

## Section 1: 10-Q (10-Q)

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2018

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-31721

## **AXIS CAPITAL HOLDINGS LIMITED**

(Exact name of registrant as specified in its charter)

**BERMUDA**

(State or other jurisdiction of incorporation or organization)

**98-0395986**

(I.R.S. Employer Identification No.)

**92 Pitts Bay Road, Pembroke, Bermuda HM 08**

(Address of principal executive offices and zip code)

**(441) 496-2600**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  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

Accelerated filer

Non-accelerated filer

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

At October 31, 2018, there were 83,579,276 Common Shares, \$0.0125 par value per share, of the registrant outstanding.

AXIS CAPITAL HOLDINGS LIMITED

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## PART I FINANCIAL INFORMATION

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This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the U.S. federal securities laws. All statements, other than statements of historical facts included in this report, including statements regarding our estimates, beliefs, expectations, intentions, strategies or projections are "forward-looking statements" to be covered by the safe harbor provisions for forward-looking statements in the U.S. federal securities laws. In some cases, these statements can be identified by the use of forward-looking words such as "may", "should", "could", "anticipate", "estimate", "expect", "plan", "believe", "predict", "potential" and "intend" or similar expressions. These forward-looking statements are not historical facts, and are based upon current expectations, estimates and projections, and various assumptions, many of which, by their nature, are inherently uncertain and beyond management's control. Forward-looking statements contained in this report may include, but are not limited to, information regarding our estimates of losses related to catastrophes and other large losses, measurements of potential losses in the fair market value of our investment portfolio and derivative contracts, performance of our business, our financial results, our liquidity and capital resources, the outcome of our strategic initiatives, our expectations regarding estimated synergies and the success of the integration of acquired entities, our expectations regarding the estimated benefits and synergies relating to the Company's transformation program, our expectations regarding pricing and other market conditions, our growth prospects, and valuations of the potential impact of movements in interest rates, equity securities prices, credit spreads and foreign currency rates. Forward-looking statements only reflect our expectations and are not guarantees of performance.

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

- the cyclical nature of the re(insurance) business leading to periods with excess underwriting capacity and unfavorable premium rates,
- the occurrence and magnitude of natural and man-made disasters,
- the impact of global climate change on our business, including the possibility that we do not adequately assess or reserve for the increased frequency and severity of natural catastrophes,
- 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,

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- changes in the political environment of certain countries in which we operate or underwrite business including the United Kingdom's expected withdrawal from the European Union,
- fluctuations in interest rates, credit spreads, equity securities prices and/or currency values,
- the failure to successfully integrate acquired businesses or realize the expected synergies resulting from such acquisitions,
- the failure to realize the expected benefits or synergies relating to the Company's transformation program and the integration of Novae Group plc,
- changes in tax laws, and
- the other factors including but not limited to those set forth under Item 1A, *'Risk Factors'* and Item 7, *'Management's Discussion and Analysis of Financial Condition and Results of Operations'* included in our Annual Report on Form 10-K for the year ended December 31, 2017 as those factors may be updated from time to time in our periodic and other filings with the SEC, which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov).

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

### **Website and Social Media Disclosure**

We use our website ([www.axiscapital.com](http://www.axiscapital.com)) and our corporate Twitter (@AXIS\_Capital) and LinkedIn (AXIS Capital) accounts as channels of distribution of Company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about AXIS Capital when you enroll your e-mail address by visiting the "E-mail Alerts" in the Investor Information section of our website ([www.axiscapital.com](http://www.axiscapital.com)). The contents of our website and social media channels are not, however, a part of this Quarterly Report on Form 10-Q.

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

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**AXIS CAPITAL HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2018 (UNAUDITED) AND DECEMBER 31, 2017**

|  | 2018                 | 2017                 |
|--|----------------------|----------------------|
|  | (in thousands)       |                      |
| <b>Assets</b>  |                      |                      |
| Investments:   |                      |                      |
| Fixed maturities, available for sale, at fair value<br>(Amortized cost 2018: \$11,941,555; 2017: \$12,611,219) | \$ 11,767,697        | \$ 12,622,006        |
| Equity securities, at fair value<br>(Cost 2018: \$376,007; 2017: \$552,867)                                    | 433,311              | 635,511              |
| Mortgage loans, held for investment, at amortized cost and fair value  | 333,018              | 325,062              |
| Other investments, at fair value   | 833,563              | 1,009,373            |
| Equity method investments  | 112,155              | 108,597              |
| Short-term investments, at amortized cost and fair value   | 156,090              | 83,661               |
| <b>Total investments</b>   | <b>13,635,834</b>    | <b>14,784,210</b>    |
| Cash and cash equivalents  | 1,053,604            | 948,626              |
| Restricted cash and cash equivalents   | 698,798              | 415,160              |
| Accrued interest receivable  | 76,000               | 81,223               |
| Insurance and reinsurance premium balances receivable  | 3,463,360            | 3,012,419            |
| Reinsurance recoverable on unpaid and paid losses  | 3,439,080            | 3,338,840            |
| Deferred acquisition costs   | 682,785              | 474,061              |
| Prepaid reinsurance premiums   | 1,114,039            | 809,274              |
| Receivable for investments sold  | 2,140                | 11,621               |
| Goodwill   | 102,003              | 102,003              |
| Intangible assets  | 247,927              | 257,987              |
| Value of business acquired   | 58,511               | 206,838              |
| Other assets   | 268,945              | 317,915              |
| <b>Total assets</b>  | <b>\$ 24,843,026</b> | <b>\$ 24,760,177</b> |
| <b>Liabilities</b>   |                      |                      |
| Reserve for losses and loss expenses   | \$ 12,025,947        | \$ 12,997,553        |
| Unearned premiums  | 4,242,108            | 3,641,399            |
| Insurance and reinsurance balances payable   | 1,301,580            | 899,064              |
| Senior notes and notes payable   | 1,377,582            | 1,376,529            |
| Payable for investments purchased  | 220,183              | 100,589              |
| Other liabilities  | 403,354              | 403,779              |
| <b>Total liabilities</b>   | <b>19,570,754</b>    | <b>19,418,913</b>    |
| <b>Shareholders' equity</b>  |                      |                      |
| Preferred shares   | 775,000              | 775,000              |
| Common shares (shares issued 2018: 176,580; 2017: 176,580<br>shares outstanding 2018: 83,557; 2017: 83,161)    | 2,206                | 2,206                |
| Additional paid-in capital   | 2,304,107            | 2,299,166            |
| Accumulated other comprehensive income (loss)  | (162,312)            | 92,382               |
| Retained earnings  | 6,145,482            | 5,979,666            |
| Treasury shares, at cost (2018: 93,023; 2017: 93,419 shares)   | (3,792,211)          | (3,807,156)          |
| <b>Total shareholders' equity</b>  | <b>5,272,272</b>     | <b>5,341,264</b>     |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 24,843,026</b> | <b>\$ 24,760,177</b> |

See accompanying notes to Consolidated Financial Statements.





**AXIS CAPITAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

|   | Three months ended |                     | Nine months ended |                     |
|---|--------------------|---------------------|-------------------|---------------------|
|   | 2018               | 2017                | 2018              | 2017                |
| (in thousands, except for per share amounts)  |                    |                     |                   |                     |
| <b>Revenues</b>   |                    |                     |                   |                     |
| Net premiums earned   | \$ 1,224,075       | \$ 1,017,131        | \$ 3,577,026      | \$ 2,937,265        |
| Net investment income   | 114,421            | 95,169              | 325,380           | 299,899             |
| Other insurance related income (losses)   | 8,475              | (3,197)             | 18,811            | (4,420)             |
| Bargain purchase gain   | —                  | —                   | —                 | 15,044              |
| Net investment gains (losses):  |                    |                     |                   |                     |
| Other-than-temporary impairment ("OTTI") losses   | (5,546)            | (5,412)             | (7,634)           | (13,493)            |
| Other realized and unrealized investment gains (losses)   | (12,082)           | 20,044              | (69,917)          | (1,318)             |
| Total net investment gains (losses)   | (17,628)           | 14,632              | (77,551)          | (14,811)            |
| <b>Total revenues</b>   | <b>1,329,343</b>   | <b>1,123,735</b>    | <b>3,843,666</b>  | <b>3,232,977</b>    |
| <b>Expenses</b>   |                    |                     |                   |                     |
| Net losses and loss expenses  | 794,959            | 1,235,367           | 2,162,945         | 2,447,640           |
| Acquisition costs   | 248,314            | 194,724             | 709,527           | 588,879             |
| General and administrative expenses   | 154,894            | 124,629             | 489,944           | 433,704             |
| Foreign exchange losses   | 8,305              | 32,510              | 2,066             | 90,093              |
| Interest expense and financing costs  | 16,897             | 12,835              | 50,758            | 38,377              |
| Transaction and reorganization expenses   | 16,300             | 5,970               | 48,125            | 5,970               |
| Amortization of value of business acquired  | 39,018             | —                   | 149,535           | —                   |
| Amortization of intangible assets   | 1,753              | —                   | 8,564             | —                   |
| <b>Total expenses</b>   | <b>1,280,440</b>   | <b>1,606,035</b>    | <b>3,621,464</b>  | <b>3,604,663</b>    |
| <b>Income (loss) before income taxes and interest in income (loss) of equity method investments</b> | <b>48,903</b>      | <b>(482,300)</b>    | <b>222,202</b>    | <b>(371,686)</b>    |
| Income tax benefit  | 3,525              | 25,877              | 3,565             | 38,547              |
| Interest in income (loss) of equity method investments  | 1,667              | (661)               | 5,045             | (8,402)             |
| <b>Net income (loss)</b>  | <b>54,095</b>      | <b>(457,084)</b>    | <b>230,812</b>    | <b>(341,541)</b>    |
| Preferred share dividends   | 10,656             | 10,656              | 31,969            | 36,154              |
| <b>Net income (loss) available (attributable) to common shareholders</b>                            | <b>\$ 43,439</b>   | <b>\$ (467,740)</b> | <b>\$ 198,843</b> | <b>\$ (377,695)</b> |
| <b>Per share data</b>   |                    |                     |                   |                     |
| Net income (loss) per common share:   |                    |                     |                   |                     |
| Basic net income (loss)   | \$ 0.52            | \$ (5.61)           | \$ 2.38           | \$ (4.47)           |
| Diluted net income (loss)   | \$ 0.52            | \$ (5.61)           | \$ 2.37           | \$ (4.47)           |
| Weighted average common shares outstanding - basic  | 83,558             | 83,305              | 83,474            | 84,479              |
| Weighted average common shares outstanding - diluted  | 84,107             | 83,305              | 83,939            | 84,479              |
| Cash dividends declared per common share  | \$ 0.39            | \$ 0.38             | \$ 1.17           | \$ 1.14             |

See accompanying notes to Consolidated Financial Statements.

**AXIS CAPITAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

|  | <b>Three months ended</b> |                     | <b>Nine months ended</b> |                     |
|--|---------------------------|---------------------|--------------------------|---------------------|
|  | <b>2018</b>               | <b>2017</b>         | <b>2018</b>              | <b>2017</b>         |
|  | (in thousands)            |                     |                          |                     |
| <b>Net income (loss)</b>   | <b>\$ 54,095</b>          | <b>\$ (457,084)</b> | <b>\$ 230,812</b>        | <b>\$ (341,541)</b> |
| <b>Other comprehensive income (loss), net of tax:</b>  |                           |                     |                          |                     |
| Available for sale investments:  |                           |                     |                          |                     |
| Unrealized investment gains (losses) arising during the period   | <b>(26,061)</b>           | 62,505              | <b>(257,521)</b>         | 206,461             |
| Adjustment for reclassification of net realized investment (gains) losses and OTTI losses recognized in net income | <b>25,924</b>             | (13,286)            | <b>77,189</b>            | 10,169              |
| Unrealized investment gains (losses) arising during the period, net of reclassification adjustment                 | <b>(137)</b>              | 49,219              | <b>(180,332)</b>         | 216,630             |
| Foreign currency translation adjustment  | <b>994</b>                | 8,088               | <b>(6,864)</b>           | 46,824              |
| <b>Total other comprehensive income (loss), net of tax</b>   | <b>857</b>                | 57,307              | <b>(187,196)</b>         | 263,454             |
| <b>Comprehensive income (loss)</b>   | <b>\$ 54,952</b>          | <b>\$ (399,777)</b> | <b>\$ 43,616</b>         | <b>\$ (78,087)</b>  |

See accompanying notes to Consolidated Financial Statements.

**AXIS CAPITAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

|  | 2018                | 2017                |
|--|---------------------|---------------------|
|  | (in thousands)      |                     |
| <b>Preferred shares</b>  |                     |                     |
| Balance at beginning of period   | \$ 775,000          | \$ 1,126,074        |
| Shares repurchased   | —                   | (351,074)           |
| <b>Balance at end of period</b>  | <b>775,000</b>      | <b>775,000</b>      |
| <b>Common shares (par value)</b>   |                     |                     |
| <b>Balance at beginning and end of period</b>                            | <b>2,206</b>        | <b>2,206</b>        |
| <b>Additional paid-in capital</b>  |                     |                     |
| Balance at beginning of period   | 2,299,166           | 2,299,857           |
| Treasury shares reissued   | (21,935)            | (39,033)            |
| Share-based compensation expense   | 26,876              | 30,692              |
| <b>Balance at end of period</b>  | <b>2,304,107</b>    | <b>2,291,516</b>    |
| <b>Accumulated other comprehensive income (loss)</b>                     |                     |                     |
| Balance at beginning of period   | 92,382              | (121,841)           |
| Unrealized gains (losses) on available for sale investments, net of tax: |                     |                     |
| Balance at beginning of period   | 89,962              | (82,323)            |
| Cumulative effect of adoption of ASU No. 2018-02                         | 2,106               | —                   |
| Cumulative effect of adoption of ASU No. 2016-01, net of taxes           | (69,604)            | —                   |
| Unrealized gains (losses) arising during the period                      | (180,332)           | 216,630             |
| Balance at end of period   | (157,868)           | 134,307             |
| Cumulative foreign currency translation adjustments, net of tax:         |                     |                     |
| Balance at beginning of period   | 2,420               | (39,518)            |
| Foreign currency translation adjustment                                  | (6,864)             | 46,824              |
| Balance at end of period   | (4,444)             | 7,306               |
| <b>Balance at end of period</b>  | <b>(162,312)</b>    | <b>141,613</b>      |
| <b>Retained earnings</b>   |                     |                     |
| Balance at beginning of period   | 5,979,666           | 6,527,627           |
| Cumulative effect of adoption of ASU No. 2018-02                         | (2,106)             | —                   |
| Cumulative effect of adoption of ASU No. 2016-01, net of taxes           | 69,604              | —                   |
| Net income (loss)  | 230,812             | (341,541)           |
| Preferred share dividends  | (31,969)            | (36,154)            |
| Common share dividends   | (100,525)           | (98,273)            |
| <b>Balance at end of period</b>  | <b>6,145,482</b>    | <b>6,051,659</b>    |
| <b>Treasury shares, at cost</b>  |                     |                     |
| Balance at beginning of period   | (3,807,156)         | (3,561,553)         |
| Shares repurchased   | (8,699)             | (285,659)           |
| Shares reissued  | 23,644              | 39,917              |
| <b>Balance at end of period</b>  | <b>(3,792,211)</b>  | <b>(3,807,295)</b>  |
| <b>Total shareholders' equity</b>  | <b>\$ 5,272,272</b> | <b>\$ 5,454,699</b> |

See accompanying notes to Consolidated Financial Statements.

**AXIS CAPITAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

|   | 2018           | 2017           |
|---|----------------|----------------|
|   | (in thousands) |                |
| <b>Cash flows from operating activities:</b>  |                |                |
| Net income (loss)   | \$ 230,812     | \$ (341,541)   |
| <b>Adjustments to reconcile net income (loss) to net cash used in operating activities:</b> |                |                |
| Net investment losses   | 71,799         | 14,811         |
| Net realized and unrealized gains on other investments                                      | (41,924)       | (56,759)       |
| Amortization of fixed maturities  | 20,547         | 32,528         |
| Interest in income (loss) of equity method investments                                      | (3,557)        | 8,402          |
| Amortization of value of business acquired  | 149,535        | —              |
| Other amortization and depreciation   | 32,934         | 19,279         |
| Share-based compensation expense, net of cash payments                                      | 26,145         | 1,516          |
| Non-cash foreign exchange losses  | —              | 24,149         |
| Bargain purchase gain   | —              | (15,044)       |
| <i>Changes in:</i>  |                |                |
| Accrued interest receivable   | 1,085          | 8,730          |
| Reinsurance recoverable balances  | (419,226)      | 60,522         |
| Deferred acquisition costs  | (214,500)      | (123,961)      |
| Prepaid reinsurance premiums  | (311,498)      | (178,464)      |
| Reserve for loss and loss expenses  | 179,018        | 918,511        |
| Unearned premiums   | 632,912        | 540,108        |
| Insurance and reinsurance balances, net   | (290,728)      | (465,436)      |
| Other items   | 67,813         | (135,266)      |
| <b>Net cash provided by operating activities</b>  | <b>131,167</b> | <b>312,085</b> |
| <b>Cash flows from investing activities:</b>  |                |                |
| Purchases of:   |                |                |
| Fixed maturities  | (6,707,576)    | (6,250,608)    |
| Equity securities   | (59,040)       | (108,804)      |
| Mortgage loans  | (78,079)       | (20,812)       |
| Other investments   | (79,319)       | (135,526)      |
| Equity method investments   | —              | (1,000)        |
| Short-term investments  | (285,103)      | (20,792)       |
| Proceeds from the sale of:  |                |                |
| Fixed maturities  | 5,956,644      | 5,354,398      |
| Equity securities   | 223,098        | 232,755        |
| Other investments   | 211,395        | 203,896        |
| Short-term investments  | 153,687        | 19,284         |
| Proceeds from redemption of fixed maturities  | 982,010        | 1,546,998      |
| Proceeds from redemption of short-term investments  | 37,831         | 116,261        |
| Proceeds from the repayment of mortgage loans   | 70,481         | 10,702         |
| Purchase of other assets  | (16,918)       | (25,842)       |
| Purchase of subsidiary, net   | —              | (73,067)       |
| <b>Net cash provided by investing activities</b>  | <b>409,111</b> | <b>847,843</b> |
| <b>Cash flows from financing activities:</b>  |                |                |
| Repurchase of common shares - open market   | —              | (266,016)      |
| Taxes paid on withholding shares  | (8,699)        | (24,480)       |

|   |                     |                     |
|---|---------------------|---------------------|
| Dividends paid - common shares  | (100,770)           | (102,868)           |
| Repurchase of preferred shares  | —                   | (351,074)           |
| Dividends paid - preferred shares   | (31,969)            | (42,188)            |
| <b>Net cash used in financing activities</b>  | <b>(141,438)</b>    | <b>(786,626)</b>    |
| Effect of exchange rate changes on foreign currency cash, cash equivalents, and restricted cash | (10,228)            | 16,318              |
| Increase in cash, cash equivalents, and restricted cash   | 388,612             | 389,620             |
| Cash, cash equivalents, and restricted cash - beginning of period                               | 1,363,786           | 1,241,507           |
| <b>Cash, cash equivalents, and restricted cash - end of period</b>                              | <b>\$ 1,752,398</b> | <b>\$ 1,631,127</b> |

See accompanying notes to Consolidated Financial Statements.

**AXIS CAPITAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

**Supplemental disclosures of cash flow information:**

|                   |    |               |    |        |
|-------------------|----|---------------|----|--------|
| Income taxes paid | \$ | <b>12,108</b> | \$ | 8,993  |
| Interest paid     | \$ | <b>42,856</b> | \$ | 34,188 |

**Supplemental disclosures of cash flow information:** Consideration related to an agreement for the Reinsurance to Close ("RITC") of the 2015 and prior years of account of Syndicate 2007 of \$819 million was paid in the period of which \$600 million was settled by way of a transfer of securities and was treated as a non-cash activity in the Consolidated Statement of Cash Flows. Also refer to Note 6 '*Reserve for Losses and Loss Expenses*'.

See accompanying notes to Consolidated Financial Statements.

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

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

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

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

The results of operations for any interim period are not necessarily indicative of the results for a full year. All inter-company accounts and transactions have been eliminated.

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

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

**Significant Accounting Policies**

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

**a) Investments**

*Recognition and Measurement of Financial Assets and Financial Liabilities*

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

- requires equity investments (except those accounted for under the equity method of accounting, investments that are consolidated or those that meet a practicability exception) to be measured at fair value with changes in fair value recognized in net income,
- simplifies the impairment assessment of equity investments without readily determinable values by requiring a qualitative assessment to identify impairment, eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost,
- requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes,
- requires separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liabilities in accordance with the fair value option,
- requires the separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and
- clarifies that the reporting organization should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the organization's other deferred tax assets.

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



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

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

**New Accounting Standards Adopted in 2018**

*Revenue From Contracts With Customers*

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

The Company generated fee income of \$31 million for the nine months ended September 30, 2018 which is within the scope of this ASU. These fees represent service fees earned by the Company's reinsurance segment related to services provided to strategic capital partners and are recognized when the related services have been performed. Given that the timing and measurement of revenue associated with impacted contracts did not change, the adoption of this guidance did not have a material impact on the Company's results of operations, financial condition and liquidity.

*Classification of Certain Cash Receipts and Cash Payments*

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

*Restricted Cash*

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

*Stock Compensation - Scope of Modification Accounting*

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

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

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

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

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

*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*

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

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

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

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

**Recently Issued Accounting Standards Not Yet Adopted**

*Leases*

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" which provides a new comprehensive model for lease accounting. Topic 842 will require a lessee to recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term.

In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) - *Targeted Improvements*" which provides an additional (and optional) transition method to adopt the new lease guidance. Under the new transition method, companies will initially apply the new guidance by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. As a result, a company's reporting for the comparative periods presented in the financial statements in which the company adopts the new lease guidance will continue to be in accordance with the current lease accounting standard (Topic 840). A company electing this additional (and optional) transition method must provide the required Topic 840 disclosures for all periods that continue to be in accordance with Topic 840. However, these amendments do not change the existing disclosure requirements in Topic 840, in particular these amendments do not create interim disclosure requirements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted.

The Company plans to adopt Topic 842 effective January 1, 2019, by electing the additional transition method provided in ASU 2018-11. The Company will also elect the package of practical expedients permitted under the transition guidance of Topic 842, which must be elected as a package and applied consistently to all leases. The package of practical expedients permits the Company not to reassess the following:

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

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

1. whether any expired or existing contracts are or contain leases;
2. the lease classification for any expired or existing leases; and
3. initial direct costs for any existing leases.

In addition to electing the package of practical expedients, the Company will make an accounting policy election not to record leases with an initial term of 12 months or less (short-term) in the Company's Consolidated Balance Sheets. The Company will recognize expense for short-term lease payments on a straight-line basis over the lease term in the Company's Consolidated Statements of Operations. The Company continues to evaluate all potential impacts of this guidance and expects its adoption will result in a significant increase to assets and liabilities in the Company's Consolidated Balance Sheets related to existing office property and equipment leases. The adoption of this guidance will not impact the Company's results of operations and liquidity.

*Measurement of Credit Losses on Financial Instrument*

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

*Simplifying the Test for Goodwill Impairment*

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

*Premium Amortization on Purchased Callable Debt Securities*

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

*Changes to Disclosures on Fair Value Measurement*

In August 2018, the FASB issued ASU 2018-13 "Fair Value Measurement (Topic 820) - Disclosure Framework - *Changes to the Disclosure Requirements for Fair Value Measurement*" to improve the effectiveness of fair value measurement disclosures. This guidance is effective for interim and annual reporting periods, beginning after December 15, 2019, with early adoption permitted. As this guidance relates solely to financial statement disclosures, the adoption of ASU 2016-18, will not impact the Company's results of operations, financial condition and liquidity.

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

**2. SEGMENT INFORMATION**

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

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

**Insurance**

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

**Reinsurance**

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

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

**2. SEGMENT INFORMATION (CONTINUED)**

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

| Three months ended and at September 30,   | 2018               |                  |                   | 2017                |                     |                     |
|---|--------------------|------------------|-------------------|---------------------|---------------------|---------------------|
|   | Insurance          | Reinsurance      | Total             | Insurance           | Reinsurance         | Total               |
| Gross premiums written  | \$ 969,364         | \$ 454,343       | \$ 1,423,707      | \$ 651,145          | \$ 534,429          | \$ 1,185,574        |
| Net premiums written  | 602,070            | 317,868          | 919,938           | 407,054             | 425,689             | 832,743             |
| Net premiums earned   | 614,795            | 609,280          | 1,224,075         | 420,775             | 596,356             | 1,017,131           |
| Other insurance related income (losses)   | 1,526              | 6,949            | 8,475             | 302                 | (3,499)             | (3,197)             |
| Net losses and loss expenses  | (415,488)          | (379,471)        | (794,959)         | (576,688)           | (658,679)           | (1,235,367)         |
| Acquisition costs   | (111,888)          | (136,426)        | (248,314)         | (61,541)            | (133,183)           | (194,724)           |
| General and administrative expenses   | (100,656)          | (29,595)         | (130,251)         | (71,007)            | (25,689)            | (96,696)            |
| <b>Underwriting income (loss)</b>   | <u>\$ (11,711)</u> | <u>\$ 70,737</u> | <u>59,026</u>     | <u>\$ (288,159)</u> | <u>\$ (224,694)</u> | <u>(512,853)</u>    |
| Corporate expenses  |                    |                  | (24,643)          |                     |                     | (27,933)            |
| Net investment income   |                    |                  | 114,421           |                     |                     | 95,169              |
| Net investment gains (losses)   |                    |                  | (17,628)          |                     |                     | 14,632              |
| Foreign exchange losses   |                    |                  | (8,305)           |                     |                     | (32,510)            |
| Interest expense and financing costs  |                    |                  | (16,897)          |                     |                     | (12,835)            |
| Transaction and reorganization expenses   |                    |                  | (16,300)          |                     |                     | (5,970)             |
| Amortization of value of business acquired  |                    |                  | (39,018)          |                     |                     | —                   |
| Amortization of intangible assets   |                    |                  | (1,753)           |                     |                     | —                   |
| <b>Income (loss) before income taxes and interest in income (loss) of equity method investments</b> |                    |                  | <u>\$ 48,903</u>  |                     |                     | <u>\$ (482,300)</u> |
| Net loss and loss expense ratio   | 67.6%              | 62.3%            | 64.9%             | 137.1%              | 110.5%              | 121.5%              |
| Acquisition cost ratio  | 18.2%              | 22.4%            | 20.3%             | 14.6%               | 22.3%               | 19.1%               |
| General and administrative expense ratio  | 16.4%              | 4.8%             | 12.7%             | 16.9%               | 4.3%                | 12.3%               |
| <b>Combined ratio</b>   | <u>102.2%</u>      | <u>89.5%</u>     | <u>97.9%</u>      | <u>168.6%</u>       | <u>137.1%</u>       | <u>152.9%</u>       |
| <b>Total intangible assets</b>  | <u>\$ 408,441</u>  | <u>\$ —</u>      | <u>\$ 408,441</u> | <u>\$ 87,206</u>    | <u>\$ —</u>         | <u>\$ 87,206</u>    |

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

**2. SEGMENT INFORMATION (CONTINUED)**

| Nine months ended and at September 30,  | 2018              |                   |                   | 2017                |                     |                     |
|---|-------------------|-------------------|-------------------|---------------------|---------------------|---------------------|
|   | Insurance         | Reinsurance       | Total             | Insurance           | Reinsurance         | Total               |
| Gross premiums written  | \$ 2,876,856      | \$ 2,860,471      | \$ 5,737,327      | \$ 1,960,608        | \$ 2,499,164        | \$ 4,459,772        |
| Net premiums written  | 1,748,142         | 2,158,122         | 3,906,264         | 1,259,999           | 2,037,719           | 3,297,718           |
| Net premiums earned   | 1,772,126         | 1,804,900         | 3,577,026         | 1,230,279           | 1,706,986           | 2,937,265           |
| Other insurance related income (losses)   | 3,359             | 15,452            | 18,811            | 853                 | (5,273)             | (4,420)             |
| Net losses and loss expenses  | (1,065,799)       | (1,097,146)       | (2,162,945)       | (1,093,237)         | (1,354,403)         | (2,447,640)         |
| Acquisition costs   | (290,082)         | (419,445)         | (709,527)         | (177,937)           | (410,942)           | (588,879)           |
| General and administrative expenses   | (305,394)         | (99,481)          | (404,875)         | (239,389)           | (96,393)            | (335,782)           |
| <b>Underwriting income (loss)</b>   | <b>\$ 114,210</b> | <b>\$ 204,280</b> | <b>318,490</b>    | <b>\$ (279,431)</b> | <b>\$ (160,025)</b> | <b>(439,456)</b>    |
| Corporate expenses  |                   |                   | (85,069)          |                     |                     | (97,922)            |
| Net investment income   |                   |                   | 325,380           |                     |                     | 299,899             |
| Net realized investment losses  |                   |                   | (77,551)          |                     |                     | (14,811)            |
| Foreign exchange losses   |                   |                   | (2,066)           |                     |                     | (90,093)            |
| Interest expense and financing costs  |                   |                   | (50,758)          |                     |                     | (38,377)            |
| Bargain purchase gain   |                   |                   | —                 |                     |                     | 15,044              |
| Transaction and reorganization expenses   |                   |                   | (48,125)          |                     |                     | (5,970)             |
| Amortization of value of business acquired  |                   |                   | (149,535)         |                     |                     | —                   |
| Amortization of intangible assets   |                   |                   | (8,564)           |                     |                     | —                   |
| <b>Income (loss) before income taxes and interest in income (loss) of equity method investments</b> |                   |                   | <b>\$ 222,202</b> |                     |                     | <b>\$ (371,686)</b> |
| Net loss and loss expense ratio   | 60.1%             | 60.8%             | 60.5%             | 88.9%               | 79.3%               | 83.3%               |
| Acquisition cost ratio  | 16.4%             | 23.2%             | 19.8%             | 14.4%               | 24.2%               | 20.0%               |
| General and administrative expense ratio  | 17.2%             | 5.5%              | 13.7%             | 19.5%               | 5.6%                | 14.8%               |
| <b>Combined ratio</b>   | <b>93.7%</b>      | <b>89.5%</b>      | <b>94.0%</b>      | <b>122.8%</b>       | <b>109.1%</b>       | <b>118.1%</b>       |
| <b>Total intangible assets</b>  | <b>\$ 408,441</b> | <b>\$ —</b>       | <b>\$ 408,441</b> | <b>\$ 87,206</b>    | <b>\$ —</b>         | <b>\$ 87,206</b>    |

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

**3. INVESTMENTS**

**a) Fixed Maturities and Equity securities**

**Fixed maturities**

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

|                                     | Amortized<br>Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value        | Non-credit<br>OTTI<br>in AOCI <sup>(5)</sup> |
|-------------------------------------|----------------------|------------------------------|-------------------------------|----------------------|--|
| <b><u>At September 30, 2018</u></b> |                      |                              |                               |                      |  |
| <b>Fixed maturities</b>             |                      |                              |                               |                      |  |
| U.S. government and agency          | \$ 1,625,114         | \$ 414                       | \$ (20,063)                   | \$ 1,605,465         | \$ —   |
| Non-U.S. government                 | 558,862              | 3,013                        | (13,750)                      | 548,125              | —  |
| Corporate debt                      | 5,144,747            | 23,714                       | (87,376)                      | 5,081,085            | —  |
| Agency RMBS <sup>(1)</sup>          | 1,688,977            | 2,140                        | (51,886)                      | 1,639,231            | —  |
| CMBS <sup>(2)</sup>                 | 1,099,728            | 729                          | (23,502)                      | 1,076,955            | —  |
| Non-Agency RMBS                     | 41,273               | 1,475                        | (962)                         | 41,786               | (868)  |
| ABS <sup>(3)</sup>                  | 1,651,271            | 1,520                        | (6,980)                       | 1,645,811            | —  |
| Municipals <sup>(4)</sup>           | 131,583              | 557                          | (2,901)                       | 129,239              | —  |
| <b>Total fixed maturities</b>       | <b>\$ 11,941,555</b> | <b>\$ 33,562</b>             | <b>\$ (207,420)</b>           | <b>\$ 11,767,697</b> | <b>\$ (868)</b>                              |
| <b><u>At December 31, 2017</u></b>  |                      |                              |                               |                      |  |
| <b>Fixed maturities</b>             |                      |                              |                               |                      |  |
| U.S. government and agency          | \$ 1,727,643         | \$ 1,735                     | \$ (16,909)                   | \$ 1,712,469         | \$ —   |
| Non-U.S. government                 | 798,582              | 17,240                       | (9,523)                       | 806,299              | —  |
| Corporate debt                      | 5,265,795            | 61,922                       | (29,851)                      | 5,297,866            | —  |
| Agency RMBS <sup>(1)</sup>          | 2,414,720            | 8,132                        | (27,700)                      | 2,395,152            | —  |
| CMBS <sup>(2)</sup>                 | 776,715              | 4,138                        | (3,125)                       | 777,728              | —  |
| Non-Agency RMBS                     | 45,713               | 1,917                        | (799)                         | 46,831               | (853)  |
| ABS <sup>(3)</sup>                  | 1,432,884            | 5,391                        | (1,994)                       | 1,436,281            | —  |
| Municipals <sup>(4)</sup>           | 149,167              | 1,185                        | (972)                         | 149,380              | —  |
| <b>Total fixed maturities</b>       | <b>\$ 12,611,219</b> | <b>\$ 101,660</b>            | <b>\$ (90,873)</b>            | <b>\$ 12,622,006</b> | <b>\$ (853)</b>                              |

(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 tranching securities collateralized primarily by auto loans, student loans, credit card receivables, collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs").

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

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

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

**3. INVESTMENTS (CONTINUED)****Equity Securities**

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

|                                     | Cost              | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value     |
|-------------------------------------|-------------------|------------------------------|-------------------------------|-------------------|
| <b><u>At September 30, 2018</u></b> |                   |                              |                               |                   |
| <b>Equity securities</b>            |                   |                              |                               |                   |
| Common stocks                       | \$ 13,392         | \$ 1,345                     | \$ (1,232)                    | \$ 13,505         |
| Exchange-traded funds               | 211,940           | 63,543                       | (2,035)                       | 273,448           |
| Bond mutual funds                   | 150,675           | —                            | (4,317)                       | 146,358           |
| <b>Total equity securities</b>      | <b>\$ 376,007</b> | <b>\$ 64,888</b>             | <b>\$ (7,584)</b>             | <b>\$ 433,311</b> |
| <b><u>At December 31, 2017</u></b>  |                   |                              |                               |                   |
| <b>Equity securities</b>            |                   |                              |                               |                   |
| Common stocks                       | \$ 22,836         | \$ 3,412                     | \$ (590)                      | \$ 25,658         |
| Exchange-traded funds               | 356,252           | 71,675                       | (294)                         | 427,633           |
| Bond mutual funds                   | 173,779           | 9,440                        | (999)                         | 182,220           |
| <b>Total equity securities</b>      | <b>\$ 552,867</b> | <b>\$ 84,527</b>             | <b>\$ (1,883)</b>             | <b>\$ 635,511</b> |

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



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

**3. INVESTMENTS (CONTINUED)**

**Contractual Maturities**

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

|  | Amortized<br>Cost           | Fair<br>Value               | % of Total<br>Fair Value |
|--|-----------------------------|-----------------------------|--------------------------|
| <b><u>At September 30, 2018</u></b>    |                             |                             |                          |
| <b><u>Maturity</u></b>                 |                             |                             |                          |
| Due in one year or less                | \$ 496,968                  | \$ 492,752                  | 4.1%                     |
| Due after one year through five years  | 4,926,538                   | 4,881,185                   | 41.5%                    |
| Due after five years through ten years | 1,821,059                   | 1,774,813                   | 15.1%                    |
| Due after ten years                    | 215,741                     | 215,164                     | 1.8%                     |
|  | <u>7,460,306</u>            | <u>7,363,914</u>            | <u>62.5%</u>             |
| Agency RMBS                            | 1,688,977                   | 1,639,231                   | 13.9%                    |
| CMBS                                   | 1,099,728                   | 1,076,955                   | 9.2%                     |
| Non-Agency RMBS                        | 41,273                      | 41,786                      | 0.4%                     |
| ABS                                    | 1,651,271                   | 1,645,811                   | 14.0%                    |
| <b>Total</b>                           | <b><u>\$ 11,941,555</u></b> | <b><u>\$ 11,767,697</u></b> | <b><u>100.0%</u></b>     |
| <b><u>At December 31, 2017</u></b>     |                             |                             |                          |
| <b><u>Maturity</u></b>                 |                             |                             |                          |
| Due in one year or less                | \$ 486,659                  | \$ 484,663                  | 3.8%                     |
| Due after one year through five years  | 4,906,207                   | 4,912,189                   | 38.9%                    |
| Due after five years through ten years | 2,338,964                   | 2,350,433                   | 18.6%                    |
| Due after ten years                    | 209,357                     | 218,729                     | 1.7%                     |
|  | <u>7,941,187</u>            | <u>7,966,014</u>            | <u>63.0%</u>             |
| Agency RMBS                            | 2,414,720                   | 2,395,152                   | 19.0%                    |
| CMBS                                   | 776,715                     | 777,728                     | 6.2%                     |
| Non-Agency RMBS                        | 45,713                      | 46,831                      | 0.4%                     |
| ABS                                    | 1,432,884                   | 1,436,281                   | 11.4%                    |
| <b>Total</b>                           | <b><u>\$ 12,611,219</u></b> | <b><u>\$ 12,622,006</u></b> | <b><u>100.0%</u></b>     |

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

**3. INVESTMENTS (CONTINUED)**
**Gross Unrealized Losses**

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

|  | 12 months or greater |                    | Less than 12 months |                     | Total               |                     |
|--|----------------------|--------------------|---------------------|---------------------|---------------------|---------------------|
|  | Fair Value           | Unrealized Losses  | Fair Value          | Unrealized Losses   | Fair Value          | Unrealized Losses   |
| <b>At September 30, 2018<sup>(1)</sup></b> |                      |                    |                     |                     |                     |                     |
| <b>Fixed maturities</b>                    |                      |                    |                     |                     |                     |                     |
| U.S. government and agency                 | \$ 311,591           | \$ (10,619)        | \$ 1,228,100        | \$ (9,444)          | \$ 1,539,691        | \$ (20,063)         |
| Non-U.S. government                        | 34,550               | (2,086)            | 382,172             | (11,664)            | 416,722             | (13,750)            |
| Corporate debt                             | 621,298              | (28,190)           | 3,256,619           | (59,186)            | 3,877,917           | (87,376)            |
| Agency RMBS                                | 722,287              | (33,738)           | 780,730             | (18,148)            | 1,503,017           | (51,886)            |
| CMBS                                       | 105,887              | (3,944)            | 832,183             | (19,558)            | 938,070             | (23,502)            |
| Non-Agency RMBS                            | 10,821               | (946)              | 6,067               | (16)                | 16,888              | (962)               |
| ABS  | 157,894              | (2,115)            | 844,190             | (4,865)             | 1,002,084           | (6,980)             |
| Municipals                                 | 33,043               | (1,327)            | 71,150              | (1,574)             | 104,193             | (2,901)             |
| <b>Total fixed maturities</b>              | <b>\$ 1,997,371</b>  | <b>\$ (82,965)</b> | <b>\$ 7,401,211</b> | <b>\$ (124,455)</b> | <b>\$ 9,398,582</b> | <b>\$ (207,420)</b> |
| <b>At December 31, 2017</b>                |                      |                    |                     |                     |                     |                     |
| <b>Fixed maturities</b>                    |                      |                    |                     |                     |                     |                     |
| U.S. government and agency                 | \$ 194,916           | \$ (5,963)         | \$ 1,389,792        | \$ (10,946)         | \$ 1,584,708        | \$ (16,909)         |
| Non-U.S. government                        | 62,878               | (6,806)            | 204,110             | (2,717)             | 266,988             | (9,523)             |
| Corporate debt                             | 407,300              | (11,800)           | 2,041,845           | (18,051)            | 2,449,145           | (29,851)            |
| Agency RMBS                                | 759,255              | (17,453)           | 1,172,313           | (10,247)            | 1,931,568           | (27,700)            |
| CMBS                                       | 31,607               | (703)              | 348,943             | (2,422)             | 380,550             | (3,125)             |
| Non-Agency RMBS                            | 8,029                | (788)              | 4,197               | (11)                | 12,226              | (799)               |
| ABS  | 57,298               | (570)              | 392,170             | (1,424)             | 449,468             | (1,994)             |
| Municipals                                 | 11,230               | (269)              | 65,632              | (703)               | 76,862              | (972)               |
| <b>Total fixed maturities</b>              | <b>\$ 1,532,513</b>  | <b>\$ (44,352)</b> | <b>\$ 5,619,002</b> | <b>\$ (46,521)</b>  | <b>\$ 7,151,515</b> | <b>\$ (90,873)</b>  |
| <b>Equity securities</b>                   |                      |                    |                     |                     |                     |                     |
| Common stocks                              | \$ —                 | \$ —               | \$ 3,202            | \$ (590)            | \$ 3,202            | \$ (590)            |
| Exchange-traded funds                      | —                    | —                  | 12,323              | (294)               | 12,323              | (294)               |
| Bond mutual funds                          | —                    | —                  | 12,184              | (999)               | 12,184              | (999)               |
| <b>Total equity securities</b>             | <b>\$ —</b>          | <b>\$ —</b>        | <b>\$ 27,709</b>    | <b>\$ (1,883)</b>   | <b>\$ 27,709</b>    | <b>\$ (1,883)</b>   |

(1) Effective January 1, 2018, the Company adopted ASU No. 2016-01 which requires equity securities to be measured at fair value with changes in fair value recognized in net income therefore equity securities at fair value are excluded from the table above at September 30, 2018.

**Fixed Maturities**

At September 30, 2018, 3,444 fixed maturities (2017: 2,424) were in an unrealized loss position of \$207 million (2017: \$91 million), of which \$13 million (2017: \$7 million) was related to securities below investment grade or not rated.

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

**3. INVESTMENTS (CONTINUED)**

At September 30, 2018, 940 fixed maturities (2017: 627) had been in a continuous unrealized loss position for twelve months or greater and had a fair value of \$1,997 million (2017: \$1,533 million). Following a credit impairment review, it was concluded that these securities as well as the remaining securities in an unrealized loss position were temporarily impaired at September 30, 2018, and were expected to recover in value as the securities approach maturity. At September 30, 2018, the Company did not intend to sell the securities in an unrealized loss position and it is more likely than not that the Company will not be required to sell these securities before the anticipated recovery of their amortized costs.

**b) Mortgage Loans**

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

|   | September 30, 2018 |             | December 31, 2017 |             |
|---|--------------------|-------------|-------------------|-------------|
|   | Carrying Value     | % of Total  | Carrying Value    | % of Total  |
| Mortgage Loans held-for-investment:             |                    |             |                   |             |
| Commercial                                      | \$ 333,018         | 100%        | \$ 325,062        | 100%        |
| <b>Total Mortgage Loans held-for-investment</b> | <b>\$ 333,018</b>  | <b>100%</b> | <b>\$ 325,062</b> | <b>100%</b> |

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

The Company has a high quality mortgage loan portfolio with weighted average debt service coverage ratios in excess of 2.6x and weighted average loan-to-value ratios of less than 60%. At September 30, 2018, there are no credit losses associated with the commercial mortgage loans held by the Company.

At September 30, 2018, there are no past due amounts.

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

**3. INVESTMENTS (CONTINUED)**

**c) Other Investments**

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

|                                     | Fair Value          |             | Redemption Frequency<br>(if currently eligible) | Redemption<br>Notice Period |
|-------------------------------------|---------------------|-------------|---|-----------------------------|
| <b><u>At September 30, 2018</u></b> |                     |             |   |                             |
| Long/short equity funds             | \$ 28,593           | 3%          | Annually  | 60 days                     |
| Multi-strategy funds                | 185,255             | 22%         | Quarterly, Semi-annually                        | 60-95 days                  |
| Event-driven funds                  | 38,084              | 5%          | Annually  | 45 days                     |
| Direct lending funds                | 268,210             | 32%         | n/a   | n/a                         |
| Private equity funds                | 67,840              | 8%          | n/a   | n/a                         |
| Real estate funds                   | 63,764              | 8%          | n/a   | n/a                         |
| CLO-Equities                        | 24,264              | 3%          | n/a   | n/a                         |
| Other privately held investments    | 47,389              | 6%          | n/a   | n/a                         |
| Overseas deposits                   | 110,164             | 13%         | n/a   | n/a                         |
| <b>Total other investments</b>      | <b>\$ 833,563</b>   | <b>100%</b> |   |                             |
| <b><u>At December 31, 2017</u></b>  |                     |             |   |                             |
| Long/short equity funds             | \$ 38,470           | 4%          | Annually  | 60 days                     |
| Multi-strategy funds                | 286,164             | 28%         | Quarterly, Semi-annually                        | 60-95 days                  |
| Event-driven funds                  | 39,177              | 4%          | Annually  | 45 days                     |
| Direct lending funds                | 250,681             | 25%         | n/a   | n/a                         |
| Private equity funds                | 68,812              | 7%          | n/a   | n/a                         |
| Real estate funds                   | 50,009              | 5%          | n/a   | n/a                         |
| CLO-Equities                        | 31,413              | 2%          | n/a   | n/a                         |
| Other privately held investments    | 46,430              | 5%          | n/a   | n/a                         |
| Overseas deposits                   | 198,217             | 20%         | n/a   | n/a                         |
| <b>Total other investments</b>      | <b>\$ 1,009,373</b> | <b>100%</b> |   |                             |

n/a - not applicable

The investment strategies for the above funds are as follows:

- *Long/short equity funds*: Seek to achieve attractive returns primarily by executing an equity trading strategy involving both long and short investments in publicly-traded equity securities.
- *Multi-strategy funds*: Seek to achieve above-market returns by pursuing multiple investment strategies to diversify risks and reduce volatility. This category includes funds of hedge funds which invest in a large pool of hedge funds across a diversified range of hedge fund strategies.
- *Event-driven funds*: Seek to achieve attractive returns by exploiting situations where announced or anticipated events create opportunities.
- *Direct lending funds*: Seek to achieve attractive risk-adjusted returns, including current income generation, by investing in funds which provide financing directly to borrowers.
- *Private equity funds*: Seek to achieve attractive risk-adjusted returns by investing in private transactions over the course of several years.

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

**3. INVESTMENTS (CONTINUED)**

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

Two common redemption restrictions which may impact the Company's ability to redeem hedge funds are gates and lockups. A gate is a suspension of redemptions which may be implemented by the general partner or investment manager of the fund in order to defer, in whole or in part, the redemption request in the event the aggregate amount of redemption requests exceeds a predetermined percentage of the fund's net assets which may otherwise hinder the general partner or investment manager's ability to liquidate holdings in an orderly fashion in order to generate the cash necessary to fund extraordinarily large redemption payouts. A lockup period is the initial amount of time an investor is contractually required to hold the security before having the ability to redeem. During the nine months ended September 30, 2018 and 2017, neither of these restrictions impacted the Company's redemption requests. At September 30, 2018, \$42 million (2017: \$38 million), representing 17% (2017: 11%) of total hedge funds, relate to a holding where the Company is still within the lockup period. The expiration of these lockup periods range from March 2019 to May 2020.

At September 30, 2018, the Company had \$199 million (2017: \$137 million) of unfunded commitments as a limited partner in direct lending funds. Once the full amount of committed capital has been called by the General Partner of each of these funds, the assets will not be fully returned until the completion of the fund's investment term. These funds have investment terms ranging from five to ten years and the General Partners of certain funds have the option to extend the term by up to three years.

At September 30, 2018, the Company had \$53 million (2017: \$16 million) of unfunded commitments as a limited partner in multi-strategy hedge funds. Once the full amount of committed capital has been called by the General Partner of each of these funds, the assets will not be fully returned until after the completion of the funds' investment term. These funds have investment terms ranging from two years to the dissolution of the underlying fund.

At September 30, 2018, the Company had \$169 million (2017: \$115 million) of unfunded commitments as a limited partner in funds which invest in real estate and real estate securities and businesses. These funds include an open-ended fund and funds with investment terms ranging from seven years to the dissolution of the underlying fund.

At September 30, 2018, the Company had \$18 million (2017: \$21 million) of unfunded commitments as a limited partner in a private equity fund. The life of the fund is subject to the dissolution of the underlying funds. The Company expects the overall holding period to be over ten years.

During 2015, the Company made a \$50 million commitment as a limited partner of a bank revolver opportunity fund. The fund has an investment term of seven years and the General Partners have the option to extend the term by up to two years. At September 30, 2018, this commitment remains unfunded. It is not anticipated that the full amount of this fund will be drawn.

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

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

**3. INVESTMENTS (CONTINUED)**

**d) Equity Method Investments**

During 2016, the Company paid \$108 million including direct transaction costs to acquire 19% of the common equity of Harrington Reinsurance Holdings Limited ("Harrington"), the parent company of Harrington Re Ltd. ("Harrington Re"), an independent reinsurance company jointly sponsored by AXIS Capital and The Blackstone Group L.P. ("Blackstone"). Through long-term service agreements, AXIS Capital will serve as Harrington Re's reinsurance underwriting manager and Blackstone will serve as exclusive investment management service provider. As an investor, the Company expects to benefit from underwriting profit generated by Harrington Re and the income and capital appreciation Blackstone seeks to deliver through its investment management services. In addition, the Company has entered into an arrangement with Blackstone under which underwriting and investment related fees will be shared equally. Harrington is not a variable interest entity. Given that the Company exercises significant influence over the operating and financial policies of this investee, the Company accounts for its ownership interest 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 nine months ended September 30, 2017, the Company 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 was 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 September 30, |                  | Nine months ended September 30, |                   |
|--------------------------------|----------------------------------|------------------|---------------------------------|-------------------|
|                                | 2018                             | 2017             | 2018                            | 2017              |
| Fixed maturities               | \$ 89,887                        | \$ 74,978        | \$ 262,165                      | \$ 230,603        |
| Other investments              | 15,933                           | 17,373           | 44,179                          | 59,973            |
| Equity securities              | 2,099                            | 3,223            | 7,015                           | 11,048            |
| Mortgage loans                 | 3,322                            | 2,895            | 9,805                           | 7,970             |
| Cash and cash equivalents      | 6,992                            | 3,111            | 16,770                          | 9,640             |
| Short-term investments         | 3,413                            | 698              | 5,933                           | 1,797             |
| <b>Gross investment income</b> | <b>121,646</b>                   | <b>102,278</b>   | <b>345,867</b>                  | <b>321,031</b>    |
| Investment expenses            | (7,225)                          | (7,109)          | (20,487)                        | (21,132)          |
| <b>Net investment income</b>   | <b>\$ 114,421</b>                | <b>\$ 95,169</b> | <b>\$ 325,380</b>               | <b>\$ 299,899</b> |

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

**3. INVESTMENTS (CONTINUED)**

**f) Net Investment Gains (Losses)**

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

|   | Three months ended September 30, |           | Nine months ended September 30, |             |
|---|----------------------------------|-----------|---------------------------------|-------------|
|   | 2018                             | 2017      | 2018                            | 2017        |
| <b>Gross realized investment gains</b>                            |                                  |           |                                 |             |
| Fixed maturities and short-term investments                       | \$ 4,543                         | \$ 19,297 | \$ 41,932                       | \$ 57,524   |
| Equity securities   | 15                               | 17,980    | 18,675                          | 33,794      |
| Gross realized investment gains                                   | <b>4,558</b>                     | 37,277    | <b>60,607</b>                   | 91,318      |
| <b>Gross realized investment losses</b>                           |                                  |           |                                 |             |
| Fixed maturities and short-term investments                       | (25,926)                         | (15,893)  | (113,903)                       | (83,183)    |
| Equity securities   | —                                | (45)      | (1,231)                         | (258)       |
| Gross realized investment losses                                  | <b>(25,926)</b>                  | (15,938)  | <b>(115,134)</b>                | (83,441)    |
| Net OTTI recognized in net income                                 | <b>(5,546)</b>                   | (5,412)   | <b>(7,634)</b>                  | (13,493)    |
| Change in fair value of investment derivatives <sup>(1)</sup>     | 2,626                            | (1,295)   | 9,782                           | (9,195)     |
| Net unrealized gains (losses) on equity securities <sup>(2)</sup> | 6,660                            | —         | (25,172)                        | —           |
| <b>Net investment gains (losses)</b>                              | <b>\$ (17,628)</b>               | \$ 14,632 | <b>\$ (77,551)</b>              | \$ (14,811) |

(1) Refer to Note 5 'Derivative Instruments'.

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

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

|  | Three months ended September 30, |          | Nine months ended September 30, |           |
|--|----------------------------------|----------|---------------------------------|-----------|
|  | 2018                             | 2017     | 2018                            | 2017      |
| <b>Fixed maturities:</b>                   |                                  |          |                                 |           |
| Non-U.S. government                        | \$ 4,426                         | \$ 3,905 | \$ 4,448                        | \$ 8,187  |
| Corporate debt                             | 1,079                            | 1,507    | 3,145                           | 5,306     |
| CMBS                                       | 41                               | —        | 41                              | —         |
| <b>Total OTTI recognized in net income</b> | <b>\$ 5,546</b>                  | \$ 5,412 | <b>\$ 7,634</b>                 | \$ 13,493 |

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

**3. INVESTMENTS (CONTINUED)**

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

|  | <u>Three months ended September 30,</u> |                 | <u>Nine months ended September 30,</u> |                 |
|--|---|-----------------|--|-----------------|
|  | <u>2018</u>                             | <u>2017</u>     | <u>2018</u>                            | <u>2017</u>     |
| Balance at beginning of period   | \$ 1,472                                | \$ 1,481        | \$ 1,494                               | \$ 1,493        |
| Credit impairments recognized on securities not previously impaired        | —                                       | —               | —                                      | —               |
| Additional credit impairments recognized on securities previously impaired | 8                                       | 2               | 8                                      | 2               |
| Change in timing of future cash flows on securities previously impaired    | —                                       | —               | —                                      | —               |
| Intent to sell of securities previously impaired                           | —                                       | —               | —                                      | —               |
| Securities sold/redeemed/matured   | —                                       | —               | (22)                                   | (12)            |
| <b>Balance at end of period</b>  | <b>\$ 1,480</b>                         | <b>\$ 1,483</b> | <b>\$ 1,480</b>                        | <b>\$ 1,483</b> |

**g) Reverse Repurchase Agreements**

At September 30, 2018, the Company held \$167 million (2017: \$37 million) of reverse repurchase agreements. These loans are fully collateralized, are generally outstanding for a short period of time and are presented on a gross basis as part of cash and cash equivalents in the Company's Consolidated Balance Sheets. The required collateral for these loans is either cash or U.S. Treasuries at a minimum rate of 102% of the loan principal. Upon maturity, the Company receives principal and interest income. The Company monitors the estimated fair value of the securities loaned and borrowed on a daily basis with additional collateral obtained as necessary throughout the duration of the transaction.



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

**4. FAIR VALUE MEASUREMENTS**

**Fair Value Hierarchy**

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. U.S. GAAP prescribes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement. The hierarchy is broken down into three levels as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Company's own judgments about assumptions that market participants might use.

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

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

**Valuation Techniques**

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

**Fixed Maturities**

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

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

**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

*U.S. government and agency*

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

*Non-U.S. government*

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

*Corporate debt*

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

*Agency RMBS*

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

*CMBS*

CMBS include mostly investment-grade bonds originated by non-agencies. The fair values of these securities are determined using a pricing model which uses dealer quotes and other available trade information along with security level characteristics to determine deal specific spreads. As the significant inputs used to price these securities are observable market inputs, the fair values of CMBS securities are generally classified as Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, the fair values of these securities are classified as Level 3.

*Non-Agency RMBS*

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

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

**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

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.

*ABS*

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including auto loans, student loans, credit card receivables, CDOs and CLO debt originated by a variety of financial institutions. The fair values of these securities are determined using a model which uses prepayment speeds and spreads sourced primarily from the new issue market. As the significant inputs used to price these securities are observable market inputs, the fair values of ABS are generally classified as Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, the fair values of these securities are classified as Level 3.

*Municipals*

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

**Equity Securities**

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

**Other Investments**

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

The fair value of the indirect investment in CLO-Equities are classified as Level 3 as the fair value of this security is estimated using an income approach valuation technique, specifically an externally developed discounted cash flow model due to the lack of observable and relevant trades in secondary markets.

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

**Short-Term Investments**

Short-term investments primarily comprise highly liquid securities with maturities greater than three months but less than one year from the date of purchase. The fair value of 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.

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

**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

**Derivative Instruments**

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

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

**Insurance-linked Securities**

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

**Cash Settled Awards**

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

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

**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

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

|                                     | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) | Fair value based on<br>NAV practical<br>expedient | Total Fair Value     |
|-------------------------------------|---|---|---|---|----------------------|
| <b><u>At September 30, 2018</u></b> |   |   |   |   |                      |
| <b><u>Assets</u></b>                |   |   |   |   |                      |
| Fixed maturities                    |   |   |   |   |                      |
| U.S. government and agency          | \$ 1,579,758  | \$ 25,707   | \$ —  | \$ —  | \$ 1,605,465         |
| Non-U.S. government                 | —   | 548,125   | —   | —   | 548,125              |
| Corporate debt                      | —   | 5,027,985   | 53,100  | —   | 5,081,085            |
| Agency RMBS                         | —   | 1,639,231   | —   | —   | 1,639,231            |
| CMBS                                | —   | 1,066,184   | 10,771  | —   | 1,076,955            |
| Non-Agency RMBS                     | —   | 41,786  | —   | —   | 41,786               |
| ABS                                 | —   | 1,642,154   | 3,657   | —   | 1,645,811            |
| Municipals                          | —   | 129,239   | —   | —   | 129,239              |
|                                     | <u>1,579,758</u>  | <u>10,120,411</u>                                   | <u>67,528</u>                                   | <u>—</u>  | <u>11,767,697</u>    |
| Equity securities                   |   |   |   |   |                      |
| Common stocks                       | 13,505  | —   | —   | —   | 13,505               |
| Exchange-traded funds               | 273,448   | —   | —   | —   | 273,448              |
| Bond mutual funds                   | —   | 146,358   | —   | —   | 146,358              |
|                                     | <u>286,953</u>  | <u>146,358</u>                                      | <u>—</u>  | <u>—</u>  | <u>433,311</u>       |
| Other investments                   |   |   |   |   |                      |
| Hedge funds <sup>(1)</sup>          | —   | —   | —   | 251,932   | 251,932              |
| Direct lending funds                | —   | —   | —   | 268,210   | 268,210              |
| Private equity funds                | —   | —   | —   | 67,840  | 67,840               |
| Real estate funds                   | —   | —   | —   | 63,764  | 63,764               |
| Other privately held investments    | —   | —   | 47,389  | —   | 47,389               |
| CLO-Equities                        | —   | —   | 24,264  | —   | 24,264               |
| Overseas deposits                   | —   | 110,164   | —   | —   | 110,164              |
|                                     | <u>—</u>  | <u>110,164</u>                                      | <u>71,653</u>                                   | <u>651,746</u>                                    | <u>833,563</u>       |
| Short-term investments              | —   | 156,090   | —   | —   | 156,090              |
| Other assets                        |   |   |   |   |                      |
| Derivative instruments (see Note 5) | —   | 3,383   | —   | —   | 3,383                |
| <b>Total Assets</b>                 | <u>\$ 1,866,711</u>   | <u>\$ 10,536,406</u>                                | <u>\$ 139,181</u>                               | <u>\$ 651,746</u>                                 | <u>\$ 13,194,044</u> |
| <b><u>Liabilities</u></b>           |   |   |   |   |                      |
| Derivative instruments (see Note 5) | \$ —  | \$ 4,908  | \$ 10,212                                       | \$ —  | \$ 15,120            |
| Cash settled awards (see Note 8)    | —   | 19,096  | —   | —   | 19,096               |
| <b>Total Liabilities</b>            | <u>\$ —</u>   | <u>\$ 24,004</u>                                    | <u>\$ 10,212</u>                                | <u>\$ —</u>                                       | <u>\$ 34,216</u>     |

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

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

**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

|                                     | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) | Fair value based on<br>NAV practical<br>expedient | Total Fair Value     |
|-------------------------------------|---|---|---|---|----------------------|
| <b>At December 31, 2017</b>         |   |   |   |   |                      |
| <b>Assets</b>                       |   |   |   |   |                      |
| Fixed maturities                    |   |   |   |   |                      |
| U.S. government and agency          | \$ 1,658,622  | \$ 53,847   | \$ —  | \$ —  | \$ 1,712,469         |
| Non-U.S. government                 | —   | 806,299   | —   | —   | 806,299              |
| Corporate debt                      | —   | 5,244,969   | 52,897  | —   | 5,297,866            |
| Agency RMBS                         | —   | 2,395,152   | —   | —   | 2,395,152            |
| CMBS                                | —   | 777,728   | —   | —   | 777,728              |
| Non-Agency RMBS                     | —   | 46,831  | —   | —   | 46,831               |
| ABS                                 | —   | 1,436,281   | —   | —   | 1,436,281            |
| Municipals                          | —   | 149,380   | —   | —   | 149,380              |
|                                     | <u>1,658,622</u>  | <u>10,910,487</u>                                   | <u>52,897</u>                                   | <u>—</u>  | <u>12,622,006</u>    |
| Equity securities                   |   |   |   |   |                      |
| Common stocks                       | 25,658  | —   | —   | —   | 25,658               |
| Exchange-traded funds               | 427,633   | —   | —   | —   | 427,633              |
| Bond mutual funds                   | —   | 182,220   | —   | —   | 182,220              |
|                                     | <u>453,291</u>  | <u>182,220</u>                                      | <u>—</u>  | <u>—</u>  | <u>635,511</u>       |
| Other investments                   |   |   |   |   |                      |
| Hedge funds <sup>(1)</sup>          | —   | —   | —   | 363,811   | 363,811              |
| Direct lending funds                | —   | —   | —   | 250,681   | 250,681              |
| Private equity funds                | —   | —   | —   | 68,812  | 68,812               |
| Real estate funds                   | —   | —   | —   | 50,009  | 50,009               |
| Other privately held investments    | —   | —   | 46,430  | —   | 46,430               |
| CLO-Equities                        | —   | —   | 31,413  | —   | 31,413               |
| Overseas deposits                   | —   | 198,217   | —   | —   | 198,217              |
|                                     | <u>—</u>  | <u>198,217</u>                                      | <u>77,843</u>                                   | <u>733,313</u>                                    | <u>1,009,373</u>     |
| Short-term investments              | —   | 83,661  | —   | —   | 83,661               |
| Other assets                        |   |   |   |   |                      |
| Derivative instruments (see Note 5) | —   | 5,125   | —   | —   | 5,125                |
| Insurance-linked securities         | —   | —   | 25,090  | —   | 25,090               |
| <b>Total Assets</b>                 | <u>\$ 2,111,913</u>   | <u>\$ 11,379,710</u>                                | <u>\$ 155,830</u>                               | <u>\$ 733,313</u>                                 | <u>\$ 14,380,766</u> |
| <b>Liabilities</b>                  |   |   |   |   |                      |
| Derivative instruments (see Note 5) | \$ —  | \$ 2,876  | \$ 11,510                                       | \$ —  | \$ 14,386            |
| Cash settled awards (see Note 8)    | —   | 21,535  | —   | —   | 21,535               |
| <b>Total Liabilities</b>            | <u>\$ —</u>   | <u>\$ 24,411</u>                                    | <u>\$ 11,510</u>                                | <u>\$ —</u>                                       | <u>\$ 35,921</u>     |

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

During 2018 and 2017, the Company had no transfers between Levels 1 and 2.

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 September 30, 2018 of investments classified as Level 3 in the fair value hierarchy.

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

**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

|  | Fair Value  | Valuation Technique  | Unobservable Input       | Range       | Weighted Average |
|--|-------------|----------------------|--------------------------|-------------|------------------|
| Other investments - CLO-Equities                     | \$ 24,264   | Discounted cash flow | Default rates            | 3.0%        | 3.0%             |
|  |             |                      | Loss severity rate       | 35.0%       | 35.0%            |
|  |             |                      | Collateral spreads       | 3.0%        | 3.0%             |
|  |             |                      | Estimated maturity dates | 7 years     | 7 years          |
| Other investments - Other privately held investments | \$ 47,389   | Discounted cash flow | Discount rate            | 3.0% - 8.5% | 7.2%             |
| Derivatives - Other underwriting-related derivatives | \$ (10,212) | Discounted cash flow | Discount rate            | 3.0%        | 3.0%             |

*Other investments - CLO-Equities*

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 CLO-Equities held by the Company. Accordingly, the fair value of the Company's indirect investment in CLO-Equities is determined using a discounted cash flow model prepared by an external investment manager. The default and loss severity rates are the most judgmental unobservable market inputs to the discounted cash flow model to which the valuation of the Company's indirect investment in CLO-Equities is most sensitive. A significant increase (decrease) in either of these significant inputs in isolation would result in a lower (higher) fair value estimate for the investment in CLO-Equities and, in general, a change in default rate assumptions would 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 a higher (lower) fair value estimate for the investment in CLO-Equities. In general, these inputs have no significant interrelationship with each other or with default and loss severity rates.

On a quarterly basis, the Company's valuation process for its indirect investment in CLO-Equities includes 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 the Company's CLO-Equities portfolio. In order to assess the reasonableness of the inputs the Company uses in its models, the Company maintains an understanding of current market conditions, historical results, as well as emerging trends that may impact future cash flows. In addition, the assumptions the Company uses in its models are updated through regular communication with industry participants and ongoing monitoring of the deals in which the Company participates (e.g. default and loss severity rate trends).

*Other investments - Other privately held securities*

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 significantly lower (higher) fair value measurement for other privately held securities. Where relevant, the Company also considers 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 that are used in the discounted cash flow models, the Company maintains an understanding of current market conditions, historical results, as well as investee specific information that may impact future cash flows.

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

**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

*Derivatives - Other underwriting-related derivatives*

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 the Company uses in the discounted cash flow model, the Company maintains an understanding of current market conditions, historical results, as well as contract specific information that may impact future cash flows.



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

**4. 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 net income(1) | Included in OCI (2) | Purchases        | Sales              | Settlements/ Distributions | Closing Balance   | Change in unrealized investment gains/ (losses) (3) |
|--|-------------------|------------------------|--------------------------|---------------------------|---------------------|------------------|--------------------|----------------------------|-------------------|---|
| <b>Three months ended September 30, 2018</b> |                   |                        |                          |                           |                     |                  |                    |                            |                   |   |
| <b>Fixed maturities</b>                      |                   |                        |                          |                           |                     |                  |                    |                            |                   |   |
| Corporate debt                               | \$ 42,553         | \$ 1,346               | \$ —                     | \$ (579)                  | \$ 4,962            | \$ 13,871        | \$ (3,960)         | \$ (5,093)                 | \$ 53,100         | \$ —  |
| Non-Agency RMBS                              | 903               | —                      | (790)                    | —                         | (1)                 | —                | —                  | (112)                      | —                 | —   |
| CMBS   | 18,149            | 3,160                  | (10,422)                 | —                         | (55)                | —                | —                  | (61)                       | 10,771            | —   |
| ABS  | —                 | 3,657                  | —                        | —                         | —                   | —                | —                  | —                          | 3,657             | —   |
|  | <u>61,605</u>     | <u>8,163</u>           | <u>(11,212)</u>          | <u>(579)</u>              | <u>4,906</u>        | <u>13,871</u>    | <u>(3,960)</u>     | <u>(5,266)</u>             | <u>67,528</u>     | <u>—</u>  |
| <b>Other investments</b>                     |                   |                        |                          |                           |                     |                  |                    |                            |                   |   |
| Other privately held investments             | 47,613            | —                      | —                        | (224)                     | —                   | —                | —                  | —                          | 47,389            | (224)   |
| CLO - Equities                               | 26,153            | —                      | —                        | 2,035                     | —                   | —                | —                  | (3,924)                    | 24,264            | 2,035   |
|  | <u>73,766</u>     | <u>—</u>               | <u>—</u>                 | <u>1,811</u>              | <u>—</u>            | <u>—</u>         | <u>—</u>           | <u>(3,924)</u>             | <u>71,653</u>     | <u>1,811</u>  |
| <b>Other assets</b>                          |                   |                        |                          |                           |                     |                  |                    |                            |                   |   |
| Insurance-linked securities                  | —                 | —                      | —                        | —                         | —                   | —                | —                  | —                          | —                 | —   |
|  | <u>—</u>          | <u>—</u>               | <u>—</u>                 | <u>—</u>                  | <u>—</u>            | <u>—</u>         | <u>—</u>           | <u>—</u>                   | <u>—</u>          | <u>—</u>  |
| <b>Total assets</b>                          | <u>\$ 135,371</u> | <u>\$ 8,163</u>        | <u>\$ (11,212)</u>       | <u>\$ 1,232</u>           | <u>\$ 4,906</u>     | <u>\$ 13,871</u> | <u>\$ (3,960)</u>  | <u>\$ (9,190)</u>          | <u>\$ 139,181</u> | <u>\$ 1,811</u>                                     |
| <b>Other liabilities</b>                     |                   |                        |                          |                           |                     |                  |                    |                            |                   |   |
| Derivative instruments                       | \$ 10,589         | \$ —                   | \$ —                     | \$ (377)                  | \$ —                | \$ —             | \$ —               | \$ —                       | \$ 10,212         | \$ (377)  |
| <b>Total liabilities</b>                     | <u>\$ 10,589</u>  | <u>\$ —</u>            | <u>\$ —</u>              | <u>\$ (377)</u>           | <u>\$ —</u>         | <u>\$ —</u>      | <u>\$ —</u>        | <u>\$ —</u>                | <u>\$ 10,212</u>  | <u>\$ (377)</u>                                     |
| <b>Nine months ended September 30, 2018</b>  |                   |                        |                          |                           |                     |                  |                    |                            |                   |   |
| <b>Fixed maturities</b>                      |                   |                        |                          |                           |                     |                  |                    |                            |                   |   |
| Corporate debt                               | \$ 52,897         | \$ 2,935               | \$ (4,279)               | \$ (698)                  | \$ 5,977            | \$ 17,056        | \$ (9,714)         | \$ (11,074)                | \$ 53,100         | \$ —  |
| Non-Agency RMBS                              | —                 | —                      | (789)                    | —                         | 1                   | 900              | —                  | (112)                      | —                 | —   |
| CMBS   | —                 | 5,096                  | (10,422)                 | —                         | (57)                | 16,215           | —                  | (61)                       | 10,771            | —   |
| ABS  | —                 | 3,657                  | —                        | —                         | —                   | —                | —                  | —                          | 3,657             | —   |
|  | <u>52,897</u>     | <u>11,688</u>          | <u>(15,490)</u>          | <u>(698)</u>              | <u>5,921</u>        | <u>34,171</u>    | <u>(9,714)</u>     | <u>(11,247)</u>            | <u>67,528</u>     | <u>—</u>  |
| <b>Other investments</b>                     |                   |                        |                          |                           |                     |                  |                    |                            |                   |   |
| Other privately held investments             | 46,430            | —                      | —                        | (652)                     | —                   | 3,111            | (1,500)            | —                          | 47,389            | (652)   |
| CLO - Equities                               | 31,413            | —                      | —                        | 6,719                     | —                   | —                | —                  | (13,868)                   | 24,264            | 6,719   |
|  | <u>77,843</u>     | <u>—</u>               | <u>—</u>                 | <u>6,067</u>              | <u>—</u>            | <u>3,111</u>     | <u>(1,500)</u>     | <u>(13,868)</u>            | <u>71,653</u>     | <u>6,067</u>  |
| <b>Other assets</b>                          |                   |                        |                          |                           |                     |                  |                    |                            |                   |   |
| Insurance-linked securities                  | 25,090            | —                      | —                        | (90)                      | —                   | —                | —                  | (25,000)                   | —                 | —   |
|  | <u>25,090</u>     | <u>—</u>               | <u>—</u>                 | <u>(90)</u>               | <u>—</u>            | <u>—</u>         | <u>—</u>           | <u>(25,000)</u>            | <u>—</u>          | <u>—</u>  |
| <b>Total assets</b>                          | <u>\$ 155,830</u> | <u>\$ 11,688</u>       | <u>\$ (15,490)</u>       | <u>\$ 5,279</u>           | <u>\$ 5,921</u>     | <u>\$ 37,282</u> | <u>\$ (11,214)</u> | <u>\$ (50,115)</u>         | <u>\$ 139,181</u> | <u>\$ 6,067</u>                                     |
| <b>Other liabilities</b>                     |                   |                        |                          |                           |                     |                  |                    |                            |                   |   |
| Derivative instruments                       | \$ 11,510         | \$ —                   | \$ —                     | \$ (1,298)                | \$ —                | \$ —             | \$ —               | \$ —                       | \$ 10,212         | \$ (1,298)  |
| <b>Total liabilities</b>                     | <u>\$ 11,510</u>  | <u>\$ —</u>            | <u>\$ —</u>              | <u>\$ (1,298)</u>         | <u>\$ —</u>         | <u>\$ —</u>      | <u>\$ —</u>        | <u>\$ —</u>                | <u>\$ 10,212</u>  | <u>\$ (1,298)</u>                                   |



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

**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

|  | Opening Balance  | Transfers into Level 3 | Transfers out of Level 3 | Included in net income <sup>(1)</sup> | Included in OCI <sup>(2)</sup> | Purchases        | Sales              | Settlements/ Distributions | Closing Balance   | Change in unrealized investment gains/ (losses) <sup>(3)</sup> |
|--|------------------|------------------------|--------------------------|---------------------------------------|--------------------------------|------------------|--------------------|----------------------------|-------------------|--|
| <b>Three months ended September 30, 2017</b> |                  |                        |                          |                                       |                                |                  |                    |                            |                   |  |
| <b>Fixed maturities</b>                      |                  |                        |                          |                                       |                                |                  |                    |                            |                   |  |
| Corporate debt                               | \$ 68,320        | \$ —                   | \$ (1,208)               | \$ (835)                              | \$ (9)                         | \$ —             | \$ (2,274)         | \$ (2,978)                 | \$ 61,016         | \$ —   |
| CMBS   | —                | —                      | —                        | —                                     | —                              | —                | —                  | —                          | —                 | —  |
| ABS  | 5,999            | —                      | (6,001)                  | —                                     | 10                             | 24,007           | —                  | —                          | 24,015            | —  |
|  | <u>74,319</u>    | <u>—</u>               | <u>(7,209)</u>           | <u>(835)</u>                          | <u>1</u>                       | <u>24,007</u>    | <u>(2,274)</u>     | <u>(2,978)</u>             | <u>85,031</u>     | <u>—</u>   |
| <b>Other investments</b>                     |                  |                        |                          |                                       |                                |                  |                    |                            |                   |  |
| Other privately held investments             | 42,938           | —                      | —                        | 460                                   | —                              | —                | —                  | —                          | 43,398            | 460  |
| CLO - Equities                               | 47,076           | —                      | —                        | 1,402                                 | —                              | —                | —                  | (11,696)                   | 36,782            | 1,402  |
|  | <u>90,014</u>    | <u>—</u>               | <u>—</u>                 | <u>1,862</u>                          | <u>—</u>                       | <u>—</u>         | <u>—</u>           | <u>(11,696)</u>            | <u>80,180</u>     | <u>1,862</u>   |
| <b>Other assets</b>                          |                  |                        |                          |                                       |                                |                  |                    |                            |                   |  |
| Derivative instruments                       | —                | —                      | —                        | —                                     | —                              | —                | —                  | —                          | —                 | —  |
| Insurance-linked securities                  | 25,047           | —                      | —                        | (71)                                  | —                              | —                | —                  | —                          | 24,976            | (71)   |
|  | <u>25,047</u>    | <u>—</u>               | <u>—</u>                 | <u>(71)</u>                           | <u>—</u>                       | <u>—</u>         | <u>—</u>           | <u>—</u>                   | <u>24,976</u>     | <u>(71)</u>  |
| <b>Total assets</b>                          | <u>\$189,380</u> | <u>\$ —</u>            | <u>\$ (7,209)</u>        | <u>\$ 956</u>                         | <u>\$ 1</u>                    | <u>\$ 24,007</u> | <u>\$ (2,274)</u>  | <u>\$ (14,674)</u>         | <u>\$ 190,187</u> | <u>\$ 1,791</u>  |
| <b>Other liabilities</b>                     |                  |                        |                          |                                       |                                |                  |                    |                            |                   |  |
| Derivative instruments                       | \$ 12,209        | \$ —                   | \$ —                     | \$ (291)                              | \$ —                           | \$ —             | \$ —               | \$ (74)                    | \$ 11,844         | \$ (291)   |
| <b>Total liabilities</b>                     | <u>\$ 12,209</u> | <u>\$ —</u>            | <u>\$ —</u>              | <u>\$ (291)</u>                       | <u>\$ —</u>                    | <u>\$ —</u>      | <u>\$ —</u>        | <u>\$ (74)</u>             | <u>\$ 11,844</u>  | <u>\$ (291)</u>  |
| <b>Nine months ended September 30, 2017</b>  |                  |                        |                          |                                       |                                |                  |                    |                            |                   |  |
| <b>Fixed maturities</b>                      |                  |                        |                          |                                       |                                |                  |                    |                            |                   |  |
| Corporate debt                               | \$ 75,875        | \$ 1,536               | \$ (3,112)               | \$ (762)                              | \$ (392)                       | \$ 19,181        | \$ (21,475)        | \$ (9,835)                 | \$ 61,016         | \$ —   |
| Non-Agency RMBS                              | —                | —                      | —                        | —                                     | —                              | —                | —                  | —                          | —                 | —  |
| CMBS   | 3,061            | —                      | (9,418)                  | —                                     | 17                             | 9,400            | —                  | (3,060)                    | —                 | —  |
| ABS  | 17,464           | —                      | (24,949)                 | —                                     | 1,493                          | 30,007           | —                  | —                          | 24,015            | —  |
|  | <u>96,400</u>    | <u>1,536</u>           | <u>(37,479)</u>          | <u>(762)</u>                          | <u>1,118</u>                   | <u>58,588</u>    | <u>(21,475)</u>    | <u>(12,895)</u>            | <u>85,031</u>     | <u>—</u>   |
| <b>Other investments</b>                     |                  |                        |                          |                                       |                                |                  |                    |                            |                   |  |
| Other privately held investments             | 42,142           | —                      | —                        | 1,256                                 | —                              | —                | —                  | —                          | 43,398            | 1,256  |
| CLO - Equities                               | 60,700           | —                      | —                        | 3,930                                 | —                              | —                | —                  | (27,848)                   | 36,782            | 3,930  |
|  | <u>102,842</u>   | <u>—</u>               | <u>—</u>                 | <u>5,186</u>                          | <u>—</u>                       | <u>—</u>         | <u>—</u>           | <u>(27,848)</u>            | <u>80,180</u>     | <u>5,186</u>   |
| <b>Other assets</b>                          |                  |                        |                          |                                       |                                |                  |                    |                            |                   |  |
| Derivative instruments                       | 2,532            | —                      | —                        | 653                                   | —                              | —                | —                  | (3,185)                    | —                 | —  |
| Insurance-linked securities                  | 25,023           | —                      | —                        | (47)                                  | —                              | —                | —                  | —                          | 24,976            | (47)   |
|  | <u>27,555</u>    | <u>—</u>               | <u>—</u>                 | <u>606</u>                            | <u>—</u>                       | <u>—</u>         | <u>—</u>           | <u>(3,185)</u>             | <u>24,976</u>     | <u>(47)</u>  |
| <b>Total assets</b>                          | <u>\$226,797</u> | <u>\$ 1,536</u>        | <u>\$ (37,479)</u>       | <u>\$ 5,030</u>                       | <u>\$ 1,118</u>                | <u>\$ 58,588</u> | <u>\$ (21,475)</u> | <u>\$ (43,928)</u>         | <u>\$ 190,187</u> | <u>\$ 5,139</u>  |
| <b>Other liabilities</b>                     |                  |                        |                          |                                       |                                |                  |                    |                            |                   |  |
| Derivative instruments                       | \$ 6,500         | \$ —                   | \$ —                     | \$ 9,991                              | \$ —                           | \$ 12,135        | \$ —               | \$ (16,782)                | \$ 11,844         | \$ (291)   |
| <b>Total liabilities</b>                     | <u>\$ 6,500</u>  | <u>\$ —</u>            | <u>\$ —</u>              | <u>\$ 9,991</u>                       | <u>\$ —</u>                    | <u>\$ 12,135</u> | <u>\$ —</u>        | <u>\$ (16,782)</u>         | <u>\$ 11,844</u>  | <u>\$ (291)</u>  |

(1) Realized gains (losses) on fixed maturities, and realized and unrealized gains (losses) on other assets and other liabilities included in net income are included in net investment gains (losses). Realized and unrealized gains (losses) on other investments included in net income are included in net investment income.

(2) Unrealized gains (losses) on fixed maturities are included in other comprehensive income ("OCI").

(3) Change in unrealized investment gains (losses) 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.

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

**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

Transfers into Level 3 from Level 2

The transfers to Level 3 from Level 2 made during the three and nine months ended September 30, 2018 and 2017 were primarily due to the lack of observable market inputs and multiple quotes from pricing vendors and broker-dealers for certain fixed maturities.

Transfers out of Level 3 into Level 2

The transfers into Level 2 from Level 3 made during the three and nine months ended September 30, 2018 and 2017 were primarily due to the availability of observable market inputs and multiple quotes from pricing vendors for 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, the Company estimates 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, the Company does not typically have a reporting lag in fair value measurements of these funds. Historically, the Company's 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 the Company's hedge funds, valuation statements are typically released on a reporting lag therefore the Company estimates the 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 therefore the Company typically has a reporting lag in its fair value measurements of these funds. For the nine months ended September 30, 2018, funds reported on a lag represented 55% (2017: 44%) of the Company's total other investments balance.

The Company often does 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, the Company performs a number of monitoring procedures on a quarterly basis, to assess the quality of the information provided by fund managers and fund 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 the Company's fair value estimates against subsequently received NAVs. Backtesting involves comparing the Company's 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.

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

**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

**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.

At September 30, 2018, 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 due to their respective short maturities. As these financial instruments are not actively traded, their fair values are classified as Level 2.

At September 30, 2018, the carrying value of mortgage loans held-for-investment approximated their fair value. 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 September 30, 2018, senior notes are recorded at amortized cost with a carrying value of \$1,342 million (2017: \$1,341 million) and a fair value of \$1,345 million (2017: \$1,412 million). The fair values of these senior 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.

At September 30, 2018, notes payable are recorded at amortized cost with a carrying value of \$36 million and a fair value of \$36 million. The fair values of the notes payable are primarily determined by estimating expected future cash flows and discounting them using current interest rates for notes payable with similar credit risk. As notes payables are not actively traded their fair values are classified as Level 3.

**5. DERIVATIVE INSTRUMENTS**

The balance sheet classifications of derivatives recorded at fair value are shown in the following table.

|  | September 30, 2018               |   |   | December 31, 2017                |   |   |
|--|----------------------------------|---|---|----------------------------------|---|---|
|  | Derivative<br>Notional<br>Amount | Derivative<br>Asset<br>Fair<br>Value <sup>(1)</sup> | Derivative<br>Liability<br>Fair<br>Value <sup>(1)</sup> | Derivative<br>Notional<br>Amount | Derivative<br>Asset<br>Fair<br>Value <sup>(1)</sup> | Derivative<br>Liability<br>Fair<br>Value <sup>(1)</sup> |
| <i>Relating to investment portfolio:</i>   |                                  |   |   |                                  |   |   |
| Foreign exchange forward contracts         | \$ 166,113                       | \$ 437  | \$ 557  | \$ 137,422                       | \$ 10   | \$ 619  |
| Interest rate swaps                        | 186,000                          | —   | 1,105   | 191,000                          | 448   | 1,556   |
| <i>Relating to underwriting portfolio:</i> |                                  |   |   |                                  |   |   |
| Foreign exchange forward contracts         | 932,017                          | 2,946   | 3,246   | 698,959                          | 4,667   | 701   |
| Other underwriting-related contracts       | 85,000                           | —   | 10,212  | 85,000                           | —   | 11,510  |
| <b>Total derivatives</b>                   |                                  | <b>\$ 3,383</b>                                     | <b>\$ 15,120</b>  |                                  | <b>\$ 5,125</b>                                     | <b>\$ 14,386</b>  |

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

The notional amounts of derivative contracts which represent the basis upon which pay or receive amounts are calculated are presented in the above table to quantify the volume of the Company's derivative activities. Notional amounts are not reflective of credit risk.

None of the Company's derivative instruments are designated as hedges under current accounting guidance.

**Offsetting Assets and Liabilities**

The Company's 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. A reconciliation of 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, is shown in the following table.

|                        | September 30, 2018 |                            |                               | December 31, 2017 |                            |                               |
|------------------------|--------------------|----------------------------|-------------------------------|-------------------|----------------------------|-------------------------------|
|                        | Gross<br>Amounts   | Gross<br>Amounts<br>Offset | Net<br>Amounts <sup>(1)</sup> | Gross<br>Amounts  | Gross<br>Amounts<br>Offset | Net<br>Amounts <sup>(1)</sup> |
| Derivative assets      | \$ 9,313           | \$ (5,930)                 | \$ 3,383                      | \$ 8,178          | \$ (3,053)                 | \$ 5,125                      |
| Derivative liabilities | \$ 21,050          | \$ (5,930)                 | \$ 15,120                     | \$ 17,439         | \$ (3,053)                 | \$ 14,386                     |

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

For information on reverse repurchase agreements see Note 3 'Investments'.

*a) Relating to Investment Portfolio*

Foreign Currency Risk

The Company's investment portfolio is exposed to foreign currency risk therefore the fair values of its investments are partially influenced by the change in foreign exchange rates. The Company may enter into foreign currency 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

The Company's investment portfolio contains a large percentage of fixed maturities which expose it to significant interest rate risk. As part of overall management of this risk, the Company may use interest rate swaps.

*b) Relating to Underwriting Portfolio*

Foreign Currency Risk

The Company's (re)insurance subsidiaries and branches operate in various countries. Some of its business is written in currencies other than the U.S. dollar, therefore the underwriting portfolio is exposed to significant foreign currency risk. The Company manages foreign currency risk by seeking to match its foreign-denominated net liabilities under (re)insurance contracts with cash and investments that are denominated in the same currencies. The Company uses derivative instruments, specifically, forward contracts to economically hedge foreign currency exposures.

Weather Risk

During 2013, the Company began to write derivative-based risk management products designed to address weather risks with the objective of generating profits on a portfolio basis. The majority of this business consists of receiving a payment at contract inception in exchange for bearing the risk of variations in a quantifiable weather-related phenomenon, such as temperature. Where a client wishes to minimize the upfront payment, these transactions may be structured as swaps or collars. In general, the Company's 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, the Company may also purchase weather derivatives. Effective July 1, 2017, the Company no longer writes derivative-based risk management products which address weather risks.

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

**5. DERIVATIVE INSTRUMENTS (CONTINUED)**

Other Underwriting-related Risks

The Company enters into insurance and reinsurance contracts that are accounted for as derivatives. These insurance or reinsurance contracts provide indemnification to an insured or cedant as a result of a change in a variable as opposed to an identifiable insurable event. The Company considers these contracts to be part of its underwriting operations.

The total unrealized and realized gains (losses) recognized in net income for derivatives not designated as hedges are shown in the following table:

|  |   | Three months ended |                  | Nine months ended |                 |
|--|---|--------------------|------------------|-------------------|-----------------|
|  |   | September 30,      |                  | September 30,     |                 |
| Location of Gain (Loss) Recognized in Net  |   | 2018               | 2017             | 2018              | 2017            |
| Income                                     |   |                    |                  |                   |                 |
| <i>Relating to investment portfolio:</i>   |   |                    |                  |                   |                 |
| Foreign exchange forward contracts         | Net investment gains (losses)           | \$ 766             | \$ (1,815)       | \$ 2,090          | \$ (6,534)      |
| Interest rate swaps                        | Net investment gains (losses)           | 1,859              | 520              | 7,692             | (2,661)         |
| <i>Relating to underwriting portfolio:</i> |   |                    |                  |                   |                 |
| Foreign exchange forward contracts         | Foreign exchange (losses) gains         | (3,965)            | 12,367           | (4,103)           | 26,182          |
| Weather-related contracts                  | Other insurance related income (losses) | —                  | —                | —                 | (9,629)         |
| Other underwriting-related contracts       | Other insurance related income (losses) | 677                | 514              | 2,225             | 852             |
| <b>Total</b>                               |   | <u>\$ (663)</u>    | <u>\$ 11,586</u> | <u>\$ 7,904</u>   | <u>\$ 8,210</u> |



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

**6. RESERVE FOR LOSSES AND LOSS EXPENSES**

**Reserve Roll-Forward**

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

|  | <b>Nine months ended September 30,</b> |                             |
|--|--|-----------------------------|
|  | <b>2018</b>                            | <b>2017</b>                 |
| Gross reserve for losses and loss expenses, beginning of period      | \$ 12,997,553                          | \$ 9,697,827                |
| Less reinsurance recoverable on unpaid losses, beginning of period   | <u>(3,159,514)</u>                     | <u>(2,276,109)</u>          |
| Net reserve for unpaid losses and loss expenses, beginning of period | <u>9,838,039</u>                       | <u>7,421,718</u>            |
| Net incurred losses and loss expenses related to:                    |  |                             |
| Current year   | 2,323,028                              | 2,591,135                   |
| Prior years  | <u>(160,083)</u>                       | <u>(143,495)</u>            |
|  | <u>2,162,945</u>                       | <u>2,447,640</u>            |
| Net paid losses and loss expenses related to:                        |  |                             |
| Current year   | (381,158)                              | (328,751)                   |
| Prior years  | <u>(1,770,667)</u>                     | <u>(1,384,510)</u>          |
|  | <u>(2,151,825)</u>                     | <u>(1,713,261)</u>          |
| Foreign exchange and other   | <u>(1,040,999)</u>                     | <u>333,456</u>              |
| Net reserve for unpaid losses and loss expenses, end of period       | <u>8,808,160</u>                       | <u>8,489,553</u>            |
| Reinsurance recoverable on unpaid losses, end of period              | <u>3,217,787</u>                       | <u>2,298,022</u>            |
| <b>Gross reserve for losses and loss expenses, end of period</b>     | <u><b>\$ 12,025,947</b></u>            | <u><b>\$ 10,787,575</b></u> |

The Company writes business with loss experience generally characterized as low frequency and high severity in nature, which can result in volatility in its financial results. During the nine months ended September 30, 2018, the Company recognized net losses and loss expenses of \$162 million (2017: \$702 million, net of reinstatement premiums) attributable to catastrophe and weather-related events.

On April 16, 2018, the Company entered into a quota share retrocessional agreement with Harrington Re, a related party, which was deemed to have met the established criteria for retroactive reinsurance accounting. The Company recognized reinsurance recoverable on unpaid losses of \$108 million related to this reinsurance agreement. This transaction was conducted at market rates consistent with negotiated arms-length contracts.

On January 1, 2018, AXIS Managing Agency Limited, the managing agent of Syndicate 2007 entered into an agreement for the RITC of the 2015 and prior years of account of Syndicate 2007. This agreement was accounted for as a novation reinsurance contract. At September 30, 2018, foreign exchange and other included a reduction in reserves for losses and loss expenses of \$819 million related to this transaction.

On April 1, 2017, the Company acquired a 100% ownership interest in Aviabel. At September 30, 2017, foreign exchange and other included reserves for losses and loss expenses of \$79 million and reinsurance recoverables on unpaid and paid losses of \$5 million related to this acquisition.

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.

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

**6. 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 loss events that occurred in previous calendar years. The following table presents prior year reserve development by segment:

|              | Three months ended September 30, |                  | Nine months ended September 30, |                   |
|--------------|----------------------------------|------------------|---------------------------------|-------------------|
|              | 2018                             | 2017             | 2018                            | 2017              |
| Insurance    | \$ 13,478                        | \$ 7,926         | \$ 60,547                       | \$ 35,579         |
| Reinsurance  | 32,182                           | 39,842           | 99,536                          | 107,916           |
| <b>Total</b> | <b>\$ 45,660</b>                 | <b>\$ 47,768</b> | <b>\$ 160,083</b>               | <b>\$ 143,495</b> |

The following tables reconcile reserve classes to the lines of business categories and the expected claim tails:

| <b>Insurance Segment</b>  |        | <b>Reported Lines of Business</b> |        |           |          |                              |                       |           |                        |                               |  |
|---------------------------|--------|-----------------------------------|--------|-----------|----------|------------------------------|-----------------------|-----------|------------------------|-------------------------------|--|
| Reserve Classes           | Tail   | Property                          | Marine | Terrorism | Aviation | Credit and<br>Political Risk | Professional<br>Lines | Liability | Accident<br>and Health | Discontinued<br>lines - Novae |  |
| Property and Other        | Short  | X                                 |        | X         |          |                              |                       |           | X                      | X                             |  |
| Marine                    | Short  |                                   | X      |           |          |                              |                       |           |                        |                               |  |
| Aviation                  | Short  |                                   |        |           | X        |                              |                       |           |                        |                               |  |
| Credit and Political Risk | Medium |                                   |        |           |          | X                            |                       |           |                        |                               |  |
| Professional Lines        | Medium |                                   |        |           |          |                              | X                     |           |                        | X                             |  |
| Liability                 | Long   |                                   |        |           |          |                              |                       | X         |                        | X                             |  |

| <b>Reinsurance Segment</b> |        | <b>Reported Lines of Business</b> |          |                         |                       |       |           |             |             |                        |                        |                               |
|----------------------------|--------|-----------------------------------|----------|-------------------------|-----------------------|-------|-----------|-------------|-------------|------------------------|------------------------|-------------------------------|
| Reserve Classes            | Tail   | Catastrophe                       | Property | Credit<br>and<br>Surety | Professional<br>Lines | Motor | Liability | Engineering | Agriculture | Marine<br>and<br>Other | Accident<br>and Health | Discontinued<br>lines - Novae |
| Property and Other         | Short  | X                                 | X        |                         |                       |       |           | X           | X           | X                      | X                      |                               |
| Credit and Surety          | Medium |                                   |          | X                       |                       |       |           |             |             |                        |                        |                               |
| Professional Lines         | Medium |                                   |          |                         | X                     |       |           |             |             |                        |                        |                               |
| Motor                      | Long   |                                   |          |                         |                       | X     |           |             |             |                        |                        | X                             |
| Liability                  | Long   |                                   |          |                         |                       |       | X         |             |             |                        |                        | X                             |

**Short-tail business**

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

For the three and nine months ended September 30, 2018, these reserve classes contributed net favorable prior year reserve development of \$12 million and \$92 million, respectively, reflecting the recognition of overall better than expected loss emergence related to the 2017 catastrophe events. For the three and nine months ended September 30, 2017, these reserve classes contributed net favorable prior year reserve development of \$5 million and \$41 million, respectively, reflecting the recognition of better than expected loss emergence.

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

**6. RESERVE FOR LOSSES AND LOSS EXPENSES (CONTINUED)**

Medium-tail business

Medium-tail business consists primarily of insurance and reinsurance professional reserve classes, insurance credit and political risk reserve class and reinsurance credit and surety reserve class.

For the three and nine months ended September 30, 2018, the reinsurance professional reserve class recognized net favorable prior year reserve development of \$10 million (2017: \$9 million) and \$18 million (2017: \$36 million), respectively. For the three and nine months ended September 30, 2018, the insurance professional reserve class recognized net favorable prior year development of \$10 million and \$12 million (2017: \$18 million), respectively. The net favorable prior year reserve development on these reserve classes continued to reflect generally favorable experience as the Company continued to transition to more experienced based methods.

For the three and nine months ended September 30, 2018, the credit and surety reinsurance reserve class recorded net favorable prior year reserve development of \$6 million (2017: \$17 million) and \$21 million (2017: \$18 million), respectively. This net favorable prior year reserve development reflected the recognition of better than expected loss emergence.

Long-tail business

Long-tail business consists primarily of insurance and reinsurance liability reserve classes and reinsurance motor reserve classes.

For the three and nine months ended September 30, 2018, the reinsurance liability reserve class contributed net favorable prior year reserve development of \$11 million and \$19 million (2017: \$40 million), respectively. For the three months ended September 30, 2018, the net favorable prior year reserve development was largely associated with multi-line contracts and due to overall better than expected loss emergence related to the 2017 catastrophe events. For the nine months ended September 30, 2018, the net favorable prior year reserve development was largely associated with multi-line contracts and due to overall better than expected loss emergence related to the 2017 catastrophe events, together with generally favorable experience reflecting the progressively increased weight given by management to experience based indications on older accident years. For the nine months ended September 30, 2017, the net favorable prior year reserve development was primarily due to the progressively increased weight given by management to experience based indications on older accident years, which have generally been favorable.

For the three and nine months ended September 30, 2018, the insurance liability reserve class recorded net adverse prior year development of \$11 million and \$18 million, respectively, primarily related to reserve strengthening within the Company's U.S. excess casualty book of business. For the nine months ended September 30, 2017, the insurance liability reserve class recorded net adverse prior year development of \$6 million primarily attributable to reserve strengthening within the Company's run-off Bermuda excess casualty book of business.

For the three and nine months ended September 30, 2018, the motor reinsurance reserve class contributed net favorable prior year reserve development of \$7 million and \$15 million, respectively, primarily attributable to non proportional treaty business on older accident years. For the three and nine months ended September 30, 2017, the motor reinsurance reserve class recorded net favorable prior year development of \$16 million and net adverse prior year reserve development of \$4 million, respectively. For the three months ended September 30, 2017, the net favorable prior year reserve development related to favorable loss emergence trends on several classes of business spanning multiple accident years. For the nine months ended September 30, 2017, the adverse prior year development was mainly driven by the decrease in the discount rate used to calculate lump sum awards in U.K. bodily injury cases, known as the Ogden Rate which changed from plus 2.5% to minus 0.75% effective March 20, 2017.

At September 30, 2018, net reserves for losses and loss expenses included estimated amounts for numerous catastrophe events. The magnitude and/or complexity of losses arising from these events, in particular Hurricane Florence as well as Hurricanes Harvey, Irma and Maria, the two earthquakes in Mexico and the wildfires in Northern and Southern California which occurred in 2017, inherently increase the level of uncertainty and, therefore, the level of management judgment involved in arriving at the estimated net reserves for losses and loss expenses. As a result, actual losses for these events may ultimately differ materially from our current estimates.

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

**7. EARNINGS PER COMMON SHARE**

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

|  | Three months ended September<br>30, |                  | Nine months ended September<br>30, |                  |
|--|-------------------------------------|------------------|------------------------------------|------------------|
|  | 2018                                | 2017             | 2018                               | 2017             |
| <b>Basic earnings (loss) per common share</b>                                |                                     |                  |                                    |                  |
| Net income (loss)  | \$ 54,095                           | \$ (457,084)     | \$ 230,812                         | \$ (341,541)     |
| Less: preferred share dividends  | 10,656                              | 10,656           | 31,969                             | 36,154           |
| Net income (loss) available to common shareholders                           | 43,439                              | (467,740)        | 198,843                            | (377,695)        |
| Weighted average common shares outstanding - basic                           | 83,558                              | 83,305           | 83,474                             | 84,479           |
| <b>Basic earnings (loss) per common share</b>                                | <b>\$ 0.52</b>                      | <b>\$ (5.61)</b> | <b>\$ 2.38</b>                     | <b>\$ (4.47)</b> |
| <b>Earnings (loss) per diluted common share</b>                              |                                     |                  |                                    |                  |
| Net income (loss) available to common shareholders                           | \$ 43,439                           | \$ (467,740)     | \$ 198,843                         | \$ (377,695)     |
| Weighted average common shares outstanding - basic                           | 83,558                              | 83,305           | 83,474                             | 84,479           |
| Share-based compensation plans <sup>(1)</sup>                                | 549                                 | —                | 465                                | —                |
| Weighted average common shares outstanding - diluted                         | 84,107                              | 83,305           | 83,939                             | 84,479           |
| <b>Earnings (loss) per diluted common share</b>                              | <b>\$ 0.52</b>                      | <b>\$ (5.61)</b> | <b>\$ 2.37</b>                     | <b>\$ (4.47)</b> |
| Weighted average anti-dilutive shares excluded from the dilutive computation | 8                                   | 425              | 325                                | 712              |

(1) Due to the net loss incurred in the three and nine months ended September 30, 2017, all the share equivalents were anti-dilutive.

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

**8. SHARE-BASED COMPENSATION**

For the three months ended September 30, 2018, the Company incurred share-based compensation costs of \$15 million (2017: \$13 million) related to share-settled restricted stock units and cash-settled restricted stock units and recorded associated tax benefits of \$3 million (2017: \$3 million).

For the nine months ended September 30, 2018, the Company incurred share-based compensation costs of \$45 million (2017: \$57 million) and recorded associated tax benefits of \$6 million (2017: \$20 million, including \$7 million related to excess tax benefits associated with the vesting of restricted stock units).

During the nine months ended September 30, 2018, the fair value of share-settled restricted stock units and cash-settled restricted stock units that vested was \$47 million (2017: \$125 million, including \$44 million attributable to a grant made in 2014 of three year cliff vesting service-based awards). At September 30, 2018 there were \$106 million of unrecognized compensation costs (2017: \$99 million) which are expected to be recognized over the weighted average period of 2.6 years.

**Share-settled Awards**

The following table provides a summary of nonvested share-settled restricted stock units for the nine months ended September 30, 2018:

|   | Share-Settled Performance Vesting Restricted Stock Units |   | Share-Settled Service Based Restricted Stock Units |   |
|---|--|---|--|---|
|   | Number of Restricted Stock Units                         | Weighted Average Grant Date Fair Value <sup>(1)</sup> | Number of Restricted Stock Units                   | Weighted Average Grant Date Fair Value <sup>(1)</sup> |
| Nonvested restricted stock units - beginning of period  | 230  | \$ 57.08  | 1,355  | \$ 57.09  |
| Granted   | 104  | 48.89   | 732  | 49.30   |
| Vested  | (87)   | 54.71   | (486)  | 54.39   |
| Forfeited   | —  | —   | (70)   | 56.07   |
| <b>Nonvested restricted stock units - end of period</b> | <b>247</b>   | <b>\$ 54.49</b>                                       | <b>1,531</b>                                       | <b>\$ 54.19</b>                                       |

(1) Fair value is based on the closing price of common shares on the grant date.

**Cash-settled awards**

The following table provides a summary of nonvested cash-settled restricted stock units for the nine months ended September 30, 2018:

|   | Cash-Settled Performance Vesting Restricted Stock Units | Cash-Settled Service Based Restricted Stock Units |
|---|---|---|
|   | Number of Restricted Stock Units                        | Number of Restricted Stock Units                  |
| Nonvested restricted stock units - beginning of period  | 42  | 988   |
| Granted   | —   | 468   |
| Vested  | (12)  | (379)   |
| Forfeited   | —   | (70)  |
| <b>Nonvested restricted stock units - end of period</b> | <b>30</b>   | <b>1,007</b>                                      |

At September 30, 2018, the liability for cash-settled restricted stock units, included in other liabilities in the Consolidated Balance Sheets, was \$19 million (2017: \$18 million).



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

**9. SHAREHOLDERS' EQUITY**

The following table presents common shares issued and outstanding:

|   | Three months ended September 30, |          | Nine months ended September 30, |          |
|---|----------------------------------|----------|---------------------------------|----------|
|   | 2018                             | 2017     | 2018                            | 2017     |
| Shares issued, balance at beginning of period   | 176,580                          | 176,580  | 176,580                         | 176,580  |
| Shares issued                                   | —                                | —        | —                               | —        |
| <b>Total shares issued at end of period</b>     | <b>176,580</b>                   | 176,580  | <b>176,580</b>                  | 176,580  |
| Treasury shares, balance at beginning of period | (93,024)                         | (93,377) | (93,419)                        | (90,139) |
| Shares repurchased                              | —                                | (51)     | (175)                           | (4,284)  |
| Shares reissued                                 | 1                                | 5        | 571                             | 1,000    |
| <b>Total treasury shares at end of period</b>   | <b>(93,023)</b>                  | (93,423) | <b>(93,023)</b>                 | (93,423) |
| <b>Total shares outstanding</b>                 | <b>83,557</b>                    | 83,157   | <b>83,557</b>                   | 83,157   |

Treasury Shares

The following table presents share repurchases:

|  | Three months ended September 30, |          | Nine months ended September 30, |            |
|--|----------------------------------|----------|---------------------------------|------------|
|  | 2018                             | 2017     | 2018                            | 2017       |
| <b>In the open market:</b>             |                                  |          |                                 |            |
| Total shares                           | —                                | 49       | —                               | 3,932      |
| Total cost                             | \$ —                             | \$ 3,237 | \$ —                            | \$ 261,180 |
| Average price per share <sup>(1)</sup> | \$ —                             | \$ 65.80 | \$ —                            | \$ 66.43   |
| <b>From employees:<sup>(2)</sup></b>   |                                  |          |                                 |            |
| Total shares                           | —                                | 2        | 175                             | 352        |
| Total cost                             | \$ —                             | \$ 110   | \$ 8,699                        | \$ 24,479  |
| Average price per share <sup>(1)</sup> | \$ —                             | \$ 64.04 | \$ 49.57                        | \$ 69.53   |
| <b>Total shares repurchased:</b>       |                                  |          |                                 |            |
| Total shares                           | —                                | 51       | 175                             | 4,284      |
| Total cost                             | \$ —                             | \$ 3,347 | \$ 8,699                        | \$ 285,659 |
| Average price per share <sup>(1)</sup> | \$ —                             | \$ 65.74 | \$ 49.57                        | \$ 66.68   |

(1) Calculated using whole numbers.

(2) Shares are repurchased from employees to satisfy withholding tax liabilities related to the vesting of restricted stock units.

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

**10. DEBT AND FINANCING ARRANGEMENTS**

On March 28, 2018, certain of AXIS Capital's operating subsidiaries (the "Participating Subsidiaries") amended their existing \$250 million secured letter of credit facility with Citibank Europe plc (the "\$250 Million Facility") under their aggregate \$750 million secured letter of credit facility with Citibank Europe plc (the "\$750 Million Facility") to extend the expiration date to March 31, 2019.

The terms and conditions of the additional \$500 million secured letter of credit facility under the \$750 Million Facility remain unchanged. The \$500 million secured letter of credit facility expires December 31, 2019.

Letters of credit issued under the \$750 Million Facility will principally be used to support the reinsurance obligations of the Participating Subsidiaries. The Participating Subsidiaries are subject to certain covenants, including the requirement to maintain sufficient collateral to cover obligations outstanding under the \$750 Million Facility. In the event of default, Citibank Europe plc may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the \$750 Million Facility to any or all of the Participating Subsidiaries.

**11. COMMITMENTS AND CONTINGENCIES**

Legal Proceedings

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

The Company is not party to any material legal proceedings arising outside the ordinary course of business.

Investments

Refer to Note 3 - '*Investments*' for information on the Company's unfunded investment commitments related to the Company's other investment portfolio.



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

**12. OTHER COMPREHENSIVE INCOME (LOSS)**

The following table presents the tax effects allocated to each component of other comprehensive income (loss):

|  | 2018                    |                             |                      | 2017                    |                             |                      |
|--|-------------------------|-----------------------------|----------------------|-------------------------|-----------------------------|----------------------|
|  | Before<br>Tax<br>Amount | Tax<br>(Expense)<br>Benefit | Net of Tax<br>Amount | Before<br>Tax<br>Amount | Tax<br>(Expense)<br>Benefit | Net of Tax<br>Amount |
| <b>Three months ended September 30,</b>  |                         |                             |                      |                         |                             |                      |
| Available for sale investments:  |                         |                             |                      |                         |                             |                      |
| Unrealized investment gains (losses) arising during the period   | \$ (27,968)             | \$ 1,907                    | \$ (26,061)          | \$ 64,431               | \$ (1,926)                  | \$ 62,505            |
| Adjustment for reclassification of net realized investment (gains) losses and OTTI losses recognized in net income | 26,896                  | (972)                       | 25,924               | (15,925)                | 2,639                       | (13,286)             |
| Unrealized investment gains (losses) arising during the period, net of reclassification adjustment <sup>(1)</sup>  | (1,072)                 | 935                         | (137)                | 48,506                  | 713                         | 49,219               |
| Non-credit portion of OTTI losses  | —                       | —                           | —                    | —                       | —                           | —                    |
| Foreign currency translation adjustment  | 994                     | —                           | 994                  | 8,088                   | —                           | 8,088                |
| <b>Total other comprehensive income (loss), net of tax</b>   | <b>\$ (78)</b>          | <b>\$ 935</b>               | <b>\$ 857</b>        | <b>\$ 56,594</b>        | <b>\$ 713</b>               | <b>\$ 57,307</b>     |
| <b>Nine months ended September 30,</b>   |                         |                             |                      |                         |                             |                      |
| Available for sale investments:  |                         |                             |                      |                         |                             |                      |
| Unrealized investment gains (losses) arising during the period   | \$ (266,117)            | \$ 8,596                    | \$ (257,521)         | \$ 215,360              | \$ (8,899)                  | \$ 206,461           |
| Adjustment for reclassification of net realized investment losses and OTTI losses recognized in net income         | 79,552                  | (2,363)                     | 77,189               | 8,269                   | 1,900                       | 10,169               |
| Unrealized investment gains (losses) arising during the period, net of reclassification adjustment <sup>(1)</sup>  | (186,565)               | 6,233                       | (180,332)            | 223,629                 | (6,999)                     | 216,630              |
| Non-credit portion of OTTI losses  | —                       | —                           | —                    | —                       | —                           | —                    |
| Foreign currency translation adjustment  | (6,864)                 | —                           | (6,864)              | 46,824                  | —                           | 46,824               |
| <b>Total other comprehensive income (loss), net of tax</b>   | <b>\$ (193,429)</b>     | <b>\$ 6,233</b>             | <b>\$ (187,196)</b>  | <b>\$ 270,453</b>       | <b>\$ (6,999)</b>           | <b>\$ 263,454</b>    |

(1) Effective January 1, 2018, the Company adopted ASU No. 2016-01. The adoption of this guidance resulted in a cumulative adjustment to reclassify unrealized investment gains on equity securities from accumulated other comprehensive income to retained earnings. As prescribed, the prior period has not been restated to conform to the current presentation. Refer to Item 1, Note 1 'Basis of Presentation and Significant Accounting Policies' to the Consolidated Financial Statements for additional information.

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

**12. OTHER COMPREHENSIVE INCOME (LOSS) (CONTINUED)**

The following table presents reclassifications from Accumulated Other Comprehensive Income ("AOCI") to net income available to common shareholders:

| AOCI Components  | Consolidated Statement of Operations line item that includes reclassification | Amount reclassified from AOCI <sup>(1)</sup> |           |                                 |             |
|--|---|--|-----------|---------------------------------|-------------|
|  |   | Three months ended September 30,             |           | Nine months ended September 30, |             |
|  |   | 2018   | 2017      | 2018                            | 2017        |
| Unrealized investment gains (losses) on available for sale investments |   |  |           |                                 |             |
|  | Other investment gains (losses)   | \$ (21,350)                                  | \$ 21,337 | \$ (71,918)                     | \$ 5,224    |
|  | OTTI losses   | (5,546)                                      | (5,412)   | (7,634)                         | (13,493)    |
|  | Total before tax  | (26,896)                                     | 15,925    | (79,552)                        | (8,269)     |
|  | Income tax (expense) benefit  | 972  | (2,639)   | 2,363                           | (1,900)     |
|  | Net of tax  | \$ (25,924)                                  | \$ 13,286 | \$ (77,189)                     | \$ (10,169) |
| Foreign currency translation adjustment                                |   |  |           |                                 |             |
|  | Foreign exchange loss   | \$ —   | \$ —      | \$ —                            | \$ (24,149) |
|  | Income tax (expense) benefit  | —  | —         | —                               | —           |
|  | Net of tax  | \$ —   | \$ —      | \$ —                            | \$ (24,149) |

(1) Amounts in parentheses are debits to net income (loss) available (attributable) 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, the Company released the cumulative translation adjustment related to AXIS Specialty Australia of \$24 million from AOCI in the Consolidated Balance Sheet to foreign exchange losses in the Consolidated Statement of Operations.

**13. SUBSEQUENT EVENTS**

In October 2018, Hurricane Michael made landfall impacting the Gulf Coast and the southeastern U.S. The Company's preliminary pre-tax net loss estimate for this event is in the range of \$100 million to \$120 million. The impact of this event will be recognized by the Company in the three months ended December 31, 2018.

The Company's loss estimate is based on a ground-up assessment of losses from individual contracts and treaties exposed to the affected regions, including preliminary information from clients, brokers and loss adjusters. Industry insured loss estimates, market share analyses and catastrophe modeling analyses were also taken into account where appropriate.

Due to the nature of this event, including the complexity of loss assessment, factors contributing to the losses and the preliminary nature of the information available to prepare this estimate, the actual net ultimate amount of losses for this event may be materially different from this current estimate.

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

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The following is a discussion and analysis of our financial condition and results of operations. This should be read in conjunction with the consolidated financial statements and related notes included in Item 1 of this report and also our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2017. Tabular dollars are in thousands, except per share amounts. Amounts in tables may not reconcile due to rounding differences.

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## THIRD QUARTER 2018 FINANCIAL HIGHLIGHTS

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### Third Quarter 2018 Consolidated Results of Operations

- Net income available to common shareholders of \$43 million, or \$0.52 per common share and diluted common share
- Operating income<sup>(1)</sup> of \$81 million, or \$0.96 per diluted common share<sup>(1)</sup>
- Gross premiums written of \$1.4 billion
- Net premiums written of \$920 million
- Net premiums earned of \$1.2 billion
- Estimated pre-tax catastrophe and weather-related losses of \$92 million (insurance: \$62 million and reinsurance: \$30 million), or 7.5 points on current accident year loss ratio related to Hurricane Florence, Typhoon Jebi, U.S. weather-related events and the California Wildfires
- Net favorable prior year reserve development of \$46 million
- Underwriting income<sup>(2)</sup> of \$59 million and combined ratio of 97.9%
- Net investment income of \$114 million
- Net investment losses of \$18 million
- Amortization of value of business acquired ("VOBA") of \$39 million
- Transaction and reorganization expenses of \$16 million
- Foreign exchange losses of \$8 million

### Third Quarter 2018 Consolidated Financial Condition

- Total cash and investments of \$15.4 billion; fixed maturities, cash and short-term securities comprise 89% of total cash and investments and have an average credit rating of AA-
- Total assets of \$24.8 billion
- Reserve for losses and loss expenses of \$12 billion and reinsurance recoverable of \$3.4 billion
- Total debt of \$1.4 billion and the debt to total capital ratio of 20.7%
- Common shareholders' equity of \$4.5 billion and book value per diluted common share of \$52.70

(1) Operating income (loss) and operating income (loss) per diluted common share are non-GAAP financial measures as defined in Item 10(e) of SEC Regulation S-K. The reconciliations of non-GAAP measures to the most comparable GAAP financial measures (net income (loss) available (attributable) to common shareholders and earnings per diluted common share, respectively) are provided in *'Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Results of Operations'*.

(2) Consolidated underwriting income (loss) is a non-GAAP financial measure as defined in Item 10(e) of SEC Regulation S-K. The reconciliation to net income (loss) before income taxes and interest in income (loss) of equity method investments, the most comparable GAAP measure, is presented in *'Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Results of Operations'*.

## EXECUTIVE SUMMARY

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### **Business Overview**

AXIS Capital Holdings Limited ("AXIS Capital"), through its operating subsidiaries, is a global provider of specialty lines insurance and 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 nine months of 2018 included:

- increased relevance in a select number of attractive specialty insurance and reinsurance markets and continued implementation of a more focused distribution strategy;
- continued to grow a leadership position in business lines with strong growth potential including U.S. excess and surplus lines, and North America professional lines;
- increased presence at Lloyd's of London ("Lloyd's") achieved through our acquisition of Novae Group plc ("Novae") which provides us with access to Lloyd's worldwide licenses and an extensive distribution network;
- continued re-balancing of our portfolio towards less volatile lines of business that carry attractive rates;
- launched a new phase of our transformation efforts, an enterprise-wide program to enhance all of our functions and position us to lead in a transforming industry;
- continued improvement in the effectiveness and efficiency of our operating platforms and processes;
- increased investment in data and analytics; and
- broadened risk-funding sources and developed vehicles that utilize third-party capital.

### **Reinsurance to Close ("RITC") of the 2015 and Prior Years of Account of Syndicate 2007**

On January 1, 2018, AXIS Managing Agency Limited, the managing agent of Syndicate 2007 entered into an agreement for the RITC of the 2015 and prior years of account of Syndicate 2007. Under the terms of this agreement, we ceded \$819 million of reserves for losses and loss expenses, which were included in Syndicate 2007's balance sheet at December 31, 2017, to a reinsurer. This agreement was accounted for as a novation reinsurance contract. During the nine months ended September 30, 2018, we recognized a reduction in reserves for losses and loss expenses of \$819 million representing the transfer of liabilities to the reinsurer, and a reduction in investments and cash of \$819 million representing the consideration paid to the reinsurer.

### **Realignment of our Accident and Health Business**

On January 23, 2018, we announced plans to realign our accident and health business by integrating our business and its operations into our insurance and reinsurance operations. Through this realignment, our accident and health business is expected to benefit from the greater scale and market presence of our property and casualty insurance and reinsurance businesses and operations.

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The realignment of our accident and health business into our insurance and reinsurance segments took place in the first quarter of 2018. Financial results relating to this business were previously included in the results of our insurance segment. As a result of the realignment, accident and health results are included in the results of both our insurance and reinsurance segments, with effect from January 1, 2018. The results are inclusive of underwriting-related general and administrative expenses attributable to accident and health business. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

### Reinsurance Agreement with Northshore Re II Limited ("Northshore")

In July 2018, we obtained catastrophe protection for our insurance and reinsurance segments through a reinsurance agreement with Northshore. In connection with the reinsurance agreement, Northshore issued notes to unrelated investors in an amount equal to the full \$200 million of coverage provided under the reinsurance agreement covering a three year period. At the time of the agreement, we performed an evaluation of Northshore to determine if it meets the definition of a variable interest entity ("VIE"). We concluded that Northshore is a VIE. In addition, we concluded that we do 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, the results of Northshore are not included in our consolidated financial statements.

### Outlook

We are committed to leadership in specialty risk, an area where we have depth of talent and expertise and have earned a strong reputation for client service and intelligent risk-taking. As a mid-sized player that is both sophisticated and agile, we believe we are well-positioned to thrive in the rapidly evolving insurance and reinsurance marketplace. Through our hybrid strategy, we have developed substantial platforms in both insurance and reinsurance, providing us with both balance and diversification. We believe our market positioning, underwriting expertise, best-in-class claims management capabilities, and strong relationships with our distributors and clients will provide opportunities for further profitable growth in 2018 and beyond, with variances amongst our lines driven by our tactical response to market conditions.

Since late 2017, rates across most insurance lines have generally improved, with catastrophe exposed property insurance lines and U.S. excess casualty experiencing the most upward rate momentum. Market conditions will likely remain competitive in the near term. However, some specialty segments may experience improved market conditions as carriers assess pricing, portfolio construction and account preferences. In this competitive market environment with mixed market conditions, we are focusing on lines of business and market segments that are adequately priced, and we are trading off growth for profitability in other areas. In addition, our acquisition of Novae increases our leadership and relevance in the London marketplace, and we expect to be well-positioned to capitalize on new opportunities and benefit from improved market conditions emerging through the international specialty insurance market, including Lloyd's.

The reinsurance market overall is strongly capitalized and demand side conditions, while largely stable, do present opportunities to support clients in a world of changing exposures, regulation, and reinsurance panels. We also believe that there is a real opportunity to achieve more relevance by focusing on our clients to produce new streams of income in the future while still defending the quality of our existing portfolio. We are also focused on managing the volatility and capital efficiency of our portfolio by further expanding our already strong group of strategic capital partners.

### Non-GAAP Financial Measures

We present our results of operations in the way we believe will be most meaningful and useful to investors, analysts, rating agencies and others who use our financial information to evaluate our performance. Some of the measurements we use are considered non-GAAP financial measures under SEC rules and regulations. In this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), we present underwriting-related general and administrative expenses, consolidated underwriting income (loss), operating income (loss) (*in total and on a per share basis*), annualized operating return on average common equity ("operating ROACE"), amounts presented on a constant currency basis, pre-tax total return on cash and investments excluding foreign exchange movements, ex-PGAAP operating income (loss) (*in total and on a per share basis*) and ex-PGAAP operating ROACE which are non-GAAP financial measures as defined in Item 10(e) of SEC Regulation S-K. We believe that these non-GAAP financial measures, which may be defined and calculated differently by other companies, better explain and enhance the understanding of our results of operations. However, these measures should not be viewed as a substitute for those determined in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Underwriting-Related General and Administrative Expenses

Underwriting-related general and administrative expenses include those general and administrative expenses that are incremental and/or directly attributable to our individual underwriting operations. While this measure is presented in Item 1, Note 2 to the Consolidated Financial Statements 'Segment Information', it is considered a non-GAAP financial measure when presented elsewhere on a consolidated basis.

Corporate expenses include holding company costs necessary to support our worldwide insurance and reinsurance operations and costs associated with operating as a publicly-traded company. As these costs are not incremental and/or directly attributable to our individual underwriting operations, these expenses are excluded from underwriting-related general and administrative expenses and, therefore, consolidated underwriting income (loss). General and administrative expenses, the most comparable GAAP financial measure to underwriting-related general and administrative expenses, also includes corporate expenses.

The reconciliation of underwriting-related general and administrative expenses to general and administrative expenses, the most comparable GAAP measure, is presented in *Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Results of Operations*'.

Consolidated Underwriting Income (Loss)

Consolidated underwriting income (loss) is a pre-tax measure of underwriting profitability that takes into account net premiums earned and other insurance related income (losses) as revenues and net losses and loss expenses, acquisition costs and underwriting-related general and administrative expenses as expenses. While this measure is presented in Item 1, Note 2 to the Consolidated Financial Statements 'Segment Information', it is considered a non-GAAP financial measure when presented elsewhere on a consolidated basis.

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

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

Interest expense and financing costs primarily relate to interest payable on our senior notes and notes payable. As these expenses are not incremental and/or directly attributable to our individual underwriting operations, these expenses are excluded from underwriting-related general and administrative expenses, and, therefore, consolidated underwriting income (loss).

Bargain purchase gain, recognized upon the acquisition of Aviabel, reflects the excess of the fair value of the net identifiable assets acquired over the fair value of consideration transferred and is not indicative of future revenues of the company, therefore, this revenue is excluded from consolidated underwriting income (loss).

Transaction and reorganization expenses are primarily driven by business decisions, the nature and timing of which are not related to the underwriting process, therefore, these expenses are excluded from consolidated underwriting income (loss).

Amortization of intangible assets including VOBA arose from business decisions, the nature and timing of which are not related to the underwriting process, therefore, these expenses are excluded from consolidated underwriting income (loss).

We believe that the presentation of underwriting-related general and administrative expenses and consolidated underwriting income (loss) provides investors with an enhanced understanding of our results of operations, by highlighting the underlying pre-tax profitability of our underwriting activities. The reconciliation of consolidated underwriting income (loss) to income (loss) before income taxes and interest in income (loss) of equity method investments, the most comparable GAAP financial measure, is presented in *Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Results of Operations*'.

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### Operating Income (Loss)

Operating income (loss) represents after-tax operational results exclusive of net investment gains (losses), foreign exchange losses (gains), transaction and reorganization expenses and bargain purchase gain.

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

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

Transaction and reorganization expenses are primarily driven by business decisions, the nature and timing of which are not related to the underwriting process, therefore, these expenses are excluded from operating income (loss).

Bargain purchase gain, recognized upon the acquisition of Aviabel, reflects the excess of the fair value of the net identifiable assets acquired over the fair value of consideration transferred and is not indicative of future revenues of the company, therefore, this revenue is excluded from operating income (loss).

Certain users of our financial statements evaluate performance exclusive of after-tax net investment gains (losses), foreign exchange losses (gains), transaction and reorganization expenses and bargain purchase gain to understand the profitability of recurring sources of income.

We believe that showing net income (loss) available (attributable) to common shareholders exclusive of after-tax net investment gains (losses), foreign exchange losses (gains), transaction and reorganization expenses and bargain purchase gain reflects the underlying fundamentals of our business. In addition, we believe that this presentation enables investors and other users of our financial information to analyze performance in a manner similar to how our management analyzes the underlying business performance. We also believe this measure follows industry practice and, therefore, facilitates comparison of our performance with our peer group. We believe that equity analysts and certain rating agencies that follow us, and the insurance industry as a whole, generally exclude these items from their analyses for the same reasons. The reconciliation of operating income (loss) to net income (loss) available (attributable) to common shareholders, the most comparable GAAP financial measure, is presented in *'Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Results of Operations'*.

We also present operating income (loss) per diluted common share and operating ROACE, which are derived from the operating income (loss) measure and are reconciled to the most comparable GAAP financial measures, earnings per diluted common share and annualized return on average common equity ("ROACE"), respectively, in *'Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Results of Operations'*.

### Constant Currency Basis

We present gross premiums written, net premiums written and net premiums earned on a constant currency basis in this MD&A. The amounts presented on a constant currency basis are calculated by applying the average foreign exchange rate from the current year to the prior year amounts. We believe this presentation enables investors and other users of our financial information to analyze growth in gross premiums written, net premiums written and net premiums earned on a constant basis. The reconciliation to gross premiums written, net premiums written and net premiums earned on a GAAP basis is presented in *'Management's Discussion and Analysis of Financial Condition and Results of Operations – Underwriting Results – Consolidated'*.



*Pre-Tax Total Return on Cash and Investments excluding Foreign Exchange Rate Movement*

Pre-tax total return on cash and investments excluding foreign exchange rate movements measures net investment income (loss), net investments gains (losses), interest in income (loss) of equity method investments, and change in unrealized gains (losses) generated by our average cash and investment balances. The reconciliation of pre-tax total return on cash and investments excluding foreign exchange rate movements to pre-tax total return on cash and investments, the most comparable GAAP financial measure, is presented in the *'Management's Discussion and Analysis of Financial Condition and Results of Operations – Net Investment Income and Net Investment Gains (Losses)'*. We believe this presentation enables investors and other users of our financial information to better analyze the performance of our investment portfolio.

*Ex-PGAAP Operating Income (Loss)*

Ex-PGAAP operating income (loss) represents operating income (loss) exclusive of amortization of VOBA and intangible assets, net of tax and amortization of acquisition costs, net of tax both associated with Novae's balance sheet at October 2, 2017 (the "closing date" or "acquisition date"). We also present ex-PGAAP operating income per diluted common share and annualized ex-PGAAP operating ROACE, which are derived from the ex-PGAAP operating income (loss) measure. The reconciliation of ex-PGAAP operating income (loss) to net income (loss) available (attributable) to common shareholders, the most comparable GAAP financial measure, is presented in *'Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Results of Operations'*.

The reconciliation of ex-PGAAP operating income (loss) per diluted common share and ex-PGAAP operating ROACE to the most comparable GAAP financial measures, earnings per diluted common share and annualized ROACE, respectively, are also presented in *'Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Results of Operations'*.

We believe the presentation of ex-PGAAP operating income (loss), ex-PGAAP operating income (loss) per diluted common share and ex-PGAAP operating ROACE enables investors and other users of our financial information to better analyze the performance of our business.

*Acquisition of Novae*

On October 2, 2017, we acquired Novae. We identified VOBA which represents the present value of the expected underwriting profit within policies that were in-force at the closing date of the transaction. In addition, the allocation of the acquisition price to the assets acquired and liabilities assumed of Novae based on estimated fair values at the acquisition date, resulted in the write-off of the deferred acquisition cost asset on Novae's balance sheet at the acquisition date as the value of policies in-force on that date are considered within VOBA. Consequently, underwriting income (loss) in the three and nine months ended September 30, 2018 included the recognition of premium attributable to Novae's balance sheet at the acquisition date without the recognition of the associated acquisition costs.

**Results of Operations**

|   | Three months ended September 30, |          |                     | Nine months ended September 30, |          |                     |
|---|----------------------------------|----------|---------------------|---------------------------------|----------|---------------------|
|   | 2018                             | % Change | 2017                | 2018                            | % Change | 2017                |
| <b>Underwriting revenues:</b>   |                                  |          |                     |                                 |          |                     |
| Net premiums earned   | \$ 1,224,075                     | 20%      | \$ 1,017,131        | \$ 3,577,026                    | 22%      | \$ 2,937,265        |
| Other insurance related income (losses)   | 8,475                            | nm       | (3,197)             | 18,811                          | nm       | (4,420)             |
| <b>Underwriting expenses:</b>   |                                  |          |                     |                                 |          |                     |
| Net losses and loss expenses  | (794,959)                        | (36%)    | (1,235,367)         | (2,162,945)                     | (12%)    | (2,447,640)         |
| Acquisition costs   | (248,314)                        | 28%      | (194,724)           | (709,527)                       | 20%      | (588,879)           |
| Underwriting general and administrative expenses <sup>(1)</sup>                                     | (130,251)                        | 35%      | (96,696)            | (404,875)                       | 21%      | (335,782)           |
| <b>Underwriting Income (Loss)</b>   | <b>\$ 59,026</b>                 |          | <b>\$ (512,853)</b> | <b>\$ 318,490</b>               |          | <b>\$ (439,456)</b> |
| Corporate expenses <sup>(1)</sup>   | (24,643)                         | (12%)    | (27,933)            | (85,069)                        | (13%)    | (97,922)            |
| Net investment income   | 114,421                          | 20%      | 95,169              | 325,380                         | 8%       | 299,899             |
| Net investment gains (losses)   | (17,628)                         | nm       | 14,632              | (77,551)                        | nm       | (14,811)            |
| Other expenses, net   | (25,202)                         | (44%)    | (45,345)            | (52,824)                        | (59%)    | (128,470)           |
| Transaction and reorganization expenses   | (16,300)                         | nm       | (5,970)             | (48,125)                        | nm       | (5,970)             |
| Amortization of value of business acquired  | (39,018)                         | nm       | —                   | (149,535)                       | nm       | —                   |
| Amortization of intangible assets   | (1,753)                          | —        | —                   | (8,564)                         | nm       | —                   |
| Bargain purchase gain   | —                                | nm       | —                   | —                               | nm       | 15,044              |
| <b>Income (loss) before income taxes and interest in income (loss) of equity method investments</b> | <b>48,903</b>                    |          | <b>(482,300)</b>    | <b>222,202</b>                  |          | <b>(371,686)</b>    |
| Income tax benefit  | 3,525                            | (86%)    | 25,877              | 3,565                           | nm       | 38,547              |
| Interest in income (loss) of equity method investments  | 1,667                            | nm       | (661)               | 5,045                           | nm       | (8,402)             |
| <b>Net income (loss)</b>  | <b>\$ 54,095</b>                 |          | <b>\$ (457,084)</b> | <b>\$ 230,812</b>               |          | <b>\$ (341,541)</b> |
| Preferred share dividends   | (10,656)                         | —%       | (10,656)            | (31,969)                        | (12%)    | (36,154)            |
| <b>Net income (loss) available (attributable) to common shareholders</b>                            | <b>\$ 43,439</b>                 | nm       | <b>\$ (467,740)</b> | <b>\$ 198,843</b>               | nm       | <b>\$ (377,695)</b> |
| Net investment losses (gains), net of tax <sup>(2)</sup>  | \$ 17,005                        | nm       | \$ (11,975)         | \$ 73,540                       | nm       | \$ 16,703           |
| Foreign exchange losses (gains), net of tax <sup>(3)</sup>  | 6,435                            | (77%)    | 28,071              | (3,358)                         | nm       | 85,851              |
| Transaction and reorganization expenses, net of tax <sup>(4)</sup>                                  | 13,911                           | nm       | 5,749               | 40,709                          | nm       | 5,749               |
| Bargain purchase gain <sup>(5)</sup>  | —                                | —%       | —                   | —                               | nm       | (15,044)            |
| <b>Operating income (loss)<sup>(6)</sup></b>  | <b>\$ 80,790</b>                 | nm       | <b>\$ (445,895)</b> | <b>\$ 309,734</b>               | nm       | <b>\$ (284,436)</b> |

nm – not meaningful

- Underwriting-related general and administrative expenses is a non-GAAP measure as defined in Item 10(e) of SEC Regulation S-K. The reconciliation to total general and administrative expenses, the most comparable GAAP measure, also included corporate expenses of \$24,643 and \$27,933 for the three months ended September 30, 2018 and 2017, respectively, and \$85,069 and \$97,922 for the nine months ended September 30, 2018 and 2017, respectively. Refer to 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Other Expenses (Revenues), Net' for additional information related to the corporate expenses. Also, refer to 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures' for additional information.
- Tax cost (benefit) of (\$623) and \$2,657 for the three months ended September 30, 2018 and 2017, respectively, and \$(4,011) and \$1,892 for the nine months ended September 30, 2018 and 2017, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the ability to utilize capital losses.
- Tax cost (benefit) of (\$1,870) and (\$4,439) for the three months ended September 30, 2018 and 2017, respectively, and \$(5,424) and \$(4,242) for the nine months ended September 30, 2018 and 2017, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the tax status of specific foreign exchange transactions.
- Tax cost (benefit) of (\$2,389) and (\$221) for the three months ended September 30, 2018 and 2017, respectively, and \$(7,416) and \$(221) for the nine months ended September 30, 2018 and 2017, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions.
- Tax impact is nil.
- Operating income (loss) is a non-GAAP financial measure as defined in Item 10(e) of SEC Regulation S-K. The reconciliations to the most comparable GAAP financial measures (net income (loss) available (attributable) to common shareholders) is provided in the table above, and a discussion of the rationale for the presentation of this item is included in 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures'.

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Non-GAAP Financial Measures

We also present operating income per diluted common share and annualized operating return on average common equity ("annualized operating ROACE"), which are derived from the operating income measure and can be reconciled to the most comparable GAAP financial measures as follows:

|   | Three months ended September 30, |              | Nine months ended September 30, |              |
|---|----------------------------------|--------------|---------------------------------|--------------|
|   | 2018                             | 2017         | 2018                            | 2017         |
| Net income (loss) available (attributable) to common shareholders   | \$ 43,439                        | \$ (467,740) | \$ 198,843                      | \$ (377,695) |
| Operating income (loss)   | 80,790                           | (445,895)    | 309,734                         | (284,436)    |
| Weighted average diluted common shares outstanding <sup>(1)</sup>   | 84,107                           | 83,305       | 83,939                          | 84,479       |
| Earnings (loss) per diluted common share                            | \$ 0.52                          | \$ (5.61)    | \$ 2.37                         | \$ (4.47)    |
| Operating income (loss) per diluted common share <sup>(2)</sup>     | \$ 0.96                          | \$ (5.35)    | \$ 3.69                         | \$ (3.37)    |
| Average common shareholders' equity                                 | \$ 4,487,639                     | \$ 4,898,698 | \$ 4,531,768                    | \$ 4,912,998 |
| Annualized return on average common equity <sup>(3)</sup>           | 3.9%                             | nm           | 5.9%                            | (10.3%)      |
| Annualized operating return on average common equity <sup>(4)</sup> | 7.2%                             | nm           | 9.1%                            | (7.7%)       |

- (1) Refer to Item 1, Note 7 to our Consolidated Financial Statements 'Earnings per Common Share' for additional information on the dilution calculation.
- (2) Operating income (loss) per diluted common share is a non-GAAP financial measure as defined in Item 10(e) of SEC Regulation S-K. The reconciliation to the most comparable GAAP financial measures (earnings per diluted common share) is provided in the table above, and a discussion of the rationale for the presentation of this item is included in 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures'.
- (3) Annualized ROACE is calculated by dividing annualized net income (loss) available (attributable) to common shareholders 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.
- (4) Annualized operating ROACE, a non-GAAP financial measure as defined in Item 10(e) of SEC Regulation S-K, is calculated by dividing annualized operating income (loss) for the period by the average common shareholders' equity. The reconciliation to ROACE, the most comparable GAAP measure, is presented above. Also refer to 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures' for additional information.

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We also present ex-PGAAP operating income (loss), ex-PGAAP operating income (loss) per diluted common share and ex-PGAAP operating ROACE which are derived from the operating income measure and can be reconciled to the most comparable GAAP financial measures as follows:

|  | Three months ended |              | Nine months ended |              |
|--|--------------------|--------------|-------------------|--------------|
|  | 2018               | 2017         | 2018              | 2017         |
| Net income (loss) available (attributable) to common shareholders            | \$ 43,439          | \$ (467,740) | \$ 198,843        | \$ (377,695) |
| Net investment losses (gains), net of tax                                    | 17,005             | (11,975)     | 73,540            | 16,703       |
| Foreign exchange losses (gains), net of tax                                  | 6,435              | 28,071       | (3,358)           | 85,851       |
| Transaction and reorganization expenses, net of tax                          | 13,911             | 5,749        | 40,709            | 5,749        |
| Bargain purchase gain  | —                  | —            | —                 | (15,044)     |
| Operating income (loss)  | \$ 80,790          | \$ (445,895) | \$ 309,734        | \$ (284,436) |
| Amortization of VOBA and intangible assets, net of tax <sup>(2)</sup>        | 32,938             | —            | 127,075           | —            |
| Amortization of acquisition costs, net of tax <sup>(3)</sup>                 | (23,769)           | —            | (88,642)          | —            |
| Ex-PGAAP operating income (loss) <sup>(1)</sup>                              | \$ 89,959          | \$ (445,895) | \$ 348,167        | \$ (284,436) |
| Earnings (loss) per diluted common share                                     | \$ 0.52            | \$ (5.61)    | \$ 2.37           | \$ (4.47)    |
| Net investment (gains) losses, net of tax                                    | 0.21               | (0.15)       | 0.89              | 0.20         |
| Foreign exchange losses (gains), net of tax                                  | 0.08               | 0.34         | (0.04)            | 1.01         |
| Transaction and reorganization expenses, net of tax                          | 0.17               | 0.07         | 0.49              | 0.07         |
| Bargain purchase gain  | —                  | —            | —                 | (0.18)       |
| Operating income (loss) per diluted common share                             | \$ 0.96            | \$ (5.35)    | \$ 3.69           | \$ (3.37)    |
| Amortization of VOBA and intangible assets, net of tax <sup>(2)</sup>        | 0.39               | —            | 1.52              | —            |
| Amortization of acquisition cost, net of tax <sup>(3)</sup>                  | (0.28)             | —            | (1.06)            | —            |
| Ex-PGAAP operating income (loss) per diluted common share <sup>(1)</sup>     | \$ 1.07            | \$ (5.35)    | \$ 4.15           | \$ (3.37)    |
| Weighted average diluted common shares outstanding                           | 84,107             | 83,305       | 83,939            | 84,479       |
| Average common shareholders' equity  | \$ 4,487,639       | \$ 4,898,698 | \$ 4,531,768      | \$ 4,912,998 |
| Annualized return on average common equity                                   | 3.9%               | nm           | 5.9%              | (10.3)%      |
| Annualized operating return on average common equity                         | 7.2%               | nm           | 9.1%              | (7.7)%       |
| Annualized ex-PGAAP operating return on average common equity <sup>(1)</sup> | 8.0%               | nm           | 10.2%             | nm           |

(1) Ex-PGAAP operating income (loss), ex-PGAAP operating income (loss) per diluted common share and annualized ex-PGAAP operating return on average common equity are non-GAAP financial measures as defined in SEC Regulation S-K. The reconciliation to the most comparable GAAP financial measures, (net income (loss) available (attributable) to common shareholders, earnings (loss) per diluted common share, and annualized ROACE, respectively) are provided in the table above, and a discussion of the rationale for the presentation of these items is included in 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures'.

(2) Tax cost (benefit) of \$(7,726) and \$(29,808) for the three and nine months ended September 30, 2018, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions.

(3) Tax cost (benefit) of \$5,575 and \$20,793 for the three and nine months ended September 30, 2018, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions.

### ***Underwriting Results***

Total underwriting income for the three months ended September 30, 2018 was \$59 million, an increase of \$572 million compared to the underwriting loss of \$513 million for the three months ended September 30, 2017. The increase in underwriting income was primarily driven by an increase in net premiums earned, 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 the acquisition cost ratio.

The reinsurance segment underwriting income increased by \$295 million for the three months ended September 30, 2018, compared to the three months ended September 30, 2017. The increase in underwriting income 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 a decrease net favorable prior year reserve development and an increase in the general and administrative expense ratio.

The insurance segment underwriting loss decreased by \$276 million for the three months ended September 30, 2018, compared to the three months ended September 30, 2017. The decrease in underwriting loss was primarily driven by an increase in net premiums earned, 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 the acquisition cost ratio.

Total underwriting income for the nine months ended September 30, 2018 was \$318 million, an increase of \$758 million compared to underwriting loss of \$439 million for the nine months ended September 30, 2017. The increase in underwriting income was primarily driven by an increase in net premiums earned, a decrease in catastrophe and weather-related losses, a decrease in the current accident year loss ratio excluding catastrophe and weather-related losses, and a decrease in the general and administrative expense ratio.

The reinsurance segment underwriting income increased by \$364 million for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017. The increase in underwriting income was primarily driven by an increase in net premiums earned, a decrease in catastrophe and weather-related losses, a decrease in the current accident year loss ratio excluding catastrophe and weather-related losses, and a decrease in the acquisition cost ratio, partially offset by a decrease in net favorable prior year development.

The insurance segment underwriting income increased by \$394 million for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017. The increase in underwriting income was primarily due to an increase in net premiums earned, a decrease in catastrophe and weather-related losses, a decrease in the current accident year loss ratio excluding catastrophe and weather-related losses, and a decrease in the general and administrative expense ratio, partially offset by an increase in the acquisition cost ratio.

### ***Net Investment Income***

Net investment income for the three months ended September 30, 2018 was \$114 million, an increase of \$19 million compared to the same period of 2017. The increase was attributable to a larger investment base associated with our acquisitions of Novae and Compagnie Belge d'Assurances Aviation NV/SA ("Aviabel") in 2017, together with the increase in yields.

Net investment income for the nine months ended September 30, 2018 was \$325 million, an increase of \$25 million, compared to the same period of 2017. The increase was attributable to a larger investment base associated with our acquisitions of Novae and Aviabel in 2017, together with the increase in yields, partially offset by a decrease in net investment income attributable to our other investments portfolio.

### ***Net Investment Gains (Losses)***

Net investment losses were \$18 million for the three months ended September 30, 2018 compared to net investment gains of \$15 million for the same period of 2017. Net investment losses for the three months ended September 30, 2018 were primarily attributable to the sale of U.S. government, agency RMBS and corporate debt securities, together with an Other Than Temporary Impairment ("OTTI") charge of \$6 million, partially offset by net unrealized investment gains on equity securities of \$7 million which were reported in net investment gain (losses) as opposed to other comprehensive income following the adoption of Accounting Standards Update ("ASU") ASU 2016-01 "Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial

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*Assets and Financial Liabilities,*" in the first quarter of 2018. Net realized investment gains of \$15 million for the three months ended September 30, 2017 were mainly attributable to the sale of ETFs, partially offset by an OTTI charge of \$5 million.

Net investment losses were \$78 million in the nine months ended September 30, 2018, compared to \$15 million for the same period of 2017. Net investment losses for the nine months ended September 30, 2018 were primarily attributable to the sale of U.S. government, Agency RMBS and corporate debt securities, together with an OTTI charge of \$8 million and net unrealized investment losses on equity securities of \$25 million which were reported in net investment gains (losses) as opposed to other comprehensive income following the adoption of ASU 2016-01.

Net realized investment losses of \$15 million in the nine months ended September 30, 2017 were attributable to foreign exchange losses (net of forward contracts) on the sale of non-U.S. government and corporate debt securities due to the decline in foreign exchange rates against the U.S. dollar together with an OTTI charge of \$13 million.

### ***Other Expenses (Revenues), Net***

Corporate expenses were \$25 million for the three months ended September 30, 2018, compared to \$28 million for the three months ended September 30, 2017. The decrease was primarily attributable to an increase in allocations of corporate costs to our insurance and reinsurance segments, together with a decrease in professional fees, partially offset by an increase in personnel costs and information technology costs.

Corporate expenses were \$85 million for the nine months ended September 30, 2018, compared to \$98 million for the nine months ended September 30, 2017. The decrease was primarily attributable to a decrease in personnel costs and executive transition costs, together with an increase in the allocation of corporate costs to our insurance and reinsurance segments, partially offset by an increase in information technology costs.

Foreign exchange losses were \$8 million and \$2 million for the three and nine months ended September 30, 2018, respectively, compared to foreign exchange losses of \$33 million and \$90 million for the three and nine months ended September 30, 2017, respectively.

Foreign exchange losses for the three and nine months ended September 30, 2018 were primarily attributable to the impact of the strengthening of the U.S. dollar on the remeasurement of other investments, specifically, overseas deposits mainly denominated in Australian dollar and pound sterling.

Foreign exchange losses for the three and nine months ended September 30, 2017 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. In addition, foreign exchange losses for the nine months ended September 30, 2017 included the reclass of a cumulative translation adjustment balance of \$24 million related to the wind-down of AXIS Specialty Australia from accumulated other comprehensive income to foreign exchange losses.

Interest expenses and financing costs were \$17 million and \$51 million for the three and nine months ended September 30, 2018, respectively, compared to \$13 million and \$38 million for the three and nine months ended September 30, 2017, respectively. The increase was primarily attributable to interest due on the 4.0% Senior Notes issued by the Company in the fourth quarter of 2017, as well as interest due on the Dekania Notes issued by Novae in 2004.

The financial results for the three and nine months ended September 30, 2018 resulted in a tax benefit of \$4 million and \$4 million, respectively, compared to a tax benefit of \$26 million and \$39 million, for the three and nine months ended September 30, 2017, respectively.

The tax benefit of \$4 million and \$4 million recognized in the three and nine months ended September 30, 2018, respectively, were primarily driven by the generation of pre-tax losses in our U.K. and European operations, largely offset by the generation of pre-tax income in our U.S. operations.

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The tax benefit of \$26 million recognized in the three months ended September 30, 2017 was primarily driven by an underwriting loss associated with catastrophe losses recognized in our U.S. operations. The tax benefit of \$39 million recognized in the nine months ended September 30, 2017 was primarily driven by an underwriting loss associated with catastrophe losses recognized in our U.S. operations, share based compensation excess tax benefits which were recognized in the Consolidated Statement of Operations and a tax adjustment related to the bargain purchase gain recognized in connection with the acquisition of Aviabel.

### ***Transaction and Reorganization Expenses***

Transaction and reorganization expenses were \$16 million and \$48 million for the three and nine months ended September 30, 2018, respectively, compared to \$6 million for the three and nine months ended September 30, 2017 related to the transformation program launched earlier this year. This program encompasses the integration of Novae which commenced in the fourth quarter of 2017, the realignment of our accident and health business, together with other initiatives designed to increase our efficiency and enhance our profitability while delivering a customer-centric operating model. Pre-tax reorganization charges of \$75 million have been incurred since the third quarter 2017. These expenses are not included in operating income.

We expect to achieve annual run-rate pre-tax cost savings of approximately \$100 million with effect from 2020. These expense savings will be achieved through the elimination of redundant roles, efficiencies introduced through organizational redesign, operating efficiency improvements, integration of systems, and the rationalization of third party contracts and professional fees.

### ***Amortization of Value of Business Acquired***

On October 2, 2017, we acquired Novae. The acquisition of Novae was undertaken to accelerate the growth strategy of our international insurance business, and to significantly scale up its capabilities to enable us to even better serve our clients and brokers. At the acquisition date, we identified VOBA, which represents the present value of the expected underwriting profit within policies that were in-force at the closing date of the transaction, of \$257 million.

VOBA is amortized over its economic useful life and this expense is included in amortization of value of business acquired in the Consolidated Statement of Operations.

### ***Bargain Purchase Gain***

On April 1, 2017, we acquired general aviation insurer and reinsurer, Aviabel. The purchase price was allocated to the assets acquired and liabilities assumed of Aviabel based on the estimated fair values on the closing date and a bargain purchase gain of \$15 million was recognized for the nine months ended September 30, 2017.

### ***Interest in Income (Loss) of Equity Method Investments***

Interest income (loss) of equity method investments represents our share of income (loss) related to investments where we have significant influence over the operating and financial policies of the investee.

Interest in income of equity method investments was \$2 million and \$5 million for the three and nine months ended September 30, 2018, respectively, relating to our share of income in a company where we have a significant influence over the operating and financial policies.

Interest in loss of equity method investments was \$1 million and \$8 million for the three and nine months ended September 30, 2017, respectively. The nine months ended September 30, 2017 included impairment losses of \$9 million related to an investment in a U.S. based insurance company, partially offset by income of \$1 million related to our share of income in a company where we have significant influence over the operating and financial policies.



**Financial Measures**

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

|   | Three months ended and at<br>September 30, |           | Nine months ended and at<br>September 30, |           |
|---|--|-----------|---|-----------|
|   | 2018                                       | 2017      | 2018                                      | 2017      |
| Annualized ROACE  | 3.9%                                       | nm        | 5.9%                                      | (10.3%)   |
| Annualized operating ROACE  | 7.2%                                       | nm        | 9.1%                                      | (7.7%)    |
| Ex-PGAAP operating return on average common equity                                | 8.0%                                       | nm        | 10.2%                                     | nm        |
| Book value per diluted common share <sup>(1)</sup>                                | \$ 52.70                                   | \$ 55.33  | \$ 52.70                                  | \$ 55.33  |
| Cash dividends declared per common share  | 0.39                                       | 0.38      | 1.17                                      | 1.14      |
| Increase (decrease) in diluted book value per common share adjusted for dividends | \$ 0.62                                    | \$ (4.74) | \$ (1.07)                                 | \$ (1.80) |

nm – not meaningful

(1) Book value per diluted common share represents total common shareholders' equity divided by the number of common shares and diluted common shares outstanding, determined using the treasury stock method. Cash settled awards are excluded.

**Return on Equity**

Our objective is to generate superior returns on capital that appropriately reward our common shareholders for the risks we assume and to grow revenue only when we expect the returns will meet or exceed our requirements. We recognize that the nature of underwriting cycles and the frequency or severity of large loss events in any one year may challenge the ability to achieve a profitability target in any specific period, therefore our goal is to achieve top-quintile industry operating ROACE and growth in book value per share adjusted for dividends, with volatility consistent with the industry average across underwriting cycles.

ROACE reflects the impact of net income (loss) available (attributable) to common shareholders including net investment gains (losses), foreign exchange losses (gains), transaction and reorganization expenses and bargain purchase gain.

The increase in ROACE for the three months ended September 30, 2018, compared to the three months ended September 30, 2017, was primarily driven by increase in underwriting income, together with a decrease in foreign exchange losses and an increase in net investment income, partially offset by amortization of VOBA associated with the acquisition of Novae, an increase in net investment losses, as well as transaction and reorganization expenses. In addition, average common equity decreased due to net unrealized investment losses reported in other comprehensive income and common share dividends declared.

The increase in ROACE for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017, was primarily driven by an increase in underwriting income and a decrease in foreign exchange losses and an increase in net investment income, partially offset by amortization of VOBA associated with the acquisition of Novae, an increase in net investment losses, transaction and reorganization expenses, and the bargain purchase gain related to the acquisition of Avibel that was recognized in 2017, together with a decrease in average common equity.

Operating ROACE excludes the impact of net investment gains (losses), foreign exchange losses (gains), transaction and reorganization expenses and bargain purchase gain.

The increase in operating ROACE for the three and nine months ended September 30, 2018, compared to the three and nine months ended September 30, 2017, was primarily driven by an increase in underwriting income and net investment income, partially offset by amortization of VOBA associated with the acquisition of Novae.

Ex-PGAAP operating ROACE excludes the impact of amortization of VOBA and intangible assets, net of tax and amortization of acquisition costs, net of tax both associated with Novae's balance sheet at October 2, 2017. Ex-PGAAP operating ROACE three and nine months ended September 30, 2018 was 8.0% and 10.2%, respectively.



*Book Value per Diluted Common Share*

We consider book value per diluted common share to be an appropriate measure of our returns to common shareholders, as we believe growth in our book value on a diluted basis will ultimately translate into appreciation of our stock price.

Book value per diluted common share decreased to \$52.70 at September 30, 2018, from \$55.33 at September 30, 2017, a decrease of 5%, due to net unrealized investment losses reported in other comprehensive income and common share dividends declared, partially offset by net income generated during the period.

*Cash Dividends Declared per Common Share*

We believe in returning excess capital to our shareholders by way of dividends and share repurchases. Accordingly, our dividend policy is an integral part of the value we create for our shareholders. Our cumulative strong earnings have permitted our Board of Directors to approve fourteen successive increases in quarterly common share dividends.

*Book Value per Diluted Common Share Adjusted for Dividends*

Book value per diluted common share adjusted for dividends increased by \$0.62 or 1% per common share for the three months ended September 30, 2018.

Taken together, we believe that growth in book value per diluted 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 book value per diluted common share adjusted for dividends metric to measure comparable performance across the industry.

During the three months ended September 30, 2018, total value created was driven by the net income generated in the quarter.

During the three and nine months ended September 30, 2017, respectively, the reduction in value created was due to the net loss generated in both periods, partially offset by an increase in unrealized gains on investments reported in accumulated other comprehensive income.

Book value per diluted common share adjusted for dividends decreased by \$1.07, or 2%, per common share over the past twelve months due to net unrealized investment losses reported in other comprehensive income, partially offset by net income generated during the period.

**UNDERWRITING RESULTS – CONSOLIDATED**

The following table provides our 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 (loss) as revenues and net losses and loss expenses, acquisition costs and underwriting-related general and administrative costs as expenses.

|   | Three months ended September 30, |          |                     | Nine months ended September 30, |          |                     |
|---|----------------------------------|----------|---------------------|---------------------------------|----------|---------------------|
|   | 2018                             | % Change | 2017                | 2018                            | % Change | 2017                |
| <b>Revenues:</b>  |                                  |          |                     |                                 |          |                     |
| Gross premiums written  | \$ 1,423,707                     | 20%      | \$ 1,185,574        | \$ 5,737,327                    | 29%      | \$ 4,459,772        |
| Net premiums written  | 919,938                          | 10%      | 832,743             | 3,906,264                       | 18%      | 3,297,718           |
| Net premiums earned   | 1,224,075                        | 20%      | 1,017,131           | 3,577,026                       | 22%      | 2,937,265           |
| Other insurance related income (losses)   | 8,475                            | nm       | (3,197)             | 18,811                          | nm       | (4,420)             |
| <b>Expenses:</b>  |                                  |          |                     |                                 |          |                     |
| Current year net losses and loss expenses   | (840,619)                        |          | (1,283,135)         | (2,323,028)                     |          | (2,591,135)         |
| Prior year reserve development  | 45,660                           |          | 47,768              | 160,083                         |          | 143,495             |
| Acquisition costs   | (248,314)                        |          | (194,724)           | (709,527)                       |          | (588,879)           |
| Underwriting-related general and administrative expenses <sup>(1)</sup>   | (130,251)                        |          | (96,696)            | (404,875)                       |          | (335,782)           |
| <b>Underwriting income (loss)<sup>(2)</sup></b>   | <b>\$ 59,026</b>                 | nm       | <b>\$ (512,853)</b> | <b>\$ 318,490</b>               | nm       | <b>\$ (439,456)</b> |
| <b>General and administrative expenses<sup>(1)</sup></b>  | <b>\$ 154,894</b>                |          | <b>\$ 124,629</b>   | <b>\$ 489,944</b>               |          | <b>\$ 433,704</b>   |
| <b>Income (loss) before income taxes and interest in income (loss) of equity method investments<sup>(2)</sup></b> | <b>\$ 48,903</b>                 |          | <b>\$ (482,300)</b> | <b>\$ 222,202</b>               |          | <b>\$ (371,686)</b> |

nm – not meaningful

- (1) Underwriting-related general and administrative expenses is a non-GAAP measure as defined in Item 10(e) of SEC Regulation S-K. The reconciliation to total general and administrative expenses, the most comparable GAAP measure, is presented in 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Results of Operations'.
- (2) Consolidated underwriting income (loss) is a non-GAAP financial measure as defined in Item 10(e) of SEC Regulation S-K. The reconciliation to income (loss) before tax and interest in income (loss) of equity investments, the most comparable GAAP measure, is presented in 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Results of Operations'.

## Underwriting Revenues

Gross and net premiums written by segment were as follows:

|                | Gross Premiums Written           |            |                     |                                 |            |                     |
|----------------|----------------------------------|------------|---------------------|---------------------------------|------------|---------------------|
|                | Three months ended September 30, |            |                     | Nine months ended September 30, |            |                     |
|                | 2018                             | % Change   | 2017                | 2018                            | % Change   | 2017                |
| Insurance      | \$ 969,364                       | 49%        | \$ 651,145          | \$ 2,876,856                    | 47%        | \$ 1,960,608        |
| Reinsurance    | 454,343                          | (15%)      | 534,429             | 2,860,471                       | 14%        | 2,499,164           |
| <b>Total</b>   | <b>\$ 1,423,707</b>              | <b>20%</b> | <b>\$ 1,185,574</b> | <b>\$ 5,737,327</b>             | <b>29%</b> | <b>\$ 4,459,772</b> |
| <b>% ceded</b> |                                  |            |                     |                                 |            |                     |
| Insurance      | 38%                              | 1 pts      | 37%                 | 39%                             | 3 pts      | 36%                 |
| Reinsurance    | 30%                              | 10 pts     | 20%                 | 25%                             | 7 pts      | 18%                 |
| Total          | 35%                              | 5 pts      | 30%                 | 32%                             | 6 pts      | 26%                 |
|                | Net Premiums Written             |            |                     |                                 |            |                     |
|                | Three months ended September 30, |            |                     | Nine months ended September 30, |            |                     |
|                | 2018                             | % Change   | 2017                | 2018                            | % Change   | 2017                |
| Insurance      | \$ 602,070                       | 48%        | \$ 407,054          | \$ 1,748,142                    | 39%        | \$ 1,259,999        |
| Reinsurance    | 317,868                          | (25%)      | 425,689             | 2,158,122                       | 6%         | 2,037,719           |
| <b>Total</b>   | <b>\$ 919,938</b>                | <b>10%</b> | <b>\$ 832,743</b>   | <b>\$ 3,906,264</b>             | <b>18%</b> | <b>\$ 3,297,718</b> |

### Gross Premiums Written:

Gross premiums written for the three and nine months ended September 30, 2018 increased by \$238 million or 20% and \$1.3 billion or 29%, respectively, compared to the three and nine months ended September 30, 2017. The increase for the three months ended September 30, 2018, compared to the same periods in 2017, was due to an increase in the insurance segment, partially offset by a decrease in the reinsurance segment. The increase for the nine months ended September 30, 2018, compared to the same periods in 2017, was due to an increase in both the reinsurance and insurance segments.

The reinsurance segment's gross premiums written decreased by \$80 million or 15% and increased \$361 million or 14% for the three and nine months ended September 30, 2018, respectively, compared to the same period in 2017.

The decrease in the reinsurance segment's gross premiums written for the three months ended September 30, 2018, included an increase of \$10 million attributable to catastrophe, marine and aviation lines associated with our acquisition of Novae. Excluding the impact of Novae, gross premiums written decreased by \$90 million or 17% (\$89 million or 17% on a constant currency basis<sup>1</sup>) for the three months ended September 30, 2018, compared to the same periods in 2017, primarily attributable to accident and health, catastrophe and motor lines, partially offset by an increase in credit and surety lines.

The increase for the nine months ended September 30, 2018, compared to the same period in 2017, included \$93 million attributable to catastrophe, marine and aviation lines associated with our acquisition of Novae. In addition, gross premiums written increased by \$268 million or 11% (\$183 million or 7% on a constant currency basis<sup>1</sup>) for the nine months ended September 30, 2018, compared to the same period of 2017, driven by credit and surety, motor, accident and health, and professional lines, partially offset by a decrease in marine and other lines.

The insurance segment's gross premiums written increased by \$318 million or 49% and \$916 million or 47% for the three and nine months ended September 30, 2018, respectively, compared to the same period in 2017.

(1) Amounts presented on a constant currency basis are non-GAAP financial measures as defined in Item 10 (e) of SEC Regulation S-K. 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 increase in the insurance segment gross premiums written for the three months ended September 30, 2018 included \$320 million attributable to property, marine, professional lines, and credit and political risk lines associated with our acquisition of Novae. Excluding the impact of Novae, gross premiums written decreased by \$2 million for the three months ended September 30, 2018, compared to the same period of 2017, largely attributable to accident and health, and property lines, partially offset by an increase in premiums written in professional lines and liability lines.

The increase in the insurance segment gross premiums written for the nine months ended September 30, 2018 included \$914 million attributable to property, marine, professional lines, and credit and political risk lines associated with our acquisition of Novae. In addition, gross premiums written increased by \$3 million for the nine months ended September 30, 2018 attributable to professional lines and liability lines, largely offset by decreases in property, marine and credit and political risk lines.

Ceded Premiums Written:

Ceded premiums written for the three and nine months ended September 30, 2018 were \$504 million or 35% of gross premiums written and \$1.8 billion or 32% of gross premiums written, respectively, compared to ceded premiums of \$353 million or 30% of gross premiums written and \$1.2 billion or 26% of gross premiums written for the three and nine months ended September 30, 2017, respectively. The increase in the ceded premiums written was attributable to both segments.

The increase in the reinsurance segment ceded premiums written of \$28 million or 25% for the three months ended September 30, 2018, compared to the same period in 2017, was attributable to accident and health, and liability lines, partially offset by agriculture lines.

The increase in the reinsurance segment ceded premiums written of \$241 million or 52% for the nine months ended September 30, 2018, compared to the same period in 2017, included \$30 million attributable to catastrophe, marine and aviation lines associated with the acquisition of Novae. In addition, ceded premiums written increased by \$211 million, or 46% for the nine months ended September 30, 2018, compared to the same period in 2017, attributable to accident and health, catastrophe, credit and surety, and liability lines.

The increase in the insurance segment ceded premiums written of \$123 million or 50% for the three months ended September 30, 2018, compared to the same period in 2017, included \$110 million primarily attributable to property and professional lines associated with our acquisition of Novae. In addition, ceded premiums increased by \$13 million or 5% for the three months ended September 30, 2018, compared to the same period in 2017, primarily driven by liability and property lines.

The increase in the insurance segment ceded premiums written of \$428 million or 61% for the nine months ended September 30, 2018, compared to the same period in 2017, included \$338 million primarily attributable to property, professional lines, marine and credit and political risk lines associated with our acquisition of Novae. In addition, ceded premiums increased by \$90 million or 13% for the nine months ended September 30, 2018, compared to the same period in 2017, primarily driven by property and professional lines.

Net Premiums Earned:

Net premiums earned by segment were as follows:

|              | Three months ended September 30, |             |            | Nine months ended September 30, |             |            |
|--------------|----------------------------------|-------------|------------|---------------------------------|-------------|------------|
|              | 2018                             | 2017        | % Change   | 2018                            | 2017        | % Change   |
| Insurance    | \$ 614,795                       | 50%         | 41%        | \$ 1,772,126                    | 50%         | 44%        |
| Reinsurance  | 609,280                          | 50%         | 59%        | 1,804,900                       | 50%         | 6%         |
| <b>Total</b> | <b>\$ 1,224,075</b>              | <b>100%</b> | <b>20%</b> | <b>\$ 3,577,026</b>             | <b>100%</b> | <b>22%</b> |

Net premiums earned for the three and nine months ended September 30, 2018 increased by \$207 million or 20% and \$640 million or 22%, respectively, compared to the three and nine months ended September 30, 2017. The increases for the three and nine months ended September 30, 2018 compared to the same period in 2017, was driven by increases in both the insurance and reinsurance segments.

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Net premiums earned increased by \$194 million or 46% in our insurance segment for the three months ended September 30, 2018, compared to the same period in 2017. The increase in net premiums earned included \$210 million primarily attributable to property, marine and professional lines associated with our acquisition of Novae. Excluding the impact of Novae, net premiums earned decreased by \$16 million, or 4% (\$19 million or 4% on a constant currency basis) driven by property and accident and health lines.

Net premiums earned increased by \$542 million or 44% in our insurance segment for the nine months ended September 30, 2018, compared to the same period in 2017. The increase in net premiums earned included \$559 million primarily attributable to property, marine, professional lines and credit and political risk lines associated with our acquisition of Novae. Excluding the impact of Novae, net premiums earned decreased by \$17 million, or 1% (\$29 million or 2% on a constant currency basis) driven by property, partially offset by an increase in liability lines.

Net premiums earned increased by \$13 million or 2% in our reinsurance segment for the three months ended September 30, 2018, compared to the same period in 2017. The increase in net premiums earned included \$26 million primarily attributable to catastrophe and marine and aviation lines associated with our acquisition of Novae. Excluding the impact of Novae, net premiums earned decreased by \$13 million, or 2% (\$15 million or 3% on a constant currency basis) for the three months ended September 30, 2018, compared to the same period in 2017, driven by marine and other, accident and health, and catastrophe lines, partially offset by an increase in motor lines.

Net premiums earned increased by \$98 million or 6% in our reinsurance segment for the nine months ended September 30, 2018, compared to the same period in 2017. The increase in net premiums earned included \$63 million primarily attributable to catastrophe and marine and aviation lines associated with our acquisition of Novae. In addition, net premiums earned increased by \$35 million, or 2% (\$20 million or 1% on a constant currency basis) for the nine months ended September 30, 2018, compared to the same period in 2017, driven by motor, liability and property lines, partially offset by decreases in marine and other, and agriculture lines.

Other Insurance Related Income (Losses):

Other insurance related income was \$8 million for the three months ended September 30, 2018, compared to other insurance related loss of \$3 million for the same period in 2017. The increase in other insurance related income of \$12 million for the three months ended September 30, 2018, compared to the same period in 2017, was driven by the reinsurance segment attributable to an increase in fees from strategic capital partners.

Other insurance related income was \$19 million for the nine months ended September 30, 2018, compared to other insurance related loss of \$4 million for the same period in 2017. The increase in other insurance related income of \$23 million for the nine months ended September 30, 2018, compared to the same period in 2017, was driven by the reinsurance segment primarily attributable to a decrease in unfavorable mark-to-market adjustments on our weather and commodities derivative portfolio which we no longer write, together with an increase in fees from strategic capital partners.

Underwriting Expenses

The following table provides a breakdown of our combined ratio:

|   | Three months ended September 30, |                |               | Nine months ended September 30, |                |               |
|---|----------------------------------|----------------|---------------|---------------------------------|----------------|---------------|
|   | 2018                             | % Point Change | 2017          | 2018                            | % Point Change | 2017          |
| Current accident year loss ratio excluding catastrophe and weather-related losses | 61.2%                            | (3.6)          | 64.8%         | 60.4%                           | (3.7)          | 64.1%         |
| Catastrophe and weather-related losses ratio                                      | 7.5%                             | (53.9)         | 61.4%         | 4.5%                            | (19.6)         | 24.1%         |
| Current accident year loss ratio  | 68.7%                            | (57.5)         | 126.2%        | 64.9%                           | (23.3)         | 88.2%         |
| Prior year reserve development  | (3.8%)                           | 0.9            | (4.7%)        | (4.4%)                          | 0.5            | (4.9%)        |
| Net loss and loss expense ratio   | 64.9%                            | (56.6)         | 121.5%        | 60.5%                           | (22.8)         | 83.3%         |
| Acquisition cost ratio  | 20.3%                            | 1.2            | 19.1%         | 19.8%                           | (0.2)          | 20.0%         |
| General and administrative expense ratio <sup>(1)</sup>                           | 12.7%                            | 0.4            | 12.3%         | 13.7%                           | (1.1)          | 14.8%         |
| <b>Combined ratio</b>   | <b>97.9%</b>                     | <b>(55.0)</b>  | <b>152.9%</b> | <b>94.0%</b>                    | <b>(24.1)</b>  | <b>118.1%</b> |

(1) The general and administrative expense ratio includes corporate expenses not allocated to reportable segments of 2.0% and 2.7% for the three months ended September 30, 2018 and 2017, respectively, and 2.4% and 3.3% for the nine months ended September 30, 2018 and 2017, respectively. These costs are further discussed in 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Other Expenses (Revenues), Net'.

Current Accident Year Loss Ratio:

The current accident year loss ratio decreased to 68.7% and 64.9% for the three and nine months ended September 30, 2018, respectively, from 126.2% and 88.2% for the same periods in 2017.

The decrease in the current accident year loss ratio for the three and nine months ended September 30, 2018, compared to the same periods in 2017, was impacted by a lower level of catastrophe and weather-related losses. During the three months ended September 30, 2018, we incurred \$92 million or 7.5 points in pre-tax catastrophe and weather-related losses primarily attributable to Hurricane Florence, Typhoon Jebi, U.S. weather-related events and California wildfires. During the nine months ended September 30, 2018, we incurred \$162 million or 4.5 points in pre-tax catastrophe and weather-related losses primarily attributable to the Hurricane Florence, U.S. and European weather-related events, the Papua New Guinea earthquake, Typhoon Jebi, the Hawaii Volcano and California wildfires. Comparatively, during the three and nine months ended September 30, 2017, we incurred pre-tax catastrophe and weather-related losses, net of reinstatement premiums, of \$617 million or 61.4 points and \$702 million or 24.1 points, respectively.

After adjusting for the impact of catastrophe and weather-related losses, our current accident year loss ratio for the three and nine months ended September 30, 2018 was 61.2% and 60.4%, respectively, compared to 64.8% and 64.1% for the three and nine months ended September 30, 2017, respectively. The decrease in the current accident year loss ratio after adjusting for the impact of catastrophe and weather-related losses for the three and nine months ended September 30, 2018, compared to the same periods in 2017, was principally due to changes in business mix predominantly related to the acquisition of Novae, together with favorable impact of rate and trend, partially offset by an increase in attritional loss experience in insurance property lines and mid-size loss experience in reinsurance property lines.

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

### Estimates of Significant Catastrophe Events:

Our September 30, 2018 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 Florence as well as Hurricanes Harvey, Irma and Maria, the two earthquakes in Mexico and the wildfires in Northern and Southern California which occurred in 2017 inherently increase 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 net favorable prior year reserve development was the result of several underlying reserve developments on prior accident years, identified during our quarterly reserve review process. The following table presents prior year reserve development by segment:

|              | <u>Three months ended September 30,</u> |                  | <u>Nine months ended September 30,</u> |                   |
|--------------|---|------------------|--|-------------------|
|              | <u>2018</u>                             | <u>2017</u>      | <u>2018</u>                            | <u>2017</u>       |
| Insurance    | \$ 13,478                               | \$ 7,926         | \$ 60,547                              | \$ 35,579         |
| Reinsurance  | 32,182                                  | 39,842           | 99,536                                 | 107,916           |
| <b>Total</b> | <b>\$ 45,660</b>                        | <b>\$ 47,768</b> | <b>\$ 160,083</b>                      | <b>\$ 143,495</b> |

### **Overview**

#### Short-tail business:

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

These reserve classes contributed net favorable prior year reserve development of \$12 million and \$92 million for the three and nine months ended September 30, 2018, respectively, reflecting the recognition of overall better than expected loss emergence related to the 2017 catastrophe events. These reserve classes contributed net favorable prior year reserve development of \$5 million and \$41 million for the three and nine months ended September 30, 2017, respectively, reflecting the recognition of better than expected loss emergence.

#### Medium-tail business:

Our medium-tail business consists primarily of insurance and reinsurance professional reserve classes, insurance credit and political risk reserve class and reinsurance credit and surety reserve class.

Our reinsurance professional reserve class recognized net favorable prior year reserve development of \$10 million and \$18 million for the three and nine months ended September 30, 2018, respectively, compared to net favorable prior year reserve development of \$9 million and \$36 million for the three and nine months ended September 30, 2017, respectively. Our insurance professional reserve class recognized net favorable prior year reserve development of \$10 million and \$12 million for the three and nine months ended

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September 30, 2018, respectively, and net favorable prior year reserve development of \$18 million for the nine months ended September 30, 2017. The net favorable prior year reserve development on these reserve classes continued to reflect generally favorable experience as we continued to transition to more experienced based methods.

Our reinsurance credit and surety reserve class recorded net favorable prior year reserve development of \$6 million and \$21 million for the three and nine months ended September 30, 2018, respectively, compared to net favorable prior year reserve development of \$17 million and \$18 million, for the three and nine months ended September 30, 2017, respectively. The net favorable prior year reserve development reflected the recognition of better than expected loss emergence.

Long-tail business:

Our long-tail business consists primarily of insurance and reinsurance liability reserve classes and reinsurance motor reserve class.

Our reinsurance liability reserve class contributed net favorable prior year reserve development of \$11 million for the three months ended, largely associated with multi-line contracts and due to overall better than expected loss emergence related to the 2017 catastrophe events. The net favorable prior year reserve development for the nine months ended September 30, 2018 was \$19 million, largely associated with multi-line contracts and due to overall better than expected loss emergence related to the 2017 catastrophe events, together with generally favorable experience reflecting the progressively increased weight given by management to experience based indications on older accident years. The net favorable prior year reserve development for the nine months ended September 30, 2017 was \$40 million, primarily due to the progressively increased weight given by management to experience based indications on older accident years, which have generally been favorable.

Our insurance liability reserve class recorded net adverse prior year development of \$11 million and \$18 million for the three and nine months ended September 30, 2018, respectively, primarily related to reserve strengthening within our U.S. excess casualty book of business. The net adverse prior year development was \$6 million for the nine months ended September 30, 2017, primarily attributable to reserve strengthening within our run-off Bermuda excess casualty book of business.

Our motor reinsurance reserve class recognized net favorable prior year reserve development of \$7 million and \$15 million for the three and nine months ended September 30, 2018, respectively, primarily attributable to non proportional treaty business on older accident years. For three and nine months ended September 30, 2017, our motor reinsurance reserve class recorded net favorable prior year reserve development of \$16 million and net adverse prior year reserve development of \$4 million, respectively. For the three months ended September 30, 2017, the net favorable prior year reserve development related to favorable loss emergence trends on several classes of business spanning multiple accident years. For the nine months ended September 30, 2017, the net adverse prior year development was mainly driven by the decrease in the discount rate used to calculate lump sum awards in U.K. bodily injury cases, known as the Ogden Rate which changed from plus 2.5% to minus 0.75% effective March 20, 2017.

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 tables reconcile reserve classes to the lines of business categories and the expected claim tails:

| <b>Insurance Segment</b>  |        | <b>Reported Lines of Business</b> |        |           |          |                           |                    |           |                     |                            |
|---------------------------|--------|-----------------------------------|--------|-----------|----------|---------------------------|--------------------|-----------|---------------------|----------------------------|
| Reserve Classes           | Tail   | Property                          | Marine | Terrorism | Aviation | Credit and Political Risk | Professional Lines | Liability | Accident and Health | Discontinued lines - Novae |
| Property and Other        | Short  | X                                 |        | X         |          |                           |                    |           | X                   | X                          |
| Marine                    | Short  |                                   | X      |           |          |                           |                    |           |                     |                            |
| Aviation                  | Short  |                                   |        |           | X        |                           |                    |           |                     |                            |
| Credit and Political Risk | Medium |                                   |        |           |          | X                         |                    |           |                     |                            |
| Professional Lines        | Medium |                                   |        |           |          |                           | X                  |           |                     | X                          |
| Liability                 | Long   |                                   |        |           |          |                           |                    | X         |                     | X                          |



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| Reinsurance Segment        |        |             |          |                   |                    |       |           |             |             |                  |                     |                            |
|----------------------------|--------|-------------|----------|-------------------|--------------------|-------|-----------|-------------|-------------|------------------|---------------------|----------------------------|
| Reported Lines of Business |        |             |          |                   |                    |       |           |             |             |                  |                     |                            |
| Reserve Classes            | Tail   | Catastrophe | Property | Credit and Surety | Professional Lines | Motor | Liability | Engineering | Agriculture | Marine and Other | Accident and Health | Discontinued lines - Novae |
| Property and Other         | Short  | X           | X        |                   |                    |       |           | X           | X           | X                | X                   |                            |
| Credit and Surety          | Medium |             |          | X                 |                    |       |           |             |             |                  |                     |                            |
| Professional Lines         | Medium |             |          |                   | X                  |       |           |             |             |                  |                     |                            |
| Motor                      | Long   |             |          |                   |                    | X     |           |             |             |                  |                     | X                          |
| Liability                  | Long   |             |          |                   |                    |       | X         |             |             |                  |                     | X                          |

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

*Insurance Segment:*

|                           | Three months ended September 30, |                 | Nine months ended September 30, |                  |
|---------------------------|----------------------------------|-----------------|---------------------------------|------------------|
|                           | 2018                             | 2017            | 2018                            | 2017             |
| Property and other        | \$ 16,365                        | \$ 5,755        | \$ 55,872                       | \$ 9,273         |
| Marine                    | (220)                            | 2,461           | 14,415                          | 17,957           |
| Aviation                  | (2,299)                          | (831)           | (4,752)                         | (4,344)          |
| Credit and political risk | 1,164                            | (18)            | 1,241                           | (53)             |
| Professional lines        | 9,964                            | (261)           | 12,199                          | 18,489           |
| Liability                 | (11,496)                         | 820             | (18,428)                        | (5,743)          |
| <b>Total</b>              | <b>\$ 13,478</b>                 | <b>\$ 7,926</b> | <b>\$ 60,547</b>                | <b>\$ 35,579</b> |

For the three months ended September 30, 2018, we recognized \$13 million of net favorable prior year reserve development, the principal components of which were:

- \$16 million of net favorable prior year reserve development on property and other business primarily due to overall better than expected loss emergence related to the 2017 catastrophe events.
- \$10 million of net favorable prior year reserve development on professional lines business related to the 2015 accident year due to the recognition of better than expected development.
- \$11 million of net adverse prior year reserve development on liability business primarily related to the 2015 accident year due to reserve strengthening within our U.S. excess casualty book of business mainly driven by a higher frequency of large auto and general liability claims.

For the three months ended September 30, 2017, we recognized \$8 million of net favorable prior year reserve development, the principal components of which were:

- \$6 million of net favorable prior year reserve development on property and other business, primarily related to accident years 2013 and 2014 due to the recognition of better than expected development.
- \$2 million of net favorable prior year reserve development on marine business, primarily related to the 2015 accident year and primarily driven by better than expected development.

For the nine months ended September 30, 2018, we recognized \$61 million of net favorable prior year reserve development, the principal components of which were:

- \$56 million of net favorable prior year reserve development on property and other business primarily due to overall better than expected loss emergence related to the 2017 catastrophe events.
- \$14 million of net favorable prior year reserve development on marine business on recent accident years due to better than expected loss emergence.

- \$12 million of net favorable prior year reserve development on professional lines business related to the 2015 accident year, partially offset by net adverse development on accident year 2017.
- \$18 million of net adverse prior year reserve development on liability business mainly related to the 2015 and 2017 accident years due to reserve strengthening within our U.S. excess casualty book of business mainly driven by a higher frequency of large auto and general liability claims.

For the nine months ended September 30, 2017, we recognized \$36 million of net favorable prior year reserve development, the principal components of which were:

- \$18 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.
- \$18 million of net favorable prior year reserve development on marine business, primarily related to accident years 2013, 2015 and 2016 driven by better than expected loss emergence.
- \$9 million of net favorable prior year reserve development on property and other business, primarily related to accident years 2012, 2014 and 2015 due to the recognition of better than expected development, partially offset by net adverse development on accident year 2016.
- \$6 million of net adverse prior year reserve 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.

*Reinsurance Segment:*

|                    | Three months ended September 30, |                  | Nine months ended September 30, |                   |
|--------------------|----------------------------------|------------------|---------------------------------|-------------------|
|                    | 2018                             | 2017             | 2018                            | 2017              |
| Property and other | \$ (1,691)                       | \$ (2,282)       | \$ 26,461                       | \$ 17,643         |
| Credit and surety  | 6,334                            | 16,838           | 21,001                          | 18,361            |
| Professional lines | 10,279                           | 8,918            | 18,385                          | 35,764            |
| Motor              | 6,512                            | 15,653           | 15,037                          | (3,963)           |
| Liability          | 10,748                           | 715              | 18,652                          | 40,111            |
| <b>Total</b>       | <b>\$ 32,182</b>                 | <b>\$ 39,842</b> | <b>\$ 99,536</b>                | <b>\$ 107,916</b> |

For the three months ended September 30, 2018, we recognized \$32 million of net favorable prior year reserve development, the principal components of which were:

- \$11 million of net favorable prior year reserve development on liability business largely associated with multi-line contracts and due to overall better than expected loss emergence related to the 2017 catastrophe events.
- \$10 million of net favorable prior year reserve development on professional lines business reflecting the generally favorable experience on older accident years as we continue to transition to more experience based methods.
- \$7 million of net favorable prior year reserve development on motor business related to older accident years due to favorable experience on non proportional treaty business.
- \$6 million of net favorable prior year reserve development on credit and surety business due to generally better than expected loss emergence.

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For the three months ended September 30, 2017, we recognized \$40 million of net favorable prior year reserve development, the principal components of which were:

- \$17 million of net favorable prior year reserve development on credit and surety business, primarily related to accident years 2012 through 2015 driven by better than expected loss emergence.
- \$16 million of net favorable prior year reserve development on motor business, due to better than expected loss emergence emanating from all accident years, partially offset by the adverse impact of the recent change in the Ogden rate.
- \$9 million of net favorable prior year reserve development on professional lines business, primarily related to older accident years, for reasons discussed in the overview.

For the nine months ended September 30, 2018, we recognized \$100 million of net favorable prior year reserve development, the principal components of which were:

- \$26 million of net favorable prior year reserve development on property and other business due to overall better than expected loss emergence related to the 2017 catastrophe events and better than expected loss emergence on agriculture business.
- \$21 million of net favorable prior year reserve development on credit and surety business primarily related to older accident years due to generally better than expected loss emergence.
- \$19 million of net favorable prior year reserve development on liability business largely associated with multi-line contracts and due to overall better than expected loss emergence related to the 2017 catastrophe events, together with generally favorable experience reflecting the progressively increased weight given by management to experience based indications on older accident years.
- \$18 million of net favorable prior year reserve development on professional lines business reflecting the generally favorable experience on older accident years as we continue to transition to more experience based methods.
- \$15 million of net favorable prior year reserve development on motor business related to older accident years due to favorable non proportional business.

For the nine months ended September 30, 2017, we recognized \$108 million of net favorable prior year reserve development, the principal components of which were:

- \$40 million of net favorable prior year reserve development on liability business, primarily related to accident years 2008 through 2010, for the reasons discussed in the overview.
- \$36 million of net favorable prior year reserve development on professional lines business, primarily related to accident years 2008 through 2012, for reasons discussed in the overview.
- \$18 million of net favorable prior year reserve development on credit and surety business, primarily related to accident year 2012 driven by better than expected loss emergence.
- \$18 million of net favorable prior year reserve development on property and other business, primarily related to 2013, 2014 and 2016 accident years driven by overall better than expected loss emergence, partially offset by net adverse prior year reserve development on accident year 2016.
- \$4 million of net adverse prior year reserve development on motor business related to the impact of the recent change in the Ogden rate, largely offset by continued better than expected loss emergence spanning multiple accident years.

*Acquisition Cost Ratio:*

The acquisition cost ratio increased to 20.3% for the three months ended September 30, 2018 from 19.1% for the three months ended September 30, 2017. The increase was driven by our insurance segment primarily due to changes in business mix largely due to the acquisition of Novae.

The acquisition cost ratio decreased to 19.8% for the nine months ended September 30, 2018 from 20.0% for the nine months ended September 30, 2017. The decrease was driven by an increase in our insurance segment primarily due to the acquisition of Novae, partially offset by a decrease in our reinsurance segment primarily due changes in business mix.

*General and Administrative Expense Ratio:*

The general and administrative expense ratio increased to 12.7% for the three months ended September 30, 2018 from 12.3% for the three months ended September 30, 2017. The increase was driven by Novae general and administrative expenses and an increase in performance based compensation costs, partially offset by an increase in net premiums earned and an increase in fees associated with arrangements with strategic capital partners.

The general and administrative expense ratio decreased to 13.7% for the nine months ended September 30, 2018 from 14.8% for the nine months ended September 30, 2017. The decrease was driven by an increase in net premiums earned and fees associated with arrangements with strategic capital partners and a decrease in personnel costs and professional fees, partially offset by Novae general and administrative expenses and an increase in information technology costs.

**RESULTS BY SEGMENT**
**Insurance Segment**

Results from our insurance segment were as follows:

|   | Three months ended September 30, |                       |                     | Nine months ended September 30, |                       |                     |
|---|----------------------------------|-----------------------|---------------------|---------------------------------|-----------------------|---------------------|
|   | 2018                             | % Change              | 2017                | 2018                            | % Change              | 2017                |
| <b>Revenues:</b>  |                                  |                       |                     |                                 |                       |                     |
| Gross premiums written  | \$ 969,364                       | 49%                   | \$ 651,145          | \$ 2,876,856                    | 47%                   | \$ 1,960,608        |
| Net premiums written  | 602,070                          | 48%                   | 407,054             | 1,748,142                       | 39%                   | 1,259,999           |
| Net premiums earned   | 614,795                          | 46%                   | 420,775             | 1,772,126                       | 44%                   | 1,230,279           |
| Other insurance related income  | 1,526                            | nm                    | 302                 | 3,359                           | nm                    | 853                 |
| <b>Expenses:</b>  |                                  |                       |                     |                                 |                       |                     |
| Current year net losses and loss expenses   | (428,966)                        |                       | (584,614)           | (1,126,346)                     |                       | (1,128,816)         |
| Prior year reserve development  | 13,478                           |                       | 7,926               | 60,547                          |                       | 35,579              |
| Acquisition costs   | (111,888)                        |                       | (61,541)            | (290,082)                       |                       | (177,937)           |
| General and administrative expenses   | (100,656)                        |                       | (71,007)            | (305,394)                       |                       | (239,389)           |
| <b>Underwriting income (loss)</b>   | <b>\$ (11,711)</b>               | <b>nm</b>             | <b>\$ (288,159)</b> | <b>\$ 114,210</b>               | <b>nm</b>             | <b>\$ (279,431)</b> |
| <b>Ratios:</b>  |                                  |                       |                     |                                 |                       |                     |
|   |                                  | <b>% Point Change</b> |                     |                                 | <b>% Point Change</b> |                     |
| Current accident year loss ratio excluding catastrophe and weather-related losses | 59.7%                            | (3.8)                 | 63.5%               | 57.3%                           | (3.7)                 | 61.0%               |
| Catastrophe and weather-related losses ratio                                      | 10.1%                            | (65.3)                | 75.4%               | 6.3%                            | (24.5)                | 30.8%               |
| Current accident year loss ratio  | 69.8%                            | (69.1)                | 138.9%              | 63.6%                           | (28.2)                | 91.8%               |
| Prior year reserve development  | (2.2%)                           | (0.4)                 | (1.8%)              | (3.5%)                          | (0.6)                 | (2.9%)              |
| Net loss and loss expense ratio   | 67.6%                            | (69.5)                | 137.1%              | 60.1%                           | (28.8)                | 88.9%               |
| Acquisition cost ratio  | 18.2%                            | 3.6                   | 14.6%               | 16.4%                           | 2.0                   | 14.4%               |
| General and administrative expense ratio  | 16.4%                            | (0.5)                 | 16.9%               | 17.2%                           | (2.3)                 | 19.5%               |
| <b>Combined ratio</b>   | <b>102.2%</b>                    | <b>(66.4)</b>         | <b>168.6%</b>       | <b>93.7%</b>                    | <b>(29.1)</b>         | <b>122.8%</b>       |

nm – not meaningful

Gross Premiums Written:

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

|                           | Three months ended September 30, |             |                   |             |            | Nine months ended September 30, |             |                     |             |            |
|---------------------------|----------------------------------|-------------|-------------------|-------------|------------|---------------------------------|-------------|---------------------|-------------|------------|
|                           | 2018                             |             | 2017              |             | % Change   | 2018                            |             | 2017                |             | % Change   |
| Property                  | \$ 307,014                       | 33%         | \$ 154,882        | 23%         | 98%        | \$ 946,956                      | 34%         | \$ 498,127          | 26%         | 90%        |
| Marine                    | 88,412                           | 9%          | 42,483            | 7%          | 108%       | 310,844                         | 11%         | 182,005             | 9%          | 71%        |
| Terrorism                 | 16,032                           | 2%          | 12,147            | 2%          | 32%        | 48,743                          | 2%          | 34,470              | 2%          | 41%        |
| Aviation                  | 24,116                           | 2%          | 23,814            | 4%          | 1%         | 66,178                          | 2%          | 59,434              | 3%          | 11%        |
| Credit and Political Risk | 44,761                           | 5%          | 19,793            | 3%          | nm         | 120,227                         | 4%          | 51,105              | 3%          | nm         |
| Professional Lines        | 281,928                          | 29%         | 213,009           | 33%         | 32%        | 787,136                         | 27%         | 612,597             | 31%         | 28%        |
| Liability                 | 153,356                          | 16%         | 131,975           | 20%         | 16%        | 409,184                         | 14%         | 359,304             | 18%         | 14%        |
| Accident and Health       | 42,883                           | 4%          | 53,042            | 8%          | (19%)      | 173,421                         | 6%          | 163,566             | 8%          | 6%         |
| Discontinued Lines        | 10,862                           | 1%          | —                 | —%          | nm         | 14,167                          | —%          | —                   | —%          | nm         |
| <b>Total</b>              | <b>\$ 969,364</b>                | <b>100%</b> | <b>\$ 651,145</b> | <b>100%</b> | <b>49%</b> | <b>\$ 2,876,856</b>             | <b>100%</b> | <b>\$ 1,960,608</b> | <b>100%</b> | <b>47%</b> |

nm – not meaningful

Gross premiums written for the three months ended September 30, 2018 increased by \$318 million or 49%, compared to the three months ended September 30, 2017. The increase in gross premiums written included \$320 million attributable to property, marine, professional lines, and credit and political risk lines associated with our acquisition of Novae. Excluding the impact of Novae, gross premiums written decreased by \$2 million (\$3 million on a constant currency basis) for three months ended September 30, 2018, compared to the same period in 2017, largely attributable to accident and health due to the non-renewal of a large program and property lines following our exit from onshore energy business last year, partially offset by an increase in gross premiums written in professional lines and liability lines driven by new business.

Gross premiums written for the nine months ended September 30, 2018 increased by \$916 million or 47%, compared to the nine months ended September 30, 2017. The increase in gross premiums written included \$914 million attributable to property, marine, professional lines, and credit and political risk lines associated with our acquisition of Novae. In addition, gross premiums written increased by \$3 million (decrease of \$20 million or 1% on a constant currency basis) for nine months ended September 30, 2018, compared to the same period in 2017, attributable to professional lines and liability lines driven by new business opportunities, largely offset by decreases in property, marine and credit and political risk lines. The decrease in property lines was due to our exit from onshore energy business and some U.S. retail insurance operations. The decrease in marine lines was due to non-renewals. The decrease in credit and political risk lines was largely due to unfavorable premium adjustments.

Ceded Premiums Written:

Ceded premiums written for the three and nine months ended September 30, 2018 were \$367 million or 38% of gross premiums written and \$1.1 billion or 39%, of gross premiums written, respectively, compared to \$244 million or 37% of gross premiums written and \$701 million or 36% of gross premiums written for the three and nine months ended September 30, 2017, respectively.

The increase in ceded premiums written of \$123 million or 50% for the three months ended September 30, 2018, compared to the same period in 2017, included \$110 million primarily attributable to property and professional lines associated with our acquisition of Novae. In addition, ceded premiums increased by \$13 million or 5% for the three months ended September 30, 2018, compared to the same period in 2017, primarily driven by liability and property lines.

The increase in ceded premiums written of \$428 million or 61% for the nine months ended September 30, 2018, compared to the same period in 2017, included \$338 million primarily attributable to property, professional lines, marine and credit and political risk lines associated with our acquisition of Novae. In addition, ceded premiums increased by \$90 million or 13% for the nine months ended September 30, 2018, compared to the same period in 2017, primarily driven by property and professional lines.

Net Premiums Earned:

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

|                           | Three months ended September 30, |             |                   |             |            | Nine months ended September 30, |             |                     |             |            |
|---------------------------|----------------------------------|-------------|-------------------|-------------|------------|---------------------------------|-------------|---------------------|-------------|------------|
|                           | 2018                             | 2017        |                   |             | % Change   | 2018                            | 2017        |                     |             | % Change   |
| Property                  | \$ 212,883                       | 34%         | \$ 116,771        | 29%         | 82%        | \$ 598,896                      | 33%         | \$ 355,392          | 29%         | 69%        |
| Marine                    | 90,661                           | 15%         | 34,217            | 8%          | nm         | 240,230                         | 14%         | 108,822             | 9%          | nm         |
| Terrorism                 | 12,606                           | 2%          | 8,790             | 2%          | 43%        | 38,992                          | 2%          | 25,577              | 2%          | 52%        |
| Aviation                  | 17,467                           | 3%          | 22,500            | 5%          | (22%)      | 53,656                          | 3%          | 53,265              | 4%          | 1%         |
| Credit and Political Risk | 15,670                           | 3%          | 9,073             | 2%          | 73%        | 69,670                          | 4%          | 29,957              | 2%          | nm         |
| Professional Lines        | 147,336                          | 24%         | 126,946           | 30%         | 16%        | 419,254                         | 24%         | 379,426             | 31%         | 10%        |
| Liability                 | 57,185                           | 9%          | 48,135            | 11%         | 19%        | 166,745                         | 9%          | 134,467             | 11%         | 24%        |
| Accident and Health       | 51,063                           | 8%          | 54,343            | 13%         | (6%)       | 155,753                         | 9%          | 143,373             | 12%         | 9%         |
| Discontinued Lines        | 9,924                            | 2%          | —                 | —%          | nm         | 28,930                          | 2%          | —                   | —%          | nm         |
| <b>Total</b>              | <b>\$ 614,795</b>                | <b>100%</b> | <b>\$ 420,775</b> | <b>100%</b> | <b>46%</b> | <b>\$ 1,772,126</b>             | <b>100%</b> | <b>\$ 1,230,279</b> | <b>100%</b> | <b>44%</b> |

nm - not meaningful

Net premiums earned for the three months ended September 30, 2018 increased by \$194 million or 46%, compared to the three months ended September 30, 2017. The increase in net premiums earned included \$210 million primarily attributable to property, marine and professional lines associated with our acquisition of Novae. Excluding the impact of Novae, net premiums earned decreased by \$16 million, or 4% (\$19 million or 4% on a constant currency basis) driven by an increase in ceded premiums earned in property, together with a decrease in gross premiums earned in property and accident and health lines.

Net premiums earned for the nine months ended September 30, 2018 increased by \$542 million or 44%, compared to the nine months ended September 30, 2017. The increase in net premiums earned included \$559 million primarily attributable to property, marine, professional lines and credit and political risk lines associated with our acquisition of Novae. Excluding the impact of Novae, net premiums earned decreased by \$17 million, or 1% (\$29 million or 2% on a constant currency basis) driven by property, partially offset by an increase in liability lines. The decrease was driven by an increase in ceded premiums earned in liability, together with a decrease in gross premiums earned in property, partially offset by an increase in gross premiums earned in liability lines.

Loss Ratio:

The table below shows the components of our loss ratio:

|                                | Three months ended September 30, |                |               | Nine months ended September 30, |                |              |
|--------------------------------|----------------------------------|----------------|---------------|---------------------------------|----------------|--------------|
|                                | 2018                             | % Point Change | 2017          | 2018                            | % Point Change | 2017         |
| Current accident year          | 69.8%                            | (69.1)         | 138.9%        | 63.6%                           | (28.2)         | 91.8%        |
| Prior year reserve development | (2.2%)                           | (0.4)          | (1.8%)        | (3.5%)                          | (0.6)          | (2.9%)       |
| <b>Loss ratio</b>              | <b>67.6%</b>                     | <b>(69.5)</b>  | <b>137.1%</b> | <b>60.1%</b>                    | <b>(28.8)</b>  | <b>88.9%</b> |

***Current Accident Year Loss Ratio:***

The current accident year loss ratios decreased to 69.8% and 63.6% for the three and nine months ended September 30, 2018, respectively, from 138.9% and 91.8% for the three and nine months ended September 30, 2017, respectively.

The decrease in the current accident year loss ratio for the three and nine months ended September 30, 2018, compared to the same period in 2017, was impacted by a lower level of catastrophe and weather-related losses. During the three months ended September 30, 2018, we incurred \$62 million, or 10.1 points, in pre-tax catastrophe and weather-related losses primarily attributable to the Hurricane Florence and U.S. weather-related events. During the nine months ended September 30, 2018, we incurred \$112 million or 6.3 points, in pre-tax catastrophe and weather-related losses primarily attributable to the Hurricane Florence, U.S. and European weather-related events, Hawaii Volcano, and the Papua New Guinea earthquake. Comparatively, during the three and nine months ended September 30, 2017, we incurred \$317 million or 75.4 points and \$379 million or 30.8 points, respectively, in pre-tax catastrophe and weather-related losses.

After adjusting for the impact of the catastrophe and weather-related losses, our current accident year loss ratio for the three and nine months ended September 30, 2018 was 59.7% and 57.3%, respectively, compared to 63.5% and 61.0% for the three and nine months ended September 30, 2017, 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 nine months ended September 30, 2018, compared to the same period in 2017, was principally due to changes in business mix predominantly related to the acquisition of Novae, the favorable impact of rate and trend, partially offset by an increase in attritional loss experience in property and aviation lines.

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

**Acquisition Cost Ratio:**

The acquisition cost ratio increased to 18.2% and 16.4% for the three and nine months ended September 30, 2018, respectively, from 14.6% and 14.4% for the three and nine months ended September 30, 2017, respectively, primarily attributable to changes in business mix largely due to the acquisition of Novae.

**General and Administrative Expense Ratio:**

The general and administrative expense ratio decreased to 16.4% and 17.2% for the three and nine months ended September 30, 2018, respectively, from 16.9% and 19.5% for the three and nine months ended September 30, 2017, respectively.

The decrease for the three months ended September 30, 2018 was due to an increase in net premiums earned, largely offset by an increase in general and administrative expenses associated with the acquisition of Novae, higher performance based compensation costs and an increase in the allocation of corporate costs to the segment.

The decrease for the nine months ended September 30, 2018 was due to an increase in net premiums earned, a decrease in professional fees, partially offset by an increase in general and administrative expenses associated with the acquisition of Novae and an increase in the allocation of corporate costs to the segment.



## Reinsurance Segment

Results from our reinsurance segment were as follows:

|   | Three months ended September 30, |                       |                     | Nine months ended September 30, |                       |                     |
|---|----------------------------------|-----------------------|---------------------|---------------------------------|-----------------------|---------------------|
|   | 2018                             | % Change              | 2017                | 2018                            | % Change              | 2017                |
| <b>Revenues:</b>  |                                  |                       |                     |                                 |                       |                     |
| Gross premiums written  | \$ 454,343                       | (15%)                 | \$ 534,429          | \$ 2,860,471                    | 14%                   | \$ 2,499,164        |
| Net premiums written  | 317,868                          | (25%)                 | 425,689             | 2,158,122                       | 6%                    | 2,037,719           |
| Net premiums earned   | 609,280                          | 2%                    | 596,356             | 1,804,900                       | 6%                    | 1,706,986           |
| Other insurance related income (losses)   | 6,949                            | nm                    | (3,499)             | 15,452                          | nm                    | (5,273)             |
| <b>Expenses:</b>  |                                  |                       |                     |                                 |                       |                     |
| Current year net losses and loss expenses   | (411,653)                        |                       | (698,521)           | (1,196,682)                     |                       | (1,462,319)         |
| Prior year reserve development  | 32,182                           |                       | 39,842              | 99,536                          |                       | 107,916             |
| Acquisition costs   | (136,426)                        |                       | (133,183)           | (419,445)                       |                       | (410,942)           |
| General and administrative expenses   | (29,595)                         |                       | (25,689)            | (99,481)                        |                       | (96,393)            |
| <b>Underwriting income (loss)</b>   | <b>\$ 70,737</b>                 | <b>nm</b>             | <b>\$ (224,694)</b> | <b>\$ 204,280</b>               | <b>nm</b>             | <b>\$ (160,025)</b> |
| <b>Ratios:</b>  |                                  |                       |                     |                                 |                       |                     |
|   |                                  | <b>% Point Change</b> |                     |                                 | <b>% Point Change</b> |                     |
| Current accident year loss ratio excluding catastrophe and weather-related losses | 62.6%                            | (3.2)                 | 65.8%               | 63.5%                           | (2.8)                 | 66.3%               |
| Catastrophe and weather-related losses ratio                                      | 5.0%                             | (46.3)                | 51.3%               | 2.8%                            | (16.6)                | 19.4%               |
| Current accident year loss ratio  | 67.6%                            | (49.5)                | 117.1%              | 66.3%                           | (19.4)                | 85.7%               |
| Prior year reserve development  | (5.3%)                           | 1.3                   | (6.6%)              | (5.5%)                          | 0.9                   | (6.4%)              |
| Net loss and loss expense ratio   | 62.3%                            | (48.2)                | 110.5%              | 60.8%                           | (18.5)                | 79.3%               |
| Acquisition cost ratio  | 22.4%                            | 0.1                   | 22.3%               | 23.2%                           | (1.0)                 | 24.2%               |
| General and administrative expense ratio  | 4.8%                             | 0.5                   | 4.3%                | 5.5%                            | (0.1)                 | 5.6%                |
| <b>Combined ratio</b>   | <b>89.5%</b>                     | <b>(47.6)</b>         | <b>137.1%</b>       | <b>89.5%</b>                    | <b>(19.6)</b>         | <b>109.1%</b>       |

nm – not meaningful

*Gross Premiums Written:*

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

|                     | Three months ended September 30, |             |                   |             |              | Nine months ended September 30, |             |                     |             |             |
|---------------------|----------------------------------|-------------|-------------------|-------------|--------------|---------------------------------|-------------|---------------------|-------------|-------------|
|                     | 2018                             |             | 2017              |             | %<br>Change  | 2018                            |             | 2017                |             | %<br>Change |
| Catastrophe         | \$ 64,919                        | 14%         | \$ 89,510         | 17%         | (27%)        | \$ 495,106                      | 17%         | \$ 411,004          | 16%         | 20%         |
| Property            | 85,135                           | 19%         | 90,001            | 17%         | (5%)         | 346,135                         | 12%         | 341,265             | 14%         | 1%          |
| Professional Lines  | 26,418                           | 6%          | 20,175            | 4%          | 31%          | 248,870                         | 9%          | 217,772             | 9%          | 14%         |
| Credit and Surety   | 51,683                           | 11%         | 38,216            | 7%          | 35%          | 300,683                         | 11%         | 183,284             | 7%          | 64%         |
| Motor               | 22,450                           | 5%          | 40,385            | 8%          | (44%)        | 477,805                         | 17%         | 373,901             | 15%         | 28%         |
| Liability           | 137,625                          | 30%         | 139,083           | 26%         | (1%)         | 387,977                         | 14%         | 368,999             | 15%         | 5%          |
| Agriculture         | 12,765                           | 3%          | 11,152            | 2%          | 14%          | 212,114                         | 7%          | 218,437             | 9%          | (3%)        |
| Engineering         | 3,149                            | 1%          | 10,120            | 2%          | (69%)        | 36,259                          | 1%          | 58,000              | 2%          | (37%)       |
| Marine and Other    | 1,107                            | —%          | 2,566             | —%          | (57%)        | 41,388                          | 1%          | 52,715              | 2%          | (21%)       |
| Accident and Health | 49,114                           | 11%         | 93,221            | 17%         | (47%)        | 314,610                         | 11%         | 273,787             | 11%         | 15%         |
| Discontinued Lines  | (22)                             | —%          | —                 | —%          | nm           | (476)                           | —%          | —                   | —%          | nm          |
| <b>Total</b>        | <b>\$ 454,343</b>                | <b>100%</b> | <b>\$ 534,429</b> | <b>100%</b> | <b>(15%)</b> | <b>\$ 2,860,471</b>             | <b>100%</b> | <b>\$ 2,499,164</b> | <b>100%</b> | <b>14%</b>  |

nm – not meaningful

Gross premiums written decreased by \$80 million or 15% for the three months ended September 30, 2018, compared to the same period in 2017. The decrease included an increase of \$10 million attributable to catastrophe, marine and aviation lines associated with our acquisition of Novae. Excluding the impact of Novae, gross premiums written decreased by \$90 million, or 17% (\$89 million or 17% on a constant currency basis) for the three months ended September 30, 2018, compared to the same period of in 2017, driven by accident and health, catastrophe and motor lines, partially offset by an increase in credit and surety lines.

The decrease in accident and health lines was largely due to the recognition of favorable premium adjustments in the prior year and non renewals. The decrease in catastrophe lines was primarily due to the recognition of reinstatement premiums in the prior year attributable to the significant catastrophe losses. The decrease in motor lines was driven by timing differences. The increase in credit and surety lines was largely due to favorable premiums adjustments and new business.

Gross premiums written increased by \$361 million or 14% for the nine months ended September 30, 2018, compared to the same period in 2017. The increase included \$93 million attributable to catastrophe, marine and aviation lines associated with the acquisition of Novae. In addition, gross premiums written increased by \$268 million, or 11% (\$183 million or 7% on a constant currency basis) for the nine months ended September 30, 2018, compared to the same period of in 2017, driven by credit and surety, motor, accident and health, catastrophe and professional lines, partially offset by a decrease in marine and other lines.

The increase in motor and credit and surety lines was due to restructuring of large quota share treaties which affected the timing of premium recognition, together with impact of foreign exchange movements as the weakening of the U.S. dollar drove comparative premium increases in treaties denominated in foreign currencies in the first quarter. In addition, the increase in motor lines was attributable to rate increases in U.K. non-proportional motor business following the reduction in the Ogden Rate during the first quarter of 2017, together with new business. The increase in credit and surety lines was also due to favorable premium adjustments and new business. The increase in accident and health, catastrophe and professional lines was due to new business. Increased line sizes on a number of treaties also contributed to the increase in catastrophe lines. These increases were partially offset by a decrease in marine and other lines due to the non-renewal of a large treaty.

*Ceded Premiums Written:*

Ceded premiums written for the three and nine months ended September 30, 2018 were \$136 million or 30% and \$702 million or 25%, respectively, of gross premiums written compared to \$109 million or 20% and \$461 million or 18% of gross premiums written for the three and nine months ended September 30, 2017, respectively.

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The increase in ceded premiums written of \$28 million or 25% for the three months ended September 30, 2018, compared to the same period in 2017, included \$4 million attributable to catastrophe, marine and aviation lines associated with our acquisition of Novae. In addition, ceded premiums written increased by \$23 million or 22% for the three months ended September 30, 2018, compared to the same period in 2017, attributable to accident and health, and liability lines, partially offset by a decrease in agriculture lines. The increase was primarily due to an increase in premiums ceded to new quota share retrocessional treaties which cover accident and health, and liability lines, partially offset by premiums adjustments in agriculture lines.

The increase in ceded premiums written for the nine months ended September 30, 2018 included \$30 million attributable to catastrophe, marine and aviation lines associated with the acquisition of Novae. In addition, ceded premiums written increased by \$211 million or 46% for the nine months ended September 30, 2018, compared to the same period in 2017, attributable to accident and health, catastrophe, credit and surety, and liability lines primarily due to an increase in premiums ceded to new quota share retrocessional treaties which cover accident and health, credit and surety, and liability lines, as well as an increase in premiums ceded to our strategic capital partners in catastrophe lines.

*Net Premiums Earned:*

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

|                     | Three months ended September 30, |             |                   |             |           | Nine months ended September 30, |             |                     |             |           |
|---------------------|----------------------------------|-------------|-------------------|-------------|-----------|---------------------------------|-------------|---------------------|-------------|-----------|
|                     | 2018                             |             | 2017              |             | % Change  | 2018                            |             | 2017                |             | % Change  |
| Catastrophe         | \$ 70,601                        | 11%         | \$ 63,032         | 10%         | 12%       | \$ 191,952                      | 12%         | \$ 150,134          | 9%          | 28%       |
| Property            | 84,766                           | 14%         | 81,522            | 14%         | 4%        | 241,687                         | 13%         | 228,043             | 13%         | 6%        |
| Professional Lines  | 54,658                           | 9%          | 52,390            | 9%          | 4%        | 162,407                         | 9%          | 170,438             | 10%         | (5%)      |
| Credit and Surety   | 67,926                           | 11%         | 62,215            | 10%         | 9%        | 186,408                         | 10%         | 176,754             | 10%         | 5%        |
| Motor               | 102,178                          | 17%         | 92,147            | 15%         | 11%       | 323,685                         | 18%         | 273,568             | 16%         | 18%       |
| Liability           | 96,017                           | 16%         | 89,927            | 15%         | 7%        | 275,120                         | 15%         | 258,500             | 15%         | 6%        |
| Agriculture         | 47,401                           | 8%          | 45,688            | 8%          | 4%        | 121,289                         | 7%          | 138,554             | 8%          | (12%)     |
| Engineering         | 15,541                           | 3%          | 18,529            | 3%          | (16%)     | 49,839                          | 3%          | 49,577              | 3%          | 1%        |
| Marine and Other    | 6,349                            | 1%          | 15,677            | 3%          | (60%)     | 25,424                          | 1%          | 43,427              | 3%          | (41%)     |
| Accident and Health | 62,382                           | 10%         | 75,229            | 13%         | (17%)     | 219,381                         | 12%         | 217,991             | 13%         | 1%        |
| Discontinued Lines  | 1,461                            | —%          | —                 | —%          | nm        | 7,708                           | —%          | —                   | —%          | nm        |
| <b>Total</b>        | <b>\$ 609,280</b>                | <b>100%</b> | <b>\$ 596,356</b> | <b>100%</b> | <b>2%</b> | <b>\$ 1,804,900</b>             | <b>100%</b> | <b>\$ 1,706,986</b> | <b>100%</b> | <b>6%</b> |

nm – not meaningful

Net premiums earned increased by \$13 million or 2% and \$98 million or 6% for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017.

The increase in net premiums earned for the three months ended September 30, 2018, compared to the same period in 2017, included \$26 million primarily attributable to catastrophe and marine and aviation lines associated with our acquisition of Novae. Excluding the impact of Novae, net premiums earned decreased by \$13 million or 2% (\$15 million or 3% on a constant currency basis) for the three months ended September 30, 2018, compared to the same period in 2017, driven by a decrease in gross premiums earned in marine and other, and catastrophe lines, together an increase in ceded premiums earned in accident and health, and catastrophe lines, partially offset by an increase in gross premiums earned in motor lines.

The increase in net premiums earned for the nine months ended September 30, 2018, compared to the same period in 2017, included \$63 million primarily attributable to catastrophe and marine and aviation lines associated with our acquisition of Novae. In addition, net premiums earned increased by \$35 million or 2% (\$20 million or 1% on a constant currency basis) for the nine months ended September 30, 2018, compared to the same period in 2017, driven by an increase in gross premiums earned in motor, liability and property lines, partially offset by an increase in ceded premiums earned in liability, agriculture and motor lines, together with a decrease in gross premiums earned in marine and other, and agriculture lines.

Other Insurance Related Income (Losses):

Other insurance related income was \$7 million for the three months ended September 30, 2018, compared to other insurance related loss of \$3 million for the same period in 2017. The increase of \$10 million for the three months ended September 30, 2018, compared to the same period in 2017, reflected an increase in fees from strategic capital partners.

Other insurance related income was \$15 million for the nine months ended September 30, 2018, compared to other insurance related loss of \$5 million for the same period in 2017. The increase of \$21 million for the nine months ended September 30, 2018, compared to the same period in 2017, attributable to a decrease in unfavorable mark-to-market adjustments related to our weather and commodities derivative portfolio which we no longer write, together with an increase in fees from strategic capital partners.

Loss Ratio:

The table below shows the components of our loss ratio:

|                                | Three months ended September 30, |                |               | Nine months ended September 30, |                |              |
|--------------------------------|----------------------------------|----------------|---------------|---------------------------------|----------------|--------------|
|                                | 2018                             | % Point Change | 2017          | 2018                            | % Point Change | 2017         |
| Current accident year          | 67.6%                            | (49.5)         | 117.1%        | 66.3%                           | (19.4)         | 85.7%        |
| Prior year reserve development | (5.3%)                           | 1.3            | (6.6%)        | (5.5%)                          | 0.9            | (6.4%)       |
| <b>Loss ratio</b>              | <b>62.3%</b>                     | <b>(48.2)</b>  | <b>110.5%</b> | <b>60.8%</b>                    | <b>(18.5)</b>  | <b>79.3%</b> |

Current Accident Year Loss Ratio:

The current accident year loss ratio decreased to 67.6% and 66.3% for the three and nine months ended September 30, 2018, respectively, from 117.1% and 85.7% for the three and nine months ended September 30, 2017, respectively.

The decrease in the current accident year loss ratio for three and nine months ended September 30, 2018, compared to the same period in 2017, was impacted by a lower level of catastrophe and weather-related losses. During the three and nine months ended September 30, 2018, we incurred \$30 million or 5.0 points and \$50 million or 2.8 points, respectively, in pre-tax catastrophe and weather-related losses primarily attributable to Hurricane Florence, Typhoon Jebi and the California wildfires, together with U.S. weather-related events. Comparatively, during the three and nine months ended September 30, 2017, we incurred \$299 million or 51.3 points and \$323 million or 19.4 points, respectively, in pre-tax catastrophe and weather-related losses, net of reinstatement premiums.

After adjusting for the impact of the catastrophe and weather-related losses, our current accident year loss ratio for the three and nine months ended September 30, 2018 was 62.6% and 63.5%, respectively, compared to 65.8% and 66.3% for the three and nine months ended September 30, 2017, 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 nine months ended September 30, 2018, compared to the same period in 2017, was principally due favorable changes in business mix, together with the impact of significant rate increases in U.K. non-proportional motor business following the reduction in the Ogden Rate during the first quarter of 2017 and rate increases in property business following the 2017 catastrophe events.

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

Acquisition Cost Ratio:

The acquisition cost ratio of 22.4% for the three months ended September 30, 2018 was comparable to 22.3% for the three months ended September 30, 2017.

The acquisition cost ratio decreased to 23.2% for the nine months ended September 30, 2018, compared to 24.2% for the nine months ended September 30, 2017 primarily attributable to changes in business mix and favorable adjustments related to loss sensitive features in underlying contracts, partially offset by the impact of retrocessional contracts.

*General and Administrative Expense Ratio:*

The general and administrative expense ratio increased to 4.8% for the three months ended September 30, 2018 from 4.3% for the three months ended September 30, 2017 due to higher performance based compensation costs, general and administrative expenses associated with the acquisition of Novae and an increase in the allocation of corporate costs to the segment, partially offset by an increase in fees associated with arrangements with strategic capital partners and a decrease in office space costs.

The general and administrative expense ratio of 5.5% for the nine months ended September 30, 2018 was comparable to 5.6% for the nine months ended September 30, 2017.

**OTHER EXPENSES (REVENUES), NET**

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

|                                      | Three months ended September 30, |             |                  | Nine months ended September 30, |              |                   |
|--------------------------------------|----------------------------------|-------------|------------------|---------------------------------|--------------|-------------------|
|                                      | 2018                             | % Change    | 2017             | 2018                            | % Change     | 2017              |
| Corporate expenses                   | \$ 24,643                        | (12%)       | \$ 27,933        | \$ 85,069                       | (13%)        | \$ 97,922         |
| Foreign exchange losses              | 8,305                            | nm          | 32,510           | 2,066                           | nm           | 90,093            |
| Interest expense and financing costs | 16,897                           | 32%         | 12,835           | 50,758                          | 32%          | 38,377            |
| Income tax benefit                   | (3,525)                          | nm          | (25,877)         | (3,565)                         | nm           | (38,547)          |
| <b>Total</b>                         | <b>\$ 46,320</b>                 | <b>(2%)</b> | <b>\$ 47,401</b> | <b>\$ 134,328</b>               | <b>(28%)</b> | <b>\$ 187,845</b> |

nm – not meaningful

**Corporate Expenses**

Our corporate expenses include holding company costs necessary to support our worldwide insurance and reinsurance operations and costs associated with operating as a publicly-traded company. As a percentage of net premiums earned, corporate expenses were 2.0% and 2.4% for the three and nine months ended September 30, 2018, respectively, compared to 2.7% and 3.3% for the same periods in 2017, respectively.

The decrease in corporate expenses for the three months ended September 30, 2018 was primarily attributable to an increase in allocations of corporate costs to our insurance and reinsurance segments, together with a decrease in professional fees, partially offset by an increase in personnel costs and information technology costs.

The decrease in corporate expenses for the nine months ended September 30, 2018 was primarily attributable to a decrease in personnel costs and executive transition costs, together with increase in the allocation of corporate costs to our insurance and reinsurance segments, partially offset by an increase in information technology costs.

### **Foreign Exchange Losses (Gains)**

Some of our business is written in currencies other than the U.S. dollar. Foreign exchange losses of \$8 million for the three months ended September 30, 2018 were primarily attributable to the impact of the strengthening of the U.S. dollar on the remeasurement of other investments, specifically, overseas deposits mainly denominated in Australian dollar and pound sterling.

Foreign exchange losses of \$2 million for the nine months ended September 30, 2018 were primarily attributable to the impact of the strengthening of the U.S. dollar on the remeasurement of other investments, specifically, overseas deposits mainly denominated in Australian dollar and pound sterling.

The foreign exchange losses of \$33 million and \$90 million for the three and nine months ended September 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. In addition, foreign exchange losses for the nine months ended September 30, 2017 included the reclass of a cumulative translation adjustment balance of \$24 million related to the wind-down of AXIS Specialty Australia from accumulated other comprehensive income to foreign exchange losses.

### **Interest Expense and Financing Costs**

Interest expense and financing costs are related to interest due on 5.875% Senior Notes issued in 2010, 2.65% Senior Notes and the 5.15% Senior Notes issued in 2014, and 4.0% Senior Notes issued in 2017, as well as Dekania Notes issued by Novae in 2004. Interest expenses and financing costs increased by \$4 million and \$12 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, primarily attributable to costs associated with the 4.0% Senior Notes and Dekania Notes.

### **Income Tax Expense (Benefit)**

Income tax expense (benefit) primarily results from income (loss) generated by our foreign operations in the U.S. and Europe. Our effective tax rate is calculated as income tax expense (benefit) divided by net income (loss) before tax including interest in income (loss) of equity method investments. This effective rate can vary between periods depending on the distribution of net income (loss) amongst tax jurisdictions, as well as other factors.

The tax benefit of \$4 million and \$4 million recognized for the three and nine months ended September 30, 2018, respectively, was driven by the generation of pre-tax losses in our U.K. and European operations, largely offset by the generation of pre-tax income in our U.S. operations.

The tax benefit of \$26 million recognized in the three months ended September 30, 2017 was primarily driven by an underwriting loss associated with catastrophe losses recognized in our U.S. operations.

The tax benefit of \$39 million recognized in the nine months ended September 30, 2017 was primarily driven by an underwriting loss associated with catastrophe losses recognized in our U.S. operations, share based compensation excess tax benefits which were recognized in the Consolidated Statement of Operations, and a tax adjustment related to the bargain purchase gain recognized in connection with the acquisition of Aviabel.

**NET INVESTMENT INCOME AND NET INVESTMENT GAINS (LOSSES)**
**Net Investment Income**

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

|                                     | Three months ended September 30, |            |                  | Nine months ended September 30, |           |                   |
|-------------------------------------|----------------------------------|------------|------------------|---------------------------------|-----------|-------------------|
|                                     | 2018                             | % Change   | 2017             | 2018                            | % Change  | 2017              |
| Fixed maturities                    | \$ 89,887                        | 20%        | \$ 74,978        | \$ 262,165                      | 14%       | \$ 230,603        |
| Other investments                   | 15,933                           | (8%)       | 17,373           | 44,179                          | (26%)     | 59,973            |
| Equity securities                   | 2,099                            | (35%)      | 3,223            | 7,015                           | (37%)     | 11,048            |
| Mortgage loans                      | 3,322                            | 15%        | 2,895            | 9,805                           | 23%       | 7,970             |
| Cash and cash equivalents           | 6,992                            | 125%       | 3,111            | 16,770                          | 74%       | 9,640             |
| Short-term investments              | 3,413                            | nm         | 698              | 5,933                           | nm        | 1,797             |
| <b>Gross investment income</b>      | <b>121,646</b>                   | <b>19%</b> | <b>102,278</b>   | <b>345,867</b>                  | <b>8%</b> | <b>321,031</b>    |
| Investment expense                  | (7,225)                          | 2%         | (7,109)          | (20,487)                        | (3%)      | (21,132)          |
| <b>Net investment income</b>        | <b>\$ 114,421</b>                | <b>20%</b> | <b>\$ 95,169</b> | <b>\$ 325,380</b>               | <b>8%</b> | <b>\$ 299,899</b> |
| <b>Pre-tax yield:<sup>(1)</sup></b> |                                  |            |                  |                                 |           |                   |
| Fixed maturities                    | <b>3.0%</b>                      |            | 2.7%             | <b>2.9%</b>                     |           | 2.7%              |

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

**Fixed Maturities**

Net investment income attributable to fixed maturities for the three and nine months ended September 30, 2018 was \$90 million and \$262 million, respectively, compared to net investment income of \$75 million and \$231 million for the three and nine months ended September 30, 2017, respectively. The increase was due to the increase in yields as well as a larger investment base associated with our acquisitions of Novae and Aviabel.

**Other Investments**

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

|   | Three months ended September 30, |                  | Nine months ended September 30, |                  |
|---|----------------------------------|------------------|---------------------------------|------------------|
|   | 2018                             | 2017             | 2018                            | 2017             |
| Hedge, direct lending, private equity and real estate funds | \$ 13,390                        | \$ 14,786        | \$ 35,847                       | \$ 52,526        |
| Other privately held investments                            | 508                              | 1,185            | 1,613                           | 3,517            |
| CLO-Equities  | 2,035                            | 1,402            | 6,719                           | 3,930            |
| <b>Total net investment income from other investments</b>   | <b>\$ 15,933</b>                 | <b>\$ 17,373</b> | <b>\$ 44,179</b>                | <b>\$ 59,973</b> |
| <b>Pre-tax return on other investments<sup>(1)</sup></b>    | <b>2.1%</b>                      | <b>2.1%</b>      | <b>5.7%</b>                     | <b>7.5%</b>      |

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

Net investment income attributable to other investments for the three and nine months ended September 30, 2018 was \$16 million and \$44 million, respectively, compared to net investment income of \$17 million and \$60 million for the three and nine months ended September 30, 2017, respectively. The decrease was due to lower returns from hedge funds as we continued to reduce our hedge fund holdings.

**Net Investment Gains (Losses)**

The following table provides details of net investment gains (losses):

|  | Three months ended September 30, |                  | Nine months ended September 30, |                    |
|--|----------------------------------|------------------|---------------------------------|--------------------|
|  | 2018                             | 2017             | 2018                            | 2017               |
| <i>On sale of investments:</i>                     |                                  |                  |                                 |                    |
| Fixed maturities and short-term investments        | \$ (21,383)                      | \$ 3,404         | \$ (71,971)                     | \$ (25,659)        |
| Equity securities                                  | 15                               | 17,935           | 17,444                          | 33,536             |
|  | (21,368)                         | 21,339           | (54,527)                        | 7,877              |
| OTTI charges recognized in net income              | (5,546)                          | (5,412)          | (7,634)                         | (13,493)           |
| Change in fair value of investment derivatives     | 2,626                            | (1,295)          | 9,782                           | (9,195)            |
| Net unrealized gains (losses) on equity securities | 6,660                            | —                | (25,172)                        | —                  |
| <b>Net investment gains (losses)</b>               | <b>\$ (17,628)</b>               | <b>\$ 14,632</b> | <b>\$ (77,551)</b>              | <b>\$ (14,811)</b> |

Net investment losses for the three months ended September 30, 2018 were \$18 million compared to net investment gains of \$15 million for the three months ended September 30, 2017, a decrease of \$32 million. For the three months ended September 30, 2018, the net investment losses were primarily due to the sale of U.S. government, agency RMBS and corporate debt securities, partially offset by net unrealized investment gains on equity securities of \$7 million which were reported in net investment gains (losses) as opposed to other comprehensive income following the adoption of ASU 2016-01 in the first quarter of 2018.

Net investment losses for the nine months ended September 30, 2018 were \$78 million compared to the net investment losses of \$15 million for the nine months ended September 30, 2017, an increase of \$63 million. For the nine months ended September 30, 2018, net investment losses were primarily due to the sale of U.S. government, agency RMBS and corporate debt securities and net unrealized investment losses on equity securities of \$25 million which were reported in net investment gains (losses) as opposed to other comprehensive income following the adoption of ASU 2016-01.

*On Sale of Investments*

Generally, sales of individual securities occur when there are changes in the relative value, credit quality or duration of a particular issue. We may also sell securities to re-balance our investment portfolio in order to change exposure to particular asset classes or sectors.

*OTTI Charges*

The OTTI charges for the three months ended September 30, 2018 and 2017 were \$6 million and \$5 million, respectively. The OTTI charges for the nine months ended September 30, 2018 were \$8 million, compared to \$13 million for the nine months ended September 30, 2017, a decrease of \$5 million. These OTTI charges were primarily due to impairments of non-U.S. denominated securities due to the decline in foreign exchange rates against the U.S. dollar.

*Change in Fair Value of Investment Derivatives*

From time to time, we economically hedge foreign exchange exposure of non-U.S. denominated securities by entering into foreign exchange forward contracts. During 2017, we introduced the use of interest rate swaps to reduce duration risk of our fixed income portfolio.

For the three months ended September 30, 2018, we recorded gains of \$1 million relating to foreign exchange contracts and gains of \$2 million relating to interest rates swaps. For the three months ended September 30, 2017, we recorded losses of \$2 million relating to foreign exchange contracts and gains of \$1 million relating to interest rates swaps.

For the nine months ended September 30, 2018, we recorded gains of \$2 million relating to foreign exchange contracts and gains of \$8 million relating to interest rates swaps. For the nine months ended September 30, 2017, we recorded losses of \$6 million relating to foreign exchange contracts and losses of \$3 million relating to interest rates swaps.



### Total Return

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

|   | Three months ended September 30, |                      | Nine months ended September 30, |                      |
|---|----------------------------------|----------------------|---------------------------------|----------------------|
|   | 2018                             | 2017                 | 2018                            | 2017                 |
| Net investment income   | \$ 114,421                       | \$ 95,169            | \$ 325,380                      | \$ 299,899           |
| Net investments gains (losses)  | (17,628)                         | 14,632               | (77,551)                        | (14,811)             |
| Change in net unrealized gains (losses) on fixed maturities <sup>(1)</sup>  | (1,073)                          | 48,506               | (184,082)                       | 223,630              |
| Interest in income (loss) of equity method investments                      | 1,667                            | (661)                | 5,045                           | (8,402)              |
| <b>Total</b>  | <b>\$ 97,387</b>                 | <b>\$ 157,646</b>    | <b>\$ 68,792</b>                | <b>\$ 500,316</b>    |
| <b>Average cash and investments <sup>(2)</sup></b>                          | <b>\$ 15,160,361</b>             | <b>\$ 14,533,027</b> | <b>\$ 15,366,875</b>            | <b>\$ 14,519,902</b> |
| <b>Total return on average cash and investments, pre-tax:</b>               |                                  |                      |                                 |                      |
| Including investment related foreign exchange rate movements                | 0.6%                             | 1.1%                 | 0.4%                            | 3.4%                 |
| Excluding investment related foreign exchange rate movements <sup>(3)</sup> | 0.7%                             | 0.9%                 | 0.6%                            | 3.0%                 |

- (1) Change in net unrealized gains (losses) on fixed maturities is calculated by taking net unrealized gains (losses) at period end less net unrealized gains (losses) at the prior period end.
- (2) The average cash and investments balance is calculated by taking the average of the month-end fair value balances held for the periods indicated.
- (3) Pre-tax total return on cash and investments excluding foreign exchange rate movements is a non-GAAP financial measure as defined in SEC Regulation S-K. The reconciliation to pre-tax total return on cash and investments, the most comparable GAAP financial measure, included foreign exchange gains (losses) of \$(10) million and \$22 million for the three months ended September 30, 2018 and 2017, respectively, and foreign exchange gains (losses) of \$(28) million and \$62 million for the nine months ended September 30, 2018 and 2017, respectively.

### CASH AND INVESTMENTS

The table below provides details of our cash and investments:

|  | September 30, 2018   | December 31, 2017    |
|--|----------------------|----------------------|
|  | Fair Value           | Fair Value           |
| Fixed maturities                         | \$ 11,767,697        | \$ 12,622,006        |
| Equity securities                        | 433,311              | 635,511              |
| Mortgage loans                           | 333,018              | 325,062              |
| Other investments                        | 833,563              | 1,009,373            |
| Equity method investments                | 112,155              | 108,597              |
| Short-term investments                   | 156,090              | 83,661               |
| <b>Total investments</b>                 | <b>\$ 13,635,834</b> | <b>\$ 14,784,210</b> |
| Cash and cash equivalents <sup>(1)</sup> | \$ 1,752,402         | \$ 1,363,786         |

- (1) Includes restricted cash and cash equivalents of \$699 million and \$415 million at September 30, 2018 and at December 31, 2017, respectively.

**Overview**

The fair value of total investments decreased by \$1.1 billion for the nine months ended September 30, 2018, driven by the settlement of the RITC agreement of the 2015 and prior years of account of Syndicate 2007, funding of operating activities and the decline in market value of fixed maturities due to the rise in U.S. Treasury rates.

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

***Fixed Maturities***

The table below provides details of our fixed maturities portfolio:

|                            | September 30, 2018   |             | December 31, 2017    |             |
|----------------------------|----------------------|-------------|----------------------|-------------|
|                            | Fair Value           | % of Total  | Fair Value           | % of Total  |
| <b>Fixed maturities:</b>   |                      |             |                      |             |
| U.S. government and agency | \$ 1,605,465         | 14%         | \$ 1,712,469         | 14%         |
| Non-U.S. government        | 548,125              | 5%          | 806,299              | 6%          |
| Corporate debt             | 5,081,085            | 43%         | 5,297,866            | 43%         |
| Agency RMBS                | 1,639,231            | 14%         | 2,395,152            | 19%         |
| CMBS                       | 1,076,955            | 9%          | 777,728              | 6%          |
| Non-Agency RMBS            | 41,786               | —%          | 46,831               | —%          |
| ABS                        | 1,645,811            | 14%         | 1,436,281            | 11%         |
| Municipals <sup>(1)</sup>  | 129,239              | 1%          | 149,380              | 1%          |
| <b>Total</b>               | <b>\$ 11,767,697</b> | <b>100%</b> | <b>\$ 12,622,006</b> | <b>100%</b> |
| <b>Credit ratings:</b>     |                      |             |                      |             |
| U.S. government and agency | \$ 1,605,465         | 14%         | \$ 1,712,469         | 14%         |
| AAA <sup>(2)</sup>         | 4,619,802            | 39%         | 4,990,848            | 39%         |
| AA                         | 911,418              | 8%          | 1,050,631            | 8%          |
| A                          | 1,914,535            | 16%         | 2,090,632            | 17%         |
| BBB                        | 1,660,984            | 14%         | 1,758,291            | 14%         |
| Below BBB <sup>(3)</sup>   | 1,055,493            | 9%          | 1,019,135            | 8%          |
| <b>Total</b>               | <b>\$ 11,767,697</b> | <b>100%</b> | <b>\$ 12,622,006</b> | <b>100%</b> |

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

(2) Includes U.S. government-sponsored agencies, Residential mortgage-backed securities ("RMBS") and Commercial mortgage-backed securities ("CMBS").

(3) Non-investment grade and non-rated securities.

At September 30, 2018, fixed maturities had a weighted average credit rating of AA- (2017: AA-) and an average duration of 3.1 years (2017: 3.3 years), and a duration inclusive of interest rate swaps of 2.9 years (2017: 3.2 years). At September 30, 2018, fixed maturities together with short-term investments and cash and cash equivalents, had an average credit rating of AA- (2017: AA-) and duration inclusive of interest rate swaps was 2.6 years (2017: 2.8 years).

At September 30, 2018, net unrealized investment losses on fixed maturities were \$174 million, compared to net unrealized investment gains of \$11 million at December 31, 2017, a decrease of \$185 million primarily due to the rise in U.S. Treasury rates.

***Equity Securities***

At September 30, 2018, net unrealized investment gains on equity securities were \$57 million, compared to unrealized gains of \$83 million at December 31, 2017, a decrease of \$26 million driven by sales of equity securities and the decline in the euro against the U.S. dollar.

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### Mortgage Loans

During the nine months ended September 30, 2018, our investment in commercial mortgage loans increased by \$8 million. The commercial mortgage loans are high quality and collateralized by a variety of commercial properties and are diversified both geographically throughout the U.S. and by property type to reduce the risk of concentration. At September 30, 2018, there were no credit losses associated with our commercial mortgage loans portfolio.

### Other Investments

The table below provides details of our other investments portfolio:

|  | September 30, 2018 |             | December 31, 2017   |             |
|--|--------------------|-------------|---------------------|-------------|
|  | Fair Value         | % of Total  | Fair Value          | % of Total  |
| <b>Hedge funds</b>   |                    |             |                     |             |
| Long/short equity funds  | \$ 28,593          | 3%          | \$ 38,470           | 4%          |
| Multi-strategy funds   | 185,255            | 22%         | 286,164             | 28%         |
| Event-driven funds   | 38,084             | 5%          | 39,177              | 4%          |
| <b>Total hedge funds</b>   | <b>251,932</b>     | <b>30%</b>  | <b>363,811</b>      | <b>36%</b>  |
| Direct lending funds   | 268,210            | 32%         | 250,681             | 25%         |
| Private equity funds   | 67,840             | 8%          | 68,812              | 7%          |
| Real estate funds  | 63,764             | 8%          | 50,009              | 5%          |
| <b>Total hedge, direct lending, private equity and real estate funds</b> | <b>651,746</b>     | <b>78%</b>  | <b>733,313</b>      | <b>73%</b>  |
| Other privately held investments   | 47,389             | 6%          | 46,430              | 5%          |
| CLO-Equities   | 24,264             | 3%          | 31,413              | 2%          |
| Overseas deposits  | 110,164            | 13%         | 198,217             | 20%         |
| <b>Total other investments</b>   | <b>\$ 833,563</b>  | <b>100%</b> | <b>\$ 1,009,373</b> | <b>100%</b> |

During the nine months ended September 30, 2018, the fair value of total hedge funds decreased by \$112 million driven by \$124 million of net redemptions, partially offset by \$12 million of price appreciation. Certain of these funds may be subject to restrictions on redemptions which may limit our ability to liquidate these investments in the short term. See Note 3(c) to the Consolidated Financial Statements 'Investments' for further details on these restrictions and details on unfunded commitments relating to our other investment portfolio.

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

### Equity Method Investments

During 2016, we paid \$108 million including direct transactions 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"). Harrington is not a variable interest entity. Given that we exercise significant influence over this investee, we account for our ownership interest in Harrington under the equity method of accounting.

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**LIQUIDITY AND CAPITAL RESOURCES**

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Refer to the '*Liquidity and Capital Resources*' section included under Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 for a general discussion of our liquidity and capital resources. The following table summarizes our consolidated capital at:

|  | September 30, 2018  | December 31, 2017   |
|--|---------------------|---------------------|
| Debt   | \$ 1,377,582        | \$ 1,376,529        |
| Preferred shares   | 775,000             | 775,000             |
| Common equity  | 4,497,272           | 4,566,264           |
| Shareholders' equity                                       | 5,272,272           | 5,341,264           |
| <b>Total capital</b>                                       | <b>\$ 6,649,854</b> | <b>\$ 6,717,793</b> |
| <b>Ratio of debt to total capital</b>                      | <b>20.7%</b>        | 20.5%               |
| <b>Ratio of debt and preferred equity to total capital</b> | <b>32.4%</b>        | 32.0%               |

We finance our operations with a combination of debt and equity capital. Our debt to total capital and debt and preferred equity to total capital ratios provide an indication of our capital structure, along with some insight into our financial strength.

At September 30, 2018, our debt and preferred equity to total capital ratio was elevated due to the issuance of \$350 million of 4.0% Senior Notes on December 6, 2017. We intend to use a portion of the proceeds from the issuance of 4.0% Senior Notes to repay or redeem our 2.65% Senior Notes due on April 1, 2019.

We believe that our financial flexibility remains strong.

**Secured Letter of Credit Facility**

On March 28, 2018, certain of AXIS Capital's operating subsidiaries (the "Participating Subsidiaries") amended their existing \$250 million secured letter of credit facility with Citibank Europe plc (the "\$250 Million Facility") under their aggregate \$750 million secured letter of credit facility with Citibank Europe plc (the "\$750 Million Facility") to extend the expiration date to March 31, 2019.

The terms and conditions of the additional \$500 million secured letter of credit facility under the \$750 Million Facility remain unchanged. The \$500 million secured letter of credit facility expires December 31, 2019.

Letters of credit issued under the \$750 Million Facility will principally be used to support the reinsurance obligations of the Participating Subsidiaries. The Participating Subsidiaries are subject to certain covenants, including the requirement to maintain sufficient collateral to cover the obligations outstanding under the \$750 Million Facility. 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 \$750 Million Facility to any or all of the Participating Subsidiaries.

**Common Equity**

During the nine months ended September 30, 2018, our common equity decreased by \$69 million. The following table reconciles our opening and closing common equity positions:

| <b>Nine months ended September 30,</b>                                  | <b>2018</b>         |
|---|---------------------|
| <b>Common equity - opening</b>  | <b>\$ 4,566,264</b> |
| Treasury shares reissued  | 1,709               |
| Share-based compensation expense  | 26,876              |
| Unrealized gains (losses) on available for sale investments, net of tax | (180,332)           |
| Foreign currency translation adjustment                                 | (6,864)             |
| Net income  | 230,812             |
| Preferred share dividends   | (31,969)            |
| Common share dividends  | (100,525)           |
| Treasury shares repurchased   | (8,699)             |
| <b>Common equity - closing</b>  | <b>\$ 4,497,272</b> |

During the nine months ended September 30, 2018, we repurchased 175,000 common shares for a total cost of \$9 million in connection with the vesting of restricted stock awards granted under our 2017 Long-Term Equity Compensation Plan.

Following the Company's announcement of the offer to acquire Novae on July 5, 2017, the Company suspended its open market share repurchase program. On December 31, 2017, authorization under the Board-authorized share repurchase plan for common share repurchases through 2017 expired. A common share repurchase plan has not been authorized for 2018.

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

## **CRITICAL ACCOUNTING ESTIMATES**

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

As disclosed in the Company's 2017 Annual Report on Form 10-K, the Company believes that the material items requiring such subjective and complex estimates are:

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

The Company believes that the critical accounting estimates discussion in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017, continues to describe the significant estimates and judgments included in the preparation of the Consolidated Financial Statements.

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## **RECENT ACCOUNTING PRONOUNCEMENTS**

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Refer to Item 1, Note 1 '*Basis of Presentation and Significant Accounting Policies*' to the Consolidated Financial Statements and Item 8, Note 2 '*Significant Accounting Policies*' to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017, for a discussion of recently issued accounting pronouncements.

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## **OFF-BALANCE SHEET AND SPECIAL PURPOSE ENTITY ARRANGEMENTS**

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At September 30, 2018, the Company had not entered into any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Refer to Item 7A included in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes to this item since December 31, 2017, with the exception of the changes in exposure to foreign currency risk presented below.

**Foreign Currency Risk**

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

|   | AUD               | NZD               | CAD                | EUR               | GBP              | JPY              | Other             | Total             |
|---|-------------------|-------------------|--------------------|-------------------|------------------|------------------|-------------------|-------------------|
| <b>At September 30, 2018</b>  |                   |                   |                    |                   |                  |                  |                   |                   |
| Net managed assets (liabilities), excluding derivatives   | \$ 44,354         | \$ (5,930)        | \$ 104,603         | \$(224,956)       | \$ 53,257        | \$ 26,835        | \$ 96,000         | \$ 94,163         |
| Foreign currency derivatives, net   | (46,665)          | 2,985             | (135,433)          | 331,591           | (27,648)         | (14,978)         | (939)             | 108,913           |
| Net managed foreign currency exposure   | (2,311)           | (2,945)           | (30,830)           | 106,635           | 25,609           | 11,857           | 95,061            | 203,076           |
| Other net foreign currency exposure   | 1                 | —                 | 40                 | (172)             | 93               | —                | 56,102            | 56,064            |
| <b>Total net foreign currency exposure</b>  | <b>\$ (2,310)</b> | <b>\$ (2,945)</b> | <b>\$ (30,790)</b> | <b>\$ 106,463</b> | <b>\$ 25,702</b> | <b>\$ 11,857</b> | <b>\$ 151,163</b> | <b>\$ 259,140</b> |
| Net foreign currency exposure as a percentage of total shareholders' equity   | —%                | (0.1%)            | (0.6%)             | 2.0%              | 0.5%             | 0.2%             | 2.9%              | 4.9%              |
| Pre-tax impact of net foreign currency exposure on shareholders' equity given a hypothetical 10% rate movement <sup>(1)</sup> | \$ (231)          | \$ (295)          | \$ (3,079)         | \$ 10,646         | \$ 2,570         | \$ 1,186         | \$ 15,116         | \$ 25,913         |

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

**Total Net Foreign Currency Exposure**

At September 30, 2018, our total net foreign currency exposure was \$259 million net long, driven by increases in our exposures to the euro and other non-core currencies primarily due to new business written during the nine months ended September 30, 2018. Of this balance, \$56 million is from other net foreign currency exposures including assets managed by specific investment managers who have the discretion to hold foreign currency exposures as part of their total return strategy. Our emerging market debt portfolio is the primary contributor to this group of assets.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

The Company's management has performed an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) at September 30, 2018. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at September 30, 2018, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

## **Changes in Internal Control Over Financial Reporting**

The Company's management has performed an evaluation, with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer, of changes in the Company's internal control over financial reporting that occurred during the three months ended September 30, 2018. Based upon that evaluation, there were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

The Company is not party to any material legal proceedings arising outside the ordinary course of business.

### **ITEM 1A. RISK FACTORS**

There were no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

The following table presents information regarding the number of shares we repurchased during the three months ended September 30, 2018:

#### **ISSUER PURCHASES OF EQUITY SECURITIES**

##### **Common Shares**

| <b>Period</b>        | <b>Total Number of Shares Repurchased<sup>(a)</sup></b> | <b>Average Price Paid Per Share</b> | <b>Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs</b> | <b>Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Repurchased Under the Announced Plans or Programs<sup>(b)</sup></b> |
|----------------------|---|-------------------------------------|---|---|
| July 1-31, 2018      | —   | \$—                                 | —   | —   |
| August 1-31, 2018    | —   | —                                   | —   | —   |
| September 1-30, 2018 | —   | —                                   | —   | —   |
| <b>Total</b>         | <b>—</b>  |                                     | <b>—</b>  | <b>—</b>  |

(a) Shares are repurchased from employees to satisfy withholding tax liabilities upon the vesting of restricted stock units.

(b) On July 5, 2017, following the offer to acquire Novae Group plc ("Novae"), the Company suspended its open market share repurchase program. On October 2, 2017, AXIS Capital acquired the shares of Novae. On December 31, 2017, authorization under the Board-authorized share repurchase plan for common share repurchases through 2017 expired. A common share repurchase plan has not been authorized for 2018.





## ITEM 5. OTHER INFORMATION

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### **Disclosure of Certain Activities Under Section 13(r) of the Securities Exchange Act of 1934**

Section 13(r) of the Securities Exchange Act of 1934, as amended, requires issuers to disclose in their annual and quarterly reports whether they or any of their affiliates knowingly engaged in certain activities with Iran or with individuals or entities that are subject to certain sanctions under U.S. law. Issuers are required to provide this disclosure even where the activities, transactions or dealings are conducted outside of the U.S. in compliance with applicable law.

As and when allowed by the applicable law and regulations, certain of our non-U.S. subsidiaries provide treaty reinsurance coverage to non-U.S. insurers on a worldwide basis, including insurers of liability, marine, aviation and energy risks, and as a result, these underlying reinsurance portfolios may have some exposure to Iran. In addition, we underwrite insurance and facultative reinsurance on a global basis to non-U.S. insureds and insurers, including for liability, marine, aviation and energy risks. Coverage provided to non-Iranian business may indirectly cover an exposure in Iran. For example, certain of our operations underwrite global marine hull and cargo policies that provide coverage for vessels navigating into and out of ports worldwide, including Iran. For the quarter ended September 30, 2018, there has been no material amount of premium allocated or apportioned to activities relating to Iran. We intend for our non-U.S. subsidiaries to continue to provide such coverage only to the extent permitted by applicable law.

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## ITEM 6. EXHIBITS

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- [2.1](#) Rule 2.7 Announcement, dated July 5, 2017 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 6, 2017).
- [2.2](#) Rule 2.7 Announcement, dated August 24, 2017 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 25, 2017).
- [3.1](#) Certificate of Incorporation and Memorandum of Association (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-103620) filed on April 16, 2003).
- [3.2](#) Amended and Restated Bye-Laws (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed on May 15, 2009).
- [4.1](#) Specimen Common Share Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 3) (No. 333-103620) filed on June 10, 2003).
- [4.2](#) Certificate of Designations establishing the specific rights, preferences, limitations and other terms of the Series D Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 20, 2013).
- [4.3](#) Certificate of Designations establishing the specific rights, preferences, limitations and other terms of the Series E Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 7, 2016).
- †[31.1](#) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- †[31.2](#) Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- †[32.1](#) Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- †[32.2](#) Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- †101 The following financial information from AXIS Capital Holdings Limited's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 formatted in XBRL: (i) Consolidated Balance Sheets at September 30, 2018 and December 31, 2017; (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017; (iv) Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2018 and 2017; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017; and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

† Filed herewith.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that

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purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

**SIGNATURES**

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

Dated: November 8, 2018

**AXIS CAPITAL HOLDINGS LIMITED**

By:

/S/ ALBERT BENCHIMOL

Albert Benchimol

President and Chief Executive Officer

(Principal Executive Officer)

/S/ PETER VOGT

Peter Vogt

Chief Financial Officer

(Principal Financial Officer)

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## Section 2: EX-31.1 (EXHIBIT 31.1)

**Exhibit 31.1**

**CERTIFICATION**

**AXIS Capital Holdings Limited**

**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Albert Benchimol, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AXIS Capital Holdings Limited for the period ended September 30, 2018;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for

external purposes in accordance with generally accepted accounting principles;

- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ALBERT BENCHIMOL

Date: November 8, 2018

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Albert Benchimol  
President and Chief Executive Officer

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## Section 3: EX-31.2 (EXHIBIT 31.2)

**Exhibit 31.2**

**CERTIFICATION**  
**AXIS Capital Holdings Limited**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Peter Vogt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AXIS Capital Holdings Limited for the period ended September 30, 2018;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2018

/S/ PETER VOGT

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Peter Vogt  
Chief Financial Officer

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## Section 4: EX-32.1 (EXHIBIT 32.1)

**Exhibit 32.1**

**AXIS CAPITAL HOLDINGS LIMITED  
CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of AXIS Capital Holdings Limited (the "Company") for the quarterly period ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Albert Benchimol, Chief Executive Officer of the Company, hereby certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2018

/s/ ALBERT BENCHIMOL

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Albert Benchimol  
President and Chief Executive Officer

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

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## Section 5: EX-32.2 (EXHIBIT 32.2)

**Exhibit 32.2**

**AXIS CAPITAL HOLDINGS LIMITED  
CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of AXIS Capital Holdings Limited (the "Company") for the quarterly period ended

September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter Vogt, Chief Financial Officer of the Company, hereby certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2018

/s/ PETER VOGT

Peter Vogt

Chief Financial Officer

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

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