AXIS CAPITAL HOLDINGS LTD
Form 10-Q
July 29, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-31721
AXIS CAPITAL HOLDINGS LIMITED
(Exact name of registrant as specified in its charter)
BERMUDA
(State or other jurisdiction of incorporation or organization)
98-0395986
(I.R.S. Employer Identification No.)
92 Pitts Bay Road, Pembroke, Bermuda HM 08
(Address of principal executive offices and zip code)
(441) 496-2600
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of July 22, 2015, there were 100,638,757 Common Shares, $0.0125 par value per share, of the registrant outstanding.

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PART I FINANCIAL INFORMATION

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

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

- the occurrence and magnitude of natural and man-made disasters,
- actual claims exceeding our loss reserves,
- general economic, capital and credit market conditions,
- the failure of any of the loss limitation methods we employ,
- the effects of emerging claims, coverage and regulatory issues, including uncertainty related to coverage definitions, limits, terms and conditions,
- the failure of our cedants to adequately evaluate risks,
- inability to obtain additional capital on favorable terms, or at all,
- the loss of one or more key executives,
- a decline in our ratings with rating agencies,
- loss of business provided to us by our major brokers,
- changes in accounting policies or practices,
- the use of industry catastrophe models and changes to these models,
- changes in governmental regulations,
- increased competition,
- changes in the political environment of certain countries in which we operate or underwrite business,
- fluctuations in interest rates, credit spreads, equity prices and/or currency values,
- the failure to complete our amalgamation with PartnerRe Ltd., and
- the other matters set forth under Item 1A, ‘Risk Factors’ and Item 7, ‘Management’s Discussion and Analysis of Financial Condition and Results of Operations’ included in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2015 (UNAUDITED) AND DECEMBER 31, 2014

	2015	2014
	(in thousands)	
Assets		
Investments:		
Fixed maturities, available for sale, at fair value (Amortized cost 2015: $12,093,366; 2014: $12,185,973)	$12,005,736	$12,129,273
Equity securities, available for sale, at fair value (Cost 2015: $618,869; 2014: $531,648)	659,181	567,707
Mortgage loans, held for investment, at amortized cost and fair value	79,606	—
Other investments, at fair value	853,101	965,465
Short-term investments, at amortized cost and fair value	30,618	107,534
Total investments	13,628,242	13,769,979
Cash and cash equivalents	989,395	921,830
Restricted cash and cash equivalents	190,664	287,865
Accrued interest receivable	78,409	83,070
Insurance and reinsurance premium balances receivable	2,394,037	1,808,620
Reinsurance recoverable on unpaid and paid losses	2,063,087	1,926,145
Deferred acquisition costs	594,863	466,987
Prepaid reinsurance premiums	387,639	351,441
Receivable for investments sold	1,304	169
Goodwill and intangible assets	101,053	88,960
Other assets	276,182	250,670
Total assets	$20,704,875	$19,955,736
Liabilities		
Reserve for losses and loss expenses	$9,693,440	$9,596,797
Unearned premiums	3,324,578	2,735,376
Insurance and reinsurance balances payable	296,794	249,186
Senior notes	991,302	990,790
Payable for investments purchased	213,142	188,176
Other liabilities	237,061	315,471
Total liabilities	14,756,317	14,075,796
Shareholders' equity		
Preferred shares	627,843	627,843
Common shares (2015: 176,206; 2014: 175,478 shares issued and 2015: 100,284; 2014: 99,426 shares outstanding)	2,201	2,191
Additional paid-in capital	2,285,772	2,285,016
Accumulated other comprehensive loss	(78,067)	(45,574)
Retained earnings	5,875,147	5,715,504
Treasury shares, at cost (2015: 75,922; 2014: 76,052 shares)	(2,764,338)	(2,763,859)
Total shareholders' equity attributable to AXIS Capital	5,948,558	5,821,121
Noncontrolling interests	—	58,819

Total shareholders’ equity	5,948,558	5,879,940
Total liabilities and shareholders’ equity	$20,704,875	$19,955,736

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	Three months ended		Six months ended	
	2015	2014	2015	2014
	(in thousands, except for per share amounts)			
Revenues				
Net premiums earned	$941,211	$1,000,400	$1,845,264	$1,946,349
Net investment income	88,544	114,867	180,651	197,610
Other insurance related income	3,486	1,683	11,162	4,766
Net realized investment gains (losses):				
Other-than-temporary impairment (OTTI) losses	(12,893)	(1,905)	(30,461)	(2,690)
Other realized investment gains (losses)	1,783	35,166	(23,201)	46,572
Total net realized investment gains (losses)	(11,110)	33,261	(53,662)	43,882
Total revenues	1,022,131	1,150,211	1,983,415	2,192,607
Expenses				
Net losses and loss expenses	580,153	565,829	1,092,481	1,110,036
Acquisition costs	183,263	191,862	354,805	363,899
General and administrative expenses	148,482	151,081	311,723	303,810
Foreign exchange losses (gains)	22,108	9,705	(41,112)	13,939
Interest expense and financing costs	12,939	19,975	25,196	36,569
Total expenses	946,945	938,452	1,743,093	1,828,253
Income before income taxes	75,186	211,759	240,322	364,354
Income tax expense	1,815	9,500	1,125	13,625
Net income	73,371	202,259	239,197	350,729
Amounts attributable to noncontrolling interests	—	1,573	—	2,795
Net income attributable to AXIS Capital	73,371	200,686	239,197	347,934
Preferred share dividends	10,022	10,022	20,044	20,044
Net income available to common shareholders	$63,349	$190,664	$219,153	$327,890
Per share data				
Net income per common share:				
Basic net income	$0.63	$1.81	$2.19	$3.06
Diluted net income	$0.63	$1.79	$2.17	$3.03
Weighted average number of common shares outstanding - basic	100,274	105,118	100,093	107,075
Weighted average number of common shares outstanding - diluted	101,160	106,289	101,151	108,329
Cash dividends declared per common share	$0.29	$0.27	$0.58	$0.54

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	Three months ended		Six months ended	
	2015	2014	2015	2014
	(in thousands)			
Net income	$73,371	$202,259	$239,197	$350,729
Other comprehensive income (loss), net of tax:				
Available for sale investments:				
Unrealized gains (losses) arising during the period	(72,041)	120,550	(77,228)	191,933
Adjustment for reclassification of net realized investment gains (losses) and OTTI losses recognized in net income	8,857	(33,929)	53,960	(43,543)
Unrealized gains (losses) arising during the period, net of reclassification adjustment	(63,184)	86,621	(23,268)	148,390
Foreign currency translation adjustment	2,188	3,790	(9,225)	6,449
Total other comprehensive income (loss), net of tax	(60,996)	90,411	(32,493)	154,839
Comprehensive income	12,375	292,670	206,704	505,568
Amounts attributable to noncontrolling interests	—	(1,573)	—	(2,795)
Comprehensive income attributable to AXIS Capital	$12,375	$291,097	$206,704	$502,773

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	2015	2014
	(in thousands)	
Preferred shares		
Balance at beginning and end of period	$627,843	$627,843
Common shares (par value)		
Balance at beginning of period	2,191	2,174
Shares issued	10	15
Balance at end of period	2,201	2,189
Additional paid-in capital		
Balance at beginning of period	2,285,016	2,240,125
Shares issued - common shares	2,605	2,549
Cost of treasury shares reissued	(17,451)	(11,524)
Stock options exercised	560	2,134
Share-based compensation expense	15,042	27,800
Balance at end of period	2,285,772	2,261,084
Accumulated other comprehensive income (loss)		
Balance at beginning of period	(45,574)	117,825
Unrealized gains (losses) on available for sale investments, net of tax:		
Balance at beginning of period	(28,192)	124,945
Unrealized gains (losses) arising during the period, net of reclassification adjustment	(23,268)	148,390
Non-credit portion of OTTI losses	—	—
Balance at end of period	(51,460)	273,335
Cumulative foreign currency translation adjustments, net of tax:		
Balance at beginning of period	(17,382)	(7,120)
Foreign currency translation adjustments	(9,225)	6,449
Balance at end of period	(26,607)	(671)
Balance at end of period	(78,067)	272,664
Retained earnings		
Balance at beginning of period	5,715,504	5,062,706
Net income	239,197	350,729
Amounts attributable to noncontrolling interests	—	(2,795)
Preferred share dividends	(20,044)	(20,044)
Common share dividends	(59,510)	(59,397)
Balance at end of period	5,875,147	5,331,199
Treasury shares, at cost		
Balance at beginning of period	(2,763,859)	(2,232,711)
Shares repurchased for treasury	(17,930)	(318,082)
Cost of treasury shares reissued	17,451	11,524
Balance at end of period	(2,764,338)	(2,539,269)

Total shareholders’ equity attributable to AXIS Capital	5,948,558	5,955,710
Noncontrolling interests	—	52,795
Total shareholders' equity	$5,948,558	$6,008,505

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	2015	2014
	(in thousands)	
Cash flows from operating activities:		
Net income	$239,197	$350,729
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized investment losses (gains)	53,662	(43,882)
Net realized and unrealized gains on other investments	(45,037)	(49,252)
Amortization of fixed maturities	54,356	56,122
Other amortization and depreciation	10,265	10,919
Share-based compensation expense, net of cash payments	14,463	27,763
Changes in:		
Accrued interest receivable	5,071	5,929
Reinsurance recoverable balances	(140,911)	(20,663)
Deferred acquisition costs	(128,010)	(167,095)
Prepaid reinsurance premiums	(34,247)	(5,590)
Reserve for loss and loss expenses	147,463	217,924
Unearned premiums	589,438	721,870
Insurance and reinsurance balances, net	(561,146)	(696,877)
Other items	(88,952)	(15,654)
Net cash provided by operating activities	115,612	392,243
Cash flows from investing activities:		
Purchases of:		
Fixed maturities	(5,454,612)	(6,581,006)
Equity securities	(96,170)	(209,381)
Mortgage loans	(79,606)	—
Other investments	(54,482)	(37,512)
Short-term investments	(30,745)	(463,051)
Proceeds from the sale of:		
Fixed maturities	4,660,534	5,784,439
Equity securities	2,115	197,354
Other investments	211,883	88,080
Short-term investments	100,461	391,966
Proceeds from redemption of fixed maturities	782,367	532,445
Proceeds from redemption of short-term investments	6,987	16,503
Purchase of other assets	(12,093)	(16,039)
Change in restricted cash and cash equivalents	97,201	(80,827)
Impact of the deconsolidation of a variable interest entity	(71,649)	—
Net cash provided by (used in) investing activities	62,191	(377,029)
Cash flows from financing activities:		
Dividends paid - common shares	(59,170)	(60,903)

Repurchase of common shares	(25,951)	(318,082)
Dividends paid - preferred shares	(20,044)	(20,044)
Proceeds from issuance of common shares	3,175	4,698
Net proceeds from issuance of senior notes	—	494,344
Net cash provided by (used in) financing activities	(101,990)	100,013
Effect of exchange rate changes on foreign currency cash and cash equivalents	(8,248)	5,473
Increase in cash and cash equivalents	67,565	120,700
Cash and cash equivalents - beginning of period	921,830	923,326
Cash and cash equivalents - end of period	$989,395	$1,044,026

See accompanying notes to Consolidated Financial Statements.

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

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

The consolidated balance sheet at June 30, 2015 and the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the periods ended June 30, 2015 and 2014 have not been audited. The balance sheet at December 31, 2014 is derived from our audited financial statements.

These financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") for interim financial information and with the Securities and Exchange Commission's ("SEC") instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of our financial position and results of operations for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All inter-company accounts and transactions have been eliminated.

The following information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014. Tabular dollar and share amounts are in thousands, except per share amounts. All amounts are reported in U.S. dollars.

Significant Accounting Policies

There were no notable changes in our significant accounting policies subsequent to our Annual Report on Form 10-K for the year ended December 31, 2014, with the exception of the addition to our accounting policy for mortgage loans held-for-investment noted below.

Mortgage Loans Held-For-Investment

Mortgage loans held-for-investment are stated at amortized cost calculated as the unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, and are net of valuation allowances. Interest income and prepayment fees are recognized when earned. Interest income is recognized using an effective yield method giving effect to the amortization of premiums and accretion of discounts.

New Accounting Standards Adopted in 2015

Consolidation

During the second quarter of 2015, the Company early adopted the Accounting Standards Update ("ASU") 2015-02, "Amendments to the Consolidation Analysis" issued by the Financial Accounting Standards Board (the "FASB"). The adoption of this amended accounting guidance resulted in the Company concluding that it no longer had a variable interest in AXIS Ventures Reinsurance Limited ("Ventures Re") and therefore it was no longer required to consolidate the results of operations and the financial position of Ventures Re in its Consolidated Financial Statements. The Company adopted this revised accounting guidance using the modified retrospective approach and ceased to consolidate Ventures Re effective as of January 1, 2015. There was no impact from the adoption of ASU 2015-02 on the Company’s cumulative retained earnings. Refer to Note 11 to the Consolidated Financial Statements "Noncontrolling Interests" for more information.

The new consolidation guidance did not have an impact on any other investments currently held by the Company.

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

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards Not Yet Adopted

Disclosures About Short-Duration Contracts

In May 2015, the FASB issued new guidance making targeted improvements to existing disclosure requirements for short-duration contracts. The guidance requires insurance entities to disclose additional information about the liability for unpaid claims and claim adjustment expenses. The guidance is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016, with early adoption permitted. The guidance will be applied retrospectively. As the new guidance is disclosure-related only, the adoption of this guidance is not expected to impact our results of operations, financial condition or liquidity.

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

In May 2015, the FASB issued new guidance eliminating the requirement to categorize investments measured using the NAV practical expedient in the fair value hierarchy table. This guidance is effective for reporting periods beginning after December 15, 2015, with early adoption permitted. The guidance will be applied retrospectively. As the new guidance is disclosure-related only, the adoption of this guidance is not expected to impact our results of operations, financial condition or liquidity.

2. SEGMENT INFORMATION

Our underwriting operations are organized around our global underwriting platforms, AXIS Insurance and AXIS Re. Therefore we have determined that we have two reportable segments, insurance and reinsurance. We do not allocate our assets by segment, with the exception of goodwill and intangible assets, as we evaluate the underwriting results of each segment separately from the results of our investment portfolio.

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

2. SEGMENT INFORMATION (CONTINUED)

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

Three months ended and at June 30,	2015 Insurance	2015 Reinsurance	2015 Total	2014 Insurance	2014 Reinsurance	2014 Total
Gross premiums written	$761,126	$427,287	$1,188,413	$754,110	$477,169	$1,231,279
Net premiums written	534,263	412,281	946,544	541,097	459,065	1,000,162
Net premiums earned	452,322	488,889	941,211	457,670	542,730	1,000,400
Other insurance related income	269	3,217	3,486	—	1,683	1,683
Net losses and loss expenses	(297,534)	(282,619)	(580,153)	(290,466)	(275,363)	(565,829)
Acquisition costs	(66,920)	(116,343)	(183,263)	(71,039)	(120,823)	(191,862)
General and administrative expenses	(88,420)	(36,013)	(124,433)	(83,512)	(34,299)	(117,811)
Underwriting income (loss)	$(283)	$57,131	56,848	$12,653	$113,928	126,581
Corporate expenses			(24,049)			(33,270)
Net investment income			88,544			114,867
Net realized investment gains (losses)			(11,110)			33,261
Foreign exchange losses			(22,108)			(9,705)
Interest expense and financing costs			(12,939)			(19,975)
Income before income taxes			$75,186			$211,759
Net loss and loss expense ratio	65.8%	57.8%	61.6%	63.5%	50.7%	56.6%
Acquisition cost ratio	14.8%	23.8%	19.5%	15.5%	22.3%	19.2%
General and administrative expense ratio	19.5%	7.4%	15.8%	18.2%	6.3%	15.0%
Combined ratio	100.1%	89.0%	96.9%	97.2%	79.3%	90.8%
Goodwill and intangible assets	$101,053	$—	$101,053	$90,025	$—	$90,025

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

2. SEGMENT INFORMATION (CONTINUED)

Six months ended and at June 30,	2015 Insurance	2015 Reinsurance	2015 Total	2014 Insurance	2014 Reinsurance	2014 Total
Gross premiums written	$1,363,850	$1,503,495	$2,867,345	$1,355,831	$1,696,847	$3,052,678
Net premiums written	971,004	1,431,086	2,402,090	997,789	1,666,957	2,664,746
Net premiums earned	899,789	945,475	1,845,264	906,884	1,039,465	1,946,349
Other insurance related income	269	10,893	11,162	—	4,766	4,766
Net losses and loss expenses	(583,307)	(509,174)	(1,092,481)	(569,889)	(540,147)	(1,110,036)
Acquisition costs	(131,375)	(223,430)	(354,805)	(136,096)	(227,803)	(363,899)
General and administrative expenses	(176,109)	(75,393)	(251,502)	(171,459)	(70,375)	(241,834)
Underwriting income	$9,267	$148,371	157,638	$29,440	$205,906	235,346
Corporate expenses			(60,221)			(61,976)
Net investment income			180,651			197,610
Net realized investment gains (losses)			(53,662)			43,882
Foreign exchange (losses) gains			41,112			(13,939)
Interest expense and financing costs			(25,196)			(36,569)
Income before income taxes			$240,322			$364,354
Net loss and loss expense ratio	64.8%	53.9%	59.2%	62.8%	52.0%	57.0%
Acquisition cost ratio	14.6%	23.6%	19.2%	15.0%	21.9%	18.7%
General and administrative expense ratio	19.6%	8.0%	16.9%	19.0%	6.7%	15.6%
Combined ratio	99.0%	85.5%	95.3%	96.8%	80.6%	91.3%
Goodwill and intangible assets	$101,053	$—	$101,053	$90,025	$—	$90,025

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

3. GOODWILL AND INTANGIBLES

On April 1, 2015, the Company announced that it completed the acquisition of Ternian Insurance Group LLC ("Ternian"), a leading provider of voluntary, limited benefit affordable health plans and other employee benefits coverage for hourly and part-time workers and their families. The Company recognized intangible assets of $13 million associated with this acquisition.

The following table shows an analysis of goodwill and intangible assets:

	Goodwill	Intangible assets with an indefinite life	Intangible assets with a finite life	Total
Net balance at December 31, 2014	$47,148	$26,036	$15,776	$88,960
Acquisition of Ternian	—	—	13,330	13,330
Amortization	n/a	n/a	(1,280)	(1,280)
Foreign currency translation adjustment	—	—	43	43
Net balance at June 30, 2015	$47,148	$26,036	$27,869	$101,053
Gross balance at June 30, 2015	$42,237	$26,036	$48,926	$117,199
Accumulated amortization	n/a	n/a	(26,863)	(26,863)
Foreign currency translation adjustment	4,911	—	5,806	10,717
Net balance at June 30, 2015	$47,148	$26,036	$27,869	$101,053

n/a – not applicable
We estimate that the amortization expense for our total intangible assets with a finite life for the next six months will be approximately $2 million and annual amortization expense for 2016 through 2018 will be approximately $3 million and 2019 through 2020 will be approximately $2 million each year. The estimated remaining useful lives of these assets range from four to twenty-four years.
Intangible assets with an indefinite life consist primarily of U.S. state licenses that provide a legal right to transact business indefinitely.

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

4. INVESTMENTS

a) Fixed Maturities and Equities

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

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI in AOCI(5)
At June 30, 2015					
Fixed maturities					
U.S. government and agency	$1,699,826	$3,731	$(20,448)	$1,683,109	$—
Non-U.S. government	958,293	6,242	(64,000)	900,535	—
Corporate debt	4,444,087	32,273	(72,408)	4,403,952	—
Agency RMBS(1)	2,114,217	30,038	(9,279)	2,134,976	—
CMBS(2)	1,093,612	9,814	(3,856)	1,099,570	—
Non-Agency RMBS	99,590	2,667	(983)	101,274	(839)
ABS(3)	1,429,667	3,372	(5,978)	1,427,061	—
Municipals(4)	254,074	3,405	(2,220)	255,259	—
Total fixed maturities	$12,093,366	$91,542	$(179,172)	$12,005,736	$(839)
Equity securities					
Exchange-traded funds	495,590	44,153	(3,763)	535,980	
Bond mutual funds	123,279	—	(78)	123,201	
Total equity securities	$618,869	$44,153	$(3,841)	$659,181	
At December 31, 2014					
Fixed maturities					
U.S. government and agency	$1,645,068	$3,337	$(28,328)	$1,620,077	$—
Non-U.S. government	1,080,601	7,383	(54,441)	1,033,543	—
Corporate debt	4,386,432	40,972	(66,280)	4,361,124	—
Agency RMBS(1)	2,241,581	40,762	(4,235)	2,278,108	—
CMBS(2)	1,085,618	13,289	(2,019)	1,096,888	—
Non-Agency RMBS	71,236	2,765	(915)	73,086	(889)
ABS(3)	1,475,026	2,748	(16,188)	1,461,586	—
Municipals(4)	200,411	5,282	(832)	204,861	—
Total fixed maturities	$12,185,973	$116,538	$(173,238)	$12,129,273	$(889)
Equity securities					
Exchange-traded funds	416,063	43,583	(4,756)	454,890	
Bond mutual funds	115,585	—	(2,768)	112,817	
Total equity securities	$531,648	$43,583	$(7,524)	$567,707	

(1) Residential mortgage-backed securities (RMBS) originated by U.S. agencies.
(2) Commercial mortgage-backed securities (CMBS).
(3)

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

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

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

In the normal course of investing activities, we actively manage allocations to non-controlling tranches of structured securities (variable interests) issued by VIEs. These structured securities include RMBS, CMBS and ABS and are included in the above table. Additionally, within our other investments portfolio, we also invest in limited partnerships (hedge funds) and CLO equity tranched

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AXIS CAPITAL HOLDINGS LIMITED
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4. INVESTMENTS (CONTINUED)

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

Contractual Maturities

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

	Amortized Cost	Fair Value	% of Total Fair Value	
At June 30, 2015				
Maturity				
Due in one year or less	$553,743	$543,896	4.5	%
Due after one year through five years	4,407,166	4,373,414	36.4	%
Due after five years through ten years	2,069,297	2,005,587	16.7	%
Due after ten years	326,074	319,958	2.7	%
	7,356,280	7,242,855	60.3	%
Agency RMBS	2,114,217	2,134,976	17.8	%
CMBS	1,093,612	1,099,570	9.2	%
Non-Agency RMBS	99,590	101,274	0.8	%
ABS	1,429,667	1,427,061	11.9	%
Total	$12,093,366	$12,005,736	100.0	%
At December 31, 2014				
Maturity				
Due in one year or less	$424,077	$423,265	3.5	%
Due after one year through five years	4,925,780	4,892,411	40.3	%
Due after five years through ten years	1,755,248	1,695,641	14.0	%
Due after ten years	207,407	208,288	1.7	%
	7,312,512	7,219,605	59.5	%
Agency RMBS	2,241,581	2,278,108	18.8	%
CMBS	1,085,618	1,096,888	9.0	%
Non-Agency RMBS	71,236	73,086	0.6	%
ABS	1,475,026	1,461,586	12.1	%
Total	$12,185,973	$12,129,273	100.0	%

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AXIS CAPITAL HOLDINGS LIMITED
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4. INVESTMENTS (CONTINUED)

Gross Unrealized Losses

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

	12 months or greater		Less than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At June 30, 2015						
Fixed maturities						
U.S. government and agency	$128,916	$(6,688)	$881,631	$(13,760)	$1,010,547	$(20,448)
Non-U.S. government	163,690	(46,219)	298,542	(17,781)	462,232	(64,000)
Corporate debt	229,078	(19,633)	2,326,826	(52,775)	2,555,904	(72,408)
Agency RMBS	65,726	(1,740)	763,509	(7,539)	829,235	(9,279)
CMBS	64,037	(784)	297,266	(3,072)	361,303	(3,856)
Non-Agency RMBS	4,963	(600)	44,753	(383)	49,716	(983)
ABS	495,889	(5,090)	336,672	(888)	832,561	(5,978)
Municipals	14,478	(405)	148,681	(1,815)	163,159	(2,220)
Total fixed maturities	$1,166,777	$(81,159)	$5,097,880	$(98,013)	$6,264,657	$(179,172)
Equity securities						
Exchange-traded funds	—	—	115,026	(3,763)	115,026	(3,763)
Bond mutual funds	—	—	16,692	(78)	16,692	(78)
Total equity securities	$—	$—	$131,718	$(3,841)	$131,718	$(3,841)
At December 31, 2014						
Fixed maturities						
U.S. government and agency	$388,551	$(24,319)	$786,850	$(4,009)	$1,175,401	$(28,328)
Non-U.S. government	143,602	(29,171)	435,670	(25,270)	579,272	(54,441)
Corporate debt	26,708	(2,221)	2,199,672	(64,059)	2,226,380	(66,280)
Agency RMBS	259,914	(3,084)	333,288	(1,151)	593,202	(4,235)
CMBS	68,624	(925)	256,225	(1,094)	324,849	(2,019)
Non-Agency RMBS	6,689	(613)	13,442	(302)	20,131	(915)
ABS	425,663	(10,325)	750,679	(5,863)	1,176,342	(16,188)
Municipals	34,462	(644)	25,284	(188)	59,746	(832)
Total fixed maturities	$1,354,213	$(71,302)	$4,801,110	$(101,936)	$6,155,323	$(173,238)
Equity securities						
Exchange-traded funds	—	—	91,275	(4,756)	91,275	(4,756)
Bond mutual funds	—	—	112,817	(2,768)	112,817	(2,768)
Total equity securities	$—	$—	$204,092	$(7,524)	$204,092	$(7,524)

Fixed Maturities

At June 30, 2015, 1,525 fixed maturities (2014: 1,388) were in an unrealized loss position of $179 million (2014: $173 million), of which $19 million (2014: $36 million) was related to securities below investment grade or not rated.

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AXIS CAPITAL HOLDINGS LIMITED
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4. INVESTMENTS (CONTINUED)

At June 30, 2015, 285 (2014: 223) securities had been in a continuous unrealized loss position for 12 months or greater and had a fair value of $1,167 million (2014: $1,354 million). Following our credit impairment review, we concluded that these securities as well as the remaining securities in an unrealized loss position in the above table were temporarily impaired at June 30, 2015, and were expected to recover in value as the securities approach maturity. Further, at June 30, 2015, we did not intend to sell these securities in an unrealized loss position and it is more likely than not that we will not be required to sell these securities before the anticipated recovery of their amortized costs.

Equity Securities

At June 30, 2015, 38 securities (2014: 9) were in an unrealized loss position of $4 million (2014: $8 million).

At June 30, 2015 and December 31, 2014, there were no securities that had been in a continuous unrealized loss position for 12 months or greater. Based on our impairment review process and our ability and intent to hold these securities for a reasonable period of time sufficient for a full recovery, we concluded that the above equities in an unrealized loss position were temporarily impaired at June 30, 2015.

b) Mortgage Loans

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

	June 30, 2015		December 31, 2014	
	Carrying Value	% of Total	Carrying Value	% of Total
Mortgage Loans held-for-investment:				
Commercial	$79,606	100 %	$—	— %
	79,606	100 %	—	— %
Valuation allowances	—	— %	—	— %
Total Mortgage Loans held-for-investment	$79,606	100 %	$—	— %

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

All commercial mortgage loans have debt service coverage ratios in excess of 1.5x and loan-to-value ratios of less than 65%; there are no credit losses associated with the commercial mortgage loans that we hold at June 30, 2015.

We have a high quality mortgage loan portfolio with no past due amounts at June 30, 2015.

c) Other Investments

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

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4. INVESTMENTS (CONTINUED)

	Fair Value			Redemption Frequency (if currently eligible)	Redemption Notice Period
At June 30, 2015					
Long/short equity funds	$192,622	23	%	Quarterly, Semi-annually, Annually	30-60 days
Multi-strategy funds	345,726	41	%	Quarterly, Semi-annually	60-95 days
Event-driven funds	147,236	17	%	Quarterly, Annually	45-60 days
Leveraged bank loan funds	75	—	%	n/a	n/a
Direct lending funds	73,628	9	%	n/a	n/a
Real estate funds	3,000	—	%	n/a	n/a
CLO - Equities	90,814	10	%	n/a	n/a
Total other investments	$853,101	100	%		
At December 31, 2014					
Long/short equity funds	$298,907	31	%	Quarterly, Semi-annually	30-60 days
Multi-strategy funds	324,020	34	%	Quarterly, Semi-annually	60-95 days
Event-driven funds	185,899	19	%	Quarterly, Annually	45-60 days
Leveraged bank loan funds	9,713	1	%	Quarterly	65 days
Direct lending funds	54,438	6	%	n/a	n/a
Real estate funds	—	—	%	n/a	n/a
CLO - Equities	92,488	9	%	n/a	n/a
Total other investments	$965,465	100	%		

n/a - not applicable

The investment strategies for the above funds are as follows:

- Long/short equity funds: Seek to achieve attractive returns primarily by executing an equity trading strategy involving both long and short investments in publicly-traded equities.
- Multi-strategy funds: Seek to achieve above-market returns by pursuing multiple investment strategies to diversify risks and reduce volatility. This category includes funds of hedge funds which invest in a large pool of hedge funds across a diversified range of hedge fund strategies.
- Event-driven funds: Seek to achieve attractive returns by exploiting situations where announced or anticipated events create opportunities.
- Leveraged bank loan funds: Seek to achieve attractive returns by investing primarily in bank loan collateral that has limited interest rate risk exposure.
- Direct lending funds: Seek to achieve attractive risk-adjusted returns, including current income generation, by investing in funds which provide financing directly to borrowers.
-

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

Two common redemption restrictions which may impact our ability to redeem our hedge funds are gates and lockups. A gate is a suspension of redemptions which may be implemented by the general partner or investment manager of the fund in order to defer, in whole or in part, the redemption request in the event the aggregate amount of redemption requests exceeds a predetermined percentage of the fund's net assets which may otherwise hinder the general partner or investment manager's ability to liquidate holdings in an orderly fashion in order to generate the cash necessary to fund extraordinarily large redemption payouts. A lockup period is the initial

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

4. INVESTMENTS (CONTINUED)

amount of time an investor is contractually required to hold the security before having the ability to redeem. During 2015 and 2014, neither of these restrictions impacted our redemption requests. At June 30, 2015, $98 million (2014: $87 million), representing 14% (2014: 11%) of our total hedge funds, relate to holdings where we are still within the lockup period. The expiration of these lockup periods range from September 2015 to April 2018.

At June 30, 2015, we have $138 million (2014: $88 million) of unfunded commitments within our other investments portfolio relating to our future investments in direct lending funds. Once the full amount of committed capital has been called by the General Partner of each of these funds, the assets will not be fully returned until the completion of the fund's investment term. These funds have investment terms ranging from 5-10 years and the General Partners of certain funds have the option to extend the term by up to three years.
During 2013, we made a $60 million commitment as a limited partner in a multi-strategy hedge fund. Once the full amount of committed capital has been called by the General Partner, the assets will not be fully returned until the completion of the fund's investment term which ends in March, 2019. The General Partner then has the option to extend the term by up to three years. At June 30, 2015, $23 million of our commitment remains unfunded and the current fair value of the funds called to date are included in the multi-strategy funds line of the table above.
During 2015, we made a $100 million commitment as a limited partner in a fund which invests in real estate and real estate securities and businesses. The fund is subject to a three year commitment period and a total fund life of eight years during which time we are not eligible to redeem our investment. At June 30, 2015, $97 million of our commitment remains unfunded and the current fair value of the funds called to date are included in the real estate funds line of the table above.

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

d) Net Investment Income

Net investment income was derived from the following sources:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Fixed maturities	$77,998	$78,523	$144,086	$151,480
Other investments	14,102	32,492	45,037	49,252
Equity securities	2,674	5,301	4,350	7,587
Mortgage loans	281	—	294	—
Cash and cash equivalents	1,678	6,183	2,777	7,046
Short-term investments	125	246	194	459
Gross investment income	96,858	122,745	196,738	215,824
Investment expenses	(8,314)	(7,878)	(16,087)	(18,214)
Net investment income	$88,544	$114,867	$180,651	$197,610

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4. INVESTMENTS (CONTINUED)

e) Net Realized Investment Gains (Losses)

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Gross realized gains				
Fixed maturities and short-term investments	$17,066	$26,650	$32,727	$60,420
Equities	177	32,609	215	51,876
Gross realized gains	17,243	59,259	32,942	112,296
Gross realized losses				
Fixed maturities and short-term investments	(13,474)	(14,392)	(56,565)	(48,096)
Equities	(270)	(2,546)	(394)	(4,984)
Gross realized losses	(13,744)	(16,938)	(56,959)	(53,080)
Net OTTI recognized in earnings	(12,893)	(1,905)	(30,461)	(2,690)
Change in fair value of investment derivatives[1]	(1,716)	(7,155)	816	(12,644)
Net realized investment gains (losses)	$(11,110)	$33,261	$(53,662)	$43,882

(1) Refer to Note 6 – Derivative Instruments

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4. INVESTMENTS (CONTINUED)

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Fixed maturities:				
Non-U.S. government	$—	$1,774	$1,422	$1,812
Corporate debt	1,689	67	17,808	81
Non-Agency RMBS	—	—	4	—
ABS	18	—	41	56
	1,707	1,841	19,275	1,949
Equity Securities				
Common stocks	—	64	—	741
Bond mutual funds	11,186	—	11,186	—
	11,186	64	11,186	741
Total OTTI recognized in earnings	$12,893	$1,905	$30,461	$2,690

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	$1,541	$1,590	$1,531	$1,594
Credit impairments recognized on securities not previously impaired	—	—	—	—
Additional credit impairments recognized on securities previously impaired	23	—	33	—
Change in timing of future cash flows on securities previously impaired	—	—	—	—
Intent to sell of securities previously impaired	—	—	—	—
Securities sold/redeemed/matured	—	(9)	—	(13)
Balance at end of period	$1,564	$1,581	$1,564	$1,581

f) Reverse Repurchase Agreements

At June 30, 2015, we held $177 million (2014: $110 million) of reverse repurchase agreements. These loans are fully collateralized, are generally outstanding for a short period of time and are presented on a gross basis as part of cash and cash equivalents on our consolidated balance sheet. The required collateral for these loans is either cash or U.S. Treasuries at a minimum rate of 102% of the loan principal. Upon maturity, we receive principal and interest income. We monitor the estimated fair value of the securities loaned and borrowed on a daily basis with additional collateral obtained as necessary throughout the duration of the transaction.

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5. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. We use a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The hierarchy is broken down into three levels as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access.

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

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

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

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

We used the following valuation techniques and assumptions in estimating the fair value of our financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy.

Fixed Maturities

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

The following describes the significant inputs generally used to determine the fair value of our fixed maturities by asset class.

U.S. government and agency

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Non-U.S. government

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

Corporate debt

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

MBS

Our portfolio of RMBS and CMBS are originated by both agencies and non-agencies. The fair values of these securities are determined through the use of a pricing model (including Option Adjusted Spread) which uses prepayment speeds and spreads to determine the appropriate average life of the MBS. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As the significant inputs used to price MBS are observable market inputs, the fair values of the MBS are classified within Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. These securities are classified within Level 3.

ABS

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and CLO Debt originated by a variety of financial institutions. Similarly to MBS, the fair values of ABS are priced through the use of a model which uses prepayment speeds and spreads sourced primarily from the new issue market. As the significant inputs used to price ABS are observable market inputs, the fair values of ABS are classified within Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. These securities are classified within Level 3.

Municipals

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

Equity Securities

Equity securities include exchange-traded funds and bond mutual funds. For exchange-traded funds, we classified these within Level 1 as their fair values are based on unadjusted quoted market prices in active markets. Our investments in bond mutual funds have daily liquidity, with redemption based on the net asset value ("NAV") of the funds. Accordingly, we have classified these investments as Level 2.

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5. FAIR VALUE MEASUREMENTS (CONTINUED)

Other Investments

As a practical expedient, we estimate fair values for hedge funds, direct lending funds and the CLO fund using NAVs as advised by external fund managers or third party administrators. For each of these funds, the NAV is based on the manager's or administrator's valuation of the underlying holdings in accordance with the fund's governing documents and in accordance with U.S. GAAP. For any funds for which we have not yet received a NAV concurrent with our period end date, we record an estimate of the change in fair value for the period subsequent to the most recent NAV. Such estimates are based on return estimates for the period between the most recently issued NAV and the period end date; these estimates are obtained from the relevant fund managers. Accordingly, we do not typically have a reporting lag in our fair value measurements for these funds. Historically, our valuation estimates incorporating these return estimates have not significantly diverged from the subsequent NAVs.

Within the hedge fund, direct lending fund and CLO fund industries, there is a general lack of transparency necessary to facilitate a detailed independent assessment of the values placed on the securities underlying the NAV provided by the fund manager or fund administrator. To address this, on a quarterly basis, we perform a number of monitoring procedures designed to assist us in the assessment of the quality of the information provided by managers and administrators. These procedures include, but are not limited to, regular review and discussion of each fund's performance with its manager, regular evaluation of fund performance against applicable benchmarks and the backtesting of our fair value estimates against subsequently received NAVs. Backtesting involves comparing our previously reported values for each individual fund against NAVs per audited financial statements (for year-end values) and final NAVs from fund managers and fund administrators (for interim values).

For our hedge fund investments with liquidity terms allowing us to fully redeem our holdings at the applicable NAV in the near term, we have classified these investments as Level 2. Certain investments in hedge funds, all of our direct lending funds and our CLO fund have redemption restrictions (see Note 4(c) for further details) that prevent us from redeeming in the near term and therefore we have classified these investments as Level 3.

At June 30, 2015, our direct investments in CLO - Equities were classified within Level 3 as we estimated the fair value for these securities using an income approach valuation technique (discounted cash flow model) due to the lack of observable and relevant trades in the secondary markets.

Short-Term Investments

Short-term investments primarily comprise highly liquid securities with maturities greater than three months but less than one year from the date of purchase. These securities are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their amortized cost approximates fair value.

Derivative Instruments

Our foreign currency forward contracts, interest rate swaps and commodity contracts are customized to our economic hedging strategies and trade in the over-the-counter derivative market. We use the market approach valuation technique to estimate the fair value for these derivatives based on significant observable market inputs from third party pricing vendors, non-binding broker-dealer quotes and/or recent trading activity. Accordingly, we classified these derivatives within Level 2.

We also participate in non-exchange traded derivative-based risk management products addressing weather risks. We use observable market inputs and unobservable inputs in combination with industry or internally-developed valuation and forecasting techniques to determine fair value. We classify these instruments within Level 3.

Insurance-linked Securities

Insurance-linked securities comprise investment in a catastrophe bond. We obtain non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. These securities are classified within Level 3.

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

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Cash Settled Awards

Cash settled awards comprise restricted stock units that form part of our compensation program. Although the fair value of these awards is determined using observable quoted market prices in active markets, the stock units themselves are not actively traded. Accordingly, we have classified these liabilities within Level 2.

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

5. FAIR VALUE MEASUREMENTS (CONTINUED)

The table below presents the financial instruments measured at fair value on a recurring basis:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
At June 30, 2015				
Assets				
Fixed maturities				
U.S. government and agency	$1,613,649	$69,460	$—	$1,683,109
Non-U.S. government	—	900,535	—	900,535
Corporate debt	—	4,360,944	43,008	4,403,952
Agency RMBS	—	2,134,976	—	2,134,976
CMBS	—	1,077,670	21,900	1,099,570
Non-Agency RMBS	—	101,274	—	101,274
ABS	—	1,426,951	110	1,427,061
Municipals	—	255,259	—	255,259
	1,613,649	10,327,069	65,018	12,005,736
Equity securities				
Exchange-traded funds	535,980	—	—	535,980
Bond mutual funds	—	123,201	—	123,201
	535,980	123,201	—	659,181
Other investments				
Hedge funds	—	160,923	524,736	685,659
Direct lending funds	—	—	73,628	73,628
Real estate funds	—	—	3,000	3,000
CLO - Equities	—	—	90,814	90,814
	—	160,923	692,178	853,101
Short-term investments	—	30,618	—	30,618
Derivative instruments (see Note 6)	—	578	240	818
Insurance-linked securities	—	—	24,837	24,837
Total Assets	$2,149,629	$10,642,389	$782,273	$13,574,291
Liabilities				
Derivative instruments (see Note 6)	$—	$5,921	$818	$6,739
Cash settled awards (see Note 8)	—	19,939	—	19,939
Total Liabilities	$—	$25,860	$818	$26,678
At December 31, 2014				
Assets				
Fixed maturities				

U.S. government and agency	$1,497,922	$122,155	$—	$1,620,077
Non-U.S. government	—	1,033,543	—	1,033,543
Corporate debt	—	4,345,287	15,837	4,361,124
Agency RMBS	—	2,278,108	—	2,278,108
CMBS	—	1,079,125	17,763	1,096,888
Non-Agency RMBS	—	73,086	—	73,086
ABS	—	1,421,555	40,031	1,461,586
Municipals	—	204,861	—	204,861
	1,497,922	10,557,720	73,631	12,129,273
Equity securities				
Exchange-traded funds	454,890	—	—	454,890
Bond mutual funds	—	112,817	—	112,817
	454,890	112,817	—	567,707
Other investments				
Hedge funds	—	347,621	470,918	818,539
Direct lending funds	—	—	54,438	54,438
Real estate funds	—	—	—	—
CLO - Equities	—	—	92,488	92,488
	—	347,621	617,844	965,465
Short-term investments	—	107,534	—	107,534
Derivative instruments (see Note 6)	—	7,153	111	7,264
Insurance-linked securities	—	—	—	—
Total Assets	$1,952,812	$11,132,845	$691,586	$13,777,243
Liabilities				
Derivative instruments (see Note 6)	$—	$3,041	$15,288	$18,329
Cash settled awards (see Note 8)	—	20,518	—	20,518
Total Liabilities	$—	$23,559	$15,288	$38,847

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

5. FAIR VALUE MEASUREMENTS (CONTINUED)

During 2015 and 2014, we had no transfers between Levels 1 and 2.

Level 3 Fair Value Measurements

Except for hedge funds, direct lending funds and our CLO fund priced using NAV as a practical expedient and certain fixed maturities and insurance-linked securities priced using broker-dealer quotes (underlying inputs are not available), the following table quantifies the significant unobservable inputs we have used in estimating fair value at June 30, 2015 for our investments classified as Level 3 in the fair value hierarchy. These significant unobservable inputs have not changed significantly from December 31, 2014.

	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
Other investments - CLO - Equities	$36,920	Discounted cash flow	Default rates	4.0% - 5.0%	4.3%
			Loss severity rate	53.5%	53.5%
			Collateral spreads	3.0% - 3.5%	3.3%
			Estimated maturity dates	2.7 - 4.1 years	3.4 years
Derivatives - Weather derivatives, net	$(578)	Simulation model	Weather curve	20 - 2830(1)	n/a (2)
			Weather standard deviation	15 - 240(1)	n/a (2)

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

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

The CLO - Equities market continues to be mostly inactive with only a small number of transactions being observed in the market and fewer still involving transactions in our CLO - Equities. Accordingly, we continue to rely on the use of our internal discounted cash flow model (income approach) to estimate fair value of our direct investments in CLO - Equities. Of the significant inputs into this model, the default and loss severity rates are the most judgmental unobservable market inputs to which the valuation of CLO - Equities is most sensitive. A significant increase (decrease) in either of these significant inputs in isolation would result in lower (higher) fair value estimates for direct investments in our CLO - Equities and, in general, a change in default rate assumptions will be accompanied by a directionally similar change in loss severity rate assumptions. Collateral spreads and estimated maturity dates are less judgmental inputs as they are based on the historical average of actual spreads and the weighted average life of the current underlying portfolios, respectively. A significant increase (decrease) in either of these significant inputs in isolation would result in higher (lower) fair value estimates for direct investments in our CLO - Equities. In general, these inputs have no significant interrelationship with each other or with default and loss severity rates.

On a quarterly basis, our valuation processes for CLO - Equities includes a review of the underlying cash flows and key assumptions used in the discounted cash flow model. We review and update the above significant unobservable inputs based on information obtained from secondary markets, including from the managers of the CLOs we hold. These inputs are the responsibility of management and, in order to ensure fair value measurement is applied consistently and in accordance with U.S. GAAP, we update our assumptions through regular communication with industry participants and ongoing monitoring of the deals in which we participate (e.g. default and loss severity rate trends), we maintain a current understanding of the market conditions, historical results, as well as emerging trends that may impact future cash flows. By maintaining this current understanding, we are able to assess the reasonableness of the inputs we ultimately use in our model.

Weather derivatives relate to non-exchange traded risk management products addressing weather risks. We use observable market inputs and unobservable inputs in combination with industry or internally-developed simulation models to determine fair value; these models may reference market price information for similar instruments. The pricing models are internally reviewed by Risk Management personnel prior to implementation and are reviewed periodically thereafter.

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5. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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

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

5. FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Opening Balance	Transfers into Level 3	Transfers out of Level 3	Included in earnings (1)	Included in OCI (2)	Purchases	Sales	Settlements/ Distributions	Closing Balance	Change in unrealized investment gain/(loss) (3)
Three months ended June 30, 2015										
Fixed maturities										
Corporate debt	$26,857	$—	$—	$—	$244	$20,714	$—	$(4,807)	$43,008	$—
CMBS	17,061	5,072	—	—	(120)	—	—	(113)	21,900	—
ABS	39,921	—	(39,851)	—	43	—	—	(3)	110	—
	83,839	5,072	(39,851)	—	167	20,714	—	(4,923)	65,018	—
Other investments										
Hedge funds	495,849	—	—	8,363	—	26,000	—	(5,476)	524,736	8,363
Direct lending funds	69,682	—	—	840	—	4,063	—	(957)	73,628	840
Real estate funds	—	—	—	—	—	3,000	—	—	3,000	—
CLO - Equities	92,058	—	—	5,110	—	—	—	(6,354)	90,814	5,110
	657,589	—	—	14,313	—	33,063	—	(12,787)	692,178	14,313
Other assets										
Derivative instruments	—	—	—	240	—	—	—	—	240	240
Insurance-linked securities	25,000	—	—	(163)	—	—	—	—	24,837	(163)
	25,000	—	—	77	—	—	—	—	25,077	77
Total assets	$766,428	$5,072	$(39,851)	$14,390	$167	$53,777	$—	$(17,710)	$782,273	$14,390
Other liabilities										
Derivative instruments	$7,308	$—	$—	$(3,171)	$—	$1,141	$—	$(4,460)	$818	$13
Total liabilities	$7,308	$—	$—	$(3,171)	$—	$1,141	$—	$(4,460)	$818	$13
Six months ended June 30, 2015										
Fixed maturities										
Corporate debt	$15,837	$—	$—	$—	$424	$31,624	$—	$(4,877)	$43,008	$—
CMBS	17,763	5,072	—	—	(324)	—	—	(611)	21,900	—
ABS	40,031	—	(39,851)	—	105	—	—	(175)	110	—
	73,631	5,072	(39,851)	—	205	31,624	—	(5,663)	65,018	—
Other investments										
Hedge funds	470,918	—	—	27,294	—	32,000	—	(5,476)	524,736	27,294
Direct lending funds	54,438	—	—	1,507	—	19,481	—	(1,798)	73,628	1,507

Real estate funds	—	—	—	—	—	3,000	—	—	3,000	—
CLO - Equities	92,488	—	—	11,197	—	—	—	(12,871)	90,814	11,197
	617,844	—	—	39,998	—	54,481	—	(20,145)	692,178	39,998
Other assets										
Derivative instruments	111	—	—	(827)	—	—	—	956	240	240
Insurance-linked securities	—	—	—	(163)	—	25,000	—	—	24,837	(163)
	111	—	—	(990)	—	25,000	—	956	25,077	77
Total assets	$691,586	$5,072	$(39,851)	$39,008	$205	$111,105	$—	$(24,852)	$782,273	$40,075
Other liabilities										
Derivative instruments	$15,288	$—	$—	$(11,722)	$—	$2,223	$—	$(4,971)	$818	$13
Total liabilities	$15,288	$—	$—	$(11,722)	$—	$2,223	$—	$(4,971)	$818	$13

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

5. FAIR VALUE MEASUREMENTS (CONTINUED)

	Opening Balance	Transfers into Level 3	Transfers out of Level 3	Included in earnings [1]	Included in OCI [2]	Purchases	Sales	Settlements/ Distributions	Closing Balance	Change in unrealized investment gain/(loss) [3]
Three months ended June 30, 2014										
Fixed maturities										
Corporate debt	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—
CMBS	3,969	—	—	—	(23)	—	—	(13)	3,933	—
ABS	30,724	—	—	—	273	—	—	(114)	30,883	—
	34,693	—	—	—	250	—	—	(127)	34,816	—
Other investments										
Hedge funds	464,666	—	—	12,746	—	3,000	—	(3,604)	476,808	12,746
Direct lending funds	26,003	—	—	367	—	7,300	—	(203)	33,467	367
Real estate funds	—	—	—	—	—	—	—	—	—	—
CLO - Equities	86,179	—	—	5,181	—	6,422	—	(6,676)	91,106	5,181
	576,848	—	—	18,294	—	16,722	—	(10,483)	601,381	18,294
Other assets										
Derivative instruments	1,707	—	—	293	—	—	—	(2,000)	—	—
Insurance-linked securities	—	—	—	—	—	—	—	—	—	—
	1,707	—	—	293	—	—	—	(2,000)	—	—
Total assets	$613,248	$—	$—	$ 18,587	$ 250	$ 16,722	$—	$ (12,610)	$636,197	$ 18,294
Other liabilities										
Derivative instruments	—	—	—	(90)	—	840	—	—	750	(90)
Total liabilities	$—	$—	$—	$ (90)	$—	$ 840	$—	$—	$750	$ (90)
Six months ended June 30, 2014										
Fixed maturities										
Corporate debt	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—
CMBS	4,018	—	—	—	(43)	—	—	(42)	3,933	—
ABS	30,799	128	—	—	178	—	—	(222)	30,883	—
	34,817	128	—	—	135	—	—	(264)	34,816	—
Other investments										
Hedge funds	461,055	—	—	20,923	—	7,500	—	(12,670)	476,808	20,923
Direct lending funds	22,134	—	—	919	—	10,745	—	(331)	33,467	919
Real estate funds	—	—	—	—	—	—	—	—	—	—
CLO - Equities	73,866	—	—	11,331	—	19,267	—	(13,358)	91,106	11,331

	557,055	—	—	33,173	—	37,512	—	(26,359)	601,381	33,173
Other assets										
Derivative instruments	984	—	—	5,011	—	—	—	(5,995)	—	—
Insurance-linked securities	—	—	—	—	—	—	—	—	—	—
	984	—	—	5,011	—	—	—	(5,995)	—	—
Total assets	$592,856	$128	$—	$38,184	$135	$37,512	$—	$(32,618)	$636,197	$33,173
Other liabilities										
Derivative instruments	$815	$—	$—	$896	$—	$840	$—	$(1,801)	$750	$(90)
Total liabilities	$815	$—	$—	$896	$—	$840	$—	$(1,801)	$750	$(90)

(1) Gains and losses included in earnings on fixed maturities are included in net realized investment gains (losses). Gains and (losses) included in earnings on other investments are included in net investment income. Gains (losses) on weather derivatives included in earnings are included in other insurance-related income.
(2) Gains and losses included in other comprehensive income (“OCI”) on fixed maturities are included in unrealized gains (losses) arising during the period.
(3) Change in unrealized investment gain (loss) relating to assets held at the reporting date.

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

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

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Transfers into Level 3 from Level 2

The transfers to Level 3 from Level 2 made during the three and six months ended June 30, 2015 were primarily due to the lack of observable market inputs and multiple quotes from pricing vendors and broker-dealers for certain fixed maturities. There were no transfers to Level 3 from Level 2 made during the three months ended June 30, 2014. The transfers to Level 3 from Level 2 made during the six months ended June 30, 2014 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 to Level 2 from Level 3 made during the three and six months ended June 30, 2015 were primarily due to the availability of observable market inputs and quotes from pricing vendors on CLO Debt securities. There were no transfers to Level 2 from Level 3 made during the three and six months ended June 30, 2014.

Financial Instruments Not Carried at Fair Value

U.S. GAAP guidance over disclosures about the fair value of financial instruments are also applicable to financial instruments not carried at fair value, except for certain financial instruments, including insurance contracts.

The carrying values of cash equivalents (including restricted amounts), accrued investment income, receivable for investments sold, certain other assets, payable for investments purchased and certain other liabilities approximated their fair values at June 30, 2015, due to their respective short maturities. As these financial instruments are not actively traded, their respective fair values are classified within Level 2.

The carrying value of mortgage loans held-for-investment approximated their fair value at June 30, 2015, due to the fact that the loans were issued during the quarter. The estimated fair value of mortgage loans is primarily determined by estimating expected future cash flows and discounting them using current interest rates for similar mortgage loans with similar credit risk, or is determined from pricing for similar loans. Mortgage loans are not actively traded, their respective fair values are classified within Level 3.

At June 30, 2015, our senior notes are recorded at amortized cost with a carrying value of $991 million (2014: $991 million) and have a fair value of $1,074 million (2014: $1,089 million). The fair values of these securities were obtained from a third party pricing service and pricing was based on the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As these spreads and the yields for the risk-free yield curve are observable market inputs, the fair values of our senior notes are classified within Level 2.

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AXIS CAPITAL HOLDINGS LIMITED
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6. DERIVATIVE INSTRUMENTS

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

	June 30, 2015			December 31, 2014		
	Derivative Notional Amount	Derivative Asset Fair Value(1)	Derivative Liability Fair Value(1)	Derivative Notional Amount	Derivative Asset Fair Value(1)	Derivative Liability Fair Value(1)
Derivatives not designated as hedging instruments						
Relating to investment portfolio:						
Foreign exchange forward contracts	$110,197	$—	$954	$161,678	$3,925	$12
Interest rate swaps	—	—	—	140,000	—	248
Relating to underwriting portfolio:						
Foreign exchange forward contracts	672,735	347	4,967	577,836	3,228	2,781
Weather-related contracts	7,000	240	818	58,124	111	15,288
Commodity contracts	35,500	231	—	—	—	—
Total derivatives		$818	$6,739		$7,264	$18,329

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

Offsetting Assets and Liabilities

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

	June 30, 2015			December 31, 2014		
	Gross Amounts	Gross Amounts Offset	Net Amounts(1)	Gross Amounts	Gross Amounts Offset	Net Amounts(1)
Derivative assets	$6,601	$(5,783)	$818	$15,125	$(7,861)	$7,264
Derivative liabilities	$12,522	$(5,783)	$6,739	$26,190	$(7,861)	$18,329

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

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

Derivative Instruments not Designated as Hedging Instruments

a) Relating to Investment Portfolio

Foreign Currency Risk

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

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

6. DERIVATIVE INSTRUMENTS (CONTINUED)

The decrease in the notional amount of investment-related derivatives since December 31, 2014 was due to a decrease in GBP denominated fixed maturities being hedged.

Interest Rate Risk

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

b) Relating to Underwriting Portfolio

Foreign Currency Risk

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

The increase in the notional amount of underwriting related derivatives since December 31, 2014, was primarily due to new business written in the first half of 2015.

Weather Risk

During 2013, we 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, our portfolio of such derivative contracts is of short duration, with contracts being predominantly seasonal in nature. In order to economically hedge a portion of this portfolio, we may also purchase weather derivatives.

Commodity Risk

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

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

	Location of Gain (Loss) Recognized in Income on Derivative	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Derivatives not designated as hedging instruments					

Relating to investment portfolio:					
Foreign exchange forward contracts	Net realized investment gains (losses)	$(1,716)	$(2,355)	$4,822	$(3,684)
Interest rate swaps	Net realized investment gains (losses)	—	(4,800)	(4,006)	(8,960)
Relating to underwriting portfolio:					
Foreign exchange forward contracts	Foreign exchange losses (gains)	(1,011)	1,058	(16,284)	13,131
Weather-related contracts	Other insurance related income	3,625	383	10,968	4,061
Commodity contracts	Other insurance related income	(890)	1,713	(890)	1,713
Total		$8	$(4,001)	$(5,390)	$6,261

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

7. RESERVE FOR LOSSES AND LOSS EXPENSES

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

Six months ended June 30,	2015	2014
Gross reserve for losses and loss expenses, beginning of period	$9,596,797	$9,582,140
Less reinsurance recoverable on unpaid losses, beginning of period	(1,890,280)	(1,900,112)
Net reserve for unpaid losses and loss expenses, beginning of period	7,706,517	7,682,028
Net incurred losses and loss expenses related to:		
Current year	1,213,160	1,238,883
Prior years	(120,679)	(128,847