severity rates are the most judgmental unobservable market inputs to which the valuation of CLO-Equities is most sensitive. A significant increase (decrease) in either of these significant inputs in isolation would result in lower (higher) fair value estimates for investments in CLO-Equities and, in general, a change in default rate assumptions will be accompanied by a directionally similar change in loss severity rate assumptions. Collateral spreads and estimated maturity dates are less judgmental inputs as they are based on the historical average of actual spreads and the weighted average life of the current underlying portfolios, respectively. A significant increase (decrease) in either of these significant inputs in isolation would result in higher (lower) fair value estimates for investments in CLO-Equities. In general, these inputs have no significant interrelationship with each other or with default and loss severity rates.

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

On a quarterly basis, our valuation process for CLO-Equities includes a review of the underlying collateral along with related discount margins by credit quality bucket used in the liquidation valuation and a review of the underlying cash flows and key assumptions used in the discounted cash flow model. The above significant unobservable inputs are reviewed and updated based on information obtained from secondary markets, including information received from the managers of our CLO-Equities portfolio. In order to assess the reasonableness of the inputs we use in our models, we maintain an understanding of current market conditions, historical results, as well as emerging trends that may impact future cash flows. In addition,we update the assumptions we use in our models through regular communication with industry participants and ongoing monitoring of the deals in which we participate (e.g. default and loss severity rate trends).

Other privately held securities are initially valued at cost which approximates fair value. In subsequent measurement periods, the fair values of these securities are determined using internally developed discounted cash flow models. These models include inputs that are specific to each investment. The inputs used in the fair value measurements include dividend or interest rates and appropriate discount rates. The selection of an appropriate discount rate is judgmental and is the most significant unobservable input used in the valuation of these securities. A significant increase (decrease) in this input in isolation could result in a significantly lower (higher) fair value measurement for other privately held securities. Where relevant, we also consider the contractual agreements which stipulate methodologies for calculating the dividend rate to be paid upon liquidation, conversion or redemption. In order to assess the reasonableness of the inputs we use in the discounted cash flow models, we maintain an understanding of current market conditions, historical results, as well as investee specific information that may impact future cash flows.

Weather derivatives relate to non-exchange traded risk management products addressing weather risks. The fair values of these derivatives are determined using market inputs and unobservable inputs in combination with industry or internally-developed valuation and forecasting techniques. The models may reference market price information for similar instruments. The pricing models are internally reviewed by Risk Management personnel prior to implementation and are reviewed periodically thereafter.

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

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

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

Other underwriting-related derivatives are initially valued at cost which approximates fair value. In subsequent measurement periods, the fair values of these derivatives are determined using internally developed discounted cash flow models which uses appropriate discount rates. The selection of an appropriate discount rate is judgmental and is the most significant unobservable input used in the valuation of these derivatives. A significant increase (decrease) in this input in isolation could result in a significantly lower (higher) fair value measurement for the derivative contracts. In order to assess the reasonableness of the inputs we use in the discounted cash flow model, we maintain an understanding of current market conditions, historical results, as well as contract specific information that may impact future cash flows.

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

5. FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Opening Balance	Transfers into Level 3	Transfers out of Level 3	Included in earnings [1]	Included in OCI [2]	Purchases	Sales	Settlements/ Distributions	Closing Balance	Change in unrealized investment gain/(loss) [3]
Three months ended June 30, 2017										
Fixed maturities										
Corporate debt	$63,788	$1,536	$(1,904)	$15	$(336)	$13,217	$(3,481)	$(4,515)	$68,320	$—
CMBS	9,813	—	(9,418)	—	20	—	—	(415)	—	—
ABS	—	—	—	—	(1)	6,000	—	—	5,999	—
	73,601	1,536	(11,322)	15	(317)	19,217	(3,481)	(4,930)	74,319	—
Other investments										
Other privately held investments	42,378	—	—	560	—	—	—	—	42,938	560
CLO - Equities	54,392	—	—	1,499	—	—	—	(8,815)	47,076	1,499
	96,770	—	—	2,059	—	—	—	(8,815)	90,014	2,059
Other assets										
Derivative instruments	3,197	—	—	(102)	—	—	—	(3,095)	—	—
Insurance-linked securities	25,026	—	—	21	—	—	—	—	25,047	21
	28,223	—	—	(81)	—	—	—	(3,095)	25,047	21
Total assets	$198,594	$1,536	$(11,322)	$1,993	$(317)	$19,217	$(3,481)	$(16,840)	$189,380	$2,080
Other liabilities										
Derivative instruments	$16,621	$—	$—	$1,596	$—	$12,135	$—	$(18,143)	$12,209	$863
Total liabilities	$16,621	$—	$—	$1,596	$—	$12,135	$—	$(18,143)	$12,209	$863
Six months ended June 30, 2017										
Fixed maturities										
Corporate debt	$75,875	$1,536	$(1,904)	$73	$(383)	$19,181	$(19,201)	$(6,857)	$68,320	$—
CMBS	3,061	—	(9,418)	—	17	9,400	—	(3,060)	—	—
ABS	17,464	—	(18,948)	—	1,483	6,000	—	—	5,999	—
	96,400	1,536	(30,270)	73	1,117	34,581	(19,201)	(9,917)	74,319	—
Other investments										
Other privately held	42,142	—	—	796	—	—	—	—	42,938	796

investments										
CLO - Equities	60,700	—	—	2,528	—	—	—	(16,152)	47,076	2,528
	102,842	—	—	3,324	—	—	—	(16,152)	90,014	3,324
Other assets										
Derivative instruments	2,532	—	—	653	—	—	—	(3,185)	—	—
Insurance-linked securities	25,023	—	—	24	—	—	—	—	25,047	24
	27,555	—	—	677	—	—	—	(3,185)	25,047	24
Total assets	$226,797	$1,536	$(30,270)	$4,074	$1,117	$34,581	$(19,201)	$(29,254)	$189,380	$3,348
Other liabilities										
Derivative instruments	$6,500	$—	$—	$10,282	$—	$12,135	$—	$(16,708)	$12,209	$2,314
Total liabilities	$6,500	$—	$—	$10,282	$—	$12,135	$—	$(16,708)	$12,209	$2,314

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5.FAIR VALUE MEASUREMENTS (CONTINUED)

	Opening Balance	Transfers into Level 3	Transfers out of Level 3	Included in earnings [1]	Included in OCI [2]	Purchases	Sales	Settlements/ Distributions	Closing Balance	Change in unrealized investment gain/(loss) [3]
Three months ended June 30, 2016										
Fixed maturities										
Corporate debt	$40,250	$20,412	$—	$(981)	$1,164	$3,723	$(2,105)	$(441)	$62,022	$—
CMBS	10,551	—	—	—	58	—	—	(399)	10,210	—
ABS	—	—	—	—	—	—	—	—	—	—
	50,801	20,412	—	(981)	1,222	3,723	(2,105)	(840)	72,232	—
Other investments										
Other privately held investments	36,712	—	—	(1,150)	—	6,193	—	—	41,755	(1,150)
CLO - Equities	60,371	—	—	10,028	—	—	—	(4,516)	65,883	10,028
	97,083	—	—	8,878	—	6,193	—	(4,516)	107,638	8,878
Other assets										
Derivative instruments	5,977	—	—	(358)	—	446	—	(6,060)	5	5
Insurance-linked securities	24,916	—	—	109	—	—	—	—	25,025	109
	30,893	—	—	(249)	—	446	—	(6,060)	25,030	114
Total assets	$178,777	$20,412	$—	$7,648	$1,222	$10,362	$(2,105)	$(11,416)	$204,900	$8,992
Other liabilities										
Derivative instruments	$15,028	$—	$—	$(809)	$—	$1,830	$—	$(14,071)	$1,978	$110
Total liabilities	$15,028	$—	$—	$(809)	$—	$1,830	$—	$(14,071)	$1,978	$110
Six months ended June 30, 2016										
Fixed maturities										
Corporate debt	$38,518	$20,412	$(1,955)	$(979)	$1,088	$9,544	$(4,015)	$(591)	$62,022	$—
CMBS	10,922	—	—	—	(86)	—	—	(626)	10,210	—
ABS	—	—	—	—	—	—	—	—	—	—
	49,440	20,412	(1,955)	(979)	1,002	9,544	(4,015)	(1,217)	72,232	—
Other investments										
Other privately held investments	—	—	—	(1,150)	—	42,905	—	—	41,755	(1,150)
CLO - Equities	27,257	36,378	—	9,012	—	—	—	(6,764)	65,883	9,012
	27,257	36,378	—	7,862	—	42,905	—	(6,764)	107,638	7,862
Other assets										

Derivative instruments	4,395	—	—	2,590	—	1,805	—	(8,785)	5	5
Insurance-linked securities	24,925	—	—	100	—	—	—	—	25,025	100
	29,320	—	—	2,690	—	1,805	—	(8,785)	25,030	105
Total assets	$106,017	$56,790	$(1,955)	$9,573	$1,002	$54,254	$(4,015)	$(16,766)	$204,900	$7,967
Other liabilities										
Derivative instruments	$10,937	$—	$—	$2,614	$—	$805	$—	$(12,378)	$1,978	$111
Total liabilities	$10,937	$—	$—	$2,614	$—	$805	$—	$(12,378)	$1,978	$111

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

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

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

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

Transfers into Level 3 from Level 2

The transfers to Level 3 from Level 2 made during the three and six months ended June 30, 2017 were primarily due to the lack of observable market inputs and multiple quotes from pricing vendors and broker-dealers for certain fixed maturities.

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

5. FAIR VALUE MEASUREMENTS (CONTINUED)

The transfers into Level 3 made during the three months ended June 30, 2016 were primarily due to the lack of observable market inputs and multiple quotes from pricing vendors and broker-dealers for certain fixed maturities. The transfers into Level 3 made during the six months ended June 30, 2016 were primarily due to the lack of observable market inputs and multiple quotes from pricing vendors and broker-dealers for certain fixed maturities and as a result of a change in the valuation methodology used to fair value the CLO-equity fund. An income approach valuation technique (discounted cash flow model) was used to estimate the fair value of the CLO-equity fund at June 30, 2016. As the NAV practical expedient was not used to determine the fair value of the CLO-equity fund, the fair value of the fund was categorized within the fair value hierarchy.

Transfers out of Level 3 into Level 2

The transfers into Level 2 from Level 3 made during the three and six months ended June 30, 2017 and 2016 were primarily due to the availability of observable market inputs and quotes from pricing vendors on certain fixed maturities.

There were no transfers to Level 2 from Level 3 made during the three months ended June 30, 2016. The transfers to Level 2 from
Level 3 made during the six months ended June 30, 2016 were primarily due to the availability of observable market inputs and quotes from pricing vendors on certain fixed maturities.

Measuring the Fair Value of Other Investments Using Net Asset Valuations

The fair values of hedge funds, direct lending funds, private equity funds and real estate funds are estimated using NAVs as advised by external fund managers or third party administrators. For these funds, NAVs are based on the manager's or administrator's valuation of the underlying holdings in accordance with the fund's governing documents and in accordance with U.S. GAAP.

If there is a reporting lag between the current period end and reporting date of the latest available fund valuation for any hedge fund, we estimate fair values by starting with the most recently available fund valuation and adjusting for return estimates as well as any subscriptions, redemptions and distributions that took place during the current period. Return estimates are obtained from the relevant fund managers. Accordingly, we do not typically have a reporting lag in fair value measurements of these funds. Historically, our valuation estimates incorporating these return estimates have not significantly diverged from the subsequently received NAVs.

For direct lending funds, private equity funds, real estate funds and two of our hedge funds, valuation statements are typically released on a three month reporting lag therefore we estimate fair value of these funds by starting with the prior quarter-end fund valuations and adjusting for capital calls, redemptions, drawdowns and distributions. Return estimates are not available from the relevant fund managers for these funds. Accordingly, we typically have a reporting lag in our fair value measurements of these funds. In 2017, funds reported on a lag represented 50% (2016: 35%) of our total other investments balance.

We often do not have access to financial information relating to the underlying securities held within the funds, therefore management is unable to corroborate the fair values placed on the securities underlying the asset valuations provided by fund managers or fund administrators. In order to assess the reasonableness of the NAVs, we perform a number of monitoring procedures on a quarterly basis, to assess the quality of the information provided by fund managers and funds administrators. These procedures include, but are not limited to, regular review and discussion of each fund's performance with its manager, regular evaluation of fund performance against applicable benchmarks and the backtesting of our fair value estimates against subsequently received NAVs. Backtesting involves comparing our previously reported fair values for each fund against NAVs per audited financial statements (for year-end values) and final NAVs from fund managers and fund administrators (for interim values).

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

Financial Instruments Disclosed, But Not Carried, at Fair Value

The fair value of financial instruments accounting guidance also applies to financial instruments disclosed, but not carried, at fair value, except for certain financial instruments, including insurance contracts.

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

5. FAIR VALUE MEASUREMENTS (CONTINUED)

The carrying values of cash and cash equivalents (including restricted amounts), accrued investment income, receivable for investments sold, certain other assets, payable for investments purchased and certain other liabilities approximated their fair values at June 30, 2017, due to their respective short maturities. As these financial instruments are not actively traded, their fair values are classified as Level 2.

The carrying value of mortgage loans held-for-investment approximated their fair value at June 30, 2017. The fair values of mortgage loans are primarily determined by estimating expected future cash flows and discounting them using current interest rates for similar mortgage loans with similar credit risk, or are determined from pricing for similar loans. As mortgage loans are not actively traded their fair values are classified as Level 3.

At June 30, 2017, senior notes are recorded at amortized cost with a carrying value of $994 million (2016: $993 million) and a fair value of $1.1 billion (2016: $1.0 billion). The fair values of these notes are based on prices obtained from a third party pricing service and are determined using the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As these spreads and the yields for the risk-free yield curve are observable market inputs, the fair values of senior notes are classified as Level 2.

6. DERIVATIVE INSTRUMENTS

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

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

	June 30, 2017			December 31, 2016		
	Derivative Notional Amount	Derivative Asset Fair Value(1)	Derivative Liability Fair Value(1)	Derivative Notional Amount	Derivative Asset Fair Value(1)	Derivative Liability Fair Value(1)
Relating to investment portfolio:						
Foreign exchange forward contracts	$160,998	$ —	$ 748	$195,979	$ 12,331	$ 87
Interest rate swaps	180,000	—	—	—	—	—
Relating to underwriting portfolio:						
Foreign exchange forward contracts	479,347	6,912	319	492,899	2,034	8,989
Weather-related contracts	3,050	—	74	67,957	2,532	6,500
Commodity contracts	—	—	—	—	—	—
Other underwriting-related contracts	75,000	—	12,135	—	—	—
Total derivatives		$ 6,912	$ 13,276		$ 16,897	$ 15,576

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

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

6. DERIVATIVE INSTRUMENTS (CONTINUED)

Offsetting Assets and Liabilities

Our derivative instruments are generally traded under International Swaps and Derivatives Association master netting agreements, which establish terms that apply to all transactions. In the event of a bankruptcy or other stipulated event, master netting agreements provide that individual positions be replaced with a new amount, usually referred to as the termination amount, determined by taking into account market prices and converting into a single currency. Effectively, this contractual close-out netting reduces credit exposure from gross to net exposure. The table below presents a reconciliation of our gross derivative assets and liabilities to the net amounts presented in the Consolidated Balance Sheets, with the difference being attributable to the impact of master netting agreements.

	June 30, 2017			December 31, 2016		
	Gross Amounts	Gross Amounts Offset	Net Amounts[1]	Gross Amounts	Gross Amounts Offset	Net Amounts[1]
Derivative assets	$9,514	$(2,602)	$ 6,912	$22,270	$(5,373)	$ 16,897
Derivative liabilities	$15,878	$(2,602)	$ 13,276	$20,949	$(5,373)	$ 15,576

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

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

a) Relating to Investment Portfolio

Foreign Currency Risk

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

Interest Rate Risk

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

b) Relating to Underwriting Portfolio

Foreign Currency Risk

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

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

6. DERIVATIVE INSTRUMENTS (CONTINUED)

Weather Risk

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

Commodity Risk

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

Other Underwriting-related Risks

We enter into insurance and reinsurance contracts that are required to be accounted for as derivatives. These insurance or reinsurance contract provides indemnification to an insured or cedant as a result of a change in a variable as opposed to a change in an identifiable insured event. We consider these contracts to be part of our underwriting operations.

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

	Location of Gain (Loss) Recognized in Income on Derivative	Three months ended June 30,		Six months ended June 30,	
		2017	2016	2017	2016
Relating to investment portfolio:					
Foreign exchange forward contracts	Net realized investment gains (losses)	$(2,347)	$2,404	$(4,719)	$(116)
Interest rate swaps	Net realized investment gains (losses)	(3,620)	—	(3,181)	—
Relating to underwriting portfolio:					
Foreign exchange forward contracts	Foreign exchange losses (gains)	(16,385)	(5,876)	(13,628)	(2,776)
Weather-related contracts	Other insurance related income (losses)	(1,697)	451	(9,629)	(24)
Commodity contracts	Other insurance related income (losses)	—	(543)	—	(301)
Other underwriting-related contracts	Other insurance related income (losses)	338	—	338	—
Total		$(23,711)	$(3,564)	$(30,819)	$(3,217)

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

7. RESERVE FOR LOSSES AND LOSS EXPENSES

Reserve Roll-Forward

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

Six months ended June 30,	2017	2016
Gross reserve for losses and loss expenses, beginning of period	$9,697,827	$9,646,285
Less reinsurance recoverable on unpaid losses, beginning of period	(2,276,109)	(2,031,309)
Net reserve for unpaid losses and loss expenses, beginning of period	7,421,718	7,614,976
Net incurred losses and loss expenses related to:		
Current year	1,308,000	1,279,369
Prior years	(95,727)	(148,113)
	1,212,273	1,131,256
Net paid losses and loss expenses related to:		
Current year	(140,018)	(112,730)
Prior years	(969,153)	(966,589)
	(1,109,171)	(1,079,319)
Foreign exchange and other	242,973	(106,629)
Net reserve for unpaid losses and loss expenses, end of period	7,767,793	7,560,284
Reinsurance recoverable on unpaid losses, end of period	2,110,869	2,222,020
Gross reserve for losses and loss expenses, end of period	$9,878,662	$9,782,304

We write business with loss experience generally characterized as low frequency and high severity in nature, which can result in volatility in our financial results. During the six months ended June 30, 2017 and 2016, we recognized aggregate net losses and loss expenses, net of reinstatement premiums of $85 million and $124 million, respectively, in relation to catastrophe and weather related events.

The transfer of the insurance business of AXIS Specialty Australia to a reinsurer was approved by the Irish High Court on February 1, 2017 and the Federal Court of Australia on February 10, 2017. Consequently, the insurance policies, assets and liabilities of AXIS Specialty Australia were transferred to the reinsurer with effect from February 13, 2017. This resulted in the reduction of reserves for losses and loss expenses by $223 million and a reduction in reinsurance recoverables on unpaid and paid losses by $223 million.

On April 1, 2017, the Company acquired a 100% ownership interest in Aviabel. Foreign exchange and other includes reserves for losses and loss expenses of $79 million and reinsurance recoverables on unpaid and paid losses of $5 million related to this acquisition.

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

7. RESERVE FOR LOSSES AND LOSS EXPENSES (CONTINUED)

Prior Year Development

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Insurance	$19,517	$20,066	$28,137	$22,493
Reinsurance	51,416	57,653	67,590	125,620
Total	$70,933	$77,719	$95,727	$148,113

Net favorable prior year reserve development for the three and six months ended June 30, 2017, respectively included significant contributions from our short-tail reserve classes, with additional net favorable prior year reserve development being contributed by our professional insurance and reinsurance reserve classes, as well as our liability reinsurance reserve class, partially offset by net
adverse prior year development in our motor reserve class, and our liability insurance reserve class.The majority of net favorable reserve development for the three and six months ended June 30, 2016, respectively, related to short-tail reserve classes, with additional net favorable prior year reserve development being contributed by our motor reserve class, our liability reinsurance reserve class, and our professional insurance and reinsurance reserve classes.

Our short tail business includes the underlying exposures in our property and other, marine and aviation reserve classes within our insurance segment, and the property and other reserve class within our reinsurance segment. Development from these classes contributed $31 million and $35 million of net favorable prior year reserve development for the three and six months ended June 30, 2017, respectively. These short-tail lines contributed $27 million and $75 million of net favorable prior year reserve development for the three and six months ended June 30, 2016, respectively. The net favorable development for these classes primarily reflected the recognition of better than expected loss emergence.

Our medium-tail business consists primarily of professional insurance and reinsurance reserve classes, credit and political risk insurance reserve class, and credit and surety reinsurance reserve class. For the three and six months ended June 30, 2017, the professional reserve classes contributed net favorable prior year reserve development of $22 million and $46 million, respectively. For the three and six months ended June 30, 2016, the professional reserve classes contributed net favorable prior year reserve development of $15 million and $16 million, respectively. The net favorable prior year reserve development on these reserve classes reflected generally favorable experience as we continued to transition to more experience based methods.

Our long-tail business consists primarily of liability and motor reserve classes. For the three and six months ended June 30, 2017, the liability reinsurance reserve class contributed net favorable prior year reserve development of $16 million and $39 million, respectively. For the three and six months ended and June 30, 2016, the liability reinsurance reserve class contributed net favorable prior year development of $15 million and $22 million, respectively. The net favorable prior year reserve development for our liability reinsurance reserve class in both years primarily reflected the progressively increased weight given by management to experience based indications on older accident years, which has generally been favorable. For the six months ended June 30, 2017, the liability insurance reserve class recorded net adverse prior year reserve development of $7 million, primarily attributable to reserve strengthening within our run-off Bermuda excess casualty book of business.

For the six months ended June 30, 2017, the motor reinsurance reserve class recorded net adverse prior year reserve development of $20 million. This adverse development was driven by the U.K. Ministry of Justice's recent announcement of a decrease in the discount rate used to calculate lump sum awards in U.K. bodily injury cases, known as the Ogden rate. Effective March 20, 2017, the Ogden rate changed from plus 2.5% to minus 0.75%. For the three and six months ended June 30, 2016, the motor reinsurance reserve class contributed $17 million and $33 million, respectively, of net favorable prior year reserve development related to favorable loss emergence trends on several classes of business spanning multiple accident years.

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

7. RESERVE FOR LOSSES AND LOSS EXPENSES (CONTINUED)

Our June 30, 2017 net reserves for losses and loss expenses includes estimated amounts for numerous catastrophe events. We caution that the magnitude and/or complexity of losses arising from certain of these events, in particular Hurricane Matthew, the Fort McMurray wildfires, Storm Sandy, the 2011 Japanese earthquake and tsunami, the 2010-11 New Zealand earthquakes and the Tianjin port explosion, inherently increases the level of uncertainty and, therefore, the level of management judgment involved in arriving at our estimated net reserves for losses and loss expenses. As a result, our actual losses for these events may ultimately differ materially from our current estimates.

8. EARNINGS PER COMMON SHARE

The following table presents a comparison of basic and diluted earnings per common share:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Basic earnings per common share				
Net income	$95,686	$129,460	$115,542	$177,846
Less: preferred share dividends	10,656	9,969	25,497	19,938
Net income available to common shareholders	85,030	119,491	90,045	157,908
Weighted average common shares outstanding - basic (1)	84,141	91,926	85,076	92,980
Basic earnings per common share	$1.01	$1.30	$1.06	$1.70
Diluted earnings per common share				
Net income available to common shareholders	$85,030	$119,491	$90,045	$157,908
Weighted average common shares outstanding - basic (1)	84,141	91,926	85,076	92,980
Share-based compensation plans	370	632	571	725
Weighted average common shares outstanding - diluted (1)	84,511	92,558	85,647	93,705
Diluted earnings per common share	$1.01	$1.29	$1.05	$1.69
Anti-dilutive shares excluded from the dilutive computation	16	7	284	339

(1) On August 17, 2015, the Company entered into an Accelerated Share Repurchase (“ASR”) agreement (see 'Note 10 - Shareholders' Equity' for additional detail). The weighted-average number of shares outstanding used in the computation of basic and diluted earnings per share reflects the Company’s receipt of 4,149,378 common shares delivered to the Company on August 20, 2015, and 1,358,380 common shares delivered to the company on January 15, 2016 under the Company's ASR agreement.

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

9. SHARE-BASED COMPENSATION

For the three months ended June 30, 2017, the Company incurred share-based compensation costs of $16 million (2016: $19 million) related to restricted stock awards, share-settled restricted stock units, and cash-settled restricted stock units and recorded associated tax benefits of $3.5 million (2016: $5 million).

For the six months ended June 30, 2017, the Company incurred share-based compensation costs of $44 million (2016: $36 million). In addition, the Company recorded associated tax benefits of $17 million (2016: $8 million), including $7 million related to excess tax benefits associated with the vesting of restricted stock units.

The fair value of share-settled restricted stock units and cash-settled restricted stock units that vested during the six months ended June 30, 2017 was $124 million (2016: $62 million), including $44 million attributable to a 2014 grant of 3 year cliff vesting service-based awards. At June 30, 2017 there were $115 million of unrecognized compensation costs, which are expected to be recognized over the weighted average period of 2.7 years.

Share-settled Awards

The following table provides a reconciliation of the beginning and ending balance of nonvested share-settled restricted stock units for the six months ended June 30, 2017:

	Performance-based Stock Awards		Service-based Stock Awards	
	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value[1]	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value[1]
Nonvested restricted stock - beginning of period	283	$ 51.27	1,593	$ 48.88
Granted	87	64.58	521	64.23
Vested[2]	(119)	49.14	(876)	47.38
Forfeited	—	—	(37)	54.89
Nonvested restricted stock - end of period	251	$ 56.88	1,201	$ 56.96

(1) Fair value is based on the closing price of our common shares on the grant approval date.
(2) Share-settled restricted stock units vested during the six months ended June 30, 2017 included 313,391 restricted stock units attributable to a 2014 grant of 3 year cliff vesting service-based awards.

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

9. SHARE-BASED COMPENSATION (CONTINUED)

Cash-settled awards

The following table provides a reconciliation of the beginning and ending balance of nonvested cash-settled restricted stock units for the six months ended June 30, 2017:

	Performance-based Cash Settled Awards Number of Restricted Stock Units	Service-based Cash Settled Awards Number of Restricted Stock Units
Nonvested restricted stock units - beginning of period	68	1,392
Granted	15	425
Vested[1]	(38)	(751)
Forfeited	—	(37)
Nonvested restricted stock units - end of period	45	1,029

(1) Cash settled restricted stock units vested during the six months ended June 30, 2017 included 307,556 restricted stock units attributable to a 2014 grant of 3 year cliff vesting service-based awards.

At June 30, 2017, the liability for cash-settled restricted stock units, included in other liabilities in the Consolidated Balance Sheets, was $14 million (2016: $30 million).

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

10. SHAREHOLDERS' EQUITY

The following table presents our common shares issued and outstanding:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Shares issued, balance at beginning of period	176,580	176,556	176,580	176,240
Shares issued	—	19	—	335
Total shares issued at end of period	176,580	176,575	176,580	176,575
Treasury shares, balance at beginning of period	(91,410)	(83,653)	(90,139)	(80,174)
Shares repurchased	(2,004)	(2,337)	(4,233)	(6,247)
Shares reissued from treasury	37	69	995	500
Total treasury shares at end of period	(93,377)	(85,921)	(93,377)	(85,921)
Total shares outstanding	83,203	90,654	83,203	90,654

Treasury Shares

The following table presents our share repurchases:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
In the open market:				
Total shares(1)	1,987	2,300	3,883	6,004
Total cost	$129,960	$125,000	$257,943	$310,000
Average price per share(2)	$65.40	$54.35	$66.44	$51.63
From employees:(3)				
Total shares	17	37	350	243
Total cost	$1,110	$2,039	$24,370	$13,050
Average price per share(2)	$64.82	$54.70	$69.55	$53.65
Total shares repurchased:				
Total shares	2,004	2,337	4,233	6,247
Total cost	$131,070	$127,039	$282,313	$323,050
Average price per share(2)	$65.40	$54.36	$66.69	$51.71

(1) The six months ended June 30 2016 includes 1,358,380 common shares acquired under the accelerated share repurchase program (see below for more detail).
(2) Calculated using whole numbers.
(3) To satisfy withholding tax liabilities upon the vesting of restricted stock and restricted stock units.

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

10. SHAREHOLDERS' EQUITY (CONTINUED)

Accelerated Share Repurchase Program

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

During August, 2015, under the terms of this agreement, the Company paid $300 million to Goldman Sachs and initially repurchased 4,149,378 ordinary shares. The initial shares acquired represented 80% of the $300 million total paid to Goldman Sachs and were calculated using the Company’s stock price at activation of the program. The ASR program is accounted for as an equity transaction. Accordingly, at December 31, 2015, $240 million of common shares repurchased were included as treasury shares in the Consolidated Balance Sheet with the remaining $60 million included as a reduction to additional paid-in capital.

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

Preferred Shares

On April 17, 2017, the Company redeemed the remaining 14,042,955 of its 6.875% Series C preferred shares, for an aggregate liquidation preference of $351 million.

11. DEBT AND FINANCING ARRANGEMENTS

On March 27, 2017, the $250 million credit facility entered into by AXIS Capital and certain of its subsidiaries and a syndication of lenders expired.

On March 27, 2017, certain of AXIS Capital’s operating subsidiaries (the "Participating Subsidiaries") amended their existing $500 million secured letter of credit facility (the “LOC Facility”) with Citibank Europe plc (“Citibank”) to include an additional
$250 million of secured letter of credit capacity (the “$250 Million Facility”) pursuant to a Committed Facility Letter and an amendment to the Master Reimbursement Agreement (the “LOC Facility Documents”). Under the terms of the $250 Million Facility, letters of credit to a maximum aggregate amount of $250 million are available for issuance on behalf of the Participating Subsidiaries. These letters of credit will principally be used to support the reinsurance obligations of the Participating Subsidiaries. The $250 Million Facility is subject to certain covenants, including the requirement to maintain sufficient collateral, as defined in the LOC Facility Documents, to cover all of the obligations under the LOC Facility.

Such obligations include contingent reimbursement obligations for outstanding letters of credit and fees payable to Citibank. In the event of default, Citibank may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the LOC Facility to any or all of the Participating

Subsidiaries. The $250 million Facility expires March 31, 2018. The terms and conditions of the $500 million Facility remain unchanged.

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

12. COMMITMENTS AND CONTINGENCIES

Reinsurance Agreements

We purchase reinsurance and retrocessional protection for our insurance and reinsurance lines of business. The minimum reinsurance premiums are contractually due in advance on a quarterly basis. At June 30, 2017, we have unrecorded outstanding reinsurance purchase commitments of $112 million, of which $34 million is due in 2017 and the remaining $78 million is due in 2018 and later years. Actual payments under the reinsurance contracts will depend on the underlying subject premium and may exceed the minimum premium.

Investments

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

13. OTHER COMPREHENSIVE INCOME

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

	2017 Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	2016 Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Three months ended June 30,						
Available for sale investments:						
Unrealized investment gains arising during the period	$80,557	$(4,314)	$76,243	$74,278	$(10,593)	$63,685
Adjustment for reclassification of net realized investment gains and OTTI losses recognized in net income	(1,564)	61	(1,503)	(18,604)	4,585	(14,019)
Unrealized investment gains arising during the period, net of reclassification adjustment	78,993	(4,253)	74,740	55,674	(6,008)	49,666
Non-credit portion of OTTI losses	—	—	—	—	—	—
Foreign currency translation adjustment	8,867	—	8,867	(4,224)	—	(4,224)
Total other comprehensive income, net of tax	$87,860	$(4,253)	$83,607	$51,450	$(6,008)	$45,442
Six months ended June 30,						
Available for sale investments:						
Unrealized investment gains arising during the period	$150,929	$(6,976)	$143,953	$223,109	$(20,790)	$202,319
Adjustment for reclassification of net realized investment losses and OTTI losses recognized in net income	24,194	(736)	23,458	45,388	(125)	45,263
Unrealized investment gains arising during the period, net of reclassification adjustment	175,123	(7,712)	167,411	268,497	(20,915)	247,582
Non-credit portion of OTTI losses	—	—	—	—	—	—

Foreign currency translation adjustment	38,736	—	38,736	3,972	—	3,972
Total other comprehensive income, net of tax	$213,859	$(7,712)	$206,147	$272,469	$(20,915)	$251,554

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

13. OTHER COMPREHENSIVE INCOME (CONTINUED)

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

Details About AOCI Components	Consolidated Statement of Operations Line Item That Includes Reclassification	Amount Reclassified from AOCI[1] Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Unrealized investment gains (losses) on available for sale investments					
	Other realized investment gains(losses)	$3,092	$24,973	$(16,112)	$(29,289)
	OTTI losses	(1,528)	(6,369)	(8,082)	(16,099)
	Total before tax	1,564	18,604	(24,194)	(45,388)
	Income tax (expense) benefit	(61)	(4,585)	736	125
	Net of tax	$1,503	$14,019	$(23,458)	$(45,263)
Foreign currency translation adjustment					
	Foreign exchange loss	$—	$—	$(24,149)	$—
	Income tax expense	—	—	—	—
	Net of tax	$—	$—	$(24,149)	$—

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

On March 27, 2017, as part of the wind down of our Australia operation, the Australia Prudential Regulation Authority revoked the authorization of AXIS Specialty Australia to carry on insurance business in Australia. As this resulted in the substantial liquidation of AXIS Specialty Australia, we have released the cumulative translation adjustment related to AXIS Specialty Australia of $24 million from accumulated other comprehensive income in the Consolidated Balance Sheet to foreign exchange losses in the Consolidated Statement of Operations.

14. SUBSEQUENT EVENTS

On July 5, 2017, the Company and the board of directors of Novae Group plc ("Novae"), a public limited company incorporated in England and Wales, announced that it had agreed on the terms of a recommended cash offer of 700 pence per share (the "Offer") to be made by AXIS to acquire the entire issued and to be issued share capital of Novae.

The Offer values Novae's issued and to be issued share capital at approximately £467.6 million (approximately $604.1 million based upon an exchange rate of 1.292).

The acquisition is to be effected by way of a scheme of arrangement (the "Scheme") under the laws of the United Kingdom ("UK") which requires the approval of a UK court and approval of a majority of Novae's shareholders, representing at least 75% of the votes cast. The Scheme is also subject to receipt of certain regulatory approvals and other customary conditions.

The acquisition is expected to close in the fourth quarter of 2017.

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

The following is a discussion and analysis of our financial condition and results of operations. This should be read in conjunction with the consolidated financial statements and related notes included in Item 1 of this report and also our Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2016. Tabular dollars are in thousands, except per share amounts. Amounts in tables may not reconcile due to rounding differences.

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SECOND QUARTER 2017 FINANCIAL HIGHLIGHTS

Second Quarter 2017 Consolidated Results of Operations

- Net income available to common shareholders of $85 million, or $1.01 per common share and $1.01 per diluted common share
- Non-GAAP operating income of $110 million, or $1.31 per diluted common share[(1)]
- Gross premiums written of $1.4 billion
- Net premiums written of $956 million
- Net premiums earned of $981 million
- Net favorable prior year reserve development of $71 million
- Estimated pre-tax catastrophe and weather-related net losses, net of reinstatement premiums, of $50 million compared to $109 million for the second quarter of 2016
- Underwriting income of $57 million and combined ratio of 97.6%
- Net investment income of $106 million
- Net realized investment losses of $4 million
- Foreign exchange losses of $36 million

Second Quarter 2017 Consolidated Financial Condition

- Total cash and investments of $14.5 billion; fixed maturities, cash and short-term securities comprise 86% of total cash and investments and have an average credit rating of AA-
- Total assets of $21.5 billion
- Reserve for losses and loss expenses of $9.9 billion and reinsurance recoverable of $2.2 billion
- Total debt of $1.0 billion and the debt to total capital ratio of 14.4%
- Total common shares repurchased were 2.0 million
- At August 8, 2017 the remaining authorization under the repurchase program approved by our Board of Directors was $739 million
- Common shareholders’ equity of $5.1 billion and diluted book value per common share of $60.45

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

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EXECUTIVE SUMMARY

Business Overview

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

Our mission is to provide our clients and distribution partners with a broad range of risk transfer products and services and meaningful capacity, backed by significant financial strength. We manage our portfolio holistically, aiming to construct the optimum consolidated portfolio of funded and unfunded risks, consistent with our risk appetite and development of our franchise. We nurture an ethical, entrepreneurial and disciplined culture that promotes outstanding client service, intelligent risk taking and the achievement of superior risk-adjusted returns for our shareholders. We believe that the achievement of our objectives will position us as a global leader in specialty risks. Our execution on this strategy for the first six months of 2017 included:

- continued growth of our accident and health lines, which is focused on specialty accident and health products;

- growth of our syndicate at Lloyd's which provides us with access to Lloyd's worldwide licenses and an extensive distribution network. During the first quarter of 2016 we commenced writing business through our underwriting division at Lloyd's in China. On July 14, 2017, we announced that we had received final authorization from Lloyd’s, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) for our own Lloyd’s managing agent, AXIS Managing Agency Limited (“AXIS Managing Agency”). Effective August 4, 2017, AXIS Managing Agency will assume management of AXIS Syndicate 1686 at Lloyd’s, replacing the Company’s third-party managing agency agreement with Asta Managing Agency Limited, which had been in place since 2014;

- continued implementation of a more focused distribution strategy and increased our scale and relevance in key markets;

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

- continued to improve the effectiveness and efficiency of our operating platforms and processes;

- increased our investment in data and analytics; and

- broadened our risk-funding sources and developed vehicles that utilize third-party capital:

- Our investment in 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"). Harrington Re’s strategy is to combine a multi-line reinsurance portfolio with a diversified allocation to alternative investment strategies to earn attractive risk-adjusted returns. Harrington has developed a portfolio that optimizes the risk-reward characteristics of both assets and liabilities, leveraging the respective strengths of AXIS Capital and Blackstone while deploying a disciplined and fully integrated approach to both underwriting and investing; and

- AXIS Ventures Reinsurance Limited, which manages capital for investors interested in deploying funds directly into the property-catastrophe and other short-tail business.

On April 1, 2017, the Company acquired general aviation insurer and reinsurer Aviabel, increasing the Company's scale and relevance in the global aviation market. The Company will continue to maintain Aviabel's physical presence in Brussels and Amsterdam.

On April 17, 2017, the Company redeemed the remaining $351 million of its 6.875% Series C preferred shares. The execution of this transaction reduced the weighted average annual dividend rate on our preferred equity capital base by 88 basis points to 5.50%.

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On July 5, 2017 the Company announced that that it had agreed on the terms of a recommended offer to acquire Novae Group plc ("Novae"), a diversified specialty (re)insurer that operates through Lloyd's of London.

On July 6, 2017, S&P Global Ratings affirmed its 'A-' long-term counterparty credit and senior debt ratings on AXIS, and its 'A+' long-term counterparty credit and financial strength ratings on the Company's core operating subsidiaries. At the same time, S&P Global Ratings revised its outlook on AXIS to negative from stable based on the planned acquisition of Novae.

Results of Operations

	Three months ended June 30,			Six months ended June 30,		
	2017	% Change	2016	2017	% Change	2016
Underwriting income (loss):						
Insurance	$(482)	(96%)	$(11,412)	$12,483	107%	$6,025
Reinsurance	57,494	nm	21,272	60,916	(41%)	102,786
Net investment income	106,063	16%	91,730	204,728	45%	140,896
Net realized investment gains (losses)	(4,392)	nm	21,010	(29,443)	(35%)	(45,500)
Other (expenses) revenues, net	(76,066)	nm	6,860	(140,445)	nm	(26,361)
Bargain purchase gain	15,044	nm	—	15,044	nm	—
Interest in loss of equity method investments	(1,975)	nm	—	(7,741)	nm	—
Net income	95,686	(26%)	129,460	115,542	(35%)	177,846
Preferred share dividends	(10,656)	7%	(9,969)	(25,497)	28%	(19,938)
Net income available to common shareholders	$85,030	(29%)	$119,491	$90,045	(43%)	$157,908
Non-GAAP operating income	$110,493	133%	$47,483	$161,460	9%	$148,759

nm – not meaningful

Underwriting Results

Total underwriting income for the three months ended June 30, 2017 was $57 million, an increase of $47 million compared to $10 million for the three months ended June 30, 2016. The increase in underwriting income was primarily driven by a decrease in catastrophe and weather-related losses, partially offset by a decrease in net favorable prior year reserve development, an increase in acquisition costs, and an increase in the current accident year loss ratio excluding catastrophe and weather-related losses.

The reinsurance segment underwriting income increased by $36 million for the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The increase in underwriting income was primarily driven by a decrease in catastrophe and weather-related losses, partially offset by an increase in the current accident year loss ratio excluding catastrophe and weather-related losses and a decrease in net favorable prior year reserve development.

The insurance segment underwriting loss decreased by $11 million for the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The decrease in underwriting loss was primarily driven by a decrease in catastrophe and weather-related losses, and a decrease in the current accident year loss ratio excluding catastrophe and weather-related losses, partially offset by an increase in acquisition costs.

Total underwriting income in the six months ended June 30, 2017 was $73 million, a decrease of $35 million compared to $109 million in the six months ended June 30, 2016. The decrease in underwriting income was primarily driven by a decrease in net favorable prior year reserve development, an increase in the current accident year loss ratio excluding catastrophe and weather-related losses, and an increase in acquisition costs, partially offset by a decrease in catastrophe and weather-relates losses.

The reinsurance segment underwriting income decreased by $42 million in the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The decrease in underwriting income was primarily driven by a decrease in net favorable prior year reserve development, an increase in the current accident year loss ratio excluding catastrophe and weather-related losses, partially offset by a decrease in catastrophe and weather-related losses.

The insurance segment underwriting income increased by $6 million in the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The increase in underwriting income was primarily driven by a decrease in the current accident year loss ratio excluding catastrophe and weather-related losses, and an increase in net favorable prior year reserve development, partially offset by an increase in acquisition costs.

Net Investment Income

Net investment income for the three and six months ended June 30, 2017 was $106 million and $205 million, respectively, an increase of $14 million and $64 million, respectively, compared to the three and six months ended June 30, 2016. The increase was attributable to our alternative investments portfolio.

Net Realized Investment Losses

Net realized investment losses were $4 million for the three months ended June 30, 2017 compared to net realized investment gains of $21 million for the three months ended June 30, 2016. The net realized investment losses for the three months ended June 30, 2017 were mainly attributable to derivative losses on foreign currency exchange contracts and interest rate swaps. The net realized investment gains for the three months ended June 30, 2016 were attributable to sales of fixed income and equities which had benefited from improved pricing in 2016.

Net realized investment losses were $29 million in the six months ended June 30, 2017, compared to net realized investment losses of $46 million for the same period of 2016. The net realized investment losses for the three and six months ended June 30, 2017 and 2016 were primarily attributable to foreign currency losses (net of forward contracts) on the sale of non-U.S. government and corporate debt securities as a result of the strengthening of the U.S. dollar and other-than-temporary impairment ("OTTI") charges.

Other Expenses (Revenues), Net

Corporate expenses were $31 million for the three months ended June 30, 2017, compared to $32 million for the three months ended June 30, 2016. The decrease was primarily attributable to an increase in the allocation of corporate costs to the insurance and reinsurance segments, largely offset by an increase in personnel expenses.

Corporate expenses were $70 million for the six months ended June 30, 2017 compared to $58 million in the same period in 2016. The increase was primarily attributable to an increase in personnel expenses.

The foreign exchange losses of $36 million and $58 million for the three and six months ended June 30, 2017, respectively, were primarily attributable to the impact of the weakening of the U.S. dollar on the remeasurement of net insurance-related liabilities mainly denominated in pound sterling and euro. For the six months ended June 30, 2017 compared to the same period in 2016, foreign exchange losses also included the reclass of the cumulative translation adjustment of $24 million related to the wind-down of AXIS Specialty Australia from accumulated other comprehensive income to foreign exchange losses.

The foreign exchange gains of $57 million and $56 million for the three and six months ended June 30, 2016, respectively, were primarily driven by the impact of the strengthening of the U.S. dollar on the remeasurement of net insurance-related liabilities mainly denominated against the pound sterling.

The financial results for the three months ended June 30, 2017 resulted in a tax benefit of $3 million, compared to the tax expense of $5 million for the three months ended June 30, 2016. The tax benefit of $3 million recognized in the three months ended June 30, 2017 was primarily driven by underwriting losses recognized in our U.S. operations and a tax adjustment related to the bargain purchase gain recognized in connection with the acquisition of Aviabel. The tax expense of $5 million recognized in the three months ended June 30, 2016 was primarily driven by the generation of consolidated pre-tax net income in our European operations.

The financial results for the six months ended June 30, 2017 and 2016 resulted in a tax benefit of $13 million and $2 million, respectively. The tax benefit of $13 million recognized in the six months ended June 30, 2017 was primarily driven by share based compensation excess tax benefits which were recognized in the income statement, as well as underwriting losses recognized in our U.S. and European operations and a tax adjustment related to the bargain purchase gain recognized in connection with the acquisition of Aviabel. The tax benefit of $2 million recognized in the six months ended June 30, 2016 was primarily driven by the reduction of a valuation allowance on European foreign tax credit carry forwards which resulted in the recognition of an income tax benefit as well as pre-tax net losses in the U.S., partially offset by increased pre-tax net income in our European operations.

Interest in Loss of Equity Method Investments

Interest in loss of equity method investments was $2 million and $8 million for the three and six months ended June 30, 2017, respectively. This includes impairment losses of $3 million and $9 million for the three and six months ended June 30, 2017, respectively, related to an investment in a U.S. based insurance company, partially offset by income of $1 million for each of the three and six months ended June 30, 2017, relating to the Company’s aggregate share of profits in a company which it has significant influence over the operating and financial policies.

Outlook

We are committed to being a leader in specialty risk, an area in which we already have depth of talent and experience, and have earned an outstanding reputation. Committed to our hybrid strategy, AXIS has developed substantial platforms in both insurance and reinsurance, providing us with balance and diversification. Management believes its positioning, franchise, expert underwriters and strong relationships with distributors and clients will provide opportunities for further profitable growth in 2017, with variances amongst our lines driven by our tactical response to market conditions. At the same time, we are broadening our risk-funding sources and developing vehicles that utilize the industry’s abundant third party capital. Therefore, we expect that our net premiums written will not grow as much as our gross premiums written, as we intend to share more of our risk with strategic capital partners.

Competitive conditions continue to impact worldwide insurance markets with greatest pressures impacting catastrophe exposed property and certain global specialty lines of business. We also observed greater competitiveness for large accounts compared to smaller risks. These competitive pressures have led to price reductions across most lines of business, with decreases in international markets generally more severe than those observed in the U.S. We expect this trend to continue in the short-term but believe that there are still attractive risks in the market. In this challenging market environment, we are focusing on lines and markets that remain adequately priced or continue to deliver price increases and those that provide opportunities for profitable growth. Where necessary we also continue to shift our business mix toward smaller, less volatile risk accounts which we believe will enable us to achieve a better, more stable attritional loss experience.

The reinsurance markets' trading environment remains challenging in the many of lines of business and geographical regions. The market continues to be influenced by excess capacity, strong balance sheets of established market participants and a consolidation of reinsurance purchasing. Despite these conditions we observed recent favorable trends which we expect to positively impact trends in our business including many cedants reducing the size of their reinsurer panels, some moderation of pricing pressures, increased resistance to demands for greater commission rates as well as more generous terms and conditions, an increase in the number of cedants looking to buy more reinsurance protection and Solvency II and other regulatory or governmental driven opportunities. These factors, combined with AXIS' customer-centric approach and opportunities in specific lines of business and geographies allow us to execute on our targeted growth strategy. We continue to address the difficult market conditions by taking actions to protect the quality and profitability of our existing book, targeting larger shares of the more attractive treaties, managing the overall volatility of our reinsurance book, and expanding our already strong group of strategic capital partners with whom to share our risks.

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Financial Measures

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

	Three months ended and at June 30,		Six months ended and at June 30,	
	2017	2016	2017	2016
ROACE (annualized)(1)	6.7 %	9.0 %	3.5 %	6.0 %
Non-GAAP operating ROACE (annualized)(2)	8.6 %	3.6 %	6.3 %	5.6 %
Diluted book value per common share(3)	$60.45	$57.62	$60.45	$57.62
Cash dividends declared per common share	0.38	0.35	0.76	0.70
Increase in diluted book value per common share adjusted for dividends	$1.94	$1.93	$2.94	$4.24

(1) Return on average common equity ("ROACE") is calculated by dividing annualized net income available to common shareholders for the period by the average shareholders' equity determined by using the common shareholders' equity balances at the beginning and end of the period.
(2) Non-GAAP operating ROACE is calculated by dividing annualized operating income for the period by the average common shareholders' equity determined by using the common shareholders' equity balances at the beginning and end of the period. Annualized non-GAAP operating ROACE is a non-GAAP financial measure as defined in SEC Regulation G. Refer to'Non-GAAP Financial Measures' for additional information and reconciliation to the nearest GAAP financial measure (ROACE).
(3) Diluted book value per common share represents total common shareholders' equity divided by the number of common shares and diluted common share equivalents outstanding, determined using the treasury stock method. Cash settled awards are excluded from the denominator.

Return on Equity

The increase in non-GAAP operating ROACE for the three months ended June 30, 2017, compared to the three months ended June 30, 2016, was primarily driven by an increase in underwriting income and net investment income.
The increase in non-GAAP operating ROACE in the six months ended June 30, 2017, compared to the six months ended June 30, 2016, was primarily driven by an increase in net investment income, partially offset by a decrease in underwriting income.

In addition to the items noted above for non-GAAP operating ROACE, ROACE is also impacted by net realized investment gains (losses), foreign exchange losses (gains) and a bargain purchase gain related to the acquisition of Aviabel.
The decrease in ROACE for the three months ended June 30, 2017, compared to the three months ended June 30, 2016, was primarily driven by an increase in foreign exchange losses and net realized investment losses, partially offset by an increase in underwriting income, net investment income and the bargain purchase gain.
The decrease in ROACE in the six months ended June 30, 2017, compared to the six months ended June 30, 2016, was primarily driven by an increase in foreign exchange losses and a decrease in underwriting income, partially offset by an increase in net investment income, a decrease in net realized investment losses, and the bargain purchase gain.

Diluted Book Value per Common Share

Diluted book value per common share increased by 5% to $60.45 at June 30, 2017, from $57.62 at June 30, 2016, which primarily reflected the generation of $398 million in net income available to common shareholders over the past twelve months which was partially offset by common share dividends declared.

Cash Dividends Declared per Common Share

We believe in returning excess capital to our shareholders by way of dividends (as well as share repurchases) accordingly, our dividend policy is an integral part of the value we create for our shareholders. Our cumulatively strong earnings have permitted our Board of Directors to approve thirteen successive annual increases in quarterly common share dividends.

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Diluted Book Value per Common Share Adjusted for Dividends

Diluted book value per common share adjusted for dividends increased by $1.94 or 3% per common share for the three months ended June 30, 2017, and $4.32, or 7%, per common share over the past twelve months.

Taken together, we believe that growth in diluted book value per common share and common share dividends declared represent the total value created for our common shareholders. As companies in the insurance industry have differing dividend payout policies, we believe investors use the diluted book value per common share adjusted for dividends metric to measure comparable performance across the industry.

During the three and six months ended June 30, 2017 and 2016, respectively, total value created consisted primarily of our net income and an increase in unrealized gains on investments reported in accumulated other comprehensive income, partially offset by common share dividends declared.

UNDERWRITING RESULTS – GROUP

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

	Three months ended June 30,			Six months ended June 30,		
	2017	% Change	2016	2017	% Change	2016
Revenues:						
Gross premiums written	$1,362,327	3%	$1,320,434	$3,274,199	—%	$3,279,595
Net premiums written	956,017	(5%)	1,007,350	2,464,976	(8%)	2,693,156
Net premiums earned	981,431	4%	946,990	1,920,133	4%	1,849,331
Other insurance related income (losses)	2,560	nm	(892)	(1,222)	12%	(1,094)
Expenses:						
Current year net losses and loss expenses	(676,265)		(710,013)	(1,308,000)		(1,279,369)
Prior year reserve development	70,933		77,719	95,727		148,113
Acquisition costs	(204,361)		(189,125)	(394,153)		(369,761)
Underwriting-related general and administrative expenses(1)	(117,286)		(114,819)	(239,086)		(238,409)
Underwriting income(2)	$57,012	478%	$9,860	$73,399	(33%)	$108,811
General and administrative expenses(1)	$147,816		$146,746	$309,075		$296,648
Income before income taxes and interest in income (loss) of equity method investments(2)	$94,328		$134,361	$110,613		$176,207

(1) Underwriting-related general and administrative expenses is a non-GAAP measure as defined in SEC Regulation G. Our total general and administrative expenses also included corporate expenses of $30,530 and $31,927 for the three months ended June 30, 2017 and 2016, respectively, and $69,989 and $58,239 for the six months ended June 30, 2017 and 2016, respectively. Refer to 'Other Expenses (Revenues), Net' for additional information related to these corporate expenses. Also, refer to 'Non-GAAP Financial Measures' for further information.

(2) Group (or consolidated) underwriting income is a non-GAAP financial measure as defined in SEC Regulation G. Refer to Item 1, Note 3 to the Consolidated Financial Statements "Segment Information" for a reconciliation of underwriting income to the nearest GAAP financial measure (income before income taxes and interest in income (loss) of equity method investments) for the periods indicated above. Also, refer to 'Non-GAAP Financial Measures' for additional information related to the presentation of consolidated underwriting income.

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UNDERWRITING REVENUES

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

	Gross Premiums Written					
	Three months ended June 30,			Six months ended June 30,		
	2017	% Change	2016	2017	% Change	2016
Insurance	$796,023	2%	$784,017	$1,490,030	4%	$1,437,365
Reinsurance	566,304	6%	536,417	1,784,169	(3%)	1,842,230
Total	$1,362,327	3%	$1,320,434	$3,274,199	—%	$3,279,595
% ceded						
Insurance	34%	1 pts	33%	31%	1 pts	30%
Reinsurance	24%	14 pts	10%	20%	12 pts	8%
Total	30%	6 pts	24%	25%	7 pts	18%

	Net Premiums Written					
	Three months ended June 30,			Six months ended June 30,		
	2017	% Change	2016	2017	% Change	2016
Insurance	$527,678	—%	$526,764	$1,033,008	3%	$999,926
Reinsurance	428,339	(11%)	480,586	1,431,968	(15%)	1,693,230
Total	$956,017	(5%)	$1,007,350	$2,464,976	(8%)	$2,693,156

Gross Premiums Written:

Gross premiums written for the three and six months ended June 30, 2017 increased by $42 million or 3% ($53 million or 4% on a constant currency basis[(1)]) and decreased by $5 million (increased by $55 million or 2% on a constant currency basis), respectively, compared to the three and six months ended June 30, 2016, respectively. The increase for the three months ended June 30, 2017 compared to the same period in 2016, was due to an increase in both the insurance and reinsurance segments. The decrease for the six months ended June 30, 2017 compared to the same period in 2016 was due to an increase in the insurance segment, offset by a decrease in the reinsurance segment.

The reinsurance segment's gross premiums written increased by $30 million or 6% and decreased by $58 million or 3% ($10 million or 1% on a constant currency basis) for the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016, respectively.

The increase in the reinsurance segment gross premiums written for the three months ended June 30, 2017 compared to the same period of 2016, was primarily driven by our motor, catastrophe and property lines, partially offset by a decrease in our agriculture lines. The increase in our motor lines was largely due to timing differences. The increase in our catastrophe and property lines was primarily driven by new business. The decrease in our agriculture lines was due to the non-renewal of a significant treaty.

The decrease in the six months ended June 30, 2017 compared to the same period in 2016, was primarily driven by a lower level of premiums written on a multi-year basis, notably in our credit and surety lines and our liability lines. These decreases were partially offset by an increase in our agriculture, catastrophe and property lines. The increase in our agriculture lines is due to an increased participation on a renewing treaty. The increase in our catastrophe and property lines was driven by new business.

(1) Amounts presented on a constant currency basis are “non-GAAP financial measures” as defined in Regulation G. The constant currency basis is calculated by applying the average foreign exchange rate from the current year to the prior year balance.

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The insurance segment's gross premiums written increased by $12 million or 2% ($21 million or 3% on a constant currency basis) and $53 million or 4% for the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016, respectively.

The increase in the insurance segment gross premiums written for the three months ended June 30, 2017 was attributable to our liability lines driven by new business, and our aviation lines due to our recent acquisition of Aviabel, partially offset by a decrease in premiums written in our property and marine lines.

The increase in the six months ended June 30, 2017 was attributable to our accident and health lines and our liability lines, each primarily driven by new business. These increases were partially offset by a decrease in premiums written in our marine and property lines.

Ceded Premiums Written:

Ceded premiums written for the three and six months ended June 30, 2017 were $406 million or 30% and $809 million or 25% of gross premiums written, respectively, compared to $313 million or 24% and $586 million or 18% of gross premiums written for the three and six months ended June 30, 2016, respectively. The increase in the ratio of ceded premiums written to gross premiums written for the three and six months ended June 30, 2017, compared to the same period in 2016, was primarily attributable to the reinsurance segment.

The increase in the reinsurance segment ceded ratio for the three months ended June 30, 2017 compared to the same period in 2016, was largely driven by an increase in premiums ceded to the new quota share retrocessional treaty which covers our agriculture lines, as well as the impact of the retrocessional cover entered into with Harrington Re, which increased premiums ceded in our liability and professional lines, partially offset by increase in gross premiums written in the quarter.

The increase for the six months ended June 30, 2017 compared to the same period in 2016, was largely due to the retrocession to Harrington Re, and an increase in premiums ceded in our catastrophe, credit and surety lines, and agriculture lines, together with a decrease in gross premiums written.

In June 2017, the Company obtained catastrophe protection for its insurance and reinsurance segments through a reinsurance agreement with Northshore Re II Limited ('Northshore'). In connection with the reinsurance agreement, Northshore issued notes to unrelated investors in an amount equal to the full $350 million of coverage provided under the reinsurance agreement covering a three year period. At the time of the agreement, the Company performed an evaluation of Northshore to determine if it meets the definition of a variable interest entity ('VIE'). The Company concluded that Northshore is a VIE but that the Company does not have a variable interest in the entity, as the variability in results is expected to be absorbed entirely by the investors in Northshore. Accordingly, Northshore is not consolidated in the Company's consolidated financial statements. The premium ceded to Northshore during the three months ended June 30, 2016 was $27 million.

Net Premiums Earned:

Net premiums earned by segment were as follows:

Three months ended June 30,			Six months ended June 30,		
2017	2016	% Change	2017	2016	% Change

Insurance	$493,836	50 %	$439,279	46 %	12%	$952,265	50 %	$877,958	47 %	8%
Reinsurance	487,595	50 %	507,711	54 %	(4%)	967,868	50 %	971,373	53 %	—%
Total	$981,431	100%	$946,990	100%	4%	$1,920,133	100%	$1,849,331	100%	4%

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

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Net premiums earned for the three and six months ended June 30, 2017 increased by $34 million or 4% ($49 million or 5% on a constant currency basis) and $71 million or 4% ($122 million or 7% on a constant currency basis), respectively, compared to the three and six months ended June 30, 2016, respectively. The increases for both periods compared to the same periods in 2016, were driven by increases in the insurance segment offset by decreases in the reinsurance segment.

The increase in net premiums earned in the insurance segment for the three and six months ended June 30, 2017 compared to the same periods in 2016, was largely due to strong premiums growth in our accident and health lines, as well as our property lines in recent periods, together with a decrease in ceded premiums earned in our property lines.

The decrease in net premiums earned in the reinsurance segment for the three and six months ended June 30, 2017 compared to the same periods in 2016, was primarily driven by an increase in ceded premiums earned in our catastrophe and agriculture lines, as well as the impact of the retrocession to Harrington Re, which increased ceded premiums earned in our professional lines, together with a decrease in gross premiums earned in our professional lines, partially offset by an increase in gross premiums earned in our motor and catastrophe lines. For the six months ended June 30, 2017, net premiums earned were also impacted by an increase in our agriculture lines.

Other Insurance Related Income (Losses):

Other insurance related income increased by $3 million for the three months ended June 30, 2017, compared to the same period in 2016, reflecting an increase in fees from strategic partners, partially offset by realized losses and unfavorable mark-to-market adjustments on our weather and commodities derivative portfolio.

Other insurance related losses for the six months ended June 30, 2017, were comparable to the same period in 2016, reflecting realized losses on our weather and commodities derivative portfolio which were largely offset by fees from strategic capital partners.

UNDERWRITING EXPENSES

The following table provides a breakdown of our combined ratio:

	Three months ended June 30,			Six months ended June 30,		
	2017	% Point Change	2016	2017	% Point Change	2016
Current accident year loss ratio	68.9%	(6.1)	75.0 %	68.1%	(1.1)	69.2%
Prior year reserve development	(7.2 %)	1.0	(8.2 %)	(5.0 %)	3.0	(8.0 %)
Acquisition cost ratio	20.8%	0.8	20.0 %	20.5%	0.5	20.0%
General and administrative expense ratio(1)	15.1%	(0.3)	15.4 %	16.2%	0.2	16.0%
Combined ratio	97.6%	(4.6)	102.2%	99.8%	2.6	97.2%

(1) The general and administrative expense ratio includes corporate expenses not allocated to reportable segments of 3.1% and 3.4% for the three months ended June 30, 2017 and 2016, respectively, and 3.6% and 3.1% for the six months ended June 30, 2017 and 2016, respectively. These costs are further discussed in the ‘Other Expenses (Revenues), Net’ section.

Current Accident Year Loss Ratio:

The current accident year loss ratio decreased to 68.9% and 68.1% for the three and six months ended June 30, 2017, respectively, from 75.0% and 69.2% for the three and six months ended June 30, 2016, respectively.

The decrease for the three and six months ended June 30, 2017 compared to the same period in 2016, was impacted by a lower level of catastrophe and weather-related losses. During the three and six months ended June 30, 2017 we incurred pre-tax catastrophe and weather-related losses of $50 million or 5.1 points and $85 million or 4.4 points, respectively, attributable to U.S. weather-related events and Cyclone Debbie. Comparatively, during the three and six months ended June 30, 2016 we incurred pre-tax catastrophe and weather-related losses, net of reinstatement premiums of $109 million or 11.7 points and $124 million or 6.8 points, respectively.

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After adjusting for the impact of the catastrophe and weather-related losses, our current accident year loss ratio for the three and six months ended June 30, 2017 was 63.8% and 63.7%, respectively, compared to 63.3% and 62.4% in the three and six months ended June 30, 2016, respectively.

The increase in the current accident year loss ratio after adjusting for the impact of the catastrophe and weather-related losses for the three and six months ended June 30, 2017 compared to the same periods in 2016, was mainly due to the ongoing adverse impact of rate and trend, and the impact of the Ogden rate change on our reinsurance motor lines.

For further discussion on current accident year loss ratios, refer to the insurance and reinsurance segment discussions below.

Estimates of Significant Catastrophe Events

Our June 30, 2017 net reserves for losses and loss expenses includes estimated amounts for numerous catastrophe events. We caution that the magnitude and/or complexity of losses arising from certain of these events, in particular Hurricane Matthew, the Fort McMurray wildfires, Storm Sandy, the 2011 Japanese earthquake and tsunami, the 2010-11 New Zealand earthquakes and the Tianjin port explosion, inherently increases the level of uncertainty and, therefore, the level of management judgment involved in arriving at our estimated net reserves for losses and loss expenses. As a result, our actual losses for these events may ultimately differ materially from our current estimates. Our estimated net losses in relation to the catastrophe events described above were derived from ground-up assessments of our in-force contracts and treaties providing coverage in the affected regions. These assessments take into account the latest information available from clients, brokers and loss adjusters. In addition, we consider industry insured loss estimates, market share analyses and catastrophe modeling analyses, when appropriate. Our estimates remain subject to change, as additional loss data becomes available.

We continue to monitor paid and incurred loss development for catastrophe events of prior years and update our estimates of ultimate losses accordingly.

Prior Year Reserve Development:

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Insurance	$19,517	$20,066	$28,137	$22,493
Reinsurance	51,416	57,653	67,590	125,620
Total	$70,933	$77,719	$95,727	$148,113

Overview

Our short tail business includes the underlying exposures in our property and other, marine and aviation reserve classes within our insurance segment, and the property and other reserve class within our reinsurance segment.

Development from these classes contributed $31 million and $35 million of net favorable prior year reserve development for the three and six months ended June 30, 2017, respectively. These short-tail lines contributed $27 million and $75 million of net favorable prior year reserve development for the three and six months ended June 30, 2016, respectively. The net favorable development for these classes primarily reflected the recognition of better than expected loss emergence.

Our medium-tail business consists primarily of professional insurance and reinsurance reserve classes, credit and political risk insurance reserve class, and credit and surety reinsurance reserve class. For the three and six months ended June 30, 2017, the professional reserve classes contributed net favorable prior year reserve development of $22 million and $46 million, respectively. For the three and six months ended June 30, 2016, the professional reserve classes contributed net favorable prior year reserve development of $15 million and $16 million, respectively. The net favorable prior year reserve development on these reserve classes reflected the generally favorable experience as we continued to transition to more experience based methods.

Our long-tail business consists primarily of liability and motor reserve classes. For the three and six months ended June 30, 2017, the liability reinsurance reserve class contributed net favorable prior year reserve development of $16 million and $39 million, respectively. For the three and six months ended and June 30, 2016, the liability reinsurance reserve class contributed net favorable prior year development of $15 million and $22 million, respectively. The net favorable prior year reserve development for our liability reinsurance reserve class in both years primarily reflected the progressively increased weight given by management to experience based indications on older accident years, which has generally been favorable. For the six months ended June 30, 2017, the liability insurance reserve class recorded net adverse prior year reserve development of $7 million, primarily attributable to reserve strengthening within our run-off Bermuda excess casualty book of business.

For the six months ended June 30, 2017, the motor reinsurance reserve class recorded net adverse prior year reserve development of $20 million. This adverse development was driven by the U.K. Ministry of Justice's recent announcement of a decrease in the discount rate used to calculate lump sum awards in U.K. bodily injury cases, known as the Ogden rate. Effective March 20, 2017, the Ogden rate changed from plus 2.5% to minus 0.75%. For the three and six months ended June 30, 2016, the motor reinsurance reserve class contributed $17 million and $33 million, respectively, of net favorable prior year reserve development related to favorable loss emergence trends on several classes of business spanning multiple accident years.

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

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

Insurance Segment:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Property and other	$3,465	$10,929	$4,002	$13,987
Marine	9,408	3,284	15,496	3,700
Aviation	(1,968)	(1,043)	(3,513)	(80)
Credit and political risk	(18)	(28)	(35)	(207)
Professional lines	11,299	5,919	18,750	5,578
Liability	(2,669)	1,005	(6,563)	(485)
Total	$19,517	$20,066	$28,137	$22,493

For the three months ended June 30, 2017 we recognized $20 million of net favorable prior year reserve development, the principal components of which were:

- $11 million of net favorable prior year reserve development on professional lines business, primarily related to accident years 2013 and 2014 due to the recognition of better than expected development.

- $9 million of net favorable prior year reserve development on marine business, primarily related to accident years 2013 through 2016 driven by better than expected loss emergence.

For the three months ended June 30, 2016 we recognized $20 million of net favorable prior year reserve development, the principal components of which were:

- $11 million of net favorable prior year reserve development on property and other business, driven by better than expected loss emergence across most accident years.

- $6 million of net favorable prior year reserve development on professional lines business, driven by better than expected development related to various accident years.

For the six months ended June 30, 2017 we recognized $28 million of net favorable prior year reserve development, the principal components of which were:

- $19 million of net favorable prior year reserve development on professional lines business, primarily related to accident years 2013 and 2014 due to the recognition of better than expected development.

- $15 million of net favorable prior year reserve development on marine business, primarily related to accident years 2013 through 2016 driven by better than expected loss emergence.

- $7 million of net adverse prior year development on liability lines, primarily attributable to reserve strengthening on two large claims within our run-off Bermuda excess casualty book of business impacting 2014 and prior accident years.

For the six months ended June 30, 2016 we recognized $22 million of net favorable prior year reserve development, the principal components of which were:

- $14 million of net favorable prior year reserve development on property and other business, driven by better than expected loss emergence across most accident years, partially offset by strengthening of the 2015 accident year related to late loss emergence on several large property losses.

- $6 million of net favorable prior year reserve development on professional lines business, driven by better than expected development related to various accident years.

Reinsurance Segment:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Property and other	$20,265	$14,058	$19,441	$57,690
Credit and surety	1,610	2,984	1,524	2,861
Professional lines	10,921	8,630	26,846	10,156
Motor	2,540	16,672	(19,616)	33,141
Liability	16,080	15,309	39,395	21,772
Total	$51,416	$57,653	$67,590	$125,620

For the three months ended June 30, 2017 we recognized $51 million of net favorable prior year reserve development, the principal components of which were:

- $20 million of net favorable prior year reserve development on property and other business, primarily related to accident years 2011 through 2016 driven by better than expected loss emergence.

- $16 million of net favorable prior year reserve development on liability business, primarily related to accident years 2008 through 2013, for reasons discussed in the overview.

- $11 million of net favorable prior year reserve development on professional lines business, primarily related to earlier accident years, for reasons discussed in the overview.

For the three months ended June 30, 2016 we recognized $58 million of net favorable prior year reserve development, the principal components of which were:

- $17 million of net favorable prior year reserve development on motor business, related to non-proportional business spanning multiple accident years, driven by better than expected loss emergence.

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- $15 million of net favorable prior year reserve development on liability business, primarily related to the 2006 through 2011 accident years, for reasons discussed in the overview.

- $14 million of net favorable prior year reserve development on property and other business, related to the 2012 through 2014 accident years and driven by better than expected loss emergence.

- $9 million of net favorable prior year reserve development on professional lines business, primarily related to the 2006 through 2010 accident years, for reasons discussed in the overview.

For the six months ended June 30, 2017 we recognized $68 million of net favorable prior year reserve development, the principal components of which were:

- $39 million of net favorable prior year reserve development on liability business, primarily related to accident years 2006 through 2014, for reasons discussed in the overview.

- $27 million of net favorable prior year reserve development on professional lines business, primarily related to to earlier accident years, for reasons discussed in the overview.

- $19 million of net favorable prior year reserve development on property and other business, primarily related to 2011 through 2016 accident years driven by better than expected loss emergence.

- $20 million of net adverse prior year reserve development on motor business, related to the impact of the recent change in Ogden rate, partially offset by continued better than expected loss emergence related to non-proportional business spanning multiple accident years.

For the six months ended June 30, 2016 we recognized $126 million of net favorable prior year reserve development, the principal components of which were:

- $58 million of net favorable prior year reserve development on property and other business, related to multiple accident years and driven by better than expected loss emergence.

- $33 million of net favorable prior year reserve development on motor business, primarily related to non-proportional business spanning multiple accident years, driven by better than expected loss emergence.

- $22 million of net favorable prior year reserve development on liability business, primarily related to the 2006 through 2011 accident years, for reasons discussed in the overview.

- $10 million of net favorable prior year reserve development on professional lines business, primarily related to the 2006 through 2010 accident years, for reasons discussed in the overview.

Acquisition Cost Ratio:

The acquisition cost ratio increased to 20.8% and 20.5% for the three and six months ended June 30, 2017, respectively, from 20.0% for both periods in 2016, driven by in our insurance segment and primarily related to business mix changes, and profit commission adjustments driven by good loss experience in our accident and health lines.

General and Administrative Expense Ratio:

The general and administrative expense ratio decreased to 15.1% for the three months ended June 30, 2017, from 15.4% in the three months ended June 30, 2016. The decrease in the expense ratio for the three months ended June 30, 2017 compared to the same period in 2016 was primarily driven by an increase in net premiums earned and benefits of fees from strategic capital partners, partially offset by an increase in personnel expenses including senior executive severance costs and an increase in professional fees.

The general and administrative expense ratio increased to 16.2% for the six months ended June 30, 2017, from 16.0% in the six months ended June 30, 2016. The increase in the expense ratio for the six months ended June 30, 2017 compared to the same period in

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2016 was primarily driven by an increase in personnel expenses including senior executive severance costs, together with an increase in professional fees, partially offset by an increase in net premiums earned and benefits of fees from strategic capital partners.

RESULTS BY SEGMENT

INSURANCE SEGMENT

Results from our insurance segment were as follows:

	Three months ended June 30,			Six months ended June 30,		
	2017	% Change	2016	2017	% Change	2016
Revenues:						
Gross premiums written	$796,023	2%	$784,017	$1,490,030	4%	$1,437,365
Net premiums written	527,678	—%	526,764	1,033,008	3%	999,926
Net premiums earned	493,836	12%	439,279	952,265	8%	877,958
Other insurance related income (losses)	508	nm	(234)	551	nm	(96)
Expenses:						
Current year net losses and loss expenses	(345,245)		(326,207)	(640,767)		(603,039)
Prior year reserve development	19,517		20,066	28,137		22,493
Acquisition costs	(81,276)		(61,829)	(149,433)		(123,227)
General and administrative expenses	(87,822)		(82,487)	(178,270)		(168,064)
Underwriting income (loss)	$(482)	(96%)	$(11,412)	$12,483	107%	$6,025
Ratios:		% Point Change			% Point Change	
Current year loss ratio	69.9%	(4.4)	74.3%	67.3%	(1.4)	68.7%
Prior year reserve development	(3.9%)	0.7	(4.6%)	(3.0%)	(0.4)	(2.6%)
Acquisition cost ratio	16.5%	2.4	14.1%	15.7%	1.7	14.0%
General and administrative expense ratio	17.7%	(1.0)	18.7%	18.7%	(0.5)	19.2%
Combined ratio	100.2%	(2.3)	102.5%	98.7%	(0.6)	99.3%

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Gross Premiums Written:

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

	Three months ended June 30,					Six months ended June 30,				
	2017		2016		% Change	2017		2016		% Change
Property	$198,681	25 %	$211,183	26 %	(6%)	$343,245	24 %	$357,775	25 %	(4%)
Marine	73,921	9 %	84,089	11 %	(12%)	139,522	9 %	157,621	11 %	(11%)
Terrorism	10,509	1 %	11,650	1 %	(10%)	22,323	1 %	18,696	1 %	19%
Aviation	21,037	3 %	8,326	1 %	153%	35,620	2 %	27,427	2 %	30%
Credit and Political Risk	15,139	2 %	19,960	3 %	(24%)	31,311	2 %	28,877	2 %	8%
Professional Lines	244,119	31 %	240,040	31 %	2%	399,588	27 %	385,491	27 %	4%
Liability	136,725	17 %	118,464	15 %	15%	227,328	15 %	202,350	14 %	12%
Accident and Health	95,892	12 %	90,305	12 %	6%	291,093	20 %	259,128	18 %	12%
Total	$796,023	100%	$784,017	100%	2%	$1,490,030	100%	$1,437,365	100%	4%

Gross premiums written for the three months ended June 30, 2017 increased by $12 million or 2% ($21 million or 3% on a constant currency basis) compared to the three months ended June 30, 2016. The increase in gross premiums written was attributable to our liability lines driven by new business, and our aviation lines due to our recent acquisition of Aviabel, partially offset by a decrease in premiums written in our property lines due to the impact of our exit from some retail insurance operations in the U.S. last year, and a decrease in our marine lines due to timing differences.

Gross premiums written for the six months ended June 30, 2017 increased by $53 million or 4% compared to the six months ended June 30, 2016. The increase in gross premiums written was attributable to our accident and health lines and our liability lines primarily driven by new business, partially offset by a decrease in premiums written in our marine lines largely due to timing differences, and a decrease in our property lines due to the impact of our exit from some retail insurance operations in the U.S. last year.

Ceded Premiums Written:

Ceded premiums written for the three and six months ended June 30, 2017 were $268 million or 34% of gross premiums written and $457 million or 31% of gross premiums written, respectively, compared to $257 million or 33% of gross premiums written and $437 million or 30% of gross premiums written for the three and six months ended June 30, 2016, respectively.

The increase in the ratio of ceded premiums written to gross premiums written for the three and six months ended June 30, 2017 compared to the same periods in 2016, was primarily driven by the increase in premiums ceded in our liability and marine lines, partially offset by an increase in gross premiums written and a decrease in premiums ceded in our professional lines attributable to the impact of our exit from retail insurance operations in Australia.

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Net Premiums Earned:

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

	Three months ended June 30,							Six months ended June 30,						
	2017			2016			% Change	2017			2016			% Change
Property	$119,746	24	%	$100,026	23	%	20%	$238,620	25	%	$206,226	23	%	16%
Marine	35,935	7	%	34,567	8	%	4%	74,605	8	%	77,476	9	%	(4%)
Terrorism	8,847	2	%	9,123	2	%	(3%)	16,785	2	%	17,735	2	%	(5%)
Aviation	19,919	4	%	10,660	2	%	87%	30,766	3	%	24,513	3	%	26%
Credit and Political Risk	10,703	2	%	17,096	4	%	(37%)	20,883	2	%	30,387	3	%	(31%)
Professional Lines	127,342	26	%	126,194	29	%	1%	252,479	27	%	259,668	30	%	(3%)
Liability	43,559	9	%	43,315	10	%	1%	86,332	9	%	84,224	10	%	3%
Accident and Health	127,785	26	%	98,298	22	%	30%	231,795	24	%	177,729	20	%	30%
Total	$493,836	100	%	$439,279	100	%	12%	$952,265	100	%	$877,958	100	%	8%

Net premiums earned for the three and six months ended June 30, 2017 increased by $55 million or 12%, and $74 million or 8% ($84 million or 10% on a constant currency basis) compared to the three and six months ended June 30, 2016, respectively.

The increase for the three and six months ended June 30, 2017 compared to the same periods in 2016, was largely due to strong premium growth in our accident and health, as well as our property lines in recent periods, together with a decrease in premiums ceded in our property lines.

Loss Ratio:

The table below shows the components of our loss ratio:

	Three months ended June 30,			Six months ended June 30,		
	2017	% Point Change	2016	2017	% Point Change	2016
Current accident year	69.9%	(4.4)	74.3%	67.3%	(1.4)	68.7%
Prior year reserve development	(3.9 %)	0.7	(4.6 %)	(3.0 %)	(0.4)	(2.6 %)
Loss ratio	66.0%	(3.7)	69.7%	64.3%	(1.8)	66.1%

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Current Accident Year Loss Ratio:

The current accident year loss ratios decreased to 69.9% and 67.3% for the three and six months ended June 30, 2017, respectively, from 74.3% and 68.7% for the three and six months ended June 30, 2016, respectively.

The decrease in the current accident year loss ratios for the three and six months ended June 30, 2017 compared to the same period in 2016, was impacted by a lower level of catastrophe and weather-related losses. During the three and six months ended June 30, 2017 we incurred $41 million, or 8.4 points, and $61 million, or 6.5 points, respectively, in pre-tax catastrophe and weather-related losses, attributable to the U.S. weather-related events and Cyclone Debbie. Comparatively, during the three and six months ended June 30, 2016, we incurred $49 million, or 11.1 points, and $59 million, or 6.7 points, respectively.

After adjusting for the impact of the catastrophe and weather-related losses, our current accident year loss ratio for the three and six months ended June 30, 2017 was 61.5% and 60.8%, respectively, compared to 63.2% and 62.0% for the three and six months ended June 30, 2016, respectively. The decrease in the current accident year loss ratio after adjusting for the impact of the catastrophe and weather-related losses for the three and six months ended June 30, 2017 compared to the same periods in 2016, was principally due to a decrease in mid-size loss experience in our marine lines, as well as business mix changes in our accident and health lines, partially offset by higher than expected attritional loss experience in our property lines, and the ongoing adverse impact of rate and trend.

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

Acquisition Cost Ratio:

The acquisition cost ratio increased to 16.5% and 15.7% for the three and six months ended June 30, 2017, respectively, from 14.1% and 14.0% for the three and six months ended June 30, 2016, respectively, primarily related to higher profit commission costs driven by good loss experience, and business mix changes in our accident and health lines.

General and Administrative Expense Ratio:

The general and administrative expense ratio decreased to 17.7% and 18.7% for the three and six months ended June 30, 2017, respectively, from 18.7% and 19.2% for the three and six months ended June 30, 2016, respectively, primarily reflecting an increase in personnel expenses, and an increase in the allocation of certain corporate expenses, largely offset by an increase in net premiums earned.

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REINSURANCE SEGMENT

Results from our reinsurance segment were as follows:

	Three months ended June 30,			Six months ended June 30,		
	2017	% Change	2016	2017	% Change	2016
Revenues:						
Gross premiums written	$566,304	6%	$536,417	$1,784,169	(3%)	$1,842,230
Net premiums written	428,339	(11%)	480,586	1,431,968	(15%)	1,693,230
Net premiums earned	487,595	(4%)	507,711	967,868	—%	971,373
Other insurance related income (losses)	2,052	nm	(658)	(1,773)	78%	(998)
Expenses:						
Current year net losses and loss expenses	(331,020)		(383,806)	(667,233)		(676,330)
Prior year reserve development	51,416		57,653	67,590		125,620
Acquisition costs	(123,085)		(127,296)	(244,720)		(246,534)
General and administrative expenses	(29,464)		(32,332)	(60,816)		(70,345)
Underwriting income	$57,494	nm	$21,272	$60,916	(41%)	$102,786
Ratios:		% Point Change			% Point Change	
Current year loss ratio	67.9%	(7.7)	75.6%	68.9%	(0.7)	69.6%
Prior year reserve development	(10.6%)	0.8	(11.4%)	(6.9%)	6.0	(12.9%)
Acquisition cost ratio	25.2%	0.1	25.1%	25.3%	(0.1)	25.4%
General and administrative expense ratio	6.1%	(0.3)	6.4%	6.2%	(1.0)	7.2%
Combined ratio	88.6%	(7.1)	95.7%	93.5%	4.2	89.3%

nm – not meaningful

Gross Premiums Written:

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

	Three months ended June 30,					Six months ended June 30,				
	2017		2016		% Change	2017		2016		% Change
Catastrophe	$135,560	26%	$123,507	23%	10%	$321,494	17%	$270,354	15%	19%
Property	56,723	10%	45,424	8%	25%	251,264	14%	221,598	12%	13%
Professional Lines	120,584	21%	126,840	24%	(5%)	197,596	11%	215,614	12%	(8%)
Credit and Surety	25,143	4%	20,816	4%	21%	145,067	8%	278,928	15%	(48%)
Motor	42,093	7%	3,638	1%	nm	333,516	19%	325,060	18%	3%
Liability	118,095	21%	124,003	23%	(5%)	229,916	13%	273,993	15%	(16%)
Agriculture	58,094	10%	87,372	16%	(34%)	207,285	12%	150,030	8%	38%

Engineering	7,347	1	%	8,342	2	%	(12%)	47,880	3	%	43,131	2	%	11%
Marine and Other	2,665	—	%	(3,525	)	(1	%)	nm	50,151	3	%	63,522	3	%	(21%)
Total	$566,304	100%		$536,417	100%		6%	$1,784,169	100%		$1,842,230	100%		(3%)

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Gross premiums written increased by $30 million for the three months ended June 30, 2017 compared to the same period in 2016. The increase was primarily driven by our motor, catastrophe and property lines, partially offset by a decrease in our agriculture lines. The increase in our motor lines was largely due to timing differences and favorable premiums adjustments. The increase in our catastrophe and property lines was primarily driven by new business spread across several cedants. Favorable treaty restructuring and increased line sizes on a number of treaties also contributed to the increase in our property lines. The decrease in our agriculture lines was due to the non-renewal of a significant treaty.

Gross premiums written decreased by $58 million for the six months ended June 30, 2017 compared to the same period in 2016. The decrease in gross premiums written was impacted by a lower level of treaties written on a multi-year basis which decreased the amount of premium recorded for the current period relating to future years compared to the same period in 2016, most notably in our credit and surety lines and our liability lines. This decrease in gross premiums written was partially offset by an increase in our agriculture, catastrophe and property lines. The increase in our agriculture lines is due to increased participation on a renewing treaty, which more than offset the cancellation of a large treaty. The increase in our catastrophe and property lines was driven by new business spread across several cedants.

Ceded Premiums Written:

Ceded premiums written for the three and six months ended June 30, 2017 were $138 million or 24% of gross premiums written and $352 million or 20% of gross premiums written, respectively, compared to $56 million or 10% of gross premiums written and $149 million or 8% of gross premiums written for the three and six months ended June 30, 2016, respectively.

The increase for the three months ended June 30, 2017 compared to the same period in 2016, was largely driven by an increase in premiums ceded to a new quota share retrocessional treaty which covers our agriculture business, as well as the impact of the retrocessional cover entered into with Harrington Re, which increased premiums ceded in our liability and professional lines, partially offset by an increase in gross premiums written for the quarter.

The increase for the six months ended June 30, 2017 compared to the same period in 2016, was largely due to the retrocession to Harrington Re, and an increase in premiums ceded in our catastrophe, credit and surety lines, and agriculture lines, together with a decrease in gross premiums written.

Net Premiums Earned:

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

	Three months ended June 30,					Six months ended June 30,				
	2017		2016		% Change	2017		2016		% Change
Catastrophe	$45,584	10%	$55,879	11%	(18%)	$87,103	9 %	$102,617	11%	(15%)
Property	72,249	15%	67,934	13%	6%	146,521	15%	136,530	14%	7%
Professional Lines	58,148	12%	76,310	15%	(24%)	118,046	12%	152,704	16%	(23%)
Credit and Surety	58,491	12%	64,712	13%	(10%)	114,538	12%	124,706		