AXIS CAPITAL HOLDINGS LTD
Form 10-K
February 25, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common shares, par value $0.0125 per share	New York Stock Exchange
6.875% Series C preferred shares	New York Stock Exchange
5.50% Series D preferred shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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 for 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 ý 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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 ý Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) 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 ý

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant’s most recently completed second fiscal quarter, June 30, 2015, was approximately $5.3 billion.

As of February 17, 2016, there were outstanding 94,912,458 common shares, $0.0125 par value per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to the annual meeting of shareholders to be held on May 5, 2016 are incorporated by reference in response to items 10, 11, 12, 13 and 14 in Part III of this Form 10-K. The definitive proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2015.

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PART IV

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the United States securities laws. In some cases, these statements can be identified by the use of forward-looking words such as “may”, “should”, “could”, “anticipate”, “estimate”, “expect”, “plan”, “believe”, “predict”, “potential” and “intend”. Forward-looking statements 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, those described under Item 1A, 'Risk Factors' in this report, as those factors may be updated from time to time in our periodic filings with the Securities and Exchange Commission (the "SEC"), which are accessible on the SEC's website at 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.

PART I

ITEM 1. BUSINESS

As used in this report, references to “we,” “us,” “our” or the “Company” refer to the consolidated operations of AXIS Capital Holdings Limited (“AXIS Capital”) and its direct and indirect subsidiaries and branches, including AXIS Specialty Limited (“AXIS Specialty Bermuda”), AXIS Specialty Limited (Singapore Branch), AXIS Specialty Markets Limited, AXIS Specialty Markets II Limited, AXIS Ventures Reinsurance Limited ("Ventures Re"), AXIS Specialty Europe SE (“AXIS Specialty Europe”), AXIS Specialty London, AXIS Re SE, AXIS Re Europe, AXIS Specialty Australia, Dexta Corporation Pty Ltd (“Dexta”), AXIS Specialty Insurance Company (“AXIS Specialty U.S.”), AXIS Reinsurance Company (“AXIS Re U.S.”), AXIS Reinsurance Company (Canadian Branch), AXIS Surplus Insurance Company (“AXIS Surplus”), AXIS Insurance Company (“AXIS Insurance Co.”), AXIS Specialty Finance LLC, AXIS Specialty Finance PLC and Ternian Insurance Group LLC ("Ternian") unless the context suggests otherwise. Tabular dollars are in thousands. Amounts in tables may not reconcile due to rounding differences.

GENERAL

AXIS Capital is the Bermuda-based holding company for the AXIS group of companies (the "Group") and was incorporated on December 9, 2002. AXIS Specialty Bermuda commenced operations on November 20, 2001. AXIS Specialty Bermuda and its subsidiaries became wholly owned subsidiaries of AXIS Capital pursuant to an exchange offer consummated on December 31, 2002. We provide a broad range of specialty (re)insurance on a worldwide basis, through operating subsidiaries and branch networks based in Bermuda, the United States, Canada, Europe, Australia and Singapore. We also maintain marketing offices in Brazil, France, Spain and Dubai. Our business consists of two distinct global underwriting platforms, AXIS Insurance and AXIS Re.

The markets in which we operate have historically been cyclical. During periods of excess underwriting capacity, as defined by availability of capital, competition can result in lower pricing and less favorable policy terms and conditions for (re)insurers. During periods of reduced underwriting capacity, pricing and policy terms and conditions are generally more favorable for (re)insurers. Historically, underwriting capacity has been impacted by several factors, including industry losses, catastrophes, changes in legal and regulatory guidelines, investment results and the ratings and financial strength of competitors.

At December 31, 2015, we had common shareholders’ equity of $5.2 billion, total capital of $6.9 billion and total assets of $20.0 billion.

OUR BUSINESS STRATEGY

We are a global insurer and reinsurer, with our mission being to provide our clients and distribution partners with a broad range of risk transfer products and services and meaningful capacity, backed by excellent 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 the 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.

We aim to execute on the following six-point strategy:

We offer a diversified range of products and services across market segments and geographies: Our position as a well-balanced hybrid insurance and reinsurance company gives us insight into the opportunities and challenges in a variety of markets. With our origins in Bermuda, today we have locations across the U.S. and in Canada, while in Europe we have offices in Dublin, London, Zurich, Barcelona, Madrid and Paris. We are addressing opportunities throughout Latin America and have a reinsurance office in Sao Paulo while our Singapore branch serves as a gateway to Asia. We have also recently opened an office in Dubai to focus on marketing accident and health specialty reinsurance to our clients in the Middle East and Africa.

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We underwrite a balanced portfolio of risks, including complex and volatile lines, moderating overall volatility with risk limits, diversification and risk management: Risk management is a strategic priority embedded in our organizational structure and we are continuously monitoring, reviewing and refining our enterprise risk management practices. We combine judgment and experience with data-driven analysis, enhancing our overall risk selection process.
We modulate our risk appetite and deployment of capital across the underwriting cycle, commensurate with available market opportunities and returns: Closely attuned to market dynamics, we recognize opportunities as they develop and react quickly as new trends emerge. Our risk analytics provide important and continuous feedback, further assisting with the ongoing assessment of our risk appetite and strategic capital deployment. We have been successful in extending our product lines, finding new distribution channels and entering new geographies. When we do not find sufficiently attractive uses for our capital, we return excess capital back to our shareholders through share repurchases or dividends.
We develop and maintain deep and trustful relationships with clients and distribution partners, offering high-levels of service and effective solutions for risk management needs: Our management team has extensive industry experience, deep product knowledge and long-standing market relationships. We primarily transact in specialty markets, where risks are complex. Our intellectual capital and proven client-service capability attract clients and distribution partners looking for solutions.
We maintain excellent financial strength, characterized by financial discipline and transparency: Our total capital of $6.9 billion at December 31, 2015, our high-quality and liquid investment portfolio and our operating subsidiary ratings of "A+" ("Strong") by Standard & Poor's and "A+" ("Superior") by A.M. Best are key indicators of our financial strength.
We attract, develop, retain and motivate an excellent team: We aim to attract and retain the best people in the industry and to motivate our employees to make decisions that are in the best interest of both our customers and shareholders. We nurture an ethical, risk-aware, achievement-oriented culture that promotes professionalism, responsibility, integrity, discipline and entrepreneurialism. As a result, we believe that our staff is well-positioned to make the best underwriting and strategic decisions for the Company.
Our key metrics for performance measurement include return on average common equity ("ROACE") and diluted book value per common share adjusted for dividends. Our goal is to achieve top-quintile industry ROACE and growth in book value per share adjusted for dividends, with volatility consistent with the industry average.

SEGMENT INFORMATION

Our underwriting operations are organized around two global underwriting platforms, AXIS Insurance and AXIS Re. Therefore 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. For additional information relating to our reportable segments, refer to Item 8, Note 3 to the Consolidated Financial Statements 'Segment Information' and ‘Management’s Discussion and Analysis of Financial Condition and Results of Operations’ under Item 7.
The table below presents gross premiums written in each of our reportable segments for each of the most recent three years.

Year ended December 31,	2015	2014	2013
Insurance	$2,583,081	$2,535,415	$2,559,138
Reinsurance	2,020,649	2,176,104	2,137,903
Total	$4,603,730	$4,711,519	$4,697,041

Insurance Segment

Lines of Business and Distribution

Our insurance segment operates through offices in Bermuda, the United States, Canada, Europe, Middle East, Australia and Singapore and offers specialty insurance products to a variety of niche markets on a worldwide basis. The following are the lines of business in our insurance segment:

- Property: provides physical loss or damage, business interruption and machinery breakdown coverage for virtually all types of property, including commercial buildings, residential premises, construction projects and onshore energy installations. This line of business consists of both primary and excess risks, some of which are catastrophe-exposed.
- Marine: provides coverage for traditional marine classes, including offshore energy, cargo, liability, recreational marine, fine art, specie, hull and war. Offshore energy coverage includes physical damage, business interruption, operators extra expense and liability coverage for all aspects of offshore upstream energy, from exploration and construction through the operation and distribution phases.
- Terrorism: provides coverage for physical damage and business interruption of an insured following an act of terrorism.
- Aviation: provides hull and liability and specific war coverage primarily for passenger airlines but also for cargo operations, general aviation operations, airports, aviation authorities, security firms and product manufacturers.
- Credit and political risk: provides credit and political risk insurance products for banks and corporations. Coverage is provided for a range of risks including sovereign default, credit default, political violence, currency inconvertibility and non-transfer, expropriation, aircraft non-repossession and contract frustration due to political events. The credit insurance coverage is primarily for lenders seeking to mitigate the risk of non-payment from their borrowers. For the credit insurance contracts, it is necessary for the buyer of the insurance (most often a bank) to hold an insured asset (most often an underlying loan) in order to claim compensation under the insurance contract.
- Professional lines: provides coverage for directors' and officers' liability, errors and omissions liability, employment practices liability, fiduciary liability, crime, professional indemnity, medical malpractice and other financial insurance related coverages for commercial enterprises, financial institutions and not-for-profit organizations. This business is predominantly written on a claims-made basis.
- Liability: primarily targets primary and low/mid-level excess and umbrella commercial liability risks in the U.S. wholesale and retail markets. Target industry sectors include construction, manufacturing, transportation and trucking and other services. We also target primary and excess business in the Canadian marketplace.
- Accident and health: includes accidental death, travel insurance and specialty health products for employer and affinity groups, as well as accident and health reinsurance for catastrophic or per life events on a quota share and/or excess of loss basis, with aggregate and/or per person deductibles.

We produce business primarily through wholesale and retail brokers worldwide. Some of our insurance products are also distributed through managing general agents ("MGAs") and underwriters ("MGUs"). In the U.S., we have the ability to write business on an admitted basis using forms and rates as filed with state insurance regulators and on a non-admitted, or surplus lines, basis providing flexibility in forms and rates, as these are not filed with state regulators. Having non-admitted capability in the U.S. provides the pricing flexibility needed to write non-standard coverages. Substantially all of our insurance business is subject to aggregate limits, in addition to event limits.

Gross premiums written by broker, shown individually where premiums were 10% or more of the total in any of the last three years, were as follows:

Year ended December 31,	2015			2014			2013		
Marsh	$416,876	16	%	$437,092	17	%	$422,627	17	%
Aon	401,612	16	%	354,681	14	%	451,158	18	%
Willis	314,615	12	%	265,075	10	%	223,131	9	%
Other brokers	1,202,747	47	%	1,235,986	49	%	1,230,165	48	%
Managing general agencies and underwriters	247,231	9	%	242,581	10	%	232,057	8	%
Total	$2,583,081	100	%	$2,535,415	100	%	$2,559,138	100	%

No customer accounted for more than 10% of the gross premiums written in the insurance segment.

Competitive Environment

We operate in highly competitive markets. In our insurance segment, where competition is focused on price as well as availability, service and other considerations, we compete with U.S.-based companies with global insurance operations, as well as non-U.S. global carriers and indigenous companies in regional and local markets. We believe we achieve a competitive advantage through a strong capital position and the strategic and operational linking of our practices, which allows us to design insurance programs on a global basis in alignment with the global needs of many of our clients.

Reinsurance Segment

Lines of Business and Distribution

Our reinsurance segment operates through offices in Bermuda, the United States, Switzerland, Singapore, Brazil, and Canada. We write business on a proportional basis, receiving an agreed percentage of the underlying premium and accepting liability for the same percentage of incurred losses. We also write business on an excess of loss basis, whereby we typically provide an indemnification to the reinsured entity for a portion of losses, both individually and in the aggregate, in excess of a specified individual or aggregate loss deductible. Our business is written on a treaty basis and primarily produced through reinsurance brokers worldwide.

Our reinsurance segment provides non-life reinsurance to insurance companies on a worldwide basis. The following are the lines of business in our reinsurance segment:

- Catastrophe: provides protection for most catastrophic losses that are covered in the underlying insurance policies written by our cedants. The exposure in the underlying policies is principally property exposure but also covers other exposures including workers compensation and personal accident. The principal perils in this portfolio are hurricane and windstorm, earthquake, flood, tornado, hail and fire. In some instances, terrorism may be a covered peril or the only peril. We underwrite catastrophe reinsurance principally on an excess of loss basis.
- Property: provides coverage for property damage and related losses resulting from natural and man-made perils contained in underlying personal and commercial policies. While our predominant exposure is to property damage, other risks, including business interruption and other non-property losses, may also be covered when arising from a covered peril. While our most significant exposures typically relate to losses from windstorms, tornadoes and earthquakes, we are exposed to other perils such as freezes, riots, floods, industrial explosions, fires, hail and a number of other loss events. We assume business on both a proportional and excess of loss basis.
- Professional Lines: covers directors' and officers' liability, employment practices liability, medical malpractice, professional indemnity, environmental liability and miscellaneous errors and omissions insurance risks. The underlying business is predominantly written on a claims-made basis. Business is written on both a proportional and excess of loss basis.

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- Credit and Surety: consists of reinsurance of trade credit insurance products and includes both proportional and excess of loss structures. The underlying insurance indemnifies sellers of goods and services in the event of a payment default by the buyer of those goods and services. Also included in this line of business is coverage for losses arising from a broad array of surety bonds issued by insurers to satisfy regulatory demands or contract obligation in a variety of jurisdictions around the world. Bonding is also known as surety insurance.
- Motor: provides coverage to cedants for motor liability and property damage losses arising out of any one occurrence. The occurrence can involve one or many claimants where the ceding insurer aggregates the claims from the occurrence.
- Liability: provides coverage to insurers of standard casualty business, excess and surplus casualty business and specialty casualty programs. The primary focus of the underlying business is general liability, although workers compensation and auto liability are also written.
- Engineering: provides coverage for all types of construction risks and risks associated with erection, testing and commissioning of machinery and plants during the construction stage. This line of business also includes coverage for losses arising from operational failures of machinery, plant and equipment and electronic equipment as well as business interruption.
- Agriculture: provides coverage for risks associated with the production of food and fiber on a global basis for primary insurance companies writing multi-peril crop insurance, crop hail, and named peril covers, as well as custom risk transfer mechanisms for agricultural dependent industries with exposures to crop yield and/or price deviations. We provide both proportional and aggregate stop loss reinsurance.
- Other: includes aviation, marine, and personal accident reinsurance.

The reinsurance segment also writes primarily derivative based, risk management products designed to address weather and commodity price risks. The majority of these contracts cover the risk of variations in quantifiable weather-related phenomenon, such as temperature. In general, the portfolio of such derivatives is of short duration, with contracts being predominantly seasonal in nature.

Gross premiums written by broker, shown individually where premiums were 10% or more of the total in any of the last three years, were as follows:

Year ended December 31,	2015			2014			2013		
Marsh	580,843	29	%	591,412	27	%	643,292	30	%
Aon	439,069	22	%	687,458	32	%	749,751	35	%
Willis	295,244	15	%	298,628	14	%	339,761	16	%
Capsicum & Gallagher	250,662	12	%	10,112	—	%	1,424	—	%
Other brokers	327,365	16	%	366,600	17	%	270,034	13	%
Direct	127,466	6	%	221,894	10	%	133,641	6	%
Total	$2,020,649	100	%	$2,176,104	100	%	$2,137,903	100	%

During 2015, a large portion of our motor gross premiums written was placed through Capsicum Re, in partnership with Arthur J. Gallagher. In 2014, this business was largely placed through Aon.

No customer accounted for more than 10% of the gross premiums written in the reinsurance segment.

Competitive Environment

In our reinsurance segment where competition tends to be focused on availability, service, financial strength and, increasingly, price, we compete with major U.S. and non-U.S. reinsurers as well as reinsurance departments of numerous multi-line insurance organizations. In addition to traditional market participants, we also compete with new market entrants supported by alternative capital sources which offer forms of risk transfer protection on a collateralized or other non-traditional basis. Our clients may also acquire reinsurance protection through capital market products such as catastrophe bonds and insurance loss warranties. We believe that we achieve a competitive advantage through our strong capital position, as well as our technical expertise that allows us to respond quickly to customer needs and provide quality and innovative

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underwriting solutions. In addition, our customers highly value our exemplary service (including excellent claims management, promptly paying valid claims) and financial strength ratings.

RESERVE FOR UNPAID LOSSES AND LOSS EXPENSES

We establish a reserve for losses and loss expenses ("loss reserves") for claims that arise from our (re)insurance products. These loss reserves are balance sheet liabilities representing management's best estimate of the amounts we will be required to pay in the future for claims that have occurred on or before the balance sheet date, whether already reported to us ("case reserves") or not yet reported to us ("IBNR reserves").

The following table presents the development of inception to date loss reserves for the period from 2005 onwards. This table does not present accident year or underwriting year development data.

The top line of the table shows our initial recorded gross loss reserves at the end of each year and is reconciled to our net unpaid loss reserves by adjusting for reinsurance recoverable on unpaid losses. Our net unpaid loss reserves represent the estimated amount of net losses and loss expenses arising in the current year and all prior years that remain unpaid at the balance sheet date.

The next section of the table shows our re-estimated net unpaid loss reserves at the end of each succeeding year. The cumulative favorable development on net reserves reflects cumulative differences between our initial net loss reserve estimates and the currently re-estimated net loss reserves. Annual changes in these estimates are referred to as net prior year reserve development and are recognized in our Consolidated Statements of Operations during the year of the re-estimation; these amounts are the net result of a number of underlying movements, both favorable and adverse.

The lower portion of the table shows the portion of the net unpaid loss reserve estimate that was paid (i.e. claims paid) by the end of each subsequent year. This section of the table provides an indication of the portion of the re-estimated net unpaid loss reserve that is settled and is unlikely to develop in the future.

Our historical net paid losses and loss expenses are but one of many quantitative and qualitative factors considered in establishing the amount of our loss reserves; refer to the 'Critical Accounting Estimates – Reserve for Losses and Loss Expenses' section of Item 7 for further information on the establishment of management's best estimate of loss reserves on a quarterly basis. For additional information regarding the significant underlying movements in our estimate of loss reserves during the most recent three years, refer to the 'Underwriting Results – Group – Underwriting Expenses' section of Item 7. Note that the conditions and trends that affected the development of our loss reserves in the past may not necessarily recur in the future. Accordingly, it is not appropriate to project future favorable development based on the historical experience in this table.

Also included in the table is the impact of foreign exchange rate movements during each year presented. Portions of our loss reserves relate to claims expected to be paid in currencies other than our reporting currency, the U.S. dollar. Movements in foreign exchange rates, therefore, result in variations in our estimated net loss reserves. Such variations are recognized as they arise, in our Consolidated Statements of Operations. For example, during the year ended December 31, 2015, depreciation in the rates of exchange between the euro, sterling and Australian dollar against the U.S. dollar largely drove a $215 million reduction in our net loss reserves established prior to and during 2015. To minimize the impact of foreign exchange driven volatility associated with our loss reserves denominated in foreign currencies, we generally hold cash and investments and/or derivative instruments denominated in the same currencies.

At the bottom of the table is a reconciliation of our re-estimated gross loss reserves with our re-estimated net unpaid loss reserves as of December 31, 2015. As our ceded reinsurance programs cover different lines of business and accident years, net and gross loss experience will not necessarily develop proportionately.

To facilitate an understanding of the information provided in the table, the following is an example using net loss reserves established at December 31, 2008. It can be seen from the top section of the table that at December 31, 2008, our estimate of loss reserves, net of unpaid reinsurance recoverable, was $4,930 million.

The next section of the table shows that our current estimate of net unpaid loss reserves for events occurring on or before December 31, 2008 is $3,464 million. The cumulative favorable development from our initial estimate of $1,466 million was

recognized over the course of the following seven calendar years: $423 million in 2009, $272 million in 2010, $228 million in 2011, $165 million in 2012, $156 million in 2013, $145 million in 2014 and the remaining $76 million in 2015.

The following section of the table presents our cumulative claims paid at the end of each subsequent year. Of the net $2,738 million we have paid subsequent to December 31, 2008, $982 million was paid in 2009, $558 million was paid in 2010, $397 million in 2011, $285 million in 2012, $204 million in 2013, $156 million in 2014 and the remaining $157 million in 2015.

In summary, at December 31, 2008, we estimated our net loss reserves payable for claims arising from loss events occurring on or before that date were $4,930 million. At December 31, 2015, we have paid $2,738 million towards settlement of these claims and now believe that we will ultimately pay $3,464 million for full settlement.

It is important to note that the favorable development in our loss reserves noted in the table is cumulative and, therefore, should not be added together. In 2015, we revised our cumulative December 31, 2008 estimate of net loss reserves from $3,540 million to $3,464 million. This favorable development is also included in each column to the right of the December 31, 2008 column, recognizing that the favorable development was also embedded in our estimated loss reserves at December 31 of each of the following years.

	Year ended December 31,								
	2005	2006	2007	2008	2009	2010	2011	2012	201
Gross reserves for losses and loss expenses	$4,743,338	$5,015,113	$5,587,311	$6,244,783	$6,564,133	$7,032,375	$8,425,045	$9,058,731	$9,
Reinsurance recoverable	(1,473,241)	(1,310,904)	(1,297,539)	(1,314,551)	(1,381,058)	(1,540,633)	(1,736,823)	(1,825,617)	(1,9
Net reserves for unpaid losses and loss expenses	3,270,097	3,704,209	4,289,772	4,930,232	5,183,075	5,491,742	6,688,222	7,233,114	7,68
Net reserves re-estimated as of:									
1 Year later	$3,053,561	$3,367,232	$3,913,485	$4,507,061	$4,870,020	$5,234,281	$6,443,382	$7,013,678	$7,
2 Years later	2,938,734	3,076,025	3,533,313	4,235,219	4,623,109	5,018,121	6,226,591	6,730,245	7,08
3 Years later	2,750,476	2,773,158	3,281,011	4,007,046	4,440,229	4,797,981	5,993,711	6,479,334	
4 Years later	2,529,259	2,576,226	3,074,010	3,841,717	4,285,709	4,604,697	5,794,214		
5 Years later	2,429,724	2,445,150	2,957,939	3,685,823	4,113,712	4,421,332			
6 Years later	2,365,515	2,376,807	2,820,852	3,540,355	4,008,446				
7 Years later	2,328,729	2,290,277	2,691,865	3,464,380					
8 Years later	2,278,338	2,213,297	2,636,048						
9 Years later	2,226,407	2,196,200							
10 Years later	2,220,027								
Cumulative favorable development on net reserves	$1,050,070	$1,508,009	$1,653,724	$1,465,852	$1,174,629	$1,070,410	$894,008	$753,780	$59
Cumulative net paid losses as of:									
1 Year later	$880,120	$636,266	$615,717	$982,036	$1,042,890	$953,035	$1,299,384	$1,373,459	$1,
2 Years later	1,292,738	999,280	1,147,990	1,539,713	1,592,741	1,601,082	2,187,024	2,341,376	2,62
3 Years later	1,500,652	1,355,821	1,461,494	1,936,555	2,002,373	2,061,667	2,857,250	3,081,295	
4 Years later	1,771,039	1,513,350	1,655,688	2,221,221	2,301,915	2,448,219	3,362,342		
5 Years later	1,873,052	1,625,423	1,807,075	2,424,791	2,553,059	2,781,481			
6 Years later	1,930,682	1,705,987	1,928,489	2,581,105	2,783,444				
7 Years later	1,979,439	1,772,037	2,015,386	2,737,853					
8 Years later	2,026,100	1,810,912	2,106,357						
9 Years later	2,039,246	1,872,701							
10 Years later	2,071,623								
Impact of foreign exchange and	$(13,329)	$23,581	$28,588	$(133,345)	$82,018	$(25,282)	$(16,462)	$71,084	$6,

other									
Gross reserve for losses and loss expenses re-estimated	$3,551,014	$3,251,456	$3,594,839	$4,538,690	$5,192,383	$5,717,859	$7,249,331	$8,137,698	$8,
Reinsurance recoverable re-estimated	(1,330,987)	(1,055,256)	(958,791)	(1,074,310)	(1,183,937)	(1,296,527)	(1,455,117)	(1,658,364)	(1,7
Net reserve for unpaid losses and loss expenses re-estimated	2,220,027	2,196,200	2,636,048	3,464,380	4,008,446	4,421,332	5,794,214	6,479,334	7,08
Cumulative favorable development on gross reserves	$1,192,324	$1,763,657	$1,992,472	$1,706,093	$1,371,750	$1,314,516	$1,175,714	$921,033	$70

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CASH AND INVESTMENTS

We seek to balance the investment portfolios’ objectives of (1) increasing book value with (2) the generation of relatively stable investment income, while providing sufficient liquidity to meet our claims and other obligations. Liquidity needs arising from potential claims are of primary importance and are considered in asset class participation and the asset allocation process. Intermediate maturity investment grade fixed income securities have duration characteristics similar to our expected claim payouts and are, therefore, central to our investment portfolio’s asset allocation. At December 31, 2015, the duration of our fixed maturities portfolio was approximately 3 years, which approximates the estimated duration of our net insurance liabilities.

To diversify risk and optimize the growth in our book value, we may invest in other asset classes such as equity securities, high yield securities and alternative investments (e.g. hedge funds) which provide higher potential total rates of return. Such individual investment classes involve varying degrees of risk, including the potential for more volatile returns and reduced liquidity. However, as part of a balanced portfolio, they also provide diversification from interest rate and credit risk.

With regard to our investment portfolio, we utilize third party investment managers for security selection and trade execution functions, subject to our guidelines and objectives for each asset class. This enables us to actively manage our investment portfolio with access to top talents specializing in various products and markets. We select the managers based on various criteria including investment style, performance history and corporate governance.

Additionally, we monitor approved investment asset classes for each subsidiary through analysis of our operating environment, including expected volatility of cash flows, overall capital position, regulatory and rating agency considerations. The Finance Committee of our Board of Directors approves our overall group asset allocation targets and investment policy to ensure that they are consistent with our overall goals, strategies and objectives. We also have an Investment and Finance Committee, comprising senior management, which oversees the implementation of our investment strategy.

For additional information regarding the investment portfolio refer to the ‘Management’s Discussion and Analysis of Financial Condition and Results of Operations – Cash and Investments’ section under Item 7 and Item 8, Note 5 to the Consolidated Financial Statements 'Investments'.

Refer to ‘Risk and Capital Management’ for details relating to the management of our investment risk.

RISK AND CAPITAL MANAGEMENT

Risk management framework – Overview

Mission and objectives

The mission of Enterprise Risk Management ("ERM") at AXIS is to promptly identify, measure, report and monitor risks that affect the achievement of our strategic, operational and financial objectives. The key objectives of our risk management framework are to:

- Protect our capital base and earnings by monitoring our risks against our stated risk tolerances;
- Promote a sound risk management culture through disciplined and informed risk taking;
- Enhance value creation and contribute to an optimal risk-return profile by providing the basis for efficient capital deployment;
- Support our group-wide decision making process by providing reliable and timely risk information; and
- Safeguard AXIS reputation.

Risk governance

At the heart of our risk management framework is a governance process with responsibilities for taking, managing, monitoring and reporting risks. We articulate the roles and responsibilities for risk management throughout the organization, from the Board of Directors and the Chief Executive Officer to our business and functional areas, thus embedding risk management throughout the business (see ‘Risk Governance and Risk Management Organization’ section).

To support our governance process, we rely on our documented policies and guidelines. Our Risk Standards are a formal set of standards we use to specify our principles, risk appetite and tolerances for managing individual and aggregate risks. We also have procedures to approve exceptions and procedures for referring risk issues to senior management and the Board of Directors. Our qualitative and quantitative risk reporting framework provides transparency and early warning indicators to senior management with regard to our overall risk profile, adherence to risk tolerances and improvement actions both at an operating entity and Group level.

Various governance and control bodies (such as Management Audit Committees) coordinate to help to ensure that objectives are being achieved, risks are identified and appropriately managed and internal controls are in place and operating effectively.

Internal capital model

An important aspect to our risk management framework is our internal capital model. Utilizing this modeling framework provides us with a holistic view of the capital we put at risk in any year by allowing us to understand the relative interaction among the risks impacting us. This integrated approach recognizes that a single risk factor can affect different sub-portfolios and that different risk factors can have different mutual dependencies. We continuously review and update our model and its parameters as our risk landscape and external environment continue to evolve.

As well as being used to measure internal risk capital (see ‘Capital Management’ section), our internal capital model is used as a tool in managing our business and for strategic planning via capital allocations and through to portfolio monitoring, investment asset allocations and transaction evaluations.

Risk diversification

As a global (re)insurer offering a variety of products across different businesses, diversification is a key component of our business model and risk framework. Diversification enhances our ability to manage our risks by limiting the impact of a single event and contributing to relatively stable long-term results and general risk profile. The degree to which the diversification effect can be realized depends not only on the correlation between risks but also the level of relative concentration of those risks. Therefore, our aim is to maintain a balanced risk profile without any disproportionately large risks. Our internal capital model considers the level of correlation and diversification between individual risks and we

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measure concentration risk consistently across our business units in terms of pre and post diversified internal risk capital requirements.

Risk appetite and limit framework

Our integrated risk management framework considers material risks in our business either from investments, underwriting or in our operations across the world. Large risks that might accumulate and have the potential to produce substantial losses are subject to our global risk appetite and limit framework. Our risk appetite, as authorized by our Board of Directors, represents the amount of risk that we are willing to accept within the constraints imposed by our capital resources as well as the expectations of our stakeholders as to the type of risk we hold within our business. At an annual aggregated level, we also monitor and manage the potential financial loss from the accumulation of risk exposure in any one year.

Specific risk limits are defined and translated into a consistent framework across our identified risk categories and across our operating entities, and are intended to limit the impact of individual risk types or accumulations of risk. Individual limits are established through an iterative process to ensure that the overall framework complies with our group-wide requirements on capital adequacy and risk accumulation.

We monitor risk, through, for example, risk dashboards and limit consumption reports. These are intended to allow us to detect potential deviations from our internal risk limits at an early stage.

External perspectives

Various external stakeholders, among them regulators, rating agencies, investors and accounting bodies, place emphasis on the importance of sound risk management in the insurance industry. We monitor developments in the external environment and evolve our risk management practices accordingly.

Risk governance and risk management organization

The key elements of our governance framework, as it relates specifically to risk management, are described below.

Board of Directors’ Level

The Risk Committee of the Board ("Risk Committee") assists the Board of Directors in overseeing the integrity and effectiveness of our enterprise risk management framework, and ensuring that our risk assumption and risk mitigation activities are consistent with that framework. The Risk Committee reviews, approves and monitors our overall risk strategy, risk appetite and key risk tolerances and receives regular reports from the Group Risk Management function ("Group Risk") to ensure any significant risk issues are being addressed by management. The Risk Committee further reviews, with management and Internal Audit, the Group’s general policies and procedures and satisfies itself that effective systems of risk management and controls are established and maintained. Among its other responsibilities, the Risk Committee also reviews and approves our annual Own Risk and Solvency Assessment ("ORSA") report. The Risk Committee assesses the independence and objectivity of our Group Risk, approves its terms of reference and reviews its ongoing activities.

Following a recommendation by the Chief Executive Officer, the Risk Committee also conducts a review and provides a recommendation to the Board of Directors regarding the appointment and/or removal of the Chief Risk and Actuarial Officer. The Risk Committee meets with the Chief Risk and Actuarial Officer in separate executive session on a regular basis.

The Finance Committee of our Board oversees the Group’s investment of funds and adequacy of financing facilities. This includes approval of the Group’s strategic asset allocation plan. The Risk Committee ensures compliance with the Group’s risk framework. The Audit Committee of our Board, which is supported by our internal audit function, is responsible for overseeing internal controls and compliance procedures and also reviews with management and the Chairman of the Risk Committee the Group’s guidelines and policies regarding risk assessment and risk management.

Group executive level

Our management Executive Committee formulates our business objectives and risk strategy within the overall risk appetite set by our Board. It allocates capital resources and sets limits across the Group, with the objective of balancing return and risk. While the management Executive Committee is responsible overall for risk management, it has delegated some authority to various committees. Three Executive level committees focus on the Group's risk exposure:

- Our Risk Management Committee is responsible for overseeing the integrity and effectiveness of the Group's ERM framework, and ensuring that the Group's risk assumption and risk mitigation activities are consistent with that framework, including a review of the annual business plan relative to our risk limits.

- Our Investment & Finance Committee oversees the Group's investment activities by, among other things, monitoring market risks, the performance of our investment managers and the Group's asset-liability management, liquidity positions and investment policies and guidelines. The Investment & Finance Committee also prepares the Group's strategic asset allocation and presents it to the Finance Committee of the Board for approval.

- Our Reinsurance Security Committee ("RSC") sets out the financial security requirements of our reinsurance counterparties and recommends tolerance levels for different types of ceded business.

Group risk management organization

As a general principle, management in each of our business units is responsible in the first instance for both the risks and returns of its decisions. Management is the 'owner' of risk management processes and is responsible for managing our business within defined risk tolerances.

Our Chief Risk and Actuarial Officer leads our independent Group Risk function, and is responsible for oversight and implementation of the Group's ERM framework as well as providing guidance and support for risk management practices. Group Risk is responsible for developing methods and processes for identifying, measuring, managing and reporting risk. This forms the basis for informing the Risk Committee and RMC of the Group's risk profile. Group Risk develops our risk management framework and oversees the adherence to this framework at the Group and operating entity level. Our Chief Risk and Actuarial Officer regularly reports risk matters to the Chief Executive Officer, Management Executive Committee and the Risk Committee.

Our global risk management network also includes Risk Officers within our business units and investment department. These local risk units, which have regular and close interaction with Group Risk, assist with implementing the risk management framework into our business.

Internal Audit, an independent, objective function, reports to the Audit Committee of the Board on the effectiveness of our risk management framework. This includes assurance that key business risks have been adequately identified and managed appropriately and that our system of internal control is operating effectively. Internal Audit also provides independent assurance around the validation of our internal capital model and coordinates risk-based audits, compliance reviews, and other specific initiatives to evaluate and address risk within targeted areas of our business.

Our risk governance structure is further complemented by our Legal Department which seeks to mitigate legal and regulatory compliance risks with support from other departments. This includes ensuring that significant developments in law and regulations are observed and that we react appropriately to impending legislative and regulatory changes and applicable court rulings.

Risk Landscape

Our risk landscape comprises strategic, insurance, credit, market, operational, liquidity and other risks that arise as a result of doing business. We provide definitions of these risk categories in the following sections as well as our related risk management. Across these risk categories, we identify and evaluate emerging threats and opportunities through a framework that includes the assessment of potential surprise factors that could affect known loss potentials.

Strategic Risk

Strategic risk is the risk of loss arising from the adverse effect of management decisions on both business strategies and their implementation. This includes the failure to devise or adapt a business strategy in light of changes in our internal and external environment. We assess any strategic action in the context of our risk framework by reviewing the impact of the strategy, including any incremental risk, prior to the action taking place. Additionally, what we learn about risk through our monitoring, reporting and control processes provides important feedback in terms of reevaluating our risks and, therefore, reevaluating our business strategy.

We undertake a strategic business planning process on an annual basis which is overseen by our management Executive Committee, business unit leadership and our Board of Directors. Our internal capital model provides an input into this process by providing an assessment as to whether our prospective business and investment strategies are in line with our defined risk appetite and objectives, at both the group and operating entity level. The model also provides a basis for optimizing our risk-return profile by providing consistent risk measurement across the Group. The model outputs are reviewed and supplemented with management's judgment and business experience and expertise.

We specifically evaluate the risks of potential merger and acquisition transactions both from a quantitative and qualitative perspective. We conduct risk assessments of merger and acquisition transactions to evaluate risks specifically related to the integration of acquiring a business. Additionally, we have governance procedures in place to review and approve potential new initiatives within our existing businesses in order to evaluate whether the risks are well understood and justified by the potential rewards.

Insurance Risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities transferred to us through the underwriting process.

Since our inception in 2001, we have expanded our international underwriting presence, with offices in Bermuda, the U.S., Europe, Singapore, Canada, Latin America and the Middle East. Our disciplined underwriting approach coupled with a group-wide peer review process has enabled us to manage this growth in a controlled and consistent manner.

A key component of the Group's underwriting risk governance is our peer review processes which allow for a collaborative review of risk and pricing and ensures that underwriting is within established protocol and guidelines. Underwriting guidelines are in place to provide a framework for consistent pricing and risk analysis and ensuring alignment to the Group's risk appetite. Limits are set on underwriting capacity, and cascade authority to individuals based on their specific roles and expertise.

We also have significant audit coverage across our business units, including Management Initiated Audits ("MIAs"). MIAs are audits of underwriting and claims files performed by teams independent of those who originated the transactions, the purpose of which is to test the robustness of our underwriting, claims and operating processes and to recognize any early indicators of future trends in our operational risk.

Reinsurance purchasing

Another key component of our mitigation of insurance risk is the purchase of reinsurance on both a treaty (covering a portfolio of risks) and facultative (single risk) basis. We primarily purchase reinsurance within AXIS Insurance, on both our short and long tail lines of business.

For treaty reinsurance, we purchase both proportional and non-proportional cover. Under proportional reinsurance, we cede an agreed proportion of the premiums and the losses and loss adjustment expenses on the policies we underwrite. We primarily use proportional reinsurance on our liability and professional lines portfolio, whereby we protect against higher loss frequency rather than specific events. We also use non-proportional reinsurance, whereby losses up to a certain amount (i.e. our retention) are borne by us. Using non-proportional reinsurance we can limit our liability with a retention which reflects our willingness and ability to bear risk, and therefore in line with our risk appetite. We primarily purchase the following forms of non-proportional reinsurance:

- Excess of loss per risk – the reinsurer indemnifies us for loss amounts of all individual policies effected, defined in the treaty terms and conditions. Per risk treaties are an effective means of risk mitigation against large single losses (e.g. a large fire claim).

- Catastrophe excess of loss – provides aggregate loss cover for our insurance portfolio against the accumulation of losses incurred from a single event (e.g. windstorm).

We have a centralized Ceded Reinsurance department which coordinates external treaty reinsurance purchasing across the Group and is overseen by our Reinsurance Purchasing Group ("RPG"), in conjunction with the RSC. The RPG, which includes among others, our Chief Executive Officer, Chief Financial Officer, Chief Risk and Actuarial Officer and business unit leadership, approves each treaty placement, and aims to ensure that appropriate diversification exists within our counterparty panels.

Facultative reinsurance is case by case risk transfer which we may also use to complement treaty reinsurance by covering additional risks above and beyond what is already covered in treaties. Facultative reinsurance is monitored through our peer review processes.

Natural peril catastrophe risk

Natural catastrophes such as earthquakes, storms, tsunamis and floods represent a challenge for risk management due to their accumulation potential and occurrence volatility. In managing natural catastrophe risk, our internal risk tolerance framework aims to limit both the loss of capital due to a single event and the loss of capital that would occur from multiple (but perhaps smaller events) in any year. Within this framework, we have an established risk tolerance for single event, single zone probable maximum loss ("PML") within defined zones and at various return periods. For example, at the 1-in-250 year return period, we are not willing to expose more than 25% of our prior quarter-end common-equity from a single event within a single zone.

The table below shows our mean PML estimates for certain defined single zones which correspond to peak industry catastrophe exposures at January 1, 2016 and 2015:

At January 1, (in millions of U.S. dollars)		2016			2015		
Single zone/single event	Perils	50 Year Return Period	100 Year Return Period	250 Year Return Period	50 Year Return Period	100 Year Return Period	250 Year Return Period
Southeast	U.S. Hurricane	$511	$729	$907	$548	$773	$947
Northeast	U.S. Hurricane	40	137	299	55	177	325
Mid-Atlantic	U.S. Hurricane	104	305	668	98	305	758
Gulf of Mexico	U.S. Hurricane	308	442	614	351	508	773
California	Earthquake	342	532	698	379	544	702
Europe	Windstorm	153	210	284	151	224	291
Japan	Earthquake	123	228	308	165	270	447
Japan	Windstorm	42	71	102	52	83	120

The return period refers to the frequency with which losses of a given amount or greater are expected to occur. A zone is a geographic area in which the insurance risks are considered to be correlated to a single catastrophic event. Estimated losses from a modeled event are grouped into a single zone, as shown above, based on where the majority of the total estimated industry loss is expected to occur. In managing zonal concentrations, we aim to ensure that the geography of single events is suitably captured, but distinct enough that they track specific types of events. For example, our definition of Southeast wind encompasses five states, including Florida, while our definition of Gulf Wind encompasses four states, including Texas.

Our PMLs take into account the fact that an event may trigger claims in a number of lines of business. For instance, our U.S. hurricane modeling includes the estimated pre-tax impact to our financial results arising from our catastrophe, property, engineering, energy, marine and aviation lines of business. Our PMLs include assumptions regarding the location, size and magnitude of an event, the frequency of events, the construction type and a property’s susceptibility to damage, and the cost of rebuilding the property. Loss estimates for non-U.S. zones will be subject to foreign exchange rates, although we may mitigate this currency variability from a book value point of view.

As indicated in the table above, our modeled single occurrence 1-in-100 year return period PML for a Southeast U.S. hurricane, net of reinsurance, is approximately $0.7 billion. According to our modeling, there is a one percent chance that on an annual basis, our losses incurred from a Southeast hurricane event could be in excess of $0.7 billion. Conversely, there is a 99% chance that on an annual basis, the loss from a Southeast hurricane will fall below $0.7 billion.

We have developed our PML estimates using multiple commercially available vendor models, including AIR and RMS (which we also use for pricing catastrophe risk). These models cover the major peril regions where we face potential exposure. We combine the outputs of catastrophe models with our estimate of non-modeled perils and other factors which we believe, from our experience, provides us with a more complete view of catastrophe risk.

Our PML estimates are based on assumptions that are inherently subject to significant uncertainties and contingencies. These uncertainties and contingencies can affect actual losses and could cause actual losses to differ materially from those expressed above. We aim to reduce the potential for model error in a number of ways, the most important of which is by ensuring that management’s judgment supplements the model outputs. We also perform ongoing model validation both within our business units and through our catastrophe model validation unit. These validation procedures include sensitivity testing of models to understand their key variables and, where possible, back testing the model outputs to actual results.

Our estimated net losses from peak zone catastrophes may change from period to period as a result of several factors, which include but are not limited to, updates to vendor catastrophe models, changes in our own modeling, changes in our underwriting portfolios, changes to our reinsurance purchasing strategy and changes in foreign exchange rates. Several of the aforementioned factors, including the opportunistic purchase of more reinsurance/retrocession protection, drove a reduction in our natural catastrophe PML's during 2015.

Man-made catastrophe risk

Similar to our management of natural peril catastrophe exposures, we also take a similar focused and analytical approach to our management of man-made catastrophes. Man-made catastrophes, which include such risks as train collisions, airplane crashes, hotel fires or terrorism, are harder to model in terms of assumptions regarding intensity and frequency. For these risks we couple the vendor models (where available) with our bespoke modeling and underwriting judgment and expertise. This allows us to take advantage of business opportunities relating to man-made catastrophe exposures particularly where we can measure and limit the risk sufficiently as well as obtain risk-adequate pricing.

As an example of our approach, our assessment of terrorism risk is based on a mixture of qualitative and quantitative data (e.g. for estimating property damage, business interruption, mortality and morbidity subsequent to an attack of a predefined magnitude), which we use to control, limit and manage our aggregate terrorism exposure. We use commercially available vendor modeling and bespoke modeling tools to measure accumulations around potential terrorism accumulation zones on a deterministic and probabilistic basis. We supplement the results of our modeling with underwriting judgment.

Reserving risk

The estimation of reserves is subject to uncertainty due to the fact that the settlement of claims that have arisen before the balance sheet date is dependent on future events and developments. Unforeseen loss trends resulting from court rulings, changes in the law, medical and long-term care, and economic factors such as inflation can have an impact on the ultimate cost to settle our claim liabilities.

We calculate the reserves for losses and claims settlement costs in accordance with actuarial practice based on substantiated assumptions, methods and assessments. The assumptions are regularly reviewed and updated, and the application of our Group reserving policy and standards of practice ensures a reliable and consistent procedure. Our loss reserving process demands data quality and reliability and requires a quantitative and qualitative review of both our overall reserves and individual large claims. Within a structured control framework, claims information is communicated on a regular basis throughout our organization, including to senior management, to provide an increased awareness regarding the losses that have taken place throughout the insurance markets. The detailed and analytical reserving approach that follows is designed to absorb and understand the latest information on our reported and unreported claims, to recognize the resultant exposure as quickly as possible, and to make appropriate and realistic provisions in our financial statements. We have well established processes for determining carried reserves, which we ensure are applied consistently over time.

Reserving for long-tail lines of business represents a significant component of reserving risk. When loss trends prove to be higher than those underlying our reserving assumptions, the risk is greater because of a stacking-up effect: we carry reserves to cover claims arising from several years of underwriting activity and these reserves are likely to be adversely affected by unfavorable loss trends. We manage and mitigate reserving risk on long-tail business in a variety of ways. First, the long-tail business we write is part of a well-balanced and diversified global portfolio of business. In 2015, our long-tail net premiums written (namely liability and motor business) represented 23% of our total premium written and 33% of total net reserves. We also purchase reinsurance on the liability business written in our insurance segment to reduce our net positions. Secondly, we follow a disciplined underwriting process that utilizes available information, including industry trends.

Another significant component of reserving risk relates to the estimation of losses in the aftermath of a major catastrophe event. For further discussion on this, as well as a description of our reserving process, refer to ‘Critical Accounting Estimates – Reserve for Losses and Loss Expenses’ under Item 7.

Claims handling risk

In accepting risk, we are committing to the payment of claims and therefore these risks must be understood and controlled. We have claims teams located throughout our main business units. Our claim teams include a diverse group of experienced professionals, including claims adjusters and attorneys. We also use approved external service providers, such as independent adjusters and appraisers, surveyors, accountants, investigators and specialist attorneys, as appropriate.

We maintain claims handling guidelines and claims reporting control and escalation procedures in all our claims units. Large claims matters are reviewed during weekly claims meetings. The minutes from each meeting are circulated to our underwriters, senior management and others involved in the reserving process. To maintain communication between underwriting and claims teams, claims personnel regularly report at underwriting meetings and frequently attend client meetings.

AXIS fosters a strong culture of review among its claims teams. This includes MIAs, whereby senior claims handlers audit a sample of claim files. The process is designed to ensure consistency between the claims units and to develop Group-wide best practices.

When we receive notice of a claim, regardless of size, it is recorded within our underwriting and claims systems. To assist with the reporting of significant claims, we have also developed a standard format and procedure to produce “flash reports” for significant events and potential losses, regardless of whether we have exposure. Our process for flash reporting allows a direct notification to be communicated to underwriters and senior management worldwide.

Similarly, for natural peril catastrophes, we have developed a catastrophe database, along with catastrophe coding in certain systems, that allows for the gathering, blending and reporting of loss information as it develops from early modeled results to fully adjusted and paid losses.

Credit Risk

Credit risk represents the risk of incurring financial loss due to the diminished creditworthiness (eroding credit rating and, ultimately, default) of our third party counterparties. We distinguish between various forms of credit exposure; the risk of issuer default from instruments in which we invest or trade, such as corporate bonds; counterparty exposure in a direct contractual relationship, such as retrocession; the credit risk related to our receivables, including those from brokers and other intermediaries; and the risk we assume through our (re)insurance contracts, such as our credit and political risk and trade credit and bond lines of business.

Credit risk aggregation

We monitor and manage the aggregation of credit risk on a Group-wide basis allowing us to consider exposure management strategies for individual companies, countries, regions, sectors and any other relevant inter-dependencies. Our credit exposures are aggregated based on the origin of risk. As part of our credit aggregation framework, we also assign aggregate credit limits by company and country. These limits are based and adjusted on a variety of factors including the prevailing economic environment and the nature of the underlying credit exposures.

Our credit aggregation measurement and reporting process is facilitated by our credit risk exposure database, which contains relevant information on counterparty details and credit risk exposures. The database is accessible by management throughout the Group, thus providing transparency to allow for the implementation of active exposure management strategies. We also license third party tools to provide credit risk assessments. We monitor all our credit aggregations and, where appropriate, adjust our internal risk limits and/or have taken specific actions to reduce our risk exposures. Credit risk aggregation is also managed through minimizing overlaps in underwriting, financing and investing activities.

Credit risk relating to investing activities

With our fixed maturity investment portfolio, which represents approximately $12 billion or 59% of our total assets, we are exposed to potential losses arising from the diminished creditworthiness of issuers of bonds as well as third party counterparties such as custodians. We limit such credit risk through diversification, issuer exposure limitation graded by ratings and, with respect to custodians, through contractual and other legal remedies. Excluding U.S. Treasury and Agency securities, we limit our concentration of credit risk to any single corporate issuer to 2% or less of our investment grade fixed maturities portfolio for securities rated A- or above and 1% or less of our investment grade fixed maturities portfolio for securities rated below A-. No more than 1.5% of total cash and invested assets can be invested in any single corporate issuer.

We also have credit risk relating to our cash and cash equivalents. In order to mitigate concentration and operational risks related to cash and cash equivalents, we limit the maximum amount of cash that can be deposited with a single counterparty and additionally limit acceptable counterparties based on current rating, outlook and other relevant factors.

Credit risk relating to reinsurance recoverable assets

Within our reinsurance purchasing activities, we are exposed to the credit risk of a reinsurer failing to meet its obligations under our reinsurance contracts. To help mitigate this, all of our reinsurance purchasing is subject to financial security requirements specified by our RSC. The RSC maintains a list of approved reinsurers, performs credit risk assessments for potential new reinsurers, regularly monitors approved reinsurers with consideration for events which may have a material impact on their creditworthiness, recommends counterparty tolerance levels for different types of ceded business and monitors concentrations of credit risk. This assessment considers a wide range of individual attributes, including a review of the counterparty's financial strength, industry position and other qualitative factors.

We monitor counterparty credit quality and exposures, with special monitoring of those cases that merit close attention.

Credit risk relating to receivables

Our largest credit risk exposure to receivables is from brokers and other intermediaries; the risk arises where they collect premiums from customers to be paid to us or pay claims to customers on our behalf. We have policies and standards in place to manage and monitor credit risk from intermediaries with a focus on day-to-day monitoring of the largest positions.

Credit risk relating to our underwriting portfolio

In our insurance segment, we provide credit insurance primarily for lenders (financial institutions) seeking to mitigate the risk of non-payment from their borrowers. This product has complemented our more traditional political risk insurance business in recent years. For the credit insurance contracts, it is necessary for the buyer of the insurance, most often a bank, to hold an insured asset, most often an underlying loan, in order to claim compensation under the insurance contract. The vast majority of the credit insurance provided is for single-name illiquid risks, primarily in the form of senior secured bank loans that can be individually analyzed and underwritten. As part of this underwriting process, an evaluation of credit-worthiness and reputation of the obligor is critical and forms the cornerstone of the underwriting process. We generally require that our clients retain a share of each transaction that we insure. A key element to our underwriting analysis is the assessment of recovery in the event of default and, accordingly, the strength of the collateral and the enforceability of rights to the collateral are paramount. We avoid insurance for structured finance products defined by pools of risks and insurance for synthetic products that would expose us to mark-to-market losses. We also seek to avoid terms in our credit insurance contracts which introduce liquidity risk, most notably, in the form of a collateralization requirement upon a ratings downgrade. We also provide protection against sovereign default or sovereign actions that result in impairment of cross-border investments for banks and corporations. Our contracts generally include conditions precedent to our liability relating to the enforceability of the insured transaction and restricting amendments to the transaction documentation, obligations on the insured to prevent and minimize losses, subrogation rights (including rights to have the insured asset transferred to us) and waiting periods.

Under most of our policies, a loss payment is made in the event the debtor failed to pay our client when payment is due subject to a waiting period of up to 180 days.
In our reinsurance segment, we provide reinsurance of credit and bond insurers exposed to the risks of financial loss arising from non-payment of trade receivables covered by a policy (credit insurance) or non-performance (bonding). Our credit insurance exposures are concentrated primarily within Western European economies, while our surety bond exposures are concentrated primarily within Latin American and Western European economies.
Market Risk
Market risk is the risk that our financial instruments may be negatively impacted by movements in financial market prices or rates such as equity prices, interest rates, credit spreads and foreign exchange rates. Fluctuations in market rates primarily affect our investment portfolio.
Through asset and liability management, we aim to ensure that market risks influence the economic value of our investments and that of our loss reserves and other liabilities in the same way, thus mitigating the effect of market fluctuations. For example, we reflect important features of our liabilities, such as maturity patterns and currency structures, on the assets side of the balance sheet by acquiring investments with similar characteristics.
We supplement our asset-liability management with various internal policies and limits. As part of our strategic asset allocation process, different asset strategies are simulated and stressed in order to evaluate the ‘best’ portfolio (given return objectives and risk constraints) at both the group and operating entity level. We centralize the management of asset classes to control aggregation of risk, and provide a consistent approach to constructing portfolios as well as the selection process of external asset managers. We have limits on the concentration of investments by single issuers and certain asset classes, and we limit the level of illiquid investments (see 'Liquidity Risk' below). Further, our investment guidelines do not permit the use of leverage in any of our fixed maturity portfolios.
We stress test our investment portfolios using historical and hypothetical scenarios to analyze the impact of unusual market conditions and to ensure potential investment losses remain within our risk appetite. At an annual aggregated level, we manage the total risk exposure to our investment portfolio so that the ‘total return’ investment loss in any one year is unlikely to exceed a defined percentage of our common equity at a defined return period.
We mitigate foreign currency risk by seeking to match our estimated (re)insurance liabilities payable in foreign currencies with assets, including cash and investments that are also denominated in such currencies. Where necessary, we use derivative financial instruments for economic hedging purposes. For example, in certain circumstances, we use forward contracts and currency options, to economically hedge portions of our un-matched foreign currency exposures.
Operational Risk
Operational risk represents the risk of financial loss as a result of inadequate processes, system failures, human error or external events.
Group Risk is responsible for coordinating and overseeing a Group-wide framework for operational risk management. As part of this, we maintain an operational loss-event database which helps us better monitor and analyze potential operational risk, identify any trends, and, where necessary, put in place improvement actions to avoid occurrence or recurrence of operational loss events.
We manage transaction type operational risks through the application of process controls throughout our business. In testing these controls, we supplement the work of our internal audit team, with regular underwriting and claim MIAs (as discussed above).
We have specific processes and systems in place to focus on high priority operational matters such as information security, managing business continuity, and third party vendor risk:

- Major failures and disasters which could cause a severe disruption to working environments, facilities and personnel, represent a significant operational risk to us. Our Business Continuity Management framework strives to protect critical business functions from these effects to enable us to carry out our core tasks in time and at the quality required. During 2015, we continued to review our Business Continuity Planning procedures through cyclical planned tests.

- We have developed a number of Information Technology ("IT") platforms, applications and security controls to support our business activities worldwide. Dedicated security standards are in place for our IT systems to ensure the proper use, availability and protection of our information assets.

- Our use of third party vendors exposes us to a number of increased operational risks, including the risk of security breaches, fraud, non-compliance with laws and regulations or internal guidelines and inadequate service. We manage material third party vendor risk, by, among other things, performing a thorough risk assessment on potential large vendors, reviewing a vendor's financial stability, ability to provide ongoing service and business continuity planning.

Liquidity Risk

Liquidity risk is the risk that we may not have sufficient liquid financial resources to meet our obligations when they fall due, or would have to incur excessive costs to do so. As a (re)insurer, our core business generates liquidity primarily through premium and investment income. Our exposure to liquidity risk stems mainly from the need to cover potential extreme loss events and regulatory constraints that limit the flow of funds within the Group. To manage these risks, we have a range of liquidity policies and measures in place:

- We maintain cash and cash equivalents and high quality, liquid investment portfolios to meet expected outflows, as well as those that could result from a range of potential stress events. We place internal limits on the maximum percentage of cash and investments which may be in a restricted form as well as a minimum percentage of our investment portfolio to mature within a defined timeframe.

- We maintain committed borrowing facilities, as well as access to diverse funding sources to cover contingencies. Funding sources include asset sales, external debt issuances and lines of credit.

Capital Management

Our capital management strategy is to maximize long-term shareholder value by, among other things, optimizing capital allocation and minimizing our cost of capital. We also manage our capital in accordance with our desired financial strength rating, as well as regulatory and solvency requirements.

We monitor the capital positions of the Group and operating entity level and apply stress tests based on adverse scenarios. This allows us to take appropriate measures to ensure the continued strength of capital and solvency positions, and also enables us to take advantage of growth opportunities as they arise. Such measures are performed as and when required and include traditional capital management tools (e.g. dividends, share buy-backs, issuances of shares or debt) or through changes to our risk exposure (e.g. recalibration of our investment portfolio or changes to our reinsurance purchasing strategy).

Internal risk capital

We use our internal capital model to assess the capital consumption of our business, measuring and monitoring the potential aggregation of risk at extreme return periods.

Regulatory capital requirements

In each country in which we operate, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in support of their liabilities. We target to hold, in addition to the minimum capital required to comply with the solvency requirements, an adequate buffer to ensure that each of our operating entities meets its local capital requirements. Refer to Item 8, Note 21 of the Consolidated Financial Statements, 'Statutory Financial Information' for further information.

Rating agency capital requirements

Rating agencies apply their own models to evaluate the relationship between the required risk capital of a company and its available capital resources. The assessment of capital adequacy is usually an integral part of the rating agency process. Meeting rating agency capital requirements and maintaining strong credit ratings are strategic business objectives of the AXIS Group. For further information on our financial strength refer to Item 7 'Liquidity and Capital Resources' section of this report.

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REGULATION

General

The business of (re)insurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. In addition, some jurisdictions are currently evaluating changes to their regulation and AXIS is monitoring these potential developments. To the extent AXIS is aware of impending changes in regulation, we designate project teams to prepare the organization to comply on a timely basis with such anticipated changes. The following describes the current material regulations under which the Company operates.

Bermuda

Our Bermuda insurance operating subsidiary, AXIS Specialty Bermuda, is a Class 4 general business insurer subject to the Insurance Act 1978 of Bermuda and related regulations, as amended (the “Insurance Act”). The Insurance Act provides that no person may carry on any insurance or reinsurance business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority (the “BMA”) under the Insurance Act. The Insurance Act imposes upon Bermuda insurance companies solvency and liquidity standards and auditing and reporting requirements, and grants the BMA powers to supervise, investigate, require information and demand the production of documents and intervene in the affairs of insurance companies. Significant requirements pertaining to Class 4 insurers include the appointment of an independent auditor, the appointment of a loss reserve specialist, the appointment of a principal representative in Bermuda, the filing of annual Statutory Financial Returns, the filing of annual GAAP financial statements, the filing of an annual capital and solvency return, compliance with minimum and enhanced capital requirements, compliance with certain restrictions on reductions of capital and the payment of dividends and distributions, compliance with group solvency and supervision rules, if applicable, and compliance with the Insurance Code of Conduct.

The BMA is seeking “equivalence” under Solvency II (as more fully described below under "Ireland"). The European Commission has recommended the BMA be granted full equivalence for Bermuda’s commercial insurance sector, including Class 4 insurers, with an effective date of January 1, 2016. The European Parliament and Council are reviewing the proposed grant of full equivalence and this decision is expected shortly.

In November 2013, AXIS Capital formed AXIS Ventures Limited and its direct subsidiary Ventures Re. Ventures Re is a Class 3A insurer under the Insurance Act and a registered segregated accounts company under the Bermuda Segregated Accounts Companies Act 2000, as amended. Pursuant to a Direction under Section 56 of the Insurance Act issued by the BMA, Ventures Re is exempt from certain solvency and liquidity standards and reporting requirements. The BMA acts as group supervisor of AXIS Capital and has designated AXIS Specialty Bermuda as the ‘designated insurer’ of the AXIS Capital group of insurance companies. In accordance with the group supervision and insurance group solvency rules, AXIS Capital is required to prepare and submit annual audited group GAAP financial statements, annual group statutory financial statements, an annual group statutory financial return, an annual group capital and solvency return and quarterly group unaudited GAAP financial statements, and to appoint both a group actuary and a group auditor. Enhanced group capital requirements (“ECR”) have been phased in since the financial year ending December 31, 2013, when the applicable ECR was 50% of the amount prescribed by the BMA, with an additional 10% applicable each subsequent year through 2018, when the full ECR will be required.
AXIS Capital, AXIS Specialty Bermuda, AXIS Specialty Holdings Bermuda Limited, AXIS Bermuda Services Limited, AXIS Specialty Markets Limited, AXIS Specialty Markets II Limited, AXIS Ventures Limited, Ventures Re, AXIS Bermuda Services II Limited and AXIS Specialty Investments II Limited must also comply with provisions of the Bermuda Companies Act 1981, as amended (the “Companies Act”), regulating the payment of dividends and

distributions. A Bermuda company may not declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would thereby be less than its liabilities.

The Singapore branch of AXIS Specialty Bermuda, AXIS Specialty Limited (Singapore Branch), established in 2008, is regulated by the Monetary Authority of Singapore (the "MAS") pursuant to The Insurance Act of Singapore which imposes significant regulations relating to capital adequacy, risk management, governance and audit and actuarial requirements. AXIS Specialty Limited (Singapore Branch) is registered by the Accounting and Corporate Regulatory Authority ("ACRA") as a foreign company in Singapore and is also regulated by ACRA pursuant to the Singapore Companies Act. Prior to establishing its Singapore branch, AXIS Specialty Bermuda had maintained a representative office in Singapore since 2004.

AXIS Specialty Bermuda has reinsurance permissions in India, China and the Netherlands. AXIS Specialty Limited (Singapore Branch) has separate reinsurance permissions in India and China.

AXIS Syndicate 1686 ("AXIS Syndicate"), a Lloyd's Syndicate, is licensed through Lloyd's to write insurance and reinsurance in or from Bermuda, except for long-term business. See "United Kingdom" below for additional information regarding AXIS Syndicate.

United States

U.S. Insurance Holding Company Regulation of AXIS Capital's Insurance Subsidiaries

As members of an insurance holding company system, each of AXIS Insurance Company, AXIS Reinsurance Company, AXIS Specialty Insurance Company and AXIS Surplus Insurance Company, collectively AXIS Capital's U.S. insurance subsidiaries ("U.S. Insurance Subsidiaries") are subject to the insurance holding company system laws and regulations of the states in which they do business. These laws generally require each of the U.S. Insurance Subsidiaries to register with its respective domestic state insurance department and to furnish financial and other information which may materially affect the operations, management or financial condition within the holding company system. All transactions within a holding company system that involve an insurance company must be fair and equitable. Notice to the insurance departments is required prior to the consummation of transactions affecting the ownership or control of an insurer and of certain material transactions between an insurer and an entity in its holding company system, and certain transactions may not be consummated without the department's prior approval.

State Insurance Regulation

AXIS Reinsurance Company is licensed to transact insurance and reinsurance in all 50 of the United States, the District of Columbia and Puerto Rico. AXIS Reinsurance Company is also authorized to transact insurance and reinsurance throughout Canada through its Canadian branch and has reinsurance permissions in Brazil, Ecuador, India and Mexico. AXIS Insurance Company is licensed to transact insurance and reinsurance in all 50 of the United States and in the District of Columbia. AXIS Specialty Insurance Company is licensed to transact insurance and reinsurance throughout the United States, except California, Iowa, Maine, New Mexico, New York and Wyoming. AXIS Surplus Insurance Company is eligible to write insurance on a surplus lines basis in all 50 of the United States, the District of Columbia and Puerto Rico.

Our U.S. Insurance Subsidiaries also are subject to regulation and supervision by their respective states of domicile and by other jurisdictions in which they do business. The regulations generally are derived from statutes that delegate regulatory and supervisory powers to an insurance official. The regulatory framework varies from state to state, but generally relates to approval of policy forms and rates, the standards of solvency that must be met and maintained, including risk-based capital standards, material transactions between an insurer and its affiliates, the licensing of insurers, agents and brokers, restrictions on insurance policy terminations, the nature of and limitations on the amount of certain investments, limitations on the net amount of insurance of a single risk compared to the insurer's surplus, deposits of securities for the benefit of policyholders, methods of accounting, periodic examinations of the financial condition and market conduct of insurance companies, the form and content of reports of financial condition required to be filed, reserves for unearned premiums, losses, expenses and other obligations.

Our U.S. Insurance Subsidiaries are required to file detailed quarterly statutory financial statements with state insurance regulators in each of the states in which they conduct business. In addition, the U.S. Insurance Subsidiaries' operations and accounts are subject to financial condition and market conduct examination at regular intervals by state regulators.

Regulators and rating agencies use statutory surplus as a measure to assess our U.S. Insurance Subsidiaries' ability to support business operations and pay dividends. Our U.S. Insurance Subsidiaries are subject to various state statutory and regulatory restrictions that limit the amount of dividends that may be paid from earned surplus without prior approval from regulatory authorities. These restrictions differ by state, but generally are based on calculations using statutory surplus, statutory net income and investment income. In addition, many state regulators use the National Association of Insurance Commissioners promulgated risk-based capital requirements as a means of identifying insurance companies which may be under-capitalized.

Although the insurance industry generally is not directly regulated by the federal government, federal legislation and initiatives can affect the industry and our business. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank”) was signed into law. Certain sections of that act pertain to the regulation and business of insurance. Specifically, the Federal Insurance Office was created (“FIO”). Initially, the FIO will have limited authority and mainly collect information and report on the business of insurance to Congress. In addition, Dodd-Frank contained the Nonadmitted and Reinsurance Reform Act of 2010 (“NRRA”). NRRA attempts to coordinate the payment of surplus lines taxes, simplify the granting of alien insurers to become surplus lines authorized and coordinates the credit for certain reinsurance. Various sections of Dodd-Frank become effective over time and regulations have yet to be drafted for certain provisions. AXIS does not anticipate that Dodd-Frank will have any material effect on its operations or financial condition this year, but will continue to monitor its implementation.
On April 1, 2015, we acquired 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. Ternian is an authorized insurance producer in all 50 of the United States except Hawaii. As a resident insurance producer in Arizona, Ternian is subject to regulation and supervision by the Arizona Department of Insurance and is also subject to the regulation and supervision of the other states in which Ternian transacts business.

U.S. Authorizations of our Non-U.S. Insurance Subsidiaries

The insurance laws of each state of the United States regulate or prohibit the sale of (re)insurance within their jurisdictions by (re)insurers that are not admitted to do business within such jurisdictions, or conduct business pursuant to exemptions. AXIS Specialty Europe is eligible to write surplus lines business in all 50 of the United States, the District of Columbia and Puerto Rico. AXIS Syndicate is eligible to write surplus lines business in all 50 of the United States, in the District of Columbia and in all U.S. territories. AXIS Syndicate is authorized to write insurance business, except life insurance business, in the states of Illinois, Kentucky and in the U.S. Virgin Islands under licenses held in the name of “Lloyd's underwriters” or “Underwriters at Lloyd's, London”. AXIS Syndicate is authorized to write non-life reinsurance business in all 50 of the United States, the District of Columbia and in all U.S. territories, except for accident and health reinsurance in New York.
In addition to the regulatory requirements imposed by the jurisdictions in which they are licensed, reinsurers’ business operations are affected by regulatory requirements in various states of the U.S. governing “credit for reinsurance” that are imposed on their ceding companies. In general, a ceding company obtaining reinsurance from a reinsurer that is licensed, accredited or approved by the jurisdiction or state in which the ceding company files statutory financial statements is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the ceding company’s liability for unearned premiums (which are that portion of premiums written which applies to the unexpired portion of the policy period), loss reserves and loss expense reserves ceded to the reinsurer. The great majority of states, however, permit a credit to statutory surplus resulting from reinsurance obtained from a non-licensed or non-accredited reinsurer to be recognized to the extent that the reinsurer provides a letter of credit, trust fund or other acceptable security arrangement. A few states do not allow credit for reinsurance ceded to non-licensed reinsurers except in certain limited circumstances and others impose additional requirements that make it difficult to become accredited. During 2013, in connection with the establishment of a Multi-Beneficiary Reinsurance Trust, AXIS Specialty Bermuda obtained accredited or trusteed reinsurer status in all U.S. jurisdictions except for California and New York.

Ireland

On November 4, 2015, Ireland transposed the Solvency II Directive (Directive 2009/138/EC) as amended by the Omnibus II Directive (2014/51/EC) (together “the Solvency II Directive”) into Irish Law effective January 1, 2016. This transposition took the form of secondary Irish legislation in the form of a Statutory Instrument, the European Communities (Insurance and Reinsurance) Regulations 2015, which together with the Solvency II Directive is collectively referred to herein as “Solvency II”. Solvency II represents a consolidation and modernization of existing European Commission Solvency I (re)insurance regulation and supervision and includes a new harmonized EU-wide risk based solvency and reporting regime for the (re)insurance sector. Solvency II covers three main areas: (i) the valuation of assets and liabilities and related solvency capital requirements; (ii) governance requirements including key functions of compliance, internal audit, actuarial and risk management; and (iii) new legal entity and European

Union ("EU") group reporting and disclosure requirements including public disclosures. The new capital requirement must be computed using the Solvency II standard formula unless the Central Bank of Ireland ("CBI") approval has been received for capital to be computed using an internal model. Certain of our European legal entities are subject to Solvency II effective January 1, 2016. The CBI is the Solvency II EU group regulator.

AXIS Specialty Europe

AXIS Specialty Europe is a European public limited liability company incorporated as a non-life insurer under the laws of Ireland. AXIS Specialty Europe is authorized and regulated by the CBI pursuant to the Insurance Acts 1909 to 2000, as amended, repealed or replaced, the Central Bank Acts 1942 – 2014, as amended, repealed or replaced and EU regulation relating to general insurance and statutory instruments made thereunder. AXIS Specialty Europe is authorized to conduct business in 16 non-life insurance classes of business. AXIS Specialty Europe may also write reinsurance business within the classes of insurance business for which it is authorized. Significant additional regulation that applies to AXIS Specialty Europe includes the CBI's Corporate Governance Code for Insurance Undertakings 2015, the Guidelines on the Reinsurance Cover of Primary Insurers and the Security of their Reinsurers, the 2015 Domestic Actuarial Regime and related Governance requirements under Solvency II and the Guidance for (Re) Insurance Undertakings on the Fitness and Probity Amendments 2015.

Ireland is a member of the European Economic Area, ("EEA"), which comprises each of the countries of the EU with the addition of Iceland, Liechtenstein and Norway.

AXIS Specialty Europe is subject to Solvency II regulation effective January 1, 2016. In accordance with Solvency II, AXIS Specialty Europe is permitted to provide insurance services to clients located in any other EEA member state ("Freedom of Services"), provided it has first notified the CBI and subject to compliance with any "general good requirements" as may be established by the applicable EEA Member State regulator. AXIS Specialty Europe has notified the CBI of its intention to provide insurance services on a Freedom of Services basis in all EEA countries. Solvency II also permits AXIS Specialty Europe to carry on insurance business in any other EEA Member State under the principle of "Freedom of Establishment." In May 2003, AXIS Specialty Europe established a branch in the United Kingdom to transact general insurance business in the United Kingdom trading as AXIS Specialty London. The CBI remains responsible for the prudential supervision of the branch; however, AXIS Specialty London is also regulated by the United Kingdom's Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") in respect of the conduct of United Kingdom business.

In July 2008, AXIS Specialty Europe established an Australian branch, trading as AXIS Specialty Australia, to transact general insurance business in Australia. The CBI remains responsible for the prudential supervision of the branch; however the Australia Prudential Regulation Authority ("APRA") is also responsible for the authorization of and the ongoing prudential supervision of the branch in accordance with the Insurance Act 1973, as amended, as well as regulations applicable to general insurers in Australia. AXIS Specialty Europe is also registered as a foreign company with the Australia Securities Investment Commission in accordance with Australia's Corporations Act 2001, as amended. Significant additional regulation relates to branch capital adequacy, assets in Australia, risk management, reinsurance management, governance and audit and actuarial requirements. AXIS Specialty Europe ceased writing new and renewal business in its Australia branch during 2015 (see "Australia" below for additional information regarding AXIS Specialty Australia).

AXIS Specialty Europe has obtained local regulatory permission to carry on insurance business in Jersey and Gibraltar and has reinsurance permissions in India and China.

AXIS Re SE

AXIS Re SE is a European public limited liability company incorporated as a reinsurer under the laws of Ireland. AXIS Re SE is authorized by the CBI as a composite reinsurer (non-life and life) in accordance with the Insurance Acts 1909 to 2000, as amended, repealed or replaced, the Central Bank Acts 1942 - 2014 as amended, repealed or replaced and EU regulation applicable to reinsurance and statutory instruments made thereunder. Significant additional regulation that applies to AXIS Re SE includes the CBI's Corporate Governance Code for Insurance Undertakings 2015, the Guidelines on the Reinsurance Cover of Primary Insurers and the Security of their Reinsurers, the 2015 Domestic Actuarial Regime and related Governance requirements under Solvency II and the Guidance for (Re) Insurance Undertakings on the Fitness and Probity Amendments 2015.

Solvency II regulation applies to AXIS Re SE effective January 1, 2016.

In September 2003, AXIS Re SE established a branch in Zurich, Switzerland trading as AXIS Re Europe and registered in Zurich as AXIS Re SE Dublin, Zurich branch. The CBI remains responsible for the prudential supervision of the branch. The

Swiss Financial Market Supervisory Authority does not impose additional regulation upon a Swiss branch of an EEA reinsurer.

AXIS Re SE has reinsurance permissions in Argentina, Bolivia, Brazil, China, Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, India, Mexico, Panama, Paraguay, Peru and Venezuela.

AXIS Re SE has marketing offices in Brazil, Dubai, France and Spain. These offices are representative offices only and no business may be written or any regulated activity conducted from these offices. AXIS Re SE Escritório de Representação No Brasil Ltda. was established in Brazil as a subsidiary of AXIS Re SE to facilitate the Brazilian Superintendence of Private Insurance ("SUSEP") regulatory requirements for approval of a representative office of AXIS Re SE and for AXIS Re SE to be registered with SUSEP as an Admitted Reinsurer.

AXIS Specialty Holdings Ireland Limited

AXIS Specialty Holdings Ireland Limited is the limited liability holding company for AXIS Specialty Europe and AXIS Re SE, incorporated under the laws of Ireland. In its capacity as a holding company of EU regulated (re)insurance companies, AXIS Specialty Holdings Ireland Limited is subject to certain group requirements under Solvency II.

AXIS Syndicate, through Lloyd's, has permission to write insurance, except permanent health, and reinsurance business on a Freedom of Services basis in Ireland.

United Kingdom

Under the law of England and Wales, a company may only conduct insurance and/or reinsurance business in the United Kingdom upon authorization. AXIS Specialty Europe is authorized to transact business in the U.K. pursuant to Solvency II on a Freedom of Establishment basis through its branch, AXIS Specialty London.

The United Kingdom is a member of the EEA. AXIS Re SE may transact U.K. business on a Freedom of Services basis pursuant to Solvency II.

AXIS Syndicate 1686

The Corporation of Lloyd's is not an insurance or reinsurance company. The Corporation of Lloyd's oversees and supports the Lloyd's market. The Lloyd's market houses members, syndicates and managing agents. Lloyd's is a Society of members both corporate and individual, which underwrite insurance and reinsurance (each for their own account) as members of syndicates. A syndicate is made up of one or more members that join together as a group to accept insurance and reinsurance risks. They operate on an ongoing basis, although they are technically annual ventures. Each syndicate is managed by a managing agent. Managing agents write insurance business on behalf of the member(s) of the syndicate, which member(s) receive profits or bear losses in proportion to their share in the syndicate for each underwriting year of account.

Lloyd's is subject to U.K. law and regulation by the PRA and FCA. The Lloyd's Act 1982 defines the governance structure and rules under which Lloyd's operates. Under the Lloyd's Act 1982, the Council of Lloyd's is responsible for the management and supervision of the Lloyd's market. Lloyd's Managing Agents are also dual regulated by the PRA and FCA.

AXIS Corporate Capital UK Limited is approved by the Franchise Board of Lloyd's as the sole (100%) corporate member supporting the business underwritten by AXIS Syndicate. AXIS Syndicate is managed by Asta Managing Agency Limited, a third party managing agent approved by Lloyd's, PRA and FCA. Lloyd's has a global network of licenses and authorizations and AXIS Syndicate may write business in and from countries where Lloyd's has authorized status or pursuant to regulatory exemptions available to non-admitted reinsurers. AXIS Syndicate, through Lloyd's, is permitted to provide insurance, except permanent health, and reinsurance services on a Freedom of Services basis subject to compliance with any "general good requirements" as may be established by the applicable EEA member state regulators. AXIS Syndicate received approval from Lloyd's during 2015 to establish an underwriting division at Lloyd's Insurance Company (China) Limited, a wholly owned subsidiary of the Corporation of Lloyd's.

Lloyd's and AXIS Syndicate are subject to Solvency II regulation effective January 1, 2016.

Switzerland
AXIS Re SE conducts reinsurance business from its branch, AXIS Re Europe, in Zurich, Switzerland, subject to the supervision of the CBI.
AXIS Syndicate, through Lloyd's, is authorized to conduct all classes of insurance business, except life, sickness and legal expenses and is authorized to write all classes of reinsurance business in Switzerland.
Singapore
AXIS Specialty Bermuda conducts (re)insurance business from its branch in Singapore, AXIS Specialty Limited (Singapore Branch), subject to the supervision of the BMA and the MAS which imposes significant regulations relating to capital adequacy, risk management, governance and audit and actuarial requirements. AXIS Specialty Limited (Singapore Branch) is registered by ACRA as a foreign company in Singapore and regulated by ACRA pursuant to the Singapore Companies Act.
AXIS Syndicate, through Lloyd's, is licensed to write insurance from Singapore with the exception of certain compulsory classes and life business. Singaporean business may also be written from outside of Singapore in certain circumstances where it is placed with a Singapore intermediary licensed by the MAS to place business at Lloyd's or by dealing directly with the insured.
Canada
AXIS Reinsurance Company conducts (re)insurance business from AXIS Reinsurance Company (Canadian Branch), its branch in Canada, subject to the supervision of the New York State Department of Financial Services and the Office of the Superintendent of Financial Institutions Canada (“OSFI”), the federal regulatory authority that supervises federal Canadian and non-Canadian insurance companies operating in Canada pursuant to the Insurance Companies Act (Canada). The branch is authorized by OSFI to transact insurance and reinsurance. In addition, the branch is subject to the laws and regulations of each of the provinces and territories in which it is licensed.
AXIS Syndicate, through Lloyd's, subject to the laws and regulations of each of the provinces and territories in which it is licensed, is authorized to write insurance in or from Canada, with the following exceptions: hail insurance in respect of crop in the province of Quebec; home warranty insurance in the province of British Columbia; life insurance; credit protection insurance; title insurance; surety; and mortgage default insurance. AXIS Syndicate, through Lloyd's, is authorized to write reinsurance in or from Canada subject to certain restrictions relating to life reinsurance.

Australia
On September 29, 2015, the Board of Directors of AXIS Specialty Europe resolved, with effect from October 8, 2015, to cease writing new or renewal business in the AXIS Specialty Australia branch and to commence the process of placing AXIS Specialty Australia into run-off. AXIS Specialty Europe, by virtue of its branch in Australia, is subject to the supervision of the CBI and APRA. Significant additional regulation that applies to AXIS Specialty Australia relates to branch capital adequacy, assets in Australia, risk management, reinsurance management, governance and audit and actuarial requirements.
AXIS Syndicate, through Lloyd’s, is permitted to write insurance and reinsurance in or from Australia with certain exceptions.
Other Countries
The AXIS (re)insurance companies also (re)insure risks in many countries pursuant to regulatory permissions and exemptions available to non-admitted (re)insurers.
AXIS Syndicate may write insurance and reinsurance business where Lloyd's has authorized status or pursuant to regulatory exemptions available to non-admitted (re)insurers.

EMPLOYEES
As of February 16, 2016 we had approximately 1,225 employees. We believe that our employee relations are excellent.

AVAILABLE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and therefore file periodic reports, proxy statements and other information, including reports filed by officers and directors under Section 16(a) of the Exchange Act, with the Securities and Exchange Commission (“SEC”). The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (such as us) and the address of that site is http://www.sec.gov. Our common shares are traded on the NYSE with the symbol “AXS” and you can review similar information concerning us at the office of the NYSE at 20 Broad Street, New York, New York, 10005. Our Internet website address is http://www.axiscapital.com. Information contained in our website is not part of this report.

We make available free of charge, including through our internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Current copies of the charter for each of our Audit Committee, Corporate Governance and Nominating Committee, Compensation Committee, Finance Committee, Executive Committee and Risk Committee, as well as our Corporate Governance Guidelines and Code of Business Conduct, are available on our internet website at http://www.axiscapital.com.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks and all of the other information set forth in this report, including our consolidated financial statements and the notes thereto:

The (re)insurance business is historically cyclical, and we expect to experience periods with excess underwriting capacity and unfavorable premium rates.

The (re)insurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. An increase in premium levels is often offset by an increasing supply of (re)insurance capacity, via capital provided by new entrants, new capital market instruments and structures and/or the commitment of additional capital by existing (re)insurers, which may cause prices to decrease. Any of these factors could lead to a significant reduction in premium rates, less favorable policy terms and fewer submissions for our underwriting services. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the (re)insurance business significantly.

Competition in the (re)insurance industry could reduce our growth and profitability.

The (re)insurance industry is highly competitive. We compete on an international and regional basis with major U.S., Bermuda, European and other international (re)insurers and underwriting syndicates, including Lloyd's some of which have greater financial, marketing and management resources than we do. We also compete with new companies that continue to be formed to enter the (re)insurance markets. In addition, capital market participants have recently created alternative products that are intended to compete with reinsurance products. New and alternative capital inflows in the (re)insurance industry and the retention by cedants of more business have recently caused an excess supply of (re)insurance capital. In addition, we may experience increased competition as a result of the consolidation in the (re)insurance industry, with consolidated entities having enhanced market power. Increased competition could result in fewer submissions, lower premium rates, less favorable policy terms and conditions and greater costs of customer acquisition and retention. In addition, if industry pricing does not meet our hurdle rate, we may reduce our future underwriting activities. These factors could have a material adverse effect on our growth and profitability.

Global economic conditions could materially and adversely affect our business, results of operations and financial condition.

During the financial crisis of 2008 and 2009, worldwide financial markets experienced unprecedented volatility and disruption including, among other things, dislocation in the mortgage and asset-backed securities markets, deleveraging and decreased liquidity generally, widening of credit spreads, bankruptcies and government intervention in a number of large financial institutions. These events resulted in extraordinary responses by governments worldwide, including the enactment of the Emergency Economic Stabilization Act of 2008 and the U.S. Recovery and Reinvestment Act in 2009 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd Frank"). This market turmoil affected (among other aspects of our business) the demand for and claims made under our products, the ability of customers, counterparties and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources and our investment performance.

Although there have been indicators of some stability returning to the financial markets, there continues to be significant uncertainty regarding the timeline for a full global economic recovery. While inflation has recently been limited and that trend may continue, it is possible that the steps taken by governments to stabilize financial markets and improve economic conditions could lead to an inflationary environment. Further, such steps may be ineffective and actual or anticipated efforts to continue to unwind some of such steps could disrupt financial markets and/or could adversely impact the value of our investment portfolio or general economic conditions. In addition, recent indications of slowing economic growth, coupled with the continued strengthening of the U.S. dollar and other macro and micro-economic factors have led to increased volatility in worldwide commodity prices. There are signs that declining commodity prices are already putting significant strain on the financial condition of a number of energy sector companies as well as introducing credit stresses for commodity-exporting countries.

Given the on-going global economic uncertainties, evolving market conditions may continue to affect our results of operations, financial position and capital resources. In the event that there is additional deterioration or volatility in financial markets or general economic conditions, our results of operations, financial position and/or liquidity, and competitive landscape could be materially and adversely affected.

Global climate change may have a material adverse effect on our results of operation and financial condition if we are not able to adequately assess and reserve for the increased frequency and severity of catastrophes resulting from these environmental factors.

The frequency and severity of natural catastrophe activity, including hurricanes, tsunamis, tornadoes, floods and droughts, has been greater in recent years. Atmospheric concentrations of carbon dioxide and other greenhouse gases have increased dramatically since the industrial revolution and there is debate as to whether this has caused a gradual increase in global average temperatures. Increasing global average temperatures may continue in the future and could impact our business in the long-term.

We attempt to mitigate the risk of financial exposure from climate change through our underwriting risk management practices. This includes sensitivity to geographic concentrations of risks, the purchase of protective reinsurance and selective underwriting criteria which can include, but is not limited to, higher premiums and deductibles and more specifically excluded policy risks. However, due to lack of scientific certainty about the causes of increased frequency and severity of catastrophes and the lack of adequate predictive tools, a continuation and worsening of recent trends may have a material impact on our results of operation or financial condition.

Our results of operations and financial condition could be materially adversely affected by the occurrence of natural and man-made disasters.

We have substantial exposure to unexpected losses resulting from natural disasters, man-made catastrophes and other catastrophe events. Catastrophes can be caused by various events, including hurricanes, typhoons, earthquakes, tsunamis, hailstorms, floods, explosions, severe winter weather, fires, drought, and other natural or man-made disasters. The incidence and severity of catastrophes are inherently unpredictable and our losses from catastrophes could be substantial.

Increases in the values and concentrations of insured property, particularly along coastal regions and increases in the cost of construction materials required to rebuild affected properties, may increase the impact of these occurrences on us in the future. Changes in global climate conditions may further increase the frequency and severity of catastrophe activity and losses in the future. Similarly, changes in global political and economic conditions may increase both the frequency and severity of man-made catastrophe events in the future. Examples of the impact of catastrophe events include our recognition of the net losses and loss expenses of:

- $201 million, in aggregate, relating to various worldwide catastrophe and weather-related events in 2013;
- $331 million in relation to Storm Sandy in 2012;
- $789 million, in aggregate, in relation to the February and June earthquakes near Christchurch, New Zealand, the Japanese earthquake and tsunami, first quarter Australian weather events and the Thai floods in 2011;
- $256 million, in aggregate, in relation to the Chilean and September New Zealand earthquakes in 2010; and
- $408 million, in aggregate, in relation to Hurricanes Ike and Gustav in 2008.

These events materially reduced our net income in the years noted above. Although we attempt to manage our exposure to such events through the use of underwriting controls and the purchase of third-party reinsurance, catastrophe events are inherently unpredictable and the actual nature of such events when they occur could be more frequent or severe than contemplated in our pricing and risk management expectations. As a result, the occurrence of one or more catastrophe events could have a material adverse effect on our results of operations or financial condition.

We could face unanticipated losses from war, terrorism and political unrest, and these or other unanticipated losses could have a material adverse effect on our financial condition, results of operations and/or liquidity.

We have substantial exposure to unexpected losses resulting from war, acts of terrorism and political instability. In certain instances, we specifically (re)insure risks resulting from acts of terrorism. Even in cases where we attempt to exclude losses from terrorism and certain other similar risks from some coverages written by us, there can be no assurance that a court or arbitration panel will interpret policy language or otherwise issue a ruling favorable to us. Accordingly, we can offer no assurance that our reserves will be adequate to cover losses should they materialize.

We have limited terrorism coverage in our own reinsurance program for our exposure to catastrophe losses related to acts of terrorism. Furthermore, although the Terrorism Risk Insurance Extension Act of 2005 (“TRIEA”) provides benefits in the event of certain acts of terrorism, those benefits are subject to a deductible and to other limitations. Under TRIEA, once our losses attributable to certain acts of terrorism exceed 20% of our direct commercial property and liability insurance premiums for the preceding calendar year, the federal government will reimburse us for 85% of such losses in excess of this deductible. Notably, TRIEA does not provide coverage for reinsurance losses. Given the unpredictable frequency and severity of terrorism losses, as well as the limited terrorism coverage in our own reinsurance program, future losses from acts of terrorism could materially and adversely affect our results of operations, financial condition and/or liquidity in future periods. TRIEA expired at the end of 2014 but was reauthorized, with some adjustments to its provisions, in January 2015 for six years through December 31, 2020. Over the six-year life of the reauthorized program, the federal government reimbursement percentage will drop from 85% to 80%.

Our credit and political risk insurance line of business protects insureds with interests in foreign jurisdictions in the event governmental action prevents them from exercising their contractual rights and may also protect their assets against physical damage perils. The insurance provided may include cover for loss arising from expropriation, forced abandonment, license cancellation, trade embargo, contract frustration, non-payment, war on land or political violence (including terrorism, revolution, insurrection and civil unrest).

Our credit and political risk line of business also provides non-payment coverage on specific loan obligations. We insure sovereign non-payment and corporate non-payment as a result of commercial as well as political risk events. The vast majority of the corporate non-payment credit insurance provided is for single-named illiquid risks, primarily in the form of senior bank loans that can be individually analyzed and underwritten. We avoid insurance for structured finance products defined by pools of risks and insurance for synthetic products that would expose us to mark-to-market losses. We also avoid terms in our credit insurance contracts which introduce liquidity risk, most notably, in the form of a collateralization requirement upon a ratings downgrade. Although we also attempt to manage our exposure, by among other things, setting credit limits by country, region, industry and individual counterparty and regularly reviewing our aggregate exposures, the occurrence of one or more large losses on our credit insurance portfolio could have a material adverse effect on our results of operations or financial condition.

A downgrade in our financial strength or credit ratings by one or more rating agencies could materially and negatively impact our business, financial condition, results of operations and/or liquidity.
As our ability to underwrite business is dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies. A downgrade, withdrawal or negative watch/outlook by any of these institutions could cause our competitive position in the (re)insurance industry to suffer and make it more difficult for us to market our products. If we experience a credit rating downgrade, withdrawal or negative watch/outlook in the future, we could incur higher borrowing costs and may have more limited means to access capital. A downgrade, withdrawal or negative watch/outlook could also result in a substantial loss of business for us, as ceding companies and brokers that place such business may move to other (re)insurers with higher ratings.

If actual claims exceed our loss reserves, our financial results could be adversely affected.
While we believe that our loss reserves at December 31, 2015 are adequate, new information, events or circumstances, unknown at the original valuation date, may lead to future developments in our ultimate losses being significantly greater or less than the reserves currently provided. The actual final cost of settling claims outstanding at December 31, 2015 as well as claims expected to arise from the unexpired period of risk is uncertain. There are many other factors that would cause our reserves to increase or decrease, which include, but are not limited to, changes in claim severity, changes in the expected level of reported claims, judicial action changing the scope and/or liability of coverage, changes in the legislative, regulatory, social and economic environment and unexpected changes in loss inflation.

Our thirteen-year operating history, which includes periods of rapid growth, means that our loss reserve estimates, particularly on the longer tailed classes of business, may place more reliance on industry benchmarks than might be the case for companies with longer operating histories; as a result, the potential for volatility in our estimated loss reserves may be more pronounced than for more established companies. When establishing our single point best estimate of loss reserves at December 31, 2015, our management considered actuarial estimates and applied informed judgment regarding qualitative factors that may not be fully captured in actuarial estimates. Such factors included, but were not limited to: the timing of the emergence of claims, volume and complexity of claims, social and judicial trends, potential severity of individual claims and the extent of internal historical loss data versus industry information.
Changes to our previous estimate of prior year loss reserves can adversely impact the reported calendar year underwriting results if reserves prove to be insufficient or favorably impact our reported results if loss reserves prove to be higher than actual claim payments. If our net income is insufficient to absorb a required increase in our loss reserves, we would incur an operating loss and could incur a reduction of our capital.
The effects of emerging claim and coverage issues on our business are uncertain.
As industry practices and legal, judicial, social, political and other environmental conditions change, unexpected issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the frequency and/or severity of claims. For example, the global financial crisis resulted in a higher level of claim activity on professional lines (re)insurance business. In some instances, these changes may not become apparent until some time after we have issued the insurance or reinsurance contracts that are affected by the changes. In addition, our actual losses may vary materially from our current estimate of the loss based on a number of factors (see ‘If actual claims exceed our loss reserves, our financial results could be adversely affected’ above). As a result, the full extent of liability under an insurance or reinsurance contract may not be known for many years after such contract is issued and a loss occurs.

Our investment and derivative instrument portfolios are exposed to significant capital markets risk related to changes in interest rates, credit spreads and equity prices as well as other risks, which may adversely affect our results of operations, financial condition or cash flows.
The performance of our cash and investments portfolio has a significant impact on our financial results. A failure to successfully execute our investment strategy could have a significant impact on our results of operations or financial

condition.

Our investment portfolio is subject to a variety of market risks, including risks relating to general economic conditions, interest rate fluctuations, equity price risk, foreign currency movements, pre-payment or reinvestment risk, liquidity risk and credit risk. Although we attempt to manage market risks through, among other things, stressing diversification and conservation of principal and liquidity in our investment guidelines, it is possible that, in periods of economic weakness or periods of turmoil in capital markets, we may experience significant losses in our portfolio.

Our fixed maturities, which represent 88% of our total investments and 81% of total cash and investments at December 31, 2015, may be adversely impacted by changes in interest rates. Increases in interest rates could cause the fair value of our investment portfolio to decrease, resulting in a lower book value (refer to Item 7A 'Quantitative and Qualitative Disclosure About Market Risk' for a related sensitivity analysis).

In addition, a low interest rate environment, such as the current environment, can result in reductions in our investment yield as new funds and proceeds from sales and maturities of fixed income securities are invested at lower rates. This reduces our overall profitability. Interest rates are highly sensitive to many factors, including governmental monetary policies, inflation, domestic and international economic and political conditions and other factors beyond our control.

Our portfolios of "other investments" and equity securities expose us to market price variability, driven by a number of factors outside our control including, but not limited to, global equity market performance.

Given our reliance on external investment managers, we are also exposed to operational risks, which may include, but are not limited to, a failure to follow our investment guidelines, technological and staffing deficiencies and inadequate disaster recovery plans.

Our derivative instrument counterparties may default on amounts owed to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Even if we are entitled to collateral in circumstances of default, such collateral may be illiquid or proceeds from such collateral when liquidated may not be sufficient to recover the full amount of the obligation.

The failure of any of the loss limitation methods we employ could have a material adverse effect on our results of operations or financial condition.

We seek to mitigate our loss exposure by writing a number of our (re)insurance contracts on an excess of loss basis. Excess of loss (re)insurance indemnifies the insured against losses in excess of a specified amount. We generally limit the program size for each client on our insurance business and purchase reinsurance for many of our lines of business. In the case of proportional reinsurance treaties, we seek per occurrence limitations or loss and loss expense ratio caps to limit the impact of losses from any one event. In proportional reinsurance, the reinsurer shares a proportional part of the premiums and losses of the reinsured. We also seek to limit our loss exposure through geographic diversification. Geographic zone limitations involve significant underwriting judgments, including the determination of the area of the zones and the inclusion of a particular policy within a particular zone's limits. In addition, various provisions of our insurance policies and reinsurance contracts, such as limitations or exclusions from coverage or choice of forum negotiated to limit our risks may not be enforceable in the manner we intend. We cannot be sure that any of these loss limitation methods will be effective and mitigate our loss exposure. As a result of these risks, one or more catastrophe or other events could result in claims that substantially exceed our expectations, which could have a material adverse effect on our results of operations or financial condition.

If we choose to purchase reinsurance, we may be unable to do so, and if we successfully purchase reinsurance, we may be unable to collect amounts due to us.

We purchase reinsurance for our (re)insurance operations in order to mitigate the volatility of losses upon our financial results. From time to time, market conditions have limited, and in some cases have prevented, (re)insurers from obtaining the types and amounts of reinsurance that they consider adequate for their business needs. There is no guarantee that our desired amounts of reinsurance or retrocessional reinsurance will be available in the marketplace in the future. In addition to capacity risk, the remaining capacity may not be on terms we deem appropriate or acceptable or with companies with whom we want to do business.

A reinsurer's insolvency, or inability or refusal to make payments under the terms of its reinsurance agreement with us, could have a material adverse effect on our business because we remain liable to the insured. We face counterparty risk whenever we purchase reinsurance or retrocessional reinsurance. Consequently, the insolvency, inability or unwillingness of any of our present or future reinsurers to make timely payments to us under the terms of our reinsurance or retrocessional agreements could have an adverse effect on us.

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We utilize models to assist our decision making in key areas such as underwriting, reserving, reinsurance purchasing and the evaluation of our catastrophe risk but actual results could differ materially from model output.

We employ various modeling techniques (e.g. scenarios, predictive, stochastic and/or forecasting) to analyze and estimate exposures, loss trends and other risks associated with our assets and liabilities. We utilize modeled outputs and related analyses to assist us in decision-making, for example related to underwriting and pricing, reserving, reinsurance purchasing and the evaluation of our catastrophe risk through estimates of probable maximum losses, or "PMLs". The modeled outputs and related analyses are subject to various assumptions, uncertainties and the inherent limitations of any statistical analysis, including the use of historical internal and industry data. Consequently, our actual losses from natural catastrophes, whether from individual components (e.g. wind, flood, earthquake, etc.) or in the the aggregate, may differ materially from our modeled results. If, based upon these models or other factors, we misprice our products or underestimate the frequency and/or severity of loss events, our results of operations or financial condition may be adversely affected.

With respect to the evaluation of our catastrophe risk, our modeling utilizes a mix of historical data, scientific theory and mathematical methods. Output from multiple commercially available vendor models serves as a key input in our PML estimation process. We believe that there is considerable uncertainty in the data and parameter inputs for these vendor models. In that regard, there is no universal standard in the preparation of insured data for use in the models and the running of modeling software. In our view, the accuracy of the models depends heavily on the availability of detailed insured loss data from actual recent large catastrophes. Due to the limited number of events, there is significant potential for substantial differences between the modeled loss estimate and actual company experience for a single large catastrophe event. This potential difference could be even greater for perils with limited or no modeled annual frequency. We perform our own vendor model validation (including sensitivity analysis and backtesting, where possible) and supplement model output with historical loss information and analysis and management judgment. In addition, we derive our own estimates for non-modeled perils. Despite this, our PML estimates are subject to a high degree of uncertainty and our actual losses from catastrophe events may differ materially.

The risk associated with reinsurance underwriting could adversely affect us.

We do not always separately evaluate each of the individual risks assumed under reinsurance treaties, which is common amongst reinsurers. Therefore, we are largely dependent on the original underwriting decisions made by ceding companies. We are subject to the risk that the ceding companies may not have adequately evaluated the risks to be reinsured and that the premiums ceded may not adequately compensate us for the risks we assume.

We could be materially adversely affected if managing general agents, general agents and other producers in our program business exceed their underwriting authorities or otherwise breach obligations owed to us.

In program business conducted by our insurance segment, following our underwriting, financial, claims and information technology due diligence reviews, we authorize managing general agents, general agents and other producers to write business on our behalf within underwriting authorities prescribed by us. Once a program commences, we must rely on the underwriting controls of these agents to write business within the underwriting authorities provided by us. Although we monitor our programs on an ongoing basis, our monitoring efforts may not be adequate or our agents may exceed their underwriting authorities or otherwise breach obligations owed to us. To the extent that our agents exceed their authorities or otherwise breach obligations owed to us in the future, our results of operations and financial condition could be materially adversely affected.

If we experience difficulties with technology and/or data security, our ability to conduct our business might be negatively impacted.

While technology can streamline many business processes and ultimately reduce the cost of operations, technology initiatives present certain risks. Our business is dependent upon our employees' and outsourcers' ability to perform, in an efficient and uninterrupted fashion, necessary business functions such as processing policies and paying claims. A shutdown or inability to access one or more of our facilities, a power outage, or a failure of one or more of our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis. If sustained or repeated, such a business interruption, system failure or service denial could result in a deterioration of our ability to write and process business, provide customer service, pay claims in a timely manner or perform other necessary business functions. Unauthorized access, computer viruses, deceptive communications (phishing), malware, hackers and other external hazards including catastrophe events could expose our data systems to security breaches. These risks could expose us to data loss and damages. As a result, our ability to conduct our business might be adversely affected. While we have not experienced a material breach of cybersecurity to date, we have no assurance that such a breach will not occur in the future. However, over time, and particularly recently, the sophistication of these threats continues to increase. While administrative and technical controls, along with other preventative actions, reduce the risk of cyber incidents and protect our information technology, they may be insufficient to prevent cyber attacks and/or other security breaches to our computer systems.

Our business may be adversely affected if third-party outsourced service providers fail to satisfactorily perform certain technology and business process functions.

We outsource certain technology and business process functions to third parties and may do so increasingly in the future. If we do not effectively develop and implement our outsourcing strategy, third party providers do not perform as anticipated or we experience technological or other problems with a transition, we may not realize productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and a loss of business. Our outsourcing of certain technology and business process functions to third parties may expose us to enhanced risk related to data security, which could result in monetary and reputational damages. In addition, our ability to receive services from third party providers might be impacted by cultural differences, political instability, unanticipated regulatory requirements or policies. As a result, our ability to conduct our business might be adversely affected.

Our operating results may be adversely affected by currency fluctuations.

Our reporting currency is the U.S. dollar. However, a portion of our gross premiums are written in currencies other than the U.S. dollar and a portion of our loss reserves are in non-U.S. currencies. In addition, a portion of our investment portfolio is denominated in currencies other than the U.S dollar. From time to time, we may experience losses resulting from fluctuations in the values of these non-U.S. currencies, which could adversely affect our operating results. Although we attempt to manage our foreign currency exposure through matching of our major foreign-denominated assets and liabilities, as well as through use of currency derivatives, there is no guarantee that we will successfully mitigate our exposure to foreign exchange losses. The sovereign debt crisis in Europe and the related financial restructuring efforts, which may cause the value of the euro to deteriorate, may magnify these risks.

We may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including regulatory requirements, our ability to write new business successfully, the frequency and severity of catastrophe events and our ability to establish premium rates and reserves at levels sufficient to cover losses. We may need to raise additional funds through financings. If we are unable to do so, it may curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Equity financings could be dilutive to our existing shareholders and could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our other securities. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition could be adversely affected.

Our inability to obtain the necessary credit could affect our ability to offer reinsurance in certain markets.

Neither AXIS Specialty Bermuda nor AXIS Re SE is licensed or admitted as a (re)insurer in any jurisdiction other than Bermuda, Ireland and Singapore. Because the U.S. and some other jurisdictions do not permit insurance companies to take credit on their statutory financial statements for reinsurance obtained from unlicensed or non-admitted insurers unless appropriate security mechanisms are in place, our reinsurance clients in these jurisdictions typically require AXIS Specialty Bermuda and AXIS Re SE to provide letters of credit or other collateral. Our credit facilities are used to post letters of credit. However, if our credit facilities are not sufficient or if we are unable to renew our credit facilities or arrange for other types of security on commercially affordable terms, AXIS Specialty Bermuda and AXIS Re SE could be limited in their ability to write business for some of our clients.

The regulatory system under which we operate, and potential changes thereto, could have a material adverse effect on our business.

In a time of financial uncertainty or a prolonged economic downturn or recession, regulators may choose to adopt more restrictive insurance laws and regulations, which may result in lower revenues and/or higher costs and thus could materially and adversely affect our results of operations.

Our (re)insurance subsidiaries conduct business globally and our businesses in each of these jurisdictions are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which our (re)insurance subsidiaries are domiciled require, among other things, that our subsidiaries maintain minimum levels of statutory capital and liquidity, meet solvency standards, participate in guaranty funds and submit to periodic examinations of their financial condition and compliance with underwriting regulations. These laws and regulations also limit or restrict payments of dividends and reductions in capital. Statutes, regulations and policies may also restrict the ability of these subsidiaries to write (re)insurance contracts, to make certain investments and to distribute funds. The purpose of insurance laws and regulations generally is to protect insureds and ceding insurance companies, not our shareholders. We may not be able to comply fully with, or obtain appropriate exemptions from, these statutes and regulations. Failure to comply with or to obtain appropriate authorizations and/or exemptions under any applicable laws could result in restrictions on our ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which we conduct business and could subject us to fines and other sanctions. In addition, changes in the laws or regulations to which our (re)insurance subsidiaries are subject or in the interpretation thereof by enforcement or regulatory agencies could have an adverse effect on our business.

Potential government intervention in our industry as a result of recent events and instability in the marketplace for insurance products could hinder our flexibility and negatively affect the business opportunities that may be available to us in the market.

Government intervention and the possibility of future government intervention have created uncertainty in the (re)insurance markets. Government regulators are generally concerned with having re/insurers with high solvency ratios and localized capital to ensure the protection of policyholders to the possible detriment of other constituents, including shareholders of (re)insurers. An example of such intervention was the December 2007 extension of the material provisions of TRIA for an additional seven years to December 31, 2014 and expansion of coverage to include domestic acts of terrorism. TRIEA expired at the end of 2014 but was reauthorized, with some adjustments to its provisions, in January 2015 for six years through December 31, 2020.

In recent years certain U.S. and non-U.S. judicial and regulatory authorities, including U.S. Attorney’s Offices and certain state attorneys general, have commenced investigations into other business practices in the insurance industry. In addition, although the U.S. federal government has not historically regulated insurance, there have been proposals from time to time, and especially after the most recent global financial crisis, to impose federal regulation on the U.S. insurance industry. For example, in 2010, Dodd-Frank established a Federal Insurance Office ("FIO") within the U.S. Treasury. The FIO has limited regulatory authority and is empowered to gather data and information regarding the insurance industry, and has conducted and submitted a study to the U.S. Congress on how to modernize and improve insurance regulation in the U.S. This study's findings are not expected to have a significant impact on the Company. Further, Dodd-Frank gives the Federal Reserve supervisory authority over a number of U.S. financial services companies, including insurance companies, if they are designated by a two-thirds vote of a Financial Stability Oversight Council as ‘systemically important’. While we do not believe that we are systemically important, as defined in Dodd-Frank, Dodd-Frank or additional federal or state regulation that is adopted in the future could impose significant burdens on us, impact the ways in which we conduct our business and govern our subsidiaries, increase compliance costs, increase the levels of capital required to operate our subsidiaries, duplicate state regulation and/or result in a competitive disadvantage.

Certain of our European legal entities became subject to the Solvency II Directive on January 1, 2016. Solvency II is a consolidation and modernization of existing European Commission ("E.C.") Solvency I (re)insurance regulation and supervision. The new regulation covers three main areas: (i) the valuation of assets and liabilities on a Solvency II economic basis and risk based solvency and capital requirements; (ii) governance requirements including key function of compliance, internal audit, actuarial and risk management; and (iii) new supervisory legal entity and group reporting and disclosure requirements including public disclosures. The Bermuda Monetary Authority ("BMA") is seeking "equivalence" under the Solvency II Directive and the E.C. has recommended the BMA be granted full equivalence for Bermuda's commercial insurance sector, including Class 4 insurers. The European Parliament and Council are reviewing the proposed grant of full equivalence and this decision is expected shortly.
While we cannot predict the exact nature, timing or scope of possible governmental initiatives, such proposals could adversely affect our business by, among other things:

- Providing reinsurance capacity in markets and to consumers that we target;
- Requiring our further participation in industry pools and guaranty associations;
- Expanding the scope of coverage under existing policies; e.g., following large disasters;
- Further regulating the terms of (re)insurance contracts; or
- Disproportionately benefiting the companies of one country over those of another.

Our international business is subject to applicable laws and regulations relating to sanctions and foreign corrupt practices, the violation of which could adversely affect our operations.

We must comply with all applicable economic and financial sanctions, other trade controls and anti-bribery laws and regulations of the U.S. and other foreign jurisdictions where we operate, including the U.K. and the European Community, which apply to our business where we operate. U.S. laws and regulations applicable to us include the economic trade sanctions laws and regulations administered by the United States Department of Treasury's Office of Foreign Assets Control as well as certain laws administered by the United States Department of State. In addition, we are subject to the Foreign Corrupt Practices Act and other anti-bribery laws such as the U.K. Bribery Act that generally bar corrupt payments or unreasonable gifts to foreign government officials. Although we have policies and controls in place that are designed to ensure compliance with these laws and regulations, it is possible that an employee or an agent acting on our behalf, could fail to comply with applicable laws and regulations and due to the complex nature of the risks, it may not always be possible for us to ascertain compliance with such laws and regulations. In such event, we could be exposed to civil penalties, criminal penalties and other sanctions, including fines or other unintended punitive actions. In addition, such violations could damage our business and/or our reputation. All of the foregoing could have a material adverse effect on our financial condition and operating results.
Since we depend on a few brokers for a large portion of our revenues, loss of business provided by any one of them could adversely affect us.
We market our (re)insurance worldwide primarily through (re)insurance brokers and derive a significant portion of our business from a limited number of brokers. Marsh & McLennan Companies, Inc., including its subsidiary Guy Carpenter & Company, Inc., Aon Corporation and Willis Group Holdings Ltd., provided a total of 53% of our gross premiums written during 2015. Our relationships with these brokers are based on the quality of our underwriting and claim services, as well as our financial strength ratings. Any deterioration in these factors could result in the brokers advising our clients to place their business with other (re)insurers. In addition, these brokers also have, or may in the future acquire, ownership interests in insurance and reinsurance companies that may compete with us and these brokers may favor their own (re)insurers over other companies. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.
Our reliance on brokers subjects us to credit risk.
In accordance with industry practice, we pay amounts owed on claims under our (re)insurance contracts to brokers, and these brokers pay these amounts over to the clients that have purchased (re)insurance from us. Although the law is unsettled and depends upon the facts and circumstances of the particular case, in some jurisdictions, if a broker fails to

make such a payment, we might remain liable to the insured or ceding insurer for the deficiency.

Conversely, in certain jurisdictions, when the insured or ceding insurer pays premiums for these policies to brokers for payment over to us, these premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums from the broker. Consequently, we assume a degree of credit risk associated with brokers with whom we transact business. These risks are heightened during periods characterized by financial market instability and/or an economic downturn or recession.
Certain of our policyholders and intermediaries may not pay premiums owed to us due to insolvency or other reasons.
Insolvency, liquidity problems, distressed financial condition or the general effects of economic recession may increase the risk that policyholders or intermediaries, such as insurance brokers, may not pay a part of or the full amount of premiums owed to us, despite an obligation to do so. The terms of our contracts may not permit us to cancel our insurance even though we have not received payment. If non-payment becomes widespread, whether as a result of insolvency, lack of liquidity, adverse economic conditions, operational failure or otherwise, it could have a material adverse impact on our revenues and results of operations.
We could be adversely affected by the loss of one or more key executives or by an inability to attract and retain qualified personnel.
Our success depends on our ability to retain the services of our existing key executives and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key executives or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct our business. There can be no assurance that we will be successful in identifying, hiring or retaining successors on terms acceptable to us or on any terms.
Under Bermuda law, non-Bermudians, with some limited exceptions, may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government only upon showing that, after proper public advertisement in most cases, no Bermudian or spouse of a Bermudian, holder of a permanent resident certificate or holder of a working resident certificate who meets the minimum standard requirements for the advertised position has applied for the position. Work permits may be requested for one, three, five, six or, in certain circumstances for key executives, ten years. In January 2013, the Bermuda government abolished term limits. This removed the immigration policy put in place in 2001, which limited the duration of work permits for between six to nine years. All executive officers who work in our Bermuda office that require work permits have obtained them.
Our ability to pay dividends and to make payments on indebtedness may be constrained by our holding company structure.
AXIS Capital is a holding company and has no direct operations of its own. AXIS Capital has no significant operations or assets other than its ownership of the shares of its operating (re)insurance subsidiaries, AXIS Specialty Bermuda, AXIS Re SE, AXIS Specialty Europe, AXIS Re U.S., AXIS Specialty U.S., AXIS Surplus and AXIS Insurance Co. (collectively, our "Insurance Subsidiaries"). Dividends and other permitted distributions from our Insurance Subsidiaries (in some cases through our subsidiary holding companies), are our primary source of funds to meet ongoing cash requirements, including debt service payments and other expenses, and to pay dividends to our shareholders. Our Insurance Subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends and make distributions. The inability of our Insurance Subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could have a material adverse effect on our business and our ability to pay dividends and make payments on our indebtedness.
AXIS Capital is a Bermuda company and it may be difficult for you to enforce judgments against it or its directors and executive officers.
AXIS Capital is incorporated pursuant to the laws of Bermuda and our business is based in Bermuda. In addition, some of our directors and officers reside outside the United States, and all or a substantial portion of our assets and the assets of such persons are located in jurisdictions outside the United States. As a result, it may be difficult or impossible to effect service of process within the United States upon those persons or to recover against us or them on judgments of U.S. courts, including judgments predicated upon civil liability provisions of the U.S. federal securities laws. Further, it may not be possible to bring a claim in Bermuda against us or our directors and officers for violation of U.S. federal securities laws because these laws may have no extraterritorial application under Bermuda law and do

not have force of law in Bermuda. A Bermuda court may, however, impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

There are provisions in our organizational documents that may reduce or increase the voting rights of our shares.

Our bye-laws generally provide that shareholders have one vote for each common share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. However, the voting rights exercisable by a shareholder may be limited so that certain persons or groups are not deemed to hold 9.5% or more of the voting power conferred by our shares. Under these provisions, some shareholders may have the right to exercise their voting rights limited to less than one vote per share. Moreover, these provisions could have the effect of reducing the voting power of some shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership. In addition, our board of directors may limit a shareholder's exercise of voting rights where it deems it necessary to do so to avoid adverse tax, legal or regulatory consequences.

We also have the authority under our bye-laws to request information from any shareholder for the purpose of determining whether a shareholder's voting rights are to be limited pursuant to the bye-laws. If a shareholder fails to respond to our request for information or submits incomplete or inaccurate information in response to a request by us, we may, in our sole discretion, eliminate the shareholder's voting rights.

There are provisions in our bye-laws that may restrict the ability to transfer common shares and which may require shareholders to sell their common shares.

Our board of directors may decline to register a transfer of any common shares under some circumstances, including if they have reason to believe that any non-de minimis adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders may occur as a result of such transfer. Our bye-laws also provide that if our board of directors determines that share ownership by a person may result in non-de minimis adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders, then we have the option, but not the obligation, to require that shareholder to sell to us or to third parties to whom we assign the repurchase right for fair value the minimum number of common shares held by such person which is necessary to eliminate the non-de minimis adverse tax, legal or regulatory consequences.

Applicable insurance laws may make it difficult to effect a change of control of our company.

Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the domestic insurer is domiciled. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider such factors as the financial strength of the acquirer, the integrity and management of the acquirer's board of directors and executive officers, the acquirer's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. Generally, state statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, 10% or more of the voting securities of the domestic insurer. Because a person acquiring 10% or more of our common shares would indirectly control the same percentage of the stock of the AXIS U.S. Subsidiaries, the insurance change of control laws of Connecticut, Illinois and New York would likely apply to such a transaction.

In addition, the Insurance Acts and Regulations in Ireland require that anyone acquiring or disposing of a direct or indirect holding in an Irish authorized insurance company (such as AXIS Specialty Europe) that represents 10% or more of the capital or of the voting rights of such company or that makes it possible to exercise a significant influence over the management of such company, or anyone who proposes to decrease or increase that holding to specified levels, must first notify the CBI of their intention to do so. They also require any Irish authorized insurance company that becomes aware of any acquisitions or disposals of its capital involving the specified levels to notify the CBI. The specified levels are 20%, 33% and 50% or such other level of ownership that results in the company becoming the acquirer's subsidiary within the meaning of article 20 of the European Communities (non-Life Insurance) Framework Regulations 1994.

The CBI has three months from the date of submission of a notification within which to oppose the proposed transaction if the CBI is not satisfied as to the suitability of the acquirer in view of the necessity "to ensure prudent and sound management of the insurance undertaking concerned." Any person owning 10% or more of the capital or voting rights or an amount that makes it possible to exercise a significant influence over the management of AXIS Capital would be considered to have a "qualifying holding" in AXIS Specialty Europe.

While our bye-laws limit the voting power of any shareholder to less than 9.5%, there can be no assurance that the applicable regulatory body would agree that a shareholder who owned 10% or more of our shares did not, because of the limitation on the voting power of such shares, control the applicable Insurance Subsidiary. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of the Company, including transactions that some or all of our shareholders might consider to be desirable.

Anti-takeover provisions in our bye-laws could impede an attempt to replace our directors or to effect a change in control, which could diminish the value of our common shares.

Our bye-laws contain provisions that may make it more difficult for shareholders to replace directors and could delay or prevent a change of control that a shareholder might consider favorable. These provisions include a staggered board of directors, limitations on the ability of shareholders to remove directors other than for cause, limitations on voting rights and restrictions on transfer of our common shares. These provisions may prevent a shareholder from receiving the benefit from any premium over the market price of our shares offered by a bidder in a potential takeover. Even in the absence of an attempt to effect a change in management or a takeover attempt, these provisions may adversely affect the prevailing market price of our shares if they are viewed as discouraging takeover attempts in the future.

We may become subject to taxes in Bermuda after March 31, 2035, which may have a material adverse effect on our results of operations.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, has given each of our Bermuda resident companies an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to our Bermuda resident companies or any of their respective operations, shares, debentures or other obligations until March 31, 2035. Given the limited duration of the Minister of Finance’s assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 31, 2035.

Our non-U.S. companies may be subject to U.S. tax that may have a material adverse effect on our results of operations.

We intend to manage our business so that each of our non-U.S. companies will operate in such a manner that none of these companies should be subject to U.S. tax (other than U.S. excise tax on (re)insurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income), because none of these companies should be treated as engaged in a trade or business within the United States. However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, we cannot be certain that the U.S. Internal Revenue Service will not contend successfully that any of its non-U.S. companies is/are engaged in a trade or business in the United States. If any of our non-U.S. companies were considered to be engaged in a trade or business in the United States, it could be subject to U.S. corporate income and additional branch profits taxes on the portion of its earnings effectively connected to such U.S. business. If this were to be the case, our results of operations could be materially adversely affected.

Our non-U.K. companies may be subject to U.K. tax that may have a material adverse effect on our results of operations.

We intend to operate in such a manner so that none of our non-U.K. companies, should be resident in the United Kingdom for tax purposes and that none of our non-U.K. resident companies, other than AXIS Specialty Europe, should have a permanent establishment in the United Kingdom. Accordingly, we expect that none of our non-U.K. resident companies other than AXIS Specialty Europe should be subject to U.K. tax. Nevertheless, because neither case law nor U.K. statutes conclusively define the activities that constitute trading in the United Kingdom through a permanent establishment, the U.K. Inland Revenue might contend successfully that any of our non-U.K. companies, in addition to AXIS Specialty Europe, is/are trading in the United Kingdom through a permanent establishment in the United Kingdom and therefore subject to U.K. tax.

In addition, there are circumstances in which companies that are neither resident in the United Kingdom, nor entitled to the protection afforded by a double tax treaty between the United Kingdom and the jurisdiction in which they are resident, may be exposed to income tax in the United Kingdom (other than by deduction or withholding) on the profits of a trade carried on there even if that trade is not carried on through a permanent establishment. We intend to operate in such a manner that none of our companies will fall within the charge to United Kingdom income tax in this respect.

If any of our non-U.K. resident companies, other than AXIS Specialty Europe were treated as being resident in the United Kingdom for U.K. corporation tax purposes, or if any of our non-U.K. companies other than AXIS Specialty Europe were to be treated as carrying on a trade in the United Kingdom, whether or not through a permanent establishment, our results of operations could be materially adversely affected.

Our U.K. operations may be affected by future changes in U.K. tax law.

Our U.K. resident companies and AXIS Specialty Europe should be treated as taxable in the United Kingdom. Any change in the basis or rate of U.K. corporation tax could materially adversely affect the operations of these companies.

Our non-Irish companies may be subject to Irish tax that may have a material adverse effect on our results of operations.

We intend to operate our non-Irish resident companies in such a manner so that none of our non-Irish resident companies, should be resident in Ireland for tax purposes and that they should not be treated as carrying on a trade through a branch or agency in Ireland.

Accordingly, we expect that none of our non-Irish resident companies should be subject to Irish corporation tax. Nevertheless, since the determination as to whether a company is resident in Ireland is a question of fact to be determined based on a number of different factors and since neither case law nor Irish legislation conclusively defines the activities that constitute trading in Ireland through a branch or agency, the Irish Revenue Commissioners might contend successfully that any of our non-Irish companies, is resident in or otherwise trading through a branch or agency in Ireland and therefore subject to Irish corporation tax. If this were the case, our results of operations could be materially adversely affected.

If corporate tax rates in Ireland increase, our results of operations could be materially adversely affected.

Trading income derived from the (re)insurance businesses carried on in Ireland by AXIS Specialty Europe and AXIS Re SE is generally taxed in Ireland at a rate of 12.5%. Over the past number of years, various EU member states have, from time to time, called for harmonization of the corporate tax base within the EU. Ireland, along with other member states, has consistently resisted any movement towards standardized corporate tax rates or tax base in the EU. The Government of Ireland has also made clear its commitment to retain the 12.5% rate of corporation tax. If, however, tax laws in Ireland change so as to increase the general corporation tax rate in Ireland, our results of operations could be materially adversely affected.

If investments held by AXIS Specialty Europe SE or AXIS Re SE are determined not to be integral to the (re)insurance businesses carried on by those companies, additional Irish tax could be imposed and our business and financial results could be materially adversely affected.

Based on administrative practice, taxable income derived from investments made by AXIS Specialty Europe and AXIS Re SE is generally taxed in Ireland at the rate of 12.5% on the grounds that such investments either form part of the permanent capital required by regulatory authorities, or are otherwise integral to the (re)insurance businesses carried on by those companies. AXIS Specialty Europe SE and AXIS Re SE intend to operate in such a manner so that the level of investments held by such companies does not exceed the amount that is integral to the (re)insurance businesses carried on by AXIS Specialty Europe SE and AXIS Re SE. If, however, investment income earned by AXIS Specialty Europe SE or AXIS Re SE is deemed to be non-trading income, Irish corporation tax could apply to such investment income at a higher rate (currently 25%) instead of the general 12.5% rate, and our results of operations could be materially adversely affected.

Changes in U.S. federal income tax law and other tax laws, including changes resulting from the recommendations of the Organization for Economic Cooperation and Development ("OECD"), could materially adversely affect us.

In the past, legislation has been introduced in the U.S. Congress intended to eliminate some perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United States, but have certain U.S. connections. It is possible that similar legislation could be introduced and enacted by the current Congress or future Congresses that could have an adverse impact on us. In addition, the U.S. federal income tax laws and interpretations are subject to change, possibly on a retroactive basis. New regulations or pronouncements interpreting or clarifying U.S. federal income tax laws relating to insurance companies may be forthcoming. We cannot be certain if, when, or in what form, such regulations or pronouncements may be provided, and whether such guidance will have a retroactive effect.

The OECD has published reports and launched a global initiative among member and non-member countries on measures to limit harmful tax competition, known as the "Base Erosion and Profit Shifting ("BEPS") project. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. We expect many countries to change their tax laws in response to this project, and several countries have already changed or proposed changes to their tax laws in anticipation of the final reports. Changes to tax laws and additional reporting requirements could increase the complexity, burden and cost of compliance.

The price of our common shares may be volatile.

There has been significant volatility in the market for equity securities in recent years. During 2015, 2014, and 2013 the price of our common shares fluctuated from a low of $47.65 to a high of $60.00, a low of $41.82 to a high of $52.21 and a low of $34.95 to a high of $49.75, respectively. On February 17, 2016, our common shares closed at a price of $53.28. The price of our common shares may not remain at or exceed current levels. The following factors, in addition to those described in other risk factors above, may have an adverse impact on the market price of our common stock:

- actual or anticipated variations in our quarterly results, including as a result of catastrophes or our investment performance;
- our share repurchase program;
- changes in market valuation of companies in the insurance and reinsurance industry;
- changes in expectations of future financial performance or changes in estimates of securities analysts;
- fluctuations in stock market processes and volumes;
- issuances or sales of common shares or other securities in the future;
- the addition or departure of key personnel; and
- announcements by us or our competitors of acquisitions, investments or strategic alliances.

Stock markets in the U.S. continue to experience volatile price and volume fluctuations. Such fluctuations, as well as the general political situation, current economic conditions or interest rate or currency rate fluctuations, could adversely affect the market price of our stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no outstanding, unresolved comments that were received from the SEC staff 180 days or more before the end of our fiscal year at December 31, 2015.

ITEM 2. PROPERTIES

We maintain office facilities in the United States, Bermuda, Europe, Canada, Australia, Singapore, Latin America and Middle East. We own the property in which our offices are located in Dublin, Ireland, and we lease office space in the other countries. We renew and enter into new leases in the ordinary course of business as required. Our global headquarters is located at 92 Pitts Bay Road, AXIS House, Pembroke HM 08, Bermuda. We believe that our office space is sufficient for us to conduct our operations for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are 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 us 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 our Consolidated Balance Sheets.
We are not party to any material legal proceedings arising outside the ordinary course of business.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common shares are listed on the New York Stock Exchange under the symbol "AXS". The following table provides the high and low sales prices per share of our common shares for each of the fiscal quarters in the last two fiscal years as reported on the New York Stock Exchange Composite Tape:

	2015			2014		
	High	Low	Dividends Declared	High	Low	Dividends Declared
1st Quarter	$53.02	$47.65	$0.29	$47.41	$41.82	$0.27
2nd Quarter	$59.38	$50.81	$0.29	$47.34	$43.91	$0.27
3rd Quarter	$60.00	$53.19	$0.29	$48.66	$43.00	$0.27
4th Quarter	$57.98	$52.48	$0.35	$52.21	$44.94	$0.29

On February 8, 2016, the number of holders of record of our common shares was 20. This figure does not represent the actual number of beneficial owners of our common shares because shares are frequently held in "street name" by securities dealers and others for the benefit of beneficial owners who may vote the shares.
While we expect to continue paying cash dividends in the foreseeable future, the declaration and payment of future dividends will be at the discretion of our Board of Directors and will depend upon many factors, including our earnings, financial condition, business needs, capital and surplus requirements of our operating subsidiaries and regulatory and contractual restrictions, including those set forth in our credit facilities. See Item 7 'Liquidity and Capital Resources' for further information.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table provides information regarding the number of common shares we repurchased in the quarter ended December 31, 2015:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(a)]	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Announced Plans or Programs[(b)]	
October 1-31, 2015	2,431	$53.20	—	$443.5	million
November 1-30, 2015	898	$55.43	—	$443.5	million
December 1-31, 2015	5,054	$55.97	—	$750.0	million
Total	8,383		—	$750.0	million

(a) From time to time, we purchase shares in connection with the vesting of restricted stock awards granted to our employees under our 2007 Long-Term Equity Compensation Plan. The purchase of these shares is separately authorized and is not part of our Board-authorized share repurchase program, described below.

(b) On December 7, 2015, our Board of Directors authorized a new share repurchase plan for up to $750 million of our common shares through December 31, 2016. The new share repurchase authorization, effective December 31, 2015, replaced the previous plan which had $444 million available until the end of 2016. Share repurchases may be effected from time to time in open market or privately negotiated transactions, depending on market conditions.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth our selected historical consolidated financial information for the last five years. This data should also be read in conjunction with the Consolidated Financial Statements and the accompanying notes presented under Item 8 and with 'Management's Discussion and Analysis of Financial Condition and Results of Operations' under Item 7.

	At and For the year Ended December 31,				
	2015	2014	2013	2012	2011
	(in thousands, except per share amounts)				
Selected Statement of Operations Data:					
Gross premiums written	$4,603,730	$4,711,519	$4,697,041	$4,139,643	$4,096,153
Net premiums earned	3,686,417	3,870,999	3,707,065	3,415,463	3,314,961
Net investment income	305,336	342,766	409,312	380,957	362,430
Net realized investment gains (losses)	(138,491)	132,108	75,564	127,469	121,439
Net losses and loss expenses	2,176,199	2,186,722	2,134,195	2,096,028	2,675,052
Acquisition costs	718,112	737,197	664,191	627,653	587,469
General and administrative expenses	596,821	621,876	575,390	560,981	459,151
Interest expense and financing costs	50,963	74,695	61,979	61,863	62,598
Preferred share dividends	40,069	40,088	40,474	38,228	36,875
Net income available to common shareholders(1) (2) (3)	$601,562	$770,657	$683,910	$495,004	$9,430
Per Common Share Data:					
Basic earnings per common share	$6.10	$7.38	$6.02	$4.05	$0.08
Diluted earnings per common share	6.04	7.29	5.93	4.00	0.07
Cash dividends declared per common share	$1.22	$1.10	$1.02	$0.97	$0.93
Basic weighted average common shares outstanding	98,609	104,368	113,636	122,148	122,499
Diluted weighted average common shares outstanding	99,629	105,713	115,328	123,654	128,122
Operating Ratios:(4)					
Net loss and loss expense ratio	59.0%	56.5%	57.6%	61.4%	80.7%
Acquisition cost ratio	19.5%	19.0%	17.9%	18.4%	17.7%
General and administrative expense ratio	16.2%	16.1%	15.5%	16.4%	13.9%
Combined ratio	94.7%	91.6%	91.0%	96.2%	112.3%
Selected Balance Sheet Data:					
Investments	$13,375,186	$13,769,979	$13,780,336	$13,546,894	$12,466,889
Cash and cash equivalents	1,174,751	1,209,695	987,876	850,550	1,082,838

Reinsurance recoverable on unpaid and paid losses	2,096,104	1,926,145	1,929,988	1,863,819	1,770,329
Total assets	19,981,891	19,955,736	19,634,784	18,852,344	17,806,059
Reserve for losses and loss expenses	9,646,285	9,596,797	9,582,140	9,058,731	8,425,045
Unearned premiums	2,760,889	2,735,376	2,683,849	2,454,692	2,454,462
Senior notes	991,825	990,790	995,855	995,245	994,664
Total shareholders’ equity attributable to AXIS Capital	$5,866,882	$5,821,121	$5,817,962	$5,779,761	$5,444,079
Book value per common share(5)(6)	$55.32	$52.23	$47.40	$44.75	$39.37
Diluted book value per common share(5)(6)	$54.08	$50.63	$45.80	$42.97	$38.08
Common shares outstanding(6)	94,708	99,426	109,485	117,920	125,588
Common shares outstanding - diluted(6)	96,883	102,577	113,325	122,793	129,818

(1) During 2015, the Company implemented a number of profitability enhancement initiatives which resulted in a recognition of reorganization and related expenses of $46 million and additional general and administrative expenses of $5 million in the Consolidated Statement of Operations for the year ended December 31, 2015. Refer to Item 8, Note 18 to the Consolidated Financial Statements 'Reorganization and Related Expenses' for additional information on the profitability enhancement initiatives.

(2) During 2015, the Company accepted a request from PartnerRe Ltd., a Bermuda exempted company ("PartnerRe") to terminate the Agreement and Plan of Amalgamation (the "Amalgamation Agreement") with the Company. PartnerRe paid the Company a termination fee of $280 million.

(3) During 2015, the Company early adopted the Accounting Standard Update (“ASU”) 2015-02, “Amendments to the Consolidation Analysis” issued by the Financial Accounting Standards Board. The adoption of this amended accounting guidance resulted in the Company concluding that it is no longer required to consolidate the results of operations and the financial position of Ventures Re. The Company adopted this revised accounting guidance using the modified retrospective approach and ceased to consolidate AXIS Ventures Reinsurance Limited ("Ventures Re") effective as of January 1, 2015. The 2014 net income available to common shareholders includes an amount attributable from noncontrolling interests of $6,181. Refer to Item 8, Note 14 to the Consolidated Financial Statements 'Noncontrolling Interests' for additional information on the adoption of ASU 2015-02.

(4) Operating ratios are calculated by dividing the respective operating expenses by net premiums earned.

(5) Book value per common share and diluted book value per common share are based on total common shareholders’ equity divided by common shares and diluted common share equivalents outstanding, respectively.

(6) Calculations and share amounts at December 31, 2015 include 1,358,380 additional shares delivered to the Company in January 2016 under the Company's Accelerated Share Repurchase ("ASR") agreement entered into on August 17, 2015. Refer to Item 8, Note 13 to the Consolidated Financial Statements 'Shareholders' Equity' for additional information on the ASR.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our results of operations for the years ended December 31, 2015, 2014 and 2013 and our financial condition at December 31, 2015 and 2014. This should be read in conjunction with the Consolidated Financial Statements and related notes included in Item 8 of this report. Tabular dollars are in thousands, except per share amounts. Amounts in tables may not reconcile due to rounding differences.

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2015 FINANCIAL HIGHLIGHTS

2015 Consolidated Results of Operations

- Net income available to common shareholders of $602 million, or $6.10 per common share and $6.04 per diluted common share
- Operating income of $401 million, or $4.02 per diluted common share(1)
- Gross premiums written of $4.6 billion
- Net premiums written of $3.7 billion
- Net premiums earned of $3.7 billion
- Net favorable prior year reserve development of $243 million
- Estimated catastrophe and weather-related pre-tax net losses of $100 million
- Underwriting income of $302 million and combined ratio of 94.7%
- Net investment income of $305 million
- Net realized investment losses of $138 million
- Foreign exchange gains of $102 million
- Total fee of $315 million received following the cancellation of the Amalgamation Agreement with PartnerRe, including $35 million received as reimbursement for merger related expenses
- Pre-tax charges of $51 million relating to profitability enhancement initiatives including reorganization and related expenses of $46 million and incremental corporate expenses of $5 million

2015 Consolidated Financial Condition

- Total cash and investments of $14.5 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 $20.0 billion
- Reserve for losses and loss expenses of $9.6 billion and reinsurance recoverable of $2.1 billion
- Total debt of $992 million and a debt to total capital ratio of 14.5%
- During the year the Company entered into an ASR agreement to repurchase an aggregate of $300 million of the Company's ordinary shares. On August 20, 2015, under the terms of this agreement the Company initially acquired 4.1 million ordinary shares. The agreement was terminated effective January 15, 2016, under an early termination clause, with the Company acquiring an additional 1.4 million ordinary shares. Refer to Item 8, Note 13 to the Consolidated Financial Statements 'Shareholders' Equity' for additional information
- At February 24, 2016 the remaining authorization under the share repurchase program approved by our Board of Directors and effective through December 31, 2016, was $654 million
- Common shareholders’ equity of $5.2 billion; diluted book value per common share of $54.08

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

EXECUTIVE SUMMARY

Business Overview

We are a Bermuda-based global provider of specialty lines insurance and treaty reinsurance products with operations in Bermuda, the United States, Europe, Singapore, Canada, Australia, 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 mission in 2015 included:

- continued rebalancing of our portfolio towards less-volatile lines of business that carry attractive rates;
- development and implementation of specific initiatives designed to support profitable growth and enhance shareholder value by better aligning and deploying resources to focus on attractive opportunities, while delivering both greater efficiencies and increased levels of client and broker support around the world;
- increased use of available reinsurance and retrocessional protection to optimize the risk-adjusted returns on our portfolio;
- continued expansion of our third-party capital capabilities through AXIS Ventures Reinsurance Limited which was launched to manage capital for investors interested in deploying funds directly into the property-catastrophe and other short-tail business;
- growth of our Weather and Commodity Markets business unit which offers parametric risk management solutions to clients whose profit margins are exposed to adverse weather and commodity price risks;
- growth of our syndicate at Lloyd's which provides us with access to Lloyd's worldwide licenses and an extensive distribution network. Additionally, during 2015 the Company received approval from Lloyd's for the establishment of an underwriting division at Lloyd's Insurance Company (China) Limited ("Lloyd's China"). The underwriting division will focus on treaty reinsurance business on the Lloyd's China platform beginning January 1, 2016; and
- continued growth of our accident and health lines, which launched in 2010 and are focused on specialty accident and health products. In addition, during December 2015 the Company was granted a license by the Dubai Financial Services Authority to establish a representative office in the Dubai International Financial Center. The representative office will initially focus on marketing accident and health specialty reinsurance in the Middle East and Africa.

Amalgamation with PartnerRe Ltd.

On January 25, 2015, the Company entered into an the Amalgamation Agreement with PartnerRe pursuant to which the Company would amalgamate with PartnerRe, and the two companies would continue as a single Bermuda exempted company. On August 3, 2015, the Company announced that it accepted a request from PartnerRe to terminate the Amalgamation Agreement. PartnerRe paid the Company $315 million to immediately terminate the Amalgamation Agreement, the amount comprising a termination fee of $280 million and a reimbursement of merger-related expenses of $35 million.

Purchase of Ternian Insurance Group

On April 1, 2015, the Company announced that it completed the acquisition of Ternian Insurance Group LLC, a leading provider of voluntary, limited benefit, affordable health plans and other employee benefits coverage for hourly and part-time workers and their families.

Profitability Enhancement Initiatives

During the third quarter of 2015, the Company implemented a number of profitability enhancement initiatives, including the decision to wind down our Australian retail insurance operations, which resulted in staff redundancies, the write-off of certain assets and recognition of lease abandonment charges. In connection with these initiatives we recognized reorganization and related expenses of $46 million and additional corporate expenses of $5 million in the Consolidated Statements of Operations. Refer to Item 8, Note 18 to the Consolidated Financial Statements 'Reorganization and Related Expenses' for additional information.

Results of Operations

Year ended December 31,	2015	% Change	2014	% Change	2013
Underwriting income:					
Insurance	$41,433	(47%)	$78,635	(7%)	$84,749
Reinsurance	260,809	(32)%	382,894	12%	343,220
Net investment income	305,336	(11%)	342,766	(16%)	409,312
Net realized investment gains (losses)	(138,491)	nm	132,108	75%	75,564
Other expenses, net	(61,589)	(53%)	(131,839)	(29%)	(185,380)
Termination fee received	280,000	—	—	—	—
Reorganization and related fees	(45,867)	—	—	—	—
Net income	641,631	(20%)	804,564	11%	727,465
Amounts attributable from noncontrolling interests	—	nm	6,181	nm	—
Preferred share dividends	(40,069)	—%	(40,088)	(1%)	(40,474)
Loss on repurchase of preferred shares	—	nm	—	nm	(3,081)
Net income available to common shareholders	$601,562	(22%)	$770,657	13%	$683,910
Operating income	$400,515	(29)%	$562,875	(11%)	$633,072

nm – not meaningful

Underwriting Results

2015 versus 2014: The $159 million reduction in our underwriting result during 2015 compared to 2014 was primarily driven by the impact of the increase in the current accident year loss ratio, the impact of lower net earned premiums, higher acquisition cost ratio in the reinsurance segment and a decrease in net favorable prior year development in the insurance segment.

The reinsurance segment underwriting income decreased by $122 million during 2015 compared to 2014. The decrease in underwriting income was primarily driven by the increase in the current accident year loss ratio due to changes in business mix, an increase in losses due to catastrophe and weather-related events and increased loss experience in our Credit & Surety lines. An increase in the acquisition cost ratio and the impact of lower net earned premiums also contributed to the overall decrease. Partially offsetting these decreases was a $24 million increase in net favorable prior year reserve development.

The insurance segment underwriting income decreased by $37 million during 2015 compared to 2014. The decrease in underwriting income was primarily driven by a $40 million decrease in net favorable prior year reserve development and the impact of lower net earned premiums. An increase in the current accident year loss ratio due to an increase in marine mid-sized losses and liability attritional loss experience was largely offset by improvements in property and professional lines loss experience, improvements due to changes in the business mix and a decrease in losses due to catastrophe and weather-related events. Additionally, partially offsetting the decrease in underwriting income was a decrease in the acquisition costs.

2014 versus 2013: The $34 million improvement in our underwriting result during 2014 compared to 2013 was primarily due to a decrease in the level of catastrophe and weather-related losses. The increase in net favorable prior year reserve development of $40 million also contributed to the improvement. These improvements were partially offset by increases in the current accident year loss ratios, exclusive of the catastrophe and weather-related losses, for both segments.

Our insurance segment's underwriting income decreased by $6 million in 2014 compared to 2013. The decrease was primarily due to an increase in the current accident year loss ratio, after adjusting for catastrophe and weather-related losses, due to an increase in the loss ratio in the property lines, which were impacted by a higher level of loss activity in recent periods, and a change in the mix of business written, partially offset by better than expected loss experience in the marine and liability lines. The decrease in underwriting income was also impacted by an increase in acquisition costs and was partially offset by a decrease in catastrophe and weather related-losses, lower general and administrative expenses and a $13 million increase in net favorable prior year reserve development.

Our reinsurance segment's underwriting result improved by $40 million in 2014 compared to 2013. The increase was primarily attributable to the significantly lower level of catastrophe and weather-related losses and a $26 million increase in net favorable prior year development. Partially offsetting these increases were an increase in the current accident year loss ratio, after adjusting for catastrophe and weather-related losses, and an increase in acquisition costs. The current accident year loss ratio, after adjusting for catastrophe and weather-related losses, increased due to a change in the mix of business and an increase in agriculture loss reserves, partially offset by improved loss experience across most other lines of business.

Net Investment Income

The variability in our net investment income from 2013 through 2015 was largely attributable to the performance of our other investments. Income from this portfolio decreased by $37 million in 2015 compared to 2014, as a result of lower returns from our hedge funds and a decline in value of our investments in equity tranches of collateralized loan obligations ("CLO Equities") which declined in value along with other risk assets. Comparatively, income from this portfolio decreased by $71 million in 2014 compared to 2013, driven by lower returns from our hedge funds and reflected lower returns from global equity markets during 2014.

Excluding income from our other investments, net investment income was comparable to 2014. Net investment income increased $5 million in 2014, compared to 2013 due to an increase in average fixed maturities balances.

Net Realized Investment Gains (Losses)

During 2015, we realized net investment losses of $138 million compared to net investment gains of $132 million in 2014 and net investment gains of $76 million in 2013. The net realized losses during 2015 were primarily due to foreign exchange losses on non-U.S. denominated fixed maturities, as a result of the strengthening of the US dollar, and an increase in other-than-temporary impairment ("OTTI") charges. OTTI charges were $73 million, $31 million and $9 million in 2015, 2014 and 2013, respectively. The increase in OTTI during 2015 was primarily attributable to losses recorded on high yield corporate debt securities as a result of the widening of credit spreads.

Other Expenses (Revenues), Net

Depreciation of the euro, Sterling and Australian Dollar against the U.S. Dollar drove foreign exchange gains of $102 million during 2015, while the depreciation of the euro and Sterling against the U.S. dollar resulted in foreign exchange gains of $104 million in 2014 and both periods primarily reflected the remeasurement of our foreign-denominated net insurance-related liabilities. Conversely appreciation of the euro and Sterling drove foreign exchange losses of $26 million in 2013. The 2013 loss was partially offset by the depreciation of the Australian dollar. Excluding these foreign exchange-related amounts, other expenses were $164 million, $236 million and $159 million in 2015, 2014 and 2013, respectively. Corporate expenses decreased from $136 million in 2014, to $110 million in 2015. The $26 million decrease was driven by adjustments to senior leadership executive stock-compensation awards, a decrease in severance expenses, a reduction in performance-based incentive accruals, lower costs related to operational excellence initiatives and the favorable impact of foreign exchange. These reductions were partially offset by a reduction of certain costs allocated to the operating segments and reorganization related corporate expenses incurred. Corporate expenses increased from $90 million in 2013, to $136 million in 2014, driven by increased personnel costs and other expenses associated with operational excellence initiatives along with a reduction in certain allocated costs to segments. The operational excellence initiatives are aimed at improving the effectiveness and efficiency of our operations and are expected to result in a reduction of expenses in future periods.

Tax expense decreased to $3 million in 2015, compared to $26 million in 2014. The effective tax rate can vary between periods depending on the distribution of net income amongst tax jurisdictions, as well as other factors. The primary factor in the decrease in the effective tax rate from 2014 to 2015, was the geographical distribution of our net income with the majority of our operating income as well as the PartnerRe merger termination fee received recognized in Bermuda. The tax expense increase to $26 million in 2014, from $7 million in 2013, was due to an increase in valuation allowances and a decrease in tax exempt income.

A $24 million decrease in interest expense and financing costs for 2015, compared to 2014, primarily reflected the repayment of the $500 million 5.75% senior unsecured notes which were due on December 1, 2014. The $13 million increase for 2014 compared to 2013, related to the issuance during the first quarter of 2014 of $250 million of 2.65% senior unsecured notes due in 2019 and $250 million of 5.15% senior unsecured notes due in 2045.

Termination Fee Received

On August 3, 2015, AXIS Capital announced that we accepted a request from PartnerRe to terminate the Amalgamation Agreement with the Company. PartnerRe paid the Company $315 million to immediately terminate the Amalgamation Agreement, the amount comprising a termination fee of $280 million and a reimbursement of merger-related expenses of $35 million.

Reorganization and Related Expenses

During 2015, the Company implemented a number of profitability enhancement initiatives which resulted in a recognition of reorganization and related expenses of $46 million and additional corporate expenses of $5 million in the Consolidated Statement of Operations. The reorganization and related expenses included staff severance and related costs, the write-off of certain information technology assets, lease cancellation costs and an impairment of certain customer-based intangibles following the decision to wind down our Australian retail insurance operations. Refer to Item 8, Note 4 to the Consolidated Financial Statements 'Goodwill and Intangibles' and to Note 18 'Reorganization and Related Expenses' for additional information.

Amounts Attributable from Noncontrolling Interest

During the second quarter of 2015, the Company early adopted ASU 2015-02, "Amendments to the Consolidation Analysis" issued by the FASB. Following the adoption of this ASU, effective as of January 1, 2015, the Company no longer consolidates the results of AXIS Ventures Reinsurance Limited, a variable interest entity, in its Consolidated Financial Statements. Refer to Item 8, Note 14 to the Consolidated Financial Statements 'Noncontrolling Interests' for additional information.

Outlook

Management expects an overall increase in gross premiums written in 2016, with variances between our lines of business within the operating segments driven by market conditions and available opportunities, as we maintain our focus on diversification and pursuit of those opportunities that will expand our reach in areas where we believe the returns to be most attractive.

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

The reinsurance markets' trading environment remains very challenging in the majority of lines of business and geographical regions. The market continues to be influenced by excess capacity generated by new lower-cost of capital entrants, strong balance sheets of established market participants reflecting below-average levels of recent loss trends and a consolidation of reinsurance purchasing. Despite these difficult conditions we observed recent favorable trends which we expect to impact our business including many cedants reducing the size of their reinsurer panels, increased losses on higher retentions for some cedants and Solvency II-driven purchases introducing new opportunities. These factors, combined with AXIS customer-centric approach, provide opportunity for us to grow. We continue to address the difficult market conditions by taking underwriting actions to protect the quality and profitability of our book, targeting larger shares of the more attractive treaties, reducing the overall volatility of our reinsurance book, and building a strong group of third party capital partners with whom to share our risks and earn attractive fees.

Financial Measures

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

Year ended and at December 31,	2015		2014		2013	
ROACE(1)	11.5	%	14.8	%	13.1	%
Operating ROACE(2)	7.7	%	10.8	%	12.1	%
Diluted book value per common share(3)(4)	$54.08		$50.63		$45.80	
Cash dividends declared per common share	1.22		1.10		1.02	
Increase in diluted book value per common share adjusted for dividends	$4.67		$5.93		$3.85	

(1) Return on average common equity ("ROACE") is calculated by dividing net income available to common shareholders for the year by the average shareholders' equity determined by using the common shareholders' equity balances at the beginning and end of the year.

(2) Operating ROACE is calculated by dividing operating income for the year by the average common shareholders' equity determined by using the common shareholders' equity balances at the beginning and end of the year. Operating ROACE is a non-GAAP financial measure, as defined in SEC Regulation G. Refer to 'Non-GAAP Financial Measures' for additional information and a reconciliation to the nearest GAAP financial measure (ROACE).

(3) Diluted book value ("DBV") per common share represents total common shareholders' equity divided by the number of common shares and diluted common share equivalents outstanding, determined using the treasury stock method. Cash settled awards are excluded from the denominator.

(4) Calculation of DBV per common share at December 31, 2015 includes 1,358,380 additional shares delivered to the Company in January 2016 under the ASR agreement. Refer to Item 8, Note 13 to the Consolidated Financial Statements 'Shareholders' Equity' for information relating to the ASR.

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 make it difficult to achieve a profitability target in any specific period and, therefore our goal is to achieve top-quintile industry ROACE and growth in book value per share adjusted for dividends, with volatility consistent with the industry average. Our average annual ROACE since inception was approximately 13.7%, while our compound annual growth rate in book value adjusted for dividends was approximately 12.5%.

The decrease in operating ROACE in 2015, compared to 2014, was primarily driven by a decrease in underwriting income and net investment income partially offset by a decrease in corporate expenses and lower interest expense and financing costs. The decrease in operating ROACE in 2014, compared to 2013, was driven by a decrease in net investment income and an increase in corporate expenses partially offset by an increase in underwriting income.

In addition to the items noted above for operating ROACE, ROACE is also impacted by net realized investment gains (losses), foreign exchange losses (gains), termination fee received, reorganization and related expenses and the loss on repurchase of preferred shares. The termination fee received and foreign exchange movements contributed favorably to our 2015 results, and were only partially offset by the adverse impacts of net realized investment losses and reorganization and related expenses; thus ROACE exceeded operating ROACE in 2015. Net realized investment gains contributed favorably to our results in 2014 and 2013; thus ROACE exceeded operating ROACE in both years. Foreign exchange movements also contributed favorably to our results in 2014 while in 2013 we recorded foreign exchange losses, resulting in a larger increase in ROACE in 2014 compared to 2013.

Diluted book value per common share

We consider diluted book value per 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.

During 2015 and 2014, our diluted book value per common share appreciated by 7% and 11%, respectively, driven primarily by $602 million and $771 million in net income available to common shareholders, respectively. This was partially offset by an increase in unrealized losses on investments which are included in accumulated other comprehensive income, and common dividends declared. The increase in unrealized losses in 2015 reflected an increase in the U.S. interest rates, the widening of credit spreads in non-government bonds and foreign exchange volatility, while in 2014 the increase reflected the impact of the strengthening of the U.S. dollar, along with the widening of credit spreads and the realization of equity gains during the year.

Cash dividends declared per common share

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

Diluted book value per common share adjusted for dividends

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

In 2015 and 2014, our net income, which was partially offset by unrealized losses on investments included in other comprehensive income, drove an increase in DBV per common share adjusted for dividends. Despite recording a more significant impact of catastrophe and weather-related events, 2013 also reflected positive value creation for our shareholders. In 2013, our net income, in addition to the dividends declared, more than offset the negative impact on our book value of the upward shift in the sovereign yield curves.

UNDERWRITING RESULTS – GROUP

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

Year ended December 31,	2015	% Change	2014	% Change	2013
Revenues:					
Gross premiums written	$4,603,730	(2%)	$4,711,519	—%	$4,697,041
Net premiums written	3,674,666	(6%)	3,906,975	(1%)	3,928,200
Net premiums earned	3,686,417	(5%)	3,870,999	4%	3,707,065
Other insurance related income (loss)	(2,953)	nm	650	(85)%	4,424
Expenses:					
Current year net losses and loss expenses	(2,419,247)		(2,445,666)		(2,353,631)
Prior year reserve development	243,048		258,944		219,436
Acquisition costs	(718,112)		(737,197)		(664,191)
Underwriting-related general and administrative expenses(1)	(486,911)		(486,201)		(485,134)
Underwriting income(2)(3)	$302,242	(35)%	$461,529	8%	$427,969
General and administrative expenses(1)	$596,821		$621,876		$575,390
Income before income taxes(2)	$644,659		$830,472		$734,467

(1) Underwriting-related general and administrative expenses is a non-GAAP measure as defined in SEC Regulation G. Our total general and administrative expenses also included $109,910, $135,675 and $90,256 of corporate expenses for 2015, 2014 and 2013, respectively; refer to 'Other Expenses, Net' for additional information related to these corporate expenses. Also, refer to 'Non-GAAP Financial Measures' for further information.

(2) Group (or consolidated) underwriting income is a non-GAAP financial measure as defined in SEC Regulation G. Refer Item 8, Note 3 to the Consolidated Financial Statements 'Segment Information', for a reconciliation of consolidated underwriting income to the nearest GAAP financial measures (income before income taxes) for the years indicated above. Also, refer to 'Non-GAAP Financial Measures' for additional information related to the presentation of consolidated underwriting income.

(3) AXIS Capital cedes certain of its reinsurance business to AXIS Ventures Reinsurance Limited ("Ventures Re"), the Company's third-party capital vehicle, on a fully collateralized basis. Ventures Re is a variable interest entity and as the Company had initially concluded that it was the primary beneficiary of this entity, Ventures Re was consolidated by the Company with the net impact of the cessions included in amounts attributable from noncontrolling interest. During the second quarter of 2015, the Company early adopted ASU 2015-02, "Amendments to the Consolidation Analysis". Following the adoption of the ASU and effective as of January 1, 2015, the Company determined that it was no longer required to consolidate the results of operations and the financial position of Ventures Re. Refer to Item 8, Note 14 to the Consolidated Financial Statements 'Noncontrolling Interests' for more information. For 2014 and 2013, amounts attributable from noncontrolling interests were $6,181 and $nil, respectively.

UNDERWRITING REVENUES
Premiums Written:
Gross and net premiums written, by segment, were as follows:

	Gross Premiums Written								
Year ended December 31,	2015		% Change		2014		% Change		2013	
Insurance	$2,583,081		2%		$2,535,415		(1%)		$2,559,138	
Reinsurance	2,020,649		(7%)		2,176,104		2%		2,137,903	
Total	$4,603,730		(2%)		$4,711,519		—%		$4,697,041	
% ceded										
Insurance	32	%	2	pts	30	%	1	pt	29	%
Reinsurance	5	%	3	pts	2	%	1	pt	1	%
Total	20	%	3	pts	17	%	1	pt	16	%

	Net Premiums Written				
	2015	% Change	2014	% Change	2013
Insurance	$1,759,359	(1%)	$1,779,501	(2%)	$1,813,538
Reinsurance	1,915,307	(10%)	2,127,474	1%	2,114,662
Total	$3,674,666	(6%)	$3,906,975	(1%)	$3,928,200

2015 versus 2014: Gross premiums written in 2015 decreased by $108 million or 2% (however were flat on a constant currency basis) due to decreases in the reinsurance segment, partially offset by increases in the insurance segment. The decrease in the reinsurance segment of $155 million or 7%, was significantly impacted by treaties written on a multi-year basis and foreign exchange movements. The 2014 year included a number of treaties written on a multi-year basis which reduced premiums available for renewal during the current year. In addition, during 2015 the segment reported a decrease in the level of new multi-year contracts written compared to 2014. The strength of the U.S. dollar also drove comparative premium decreases in treaties denominated in foreign currencies. After adjusting for the impact of the multi-year contracts and foreign exchange movement, our gross premiums written increased by $11 million. The increase was driven by growth in motor, property, engineering and liability lines. These increases were partially offset by decreases in the catastrophe, agriculture, professional and credit and surety lines.
The insurance segment's gross written premium increased by $48 million or 2% compared to 2014. The increase was driven by new business in our accident and health lines, growth in our professional and liability lines, increased deal premium in our credit and political risk lines compared to prior year, and certain new initiatives providing growth in professional lines. These increases were partially offset by the strength of the U.S. dollar as well as certain profitability enhancement initiatives announced during the third quarter of 2015, as well as reductions in our property lines.
2014 versus 2013: Gross premiums written in 2014 were comparable to 2013, with growth in our reinsurance segment offset by a decrease in our insurance segment.
The increase in our reinsurance segment of 2%, was significantly impacted by the number of treaties written on a multi-year basis in the liability, property, catastrophe and motor lines. After adjusting for the impact of the multi-year contracts, the decline in gross written premiums was primarily driven by professional, property and catastrophe lines, partially offset by increases in liability, motor and agriculture lines. The decrease in professional lines was primarily driven by timing differences, non-renewals and decreased treaty participations. The decreases in property and catastrophe were primarily driven by variances in premium adjustments, reduced participations and non-renewals. The increase in liability primarily reflected increased treaty participations and new business. The motor lines increase was primarily driven by increased treaty participations, while the agriculture increase reflected our growth initiatives in

this line of business.

The decrease in our insurance segment of 1%, was driven by professional and property lines partially offset by increases in liability and aviation lines. The professional lines decrease was driven by the reshaping of our U.S. D&O portfolio. The property decrease was reflective of competitive market conditions. The growth in liability was attributable to growth in the

U.S. casualty markets with both new business and rate increases reported. The increase in aviation was driven by differences in timing of renewals and new business.
Ceded Premiums Written:
The ceded gross written premium ratio increased by 3% in 2015 compared to 2014, driven by increases in both segments. The increase in the ceded gross written premium ratio in the insurance segment related to an increase in reinsurance protection purchased primarily in our professional lines and a change in the business mix. The ceded gross written premium ratio also increased in the reinsurance segment reflecting additional retrocessional covers primarily in the catastrophe lines.
The ceded gross written premium ratio increased by 1% in 2014 compared to 2013, and was also driven by increases in both segments. The increase in the ceded gross written premium ratio in the insurance segment related to changes in the business mix partially offset by changes in the structure of our reinsurance programs. The ceded gross written premium ratio increase in the reinsurance segment reflected new retrocessional covers primarily in the catastrophe lines.
In 2013, the Company obtained catastrophe protection for both our segments through a reinsurance agreement with Northshore Re Limited ("Northshore"). The Company performed an accounting evaluation of Northshore and concluded that while Northshore is a variable interest entity, AXIS does not have a variable interest in this entity. Accordingly, Northshore is not consolidated in the Company's consolidated financial statements. The premium ceded to Northshore during 2015, 2014 and 2013 was $16 million, $16 million and $14 million, respectively.

Net Premiums Earned:

Net premiums earned by segment were as follows:

										% Change			
Year ended December 31,	2015			2014			2013			14 to 15		13 to 14	
Insurance	$1,798,191	49	%	$1,830,544	47	%	$1,722,762	46	%	(2	%)	6	%
Reinsurance	1,888,226	51	%	2,040,455	53	%	1,984,303	54	%	(7	%)	3	%
Total	$3,686,417	100	%	$3,870,999	100	%	$3,707,065	100	%	(5	%)	4	%

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

2015 versus 2014: Net premiums earned decreased 5% (3% on a constant currency basis) in 2015 compared to 2014. A combination of reductions in written premiums in the reinsurance segment during recent periods, along with an increase in premiums ceded across the group drove the decreases.
The decrease in net premiums earned in the reinsurance segment in 2015, compared to 2014, was primarily driven by reductions in the business written in the catastrophe, agriculture, professional and credit & surety lines in recent periods, along with an increase in the premiums ceded primarily in the catastrophe lines. These decreases were partially offset by growth in the motor lines.

The decrease in net premiums earned in the insurance segment in 2015, compared to 2014, was driven by increases in our ceded reinsurance programs primarily covering our professional lines and premiums written reductions mainly impacting the professional lines. The decrease was partially offset by growth in gross premiums written primarily in the liability lines in recent periods.
2014 versus 2013: Growth in net premiums earned of 4% reflected increases in both segments. In our insurance segment the increase reflected the expansion in the accident and health lines, growth in our liability lines in recent

periods as well as the positive impact of the reductions in the professional and liability ceded reinsurance programs implemented during 2013. These increases were partially offset by decreases in our property business. The reinsurance segment increase primarily reflected growth in our liability and motor lines, continued expansion of our agriculture business and an increase in professional lines. This growth was partially offset by a decrease in premiums written in our catastrophe, property and credit and surety lines and an increase in retrocessional covers for our catastrophe lines.

UNDERWRITING EXPENSES

The following table provides a breakdown of our combined ratio:

Year ended December 31,	2015	% Point Change	2014	% Point Change	2013
Current accident year loss ratio	65.6%	2.4	63.2%	(0.3)	63.5%
Prior year reserve development	(6.6%)	0.1	(6.7%)	(0.8)	(5.9%)
Acquisition cost ratio	19.5%	0.5	19.0%	1.1	17.9%
General and administrative expense ratio(1)	16.2%	0.1	16.1%	0.6	15.5%
Combined ratio	94.7%	3.1	91.6%	0.6	91.0%

(1) The general and administration expense ratio includes corporate expenses not allocated to underwriting segments of 3.0%, 3.5% and 2.4% for 2015, 2014 and 2013, respectively. These costs are further discussed in the ‘Other Expenses, Net’ section.

Current Accident Year Loss Ratio:

2015 versus 2014: The current accident year loss ratio increased to 65.6% in 2015 from 63.2% in 2014. The increase in 2015 was primarily due to changes in business mix, primarily reflecting the reduction in catastrophe exposures, the impact of lower rates, an increase in the insurance marine and liability and reinsurance credit & surety loss experience as well as an increased level of catastrophe and weather-related losses. In 2015, we recorded $100 million of such aggregate pre-tax losses, including $30 million related to the Tianjin port explosion and $70 million related to various weather events. Comparatively, in 2014 we recorded $93 million of pre-tax catastrophe and weather-related losses. The increases in the current accident year loss ratio were partially offset by improvement in loss experience across both segments' property and other reserving lines and the insurance professional lines.

2014 versus 2013: A decrease in the level of catastrophe and weather-related losses was the primary driver of the reduction in the 2014 current accident year loss ratio compared to 2013. In 2014, we reported $93 million in catastrophe and weather-related losses while comparatively in 2013, we reported $198 million (net of reinstatement premiums) of such losses. After considering the impact of the catastrophe and weather-related losses, the current accident year loss ratio increased in 2014 compared to 2013, driven primarily by changes in the mix of business written, an increase in agriculture loss reserves and an increase in insurance property loss experience. These increases were partially offset by improved loss experience in the marine, liability, motor, credit and surety and reinsurance professional lines.

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

Estimates for Significant Catastrophe Events

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.

Our December 31, 2015 net reserve 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 Storm Sandy, the Japanese earthquake and tsunami, the three New Zealand earthquakes and the Tianjin port explosion, inherently increase the level of uncertainty and, therefore, the level of management judgment involved in arriving at our estimated net reserve for losses and loss expenses. As a result, our actual losses for these events may ultimately differ materially from our current estimates.

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

Year ended December 31,	2015	2014	2013
Insurance	$23,447	$63,735	$50,355
Reinsurance	219,601	195,209	169,081
Total	$243,048	$258,944	$219,436

Overview
Overall, the majority of the net favorable prior year reserve development in 2015, 2014 and 2013 related to short-tail lines of business. In 2015 net favorable prior year reserve development in the reinsurance liability, reinsurance professional, motor and credit and surety lines also contributed significantly to the total favorable reserve development which was partially offset by adverse development in insurance liability, credit and political risk and insurance professional lines. In addition to the short-tail lines favorable reserve development in 2014 and 2013, both years also reported significant favorable prior year reserve development in the reinsurance professional and reinsurance liability lines with motor also notably contributing to the 2014 reserve releases. The favorable prior year reserve development in both 2014 and 2013 was partially offset by adverse prior year reserve development in the insurance liability lines, with adverse prior year reserve development in insurance professional lines also significantly impacting 2013.
The underlying exposures in our property, marine and aviation reserving classes within our insurance segment and the property reserving class within our reinsurance segment largely relate to short-tail business. Development from these classes contributed $152 million, $207 million and $162 million of the total net favorable prior year reserve development in 2015, 2014 and 2013, respectively, and primarily reflected the recognition of better than expected loss emergence.
Our medium-tail business consists primarily of professional insurance and reinsurance, credit and political risk and credit and surety lines. Our reinsurance professional lines business recognized $38 million, $33 million and $22 million of net favorable prior year development in 2015, 2014 and 2013, respectively. The 2015, 2014 and 2013 favorable loss developments were driven by increased weight being given to experience-based actuarial methods in selecting our ultimate loss estimates for accident years 2010 and prior. In 2015 and 2013, the insurance professional lines recorded adverse prior year reserve development of $14 million and $51 million, respectively. The adverse development in 2015 was primarily the result of strengthening in our Australian book of business during the third quarter of 2015. The adverse development in 2013 reflected the strengthening of certain parts of our U.S. D&O lines in the 2011 and 2012 accident years and development on global financial crisis-related claims in our 2008 and 2009 accident years. Our credit and surety lines recorded net favorable prior year reserve development of $27 million in 2015, reflecting better than expected loss emergence. In 2015, net adverse development of $15 million was recognized in our in credit and political risk insurance lines, relating primarily to an increase in loss estimates for one specific claim.
Our long-tail business consists primarily of liability and motor lines. In 2015, 2014 and 2013, our reinsurance liability lines and motor business contributed net favorable prior year reserve development of $82 million, $40 million and $91 million, respectively, primarily reflecting the greater weight management is giving to experience based indications which were generally favorable in 2015 for the accident years 2003 through 2010 and in 2014 and 2013 for the accident years 2004 through 2008. This favorable development was partially offset by adverse development in our insurance liability business of $27 million, $23 million and $24 million in 2015, 2014 and 2013, respectively, relating primarily to an increase in loss estimates for certain specific claim reserves, as well as a higher frequency of large auto liability claims which impacted the adverse reserve development in 2015.

See ‘Critical Accounting Estimates – Reserve for Losses and Loss Expenses’ section for further details. We caution that conditions and trends that impacted the development of our reserve for losses and loss expenses in the past may not recur in the future.

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

Insurance Segment:

Year ended December 31,	2015	2014	2013
Property and Other	$52,257	$68,330	$47,780
Marine	24,563	6,257	48,482
Aviation	2,429	9,076	15,349
Credit and Political Risk	(15,435)	3,740	13,136
Professional Lines	(13,789)	(807)	(50,882)
Liability	(26,578)	(22,861)	(23,510)
Total	$23,447	$63,735	$50,355

In 2015, we recognized $23 million of net favorable prior year reserve development, the principal components of which were:

- $52 million of net favorable prior year development on property and other business, related to the 2012 and 2013 accident years and driven by better than expected loss emergence, including reserve reductions related to Storm Sandy of $18 million.
- $25 million of net favorable prior year development on marine business, largely related to better than expected loss emergence in our energy offshore business spanning multiple years, particularly accident year 2014.
- $14 million of net adverse prior year development on professional lines business, predominately reflecting reserve strengthening resulting from updated actuarial assumptions for our Australian professional lines and impacting accident years 2010 to 2014, partially offset by favorable development in certain US professional lines.
- $15 million of net adverse prior year development on credit and political risk business, primarily related to updated information on one specific claim impacting accident year 2014, partially offset by better than expected development on the 2013 accident year.
- $27 million of net adverse prior year development on liability business, related to strengthening of specific individual claim reserves and a higher frequency of large auto liability claims in accident year 2014.

In 2014, we recognized $64 million of net favorable prior year reserve development, the principal components of which were:

- $68 million of net favorable prior year reserve development on our property and other business, related to the 2013 and prior accident years and driven by better than expected loss emergence.
- $9 million of net favorable prior year reserve development on aviation business, spanning a number of accident years and largely related to better than expected loss emergence.
- $23 million of net adverse prior year reserve development on liability business, related to specific claims impacting primarily 2008, 2009 and 2011 through 2013 accident years.

In 2013, we recognized $50 million of net favorable prior year reserve development, the principal components of which were:

- $48 million of net favorable prior year reserve development on marine business, spanning a number of accident years and largely related to better than expected loss emergence.
- $48 million of net favorable prior year reserve development on our property and other business, largely related to the 2010 and 2011 accident years and driven by better than expected loss emergence.
- $15 million of net favorable prior year reserve development on aviation business, spanning a number of accident years and largely related to better than expected loss emergence.

- $13 million of net favorable prior year reserve development on our credit and political risk business, largely related to the 2012 accident year and driven by better than expected loss emergence.
- $24 million of net adverse prior year reserve development on liability business, related to developments on two particular claims and pertained to the 2009 and 2011 accident years.

- $51 million of net adverse prior year reserve development on professional lines business, primarily related to strengthening of certain parts of our U.S. D&O lines in the 2011 and 2012 accident years and development on global financial crisis-related claims in our 2008 and 2009 accident years, as discussed in the overview.

Reinsurance Segment:

Year ended December 31,	2015	2014	2013
Property and Other	$72,789	$122,859	$50,017
Credit and Surety	26,568	(713)	6,328
Professional Lines	37,778	32,765	21,845
Motor	36,677	19,007	6,260
Liability	45,789	21,291	84,631
Total	$219,601	$195,209	$169,081

In 2015, we recognized $220 million of net favorable prior year reserve development, the principal components of which were:

- $73 million of net favorable prior year reserve development on property and other business, spanning a number of accident years and driven by better than expected loss emergence. Included in this net development is $17 million of adverse development on agriculture reserves relating to loss developments on the 2014 accident year driven by lower than expected crop yields reported for two specific treaties.
- $46 million of net favorable prior year reserve development on liability business, primarily related to the 2003 through 2010 accident years, reflecting the greater weight management is giving to experience based indications.
- $38 million of net favorable prior year reserve development on professional lines business, primarily related to the 2009 and 2010 accident years, reflecting increased weight being given to experience-based actuarial methods in selecting our ultimate loss estimates for accident years 2010 and prior.
- $37 million of net favorable prior year reserve development on motor business, predominantly related to non-proportional business and driven by better than expected loss emergence on accident years 2007 through 2013, partially offset by reserve strengthening on accident year 2014.
- $27 million of net favorable prior year reserve development on credit and surety business, spanning multiple accident years and driven by better than expected loss emergence, as well as additional information obtained about a specific claim.

In 2014, we recognized $195 million of net favorable prior year reserve development, the principal components of which were:

- $123 million of net favorable prior year reserve development on property and other business, spanning a number of accident years and driven by better than expected loss emergence. Included in this net development was $31 million of favorable reserve development relating to natural catastrophe and weather-related losses incurred during 2013. In addition, the net development included $26 million of adverse development on New Zealand 2010 and 2011 earthquake events and $10 million of adverse development on agriculture reserves relating to loss experience on events occurring late in the 2013 accident year.
- $33 million of net favorable prior year reserve development on professional lines business, primarily related to the 2004 through 2007 accident years, for the reasons discussed in the overview and partially offset by reserve strengthening on the 2011 to 2013 years.
- $21 million of net favorable prior year reserve development on liability business related to accident years 2008 and prior, for the reasons discussed in the overview. This favorable development was partially offset by strengthening of the reserves related to the 2009 through 2013 accident years.
-

$19 million of net favorable prior year reserve development on motor business, driven by better than expected loss emergence on certain European exposures.

In 2013, we recognized $169 million of net favorable prior year reserve development, the principal components of which were:

- $85 million of net favorable prior year reserve development on liability business for the reasons discussed in the overview.
- $50 million of net favorable prior year reserve development on property and other business, largely driven by better than expected loss emergence on the 2006 through 2009 and the 2012 accident years.
- $22 million of net favorable prior year reserve development on professional lines reinsurance business, primarily related to the 2007 through 2009 accident years and driven by better than expected loss emergence, for the reasons discussed in the overview..

Acquisition Cost Ratio: The acquisition cost ratio increased from 19.0% in 2014 to 19.5% in 2015, driven by increases in our reinsurance segment. The reinsurance segment's increase in the acquisition cost ratio was primarily due to higher acquisition costs paid in certain lines of business, adjustments related to loss-sensitive features in reinsurance contracts, primarily due to prior year loss reserve releases, and changes in the business mix. These increases were partially offset by a lower acquisition cost ratio in our insurance segment which benefitted from changes in the mix of business, higher ceded commissions received and a federal excise tax adjustment. The insurance segment decreases were partially offset by higher commissions paid in certain lines of business.

The increase in the ratio in 2014 compared to 2013 was driven by increases in both segments. The increase in the insurance segment primarily reflected a reduction in ceding commissions following changes to our reinsurance programs and a change in the mix of business. In the reinsurance segment, the increase was driven by higher acquisition costs paid on certain lines of business and variances in accruals for loss-sensitive features in underlying contracts.

General and Administrative Expense Ratio: The general and administrative expense ratio increased slightly from 16.1% in 2014, to 16.2% in 2015. The increase in the ratio was primarily driven by lower net earned premiums and was largely offset by lower general administrative expenses primarily due to: adjustments to senior leadership executive stock-compensation awards, a reduction in performance-based incentive compensation, a decrease in severance expenses, lower costs related to operational excellence initiatives and the favorable impact of foreign exchange. These reductions were partially offset by reorganization related corporate expenses incurred in the third quarter of 2015.

The general and administrative expenses increase during 2014 compared to 2013 was primarily driven by an increase in personnel costs, professional fees, information technology costs and other related expenses associated with the continued build-out of the Company's global platforms and certain operational excellence initiatives. These initiatives are aimed at improving the effectiveness and efficiency of our operations and are expected to result in a reduction of expenses in future periods. The impact on the general and administrative expense ratio was partially offset by growth in net earned premiums.

RESULTS BY SEGMENT

INSURANCE SEGMENT

Results from our insurance segment were as follows:

Year ended December 31,	2015	% Change	2014	% Change	2013
Revenues:					
Gross premiums written	$2,583,081	2%	$2,535,415	(1%)	$2,559,138
Net premiums written	1,759,359	(1%)	1,779,501	(2%)	1,813,538
Net premiums earned	1,798,191	(2%)	1,830,544	6%	1,722,762
Other insurance related income (loss)	1,036	nm	(11)	nm	2,436
Expenses:					
Current year net losses and loss expenses	(1,178,375)		(1,195,615)		(1,100,757)
Prior year reserve development	23,447		63,735		50,355
Acquisition costs	(261,208)		(278,804)		(242,363)
General and administrative expenses	(341,658)		(341,214)		(347,684)
Underwriting income	$41,433	(47%)	$78,635	(7%)	$84,749
		% Point Change		% Point Change	
Ratios:					
Current year loss ratio	65.5%	0.2	65.3%	1.4	63.9%
Prior year reserve development	(1.3%)	2.2	(3.5%)	(0.6)	(2.9%)
Acquisition cost ratio	14.5%	(0.7)	15.2%	1.1	14.1%
General and administrative expense ratio	19.1%	0.4	18.7%	(1.4)	20.1%
Combined ratio	97.8%	2.1	95.7%	0.5	95.2%

nm – not meaningful

Gross Premiums Written:

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

Year ended December 31,	2015		2014		2013		% Change 14 to 15	% Change 13 to 14
Property	$607,358	24%	$644,516	26%	$671,970	27%	(6%)	(4%)
Marine	241,956	9%	238,320	9%	229,493	9%	2%	4%
Terrorism	33,709	1%	37,705	1%	38,373	1%	(11%)	(2%)
Aviation	54,642	2%	57,622	2%	43,326	2%	(5%)	33%
Credit and Political Risk	59,967	2%	45,368	2%	60,203	2%	32%	(25%)
Professional Lines	850,011	33%	862,784	34%	900,071	35%	(1%)	(4%)
Liability	384,145	15%	368,450	15%	347,227	14%	4%	6%
Accident and Health	351,293	14%	280,650	11%	268,475	10%	25%	5%

Total	$2,583,081	100 %	$2,535,415	100 %	$2,559,138	100 %	2 %	(1 %)

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2015 versus 2014: Gross premiums written in 2015 increased by $48 million or 2% compared to 2014. The 2015 gross premiums written were negatively impacted by foreign exchange movements as well as certain profitability enhancement initiatives announced during the third quarter of 2015, which together reduced business written primarily in our professional, liability and property lines by approximately $78 million. After adjusting for foreign exchange and profitability enhancement initiatives we reported an increase in the segment premiums of $126 million primarily driven by growth in our accident and health, professional, liability and credit and political risk lines. The increase in our accident and health lines was primarily driven by new business. The professional lines increase was the result of growth in our lawyers' liability program in the U.S. and cyber liability initiatives. The liability increase reflected continued growth in the U.S. primary and excess casualty markets. The credit and political risk line reported increased deal premiums compared to the prior year. These increases were partially offset by a reduction in our property lines, reflecting continued competitive market conditions.
2014 versus 2013: The decline in gross premiums written of 1% was primarily driven by our professional, property and credit and political risk lines of business, which were partially offset by increases in our liability, aviation and accident and health lines. The reduction in professional lines was driven by the reshaping of our D&O business written in the United States. Decreases in the property lines were driven by continuing competitive market conditions. The decrease in credit and political risk was driven by reduced deal flow compared to prior year. The growth in liability can be attributed to new business and rate increases in the U.S. casualty markets. The increases in the aviation lines were a result of differences in timing of renewals and new business opportunities. The increase in accident and health lines reflected higher renewal insurance premiums and new business opportunities.
Premiums Ceded:
2015 versus 2014: Premiums ceded in 2015 were $824 million, or 32%, of gross premiums written, compared to $756 million, or 30%, in 2014. The increase in premiums ceded and the related ceded ratio was due to an increase in reinsurance protection purchased primarily in our professional lines and a change in the business mix.
2014 versus 2013: Premiums ceded in 2014 were $756 million, or 30%, of gross premiums written, compared to $746 million, or 29%, in 2013. The increase in premiums ceded and the related ceded ratio was primarily due to changes in the business mix, partially offset by changes in the structure of our reinsurance program.

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

Year ended December 31,	2015			2014			2013			% Change 14 to 15		13 to 14	
Property	$432,587	24	%	$444,197	25	%	$462,364	28	%	(3	%)	(4	%)
Marine	183,696	10	%	178,229	10	%	179,057	10	%	3	%	—	%
Terrorism	36,818	2	%	35,876	2	%	39,298	2	%	3	%	(9	%)
Aviation	45,659	3	%	41,192	2	%	48,489	3	%	11	%	(15	%)
Credit and Political Risk	63,583	4	%	63,095	3	%	68,192	4	%	1	%	(7	%)
Professional lines	596,430	33	%	629,365	34	%	586,200	34	%	(5	%)	7	%
Liability	161,614	9	%	146,819	8	%	110,623	6	%	10	%	33	%
Accident and Health	277,804	15	%	291,771	16	%	228,539	13	%	(5	%)	28	%
Total	$1,798,191	100	%	$1,830,544	100	%	$1,722,762	100	%	(2	%)	6	%

2015 versus 2014: Net premiums earned in 2015 decreased by $32 million or 2% (or 1% on a constant currency basis) compared to 2014. The decrease in net premiums earned was driven by the growth in our ceded reinsurance programs primarily covering our professional lines.
Gross premiums earned increased in 2015 compared to 2014, driven by growth in the liability and marine lines gross premiums written in recent periods, partially offset by decreases in gross premiums written mainly in the professional lines.

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2014 versus 2013: The increase in net premiums earned was primarily driven by the expansion in the accident and health lines, which contributed 59% of the overall net premium earned increase and reflected our continuing efforts to expand this line of business. Growth in gross written premium in our liability lines as well as the positive impact of the reductions in the professional and liability ceded reinsurance programs also contributed to the increase. These increases were partially offset by decreases in our property business.

Loss Ratio:

The table below shows the components of our loss ratio:

Year ended December 31,	2015		% Point Change	2014		% Point Change		2013	
Current accident year	65.5	%	0.2	65.3	%	1.4		63.9	%
Prior year reserve development	(1.3	%)	2.2	(3.5	%)	(0.6	)	(2.9	%)
Loss ratio	64.2	%	2.4	61.8	%	0.8		61.0	%

Current Accident Year Loss Ratio

2015 versus 2014: The current accident year loss ratio increased to 65.5% in 2015 from 65.3% in 2014. The increase in 2015 was primarily due to an increase in marine mid-sized losses, driven by an above average number of large industry events during the year, an increase in the liability lines attritional loss experience and the impact of lower rates. These increases were partially offset by decreases in property attritional and mid-size losses, improved loss experience in professional lines due to recent profit improvement actions and the impact of changes in the business mix. The current year also benefitted from a reduction in catastrophe and weather-related losses. In 2015 we recorded $54 million of such aggregate pre-tax losses, with $10 million related to the Tianjin port explosion and $44 million related to various weather events. Comparatively, in 2014 we recorded $66 million of aggregate pre-tax losses associated with catastrophe and weather-related events.

2014 versus 2013: Catastrophe and weather-related losses impacted the current accident year loss ratios for both years. In 2014, we recorded $66 million of aggregate pre-tax net losses related to catastrophe and weather-related events primarily related to Hurricane Odile and weather events in the United States. During 2013, we incurred $93 million of aggregate pre-tax net losses (inclusive of related premiums to reinstate our reinsurance protection) related to worldwide catastrophe and weather-related events. After adjusting for these catastrophe and weather-related losses, our 2014 current accident year loss ratio increased relative to 2013, primarily due to an increase in the property loss ratio reflecting a higher level of attritional loss activity in recent periods and a change in the mix of business partially offset by better than expected loss experience in the marine and liability lines.

See ‘Prior Year Reserve Development’ section for further details.

Acquisition Cost Ratio: The decrease in the current year acquisition cost ratio from 15.2% in 2014 to 14.5% in 2015 primarily reflected changes in the mix of business, higher ceded commissions received, following increases in our ceded reinsurance programs, and a federal excise tax adjustment, reflecting a change in the application of certain tax rules by the Internal Revenue Service in the United States. These decreases were partially offset by higher commissions paid on certain lines of business.

The increase in the acquisition cost ratio in 2014 relative to 2013, primarily reflected a reduction in ceding commissions, following changes to our reinsurance programs during 2014, and a change in the mix of business.

General and Administrative Expense Ratio: The increase in the general and administrative expense ratio from 18.7% in 2014 to 19.1% in 2015, was primarily driven by the decrease in net earned premium. Our total general and administrative expenses were comparable in 2015 and 2014, with lower performance-related compensation and the favorable impact of foreign exchange in 2015 offset by higher professional and other costs related to the enhancement of our global platform.

The decrease in the general and administrative expense ratio from 20.1% in 2013 to 18.7% in 2014, was primarily due to a reduction in the allocation of certain corporate expenses and the growth in net premiums earned, partially offset by growth in personnel expenses and costs associated with new initiatives.

REINSURANCE SEGMENT

Results from our reinsurance segment were as follows:

Year ended December 31,	2015		% Change	2014		% Change	2013	
Revenues:								
Gross premiums written	$2,020,649		(7%)	$2,176,104		2%	$2,137,903	
Net premiums written	1,915,307		(10%)	2,127,474		1%	2,114,662	
Net premiums earned	1,888,226		(7%)	2,040,455		3%	1,984,303	
Other insurance related income (loss)	(3,989	)	nm	661		(67%)	1,988	
Expenses:								
Current year net losses and loss expenses	(1,240,872	)		(1,250,051	)		(1,252,874	)
Prior year reserve development	219,601			195,209			169,081	
Acquisition costs	(456,904	)		(458,393	)		(421,828	)
General and administrative expenses	(145,253	)		(144,987	)		(137,450	)
Underwriting income	$260,809		(32)%	$382,894		12%	$343,220	
			% Point Change			% Point Change		
Ratios:								
Current year loss ratio	65.7	%	4.4	61.3	%	(1.8)	63.1	%
Prior year reserve development	(11.6	%)	(2.0)	(9.6	%)	(1.1)	(8.5	%)
Acquisition cost ratio	24.2	%	1.7	22.5	%	1.2	21.3	%
General and administrative expense ratio	7.7	%	0.6	7.1	%	0.2	6.9	%
Combined ratio	86.0	%	4.7	81.3	%	(1.5)	82.8	%

nm – not meaningful

Gross Premiums Written:

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

Year ended December 31,	2015			2014			2013			% Change 14 to 15		13 to 14	
Catastrophe	$291,697	13	%	$372,925	17	%	$393,652	18	%	(22	%)	(5	%)
Property	305,160	15	%	349,775	16	%	364,315	17	%	(13	%)	(4	%)
Professional Lines	276,479	14	%	293,263	13	%	380,355	18	%	(6	%)	(23	%)
Credit and Surety	242,620	12	%	258,865	12	%	268,494	13	%	(6	%)	(4	%)
Motor	335,084	17	%	291,293	13	%	242,046	11	%	15	%	20	%
Liability	345,319	17	%	365,466	17	%	268,673	13	%	(6	%)	36	%
Agriculture	132,629	7	%	166,047	8	%	132,780	6	%	(20	%)	25	%
Engineering	72,050	4	%	55,450	3	%	64,258	3	%	30	%	(14	%)
Other	19,611	1	%	23,020	1	%	23,330	1	%	(15	%)	(1	%)
Total	$2,020,649	100	%	$2,176,104	100	%	$2,137,903	100	%	(7	%)	2	%

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2015 versus 2014: The decrease in gross written premiums of $155 million in 2015, compared to 2014, was significantly impacted by treaties written on a multi-year basis and foreign exchange movements. In 2014, we entered into a number of treaties written on a multi-year basis which increased the prior year's gross premiums and also reduced premiums available for renewal during the current year, most notably in the liability, property, catastrophe and motor lines. During 2015, the segment reported a decrease in the level of multi-year contracts written compared to 2014, with new 2015 treaties primarily benefiting motor, liability, catastrophe, and property lines. On a comparative basis the impact of the multi-year premiums resulted in a decrease in gross premiums written of $92 million in 2015 compared to 2014.

The decrease in gross written premiums was also significantly impacted by foreign exchange movements in 2015, compared to 2014, as the strengthening of the U.S. dollar drove comparative premium decreases in the treaties denominated in foreign currencies. Foreign exchange movements resulted in a decrease of $74 million in gross premiums written in 2015 compared to 2014.

After considering the impact of multi-year contracts and foreign exchange movements, our gross premiums written increased by $11 million, or 1% in 2015 compared to 2014. The increase was driven by growth in motor, property, engineering and liability lines. The increase in motor was attributable to new European business and favorable premium adjustments. The increases in both property and engineering reflected new business written. The increase in liability was driven by treaty restructurings and new business. These increases were partially offset by decreases in the catastrophe, agriculture, professional and credit and surety lines driven by treaty restructuring and non-renewals.

2014 versus 2013: The increase in gross written premium of $38 million was significantly impacted by a number of treaties written on a multi-year basis in the liability, property, catastrophe and motor lines and included written premium that related to future underwriting years of $131 million (2013: $13 million). After adjusting for the impact of the multi-year contracts, gross premiums written declined $80 million driven by professional, property and catastrophe lines, partially offset by increases in liability, motor and agriculture lines. The decrease in professional lines was primarily driven by timing differences, non-renewals and decreased treaty participations. The decreases in property and catastrophe were primarily driven by variances in premium adjustments, reduced participations and non-renewals. The increase in liability lines primarily reflected increased treaty participations and new business. The motor lines increase was primarily driven by increased treaty participations, while the agriculture increase reflected our growth initiatives for this line of business.

See ‘Critical Accounting Estimates – Premiums’ section for a further discussion of related estimates.

Premiums Ceded:

Premiums ceded were $105 million, or 5% of gross premiums written in 2015, compared to $49 million or 2% in 2014, and $23 million or 1% in 2013. The comparative increases in both periods were driven by new retrocessional treaties primarily covering our catastrophe business.

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

Year ended December 31,	2015		2014		2013		% Change 14 to 15	13 to 14
Catastrophe	$216,020	12 %	$325,307	17 %	$380,199	20 %	(34 %)	(14 %)
Property	306,083	16 %	312,443	15 %	350,970	18 %	(2 %)	(11 %)
Professional Lines	310,915	16 %	336,058	16 %	304,754	15 %	(7 %)	10 %
Credit and Surety	250,208	13 %	263,013	13 %	279,943	14 %	(5 %)	(6 %)
Motor	299,883	16 %	268,678	13 %	221,844	11 %	12 %	21 %
Liability	297,000	16 %	289,223	14 %	234,736	12 %	3 %	23 %
Agriculture	129,346	7 %	164,628	8 %	126,490	6 %	(21 %)	30 %
Engineering	61,043	3 %	61,143	3 %	66,243	3 %	— %	(8 %)
Other	17,728	1 %	19,962	1 %	19,124	1 %	(11 %)	4 %
Total	$1,888,226	100 %	$2,040,455	100 %	$1,984,303	100 %	(7 %)	3 %

2015 versus 2014: Net premiums earned decreased $152 million or 7% (5% on a constant currency basis) in 2015 compared to 2014. The decrease was primarily driven by reductions in the business written in the catastrophe, agriculture, professional and credit & surety lines in recent periods, as well as an increase in the premiums ceded reflecting increased retrocessional covers purchased primarily in the catastrophe lines. These decreases were partially offset by growth in the motor lines.
2014 versus 2013: The increase in net premiums earned reflected growth in the business written in recent periods in liability, motor, agriculture and professional lines. This growth was partially offset by decreases in catastrophe, property and credit and surety lines, following reductions in gross premiums written in these lines of business. In addition, the catastrophe line was also impacted by an increase in premiums ceded under retrocessional treaties.
Other Insurance Related Income (Loss):
The other insurance related loss in 2015 primarily related to realized losses and mark-to-market adjustments on our weather and commodity derivatives portfolio following unseasonably warm weather conditions in Europe during the fourth quarter of 2015. Other insurance related income in 2014 primarily related to realized gains on economic hedges purchased to protect our agriculture line of business against fluctuations in commodity prices, which were largely offset by realized and mark-to-market losses on our weather and commodity derivative business. Other insurance related income in 2013 reflected the net results of our weather and commodity business.

Loss Ratio:
The table below shows the components of our loss ratio:

Year ended December 31,	2015	% Point Change	2014	% Point Change	2013
Current accident year	65.7 %	4.4	61.3 %	(1.8)	63.1 %
Prior year reserve development	(11.6 %)	(2.0)	(9.6 %)	(1.1)	(8.5 %)
Loss ratio	54.1 %	2.4	51.7 %	(2.9)	54.6 %

Current Accident Year Loss Ratio
2015 versus 2014: The current accident year loss ratio increased to 65.7% in 2015 from 61.3% in 2014. The increase was primarily due to:
- changes in business mix, reflecting a shift towards less volatile lines of business that carry a higher loss ratio;
- increase in losses due to catastrophe and weather-related events. During 2015 we incurred pre-tax losses related to catastrophe and weather-related losses of $46 million, including $20 million related to the Tianjin port explosion and $26 million related to various weather events. Comparatively, in 2014 we incurred $27m of weather-related events;
- increased loss experience in our credit & surety lines.

The increases in the current accident year loss ratio were partially offset by improved loss experience in our property lines which include our agriculture and engineering business.
2014 versus 2013: The reduced level of catastrophe and weather-related activity was the primary driver of the decrease in the 2014 current accident year loss ratio. During 2014, we recognized estimated aggregate pre-tax net losses of $27 million related to worldwide catastrophe and weather-related events. Comparatively, in 2013, we recognized pre-tax net losses (net of related reinstatement premiums) of $105 million related to worldwide catastrophe and weather-related events. After considering the impact of these catastrophe and weather-related losses, our 2014 current accident year loss ratio increased relative to 2013 primarily due to a change in the mix of business, an increase in agriculture loss reserves, partially offset by improved loss experience across most lines of business.
See ‘Prior Year Reserve Development’ section for further details.
Acquisition Cost Ratio: The increase in the current year acquisition cost ratio from 22.5% in 2014 to 24.2% in 2015 was primarily impacted by higher acquisition costs paid in certain lines of business, the impact of loss-sensitive feature adjustments, primarily due to prior year reserve releases, and changes in the business mix.
The increase in the reinsurance segment’s acquisition cost ratio in 2014 compared to 2013 was driven by higher acquisition costs paid on certain lines of business and variances in accruals for loss-sensitive features in underlying contracts.
General and Administrative Expense Ratio: The increase in the general and administrative expense ratio from 7.1% in 2014 to 7.7% in 2015 was attributable to the impact of decreased net earned premiums and increased costs associated with new growth initiatives. These were partially offset by a reduction in the allocations of certain corporate expenses.
The general and administrative expense ratio increased in 2014, primarily driven by an increase in personnel and information technology costs associated with the build-out of the Company's global platform. These increases were partially offset by growth in net earned premiums.

OTHER EXPENSES (REVENUES), NET

The following table provides a breakdown of our other expenses, net:

Year ended December 31,	2015	% Change	2014	% Change	2013
Corporate expenses	$109,910	(19%)	$135,675	50%	$90,256
Foreign exchange losses (gains)	(102,312)	(2%)	(104,439)	nm	26,143
Interest expense and financing costs	50,963	(32%)	74,695	21%	61,979
Income tax expense	3,028	(88%)	25,908	270%	7,002
Total	$61,589	(53%)	$131,839	(29%)	$185,380

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 3.0%, 3.5% and 2.4% in 2015, 2014 and 2013, respectively. The decrease in corporate expenses during 2015 compared to 2014 was primarily attributable to adjustments to senior leadership executive stock-compensation awards, a decrease in severance expenses, a reduction in performance-based incentive compensation, lower costs related to operational excellence initiatives and the favorable impact of foreign exchange. These reductions were partially offset by a reduction of certain costs allocated to the operating segments and reorganization related corporate expenses incurred in the third quarter of 2015. In addition, the decrease in the corporate expenses ratio was also partially offset by the decrease in net premiums earned.

The increase in corporate expenses during 2014 compared to 2013 was primarily related to increased personnel costs as we expand our business globally, a reduction in certain allocated costs to the operating segments, and increased information technology and professional costs related to operational excellence initiatives. These initiatives are aimed at improving the effectiveness and efficiency of our operations and are expected to result in a reduction of expenses in future periods.

Foreign Exchange Losses (Gains): Some of our business is written in currencies other than the U.S. dollar. The foreign exchange losses (gains) for all years presented were largely driven by the re-measurement of net insurance related liabilities. During 2015, the foreign exchange gains were primarily driven by the depreciation of the euro, sterling and Australian dollar against the U.S. dollar. The foreign exchange gains in 2014 were primarily driven by the depreciation in the euro and the sterling. The appreciation of the euro and sterling had the opposite effect in 2013, with depreciation in the Australian dollar partially offsetting the 2013 losses.

Interest Expense and Financing Costs: Interest expense and financing costs, primarily related to interest due on our senior notes, decreased in 2015 as a result of the repayment of $500 million of our 5.75% senior unsecured notes which matured on December 1, 2014. The increase in 2014 compared to 2013 related to the issuance during the first quarter of 2014 of $250 million of 2.65% senior unsecured notes due in 2019 and $250 million of 5.15% senior unsecured notes due in 2045. Net proceeds from these two offerings were used towards the repayment of the $500 million of AXIS Capital's 5.75% senior unsecured notes which matured on December 1, 2014.

Income Tax Expense: Income tax expense primarily results from income generated by our foreign operations in the United States and Europe. Our effective tax rate, which is calculated as income tax expense divided by income before tax, was 0.5%, 3.1% and 1.0% in 2015, 2014 and 2013, respectively. This effective rate can vary between years depending on the distribution of net income (loss) amongst tax jurisdictions, as well as other factors.

The tax rate in 2015 decreased compared to 2014. The decrease was primarily driven by the geographic distribution of underwriting income and investment gains (losses). While we generated consolidated pre-tax net income in 2015, the majority of our operating income as well as the PartnerRe merger termination fees received were recognized in Bermuda. The tax expense was further impacted by realized losses on investments in our European entities during

2015.

The increased tax rate in 2014 compared to 2013 was impacted by an increase in our valuation allowance of $9 million related primarily to operating loss tax-carryforwards generated from branch operations in Australia and certain foreign tax credits. Further increasing income tax expense in 2014 was a decrease in tax exempt income driven by a reduction in our U.S. tax-exempt portfolio.

NET INVESTMENT INCOME AND NET REALIZED INVESTMENT GAINS (LOSSES)

Net Investment Income

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

Year ended December 31,	2015	% Change	2014	% Change	2013
Fixed maturities	$294,725	(1%)	$296,663	1%	$293,609
Other investments	20,148	(65%)	57,621	(55%)	128,814
Equities	11,289	(5%)	11,832	9%	10,897
Mortgage loans	1,861	—	—	—	—
Cash and cash equivalents	8,572	(26%)	11,536	82%	6,337
Short-term investments	439	(39%)	725	(39%)	1,181
Gross investment income	337,034	(11%)	378,377	(14%)	440,838
Investment expense	(31,698)	(11%)	(35,611)	13%	(31,526)
Net investment income	$305,336	(11%)	$342,766	(16%)	$409,312
Pre-tax yield:(1)					
Fixed maturities	2.4%		2.4%		2.5%

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

Fixed Maturities:

2015 versus 2014: The 1% decrease in investment income from fixed maturities reflected the 1% decrease in average fixed maturities balances during 2015 as cash flows from investing activities were used for financing and operating activities.

2014 versus 2013: The 1% increase in investment income from fixed maturities reflected the 3% increase in average fixed maturities balances during 2014 as additional investments in fixed maturities were funded primarily by reinvestment of net investment income. This was partially offset by lower reinvestment yields as book yields continued to decline towards market yields.

Other Investments:

Other investments include hedge funds, direct lending funds, real estate funds and both direct and indirect (through a fund structure) investments in CLO Equities. These investments are recorded at fair value, with the change in fair value and income distributions reported in net investment income. Consequently, the pre-tax return on other investments may vary materially period over period, particularly during volatile equity and credit markets.

The following table provides a breakdown of net investment income from other investments:

Year ended December 31,	2015	2014	2013
Hedge, direct lending and real estate funds	$21,888	$37,447	$100,915
CLO - Equities	(1,740)	20,174	27,899
Total net investment income from other investments	$20,148	$57,621	$128,814
Pre-tax return on other investments[(1)]	2.3%	5.8%	13.3%

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

2015 versus 2014: The decline in pre-tax return on our other investments portfolio was due to lower returns on our hedge funds during 2015, reflective of lower returns from the global equity markets during 2015. The loss from CLO Equities was a result of a decline in the valuation of the underlying collateral balances which have declined in value along with other risk assets.

2014 versus 2013: The lower pre-tax return on our other investments portfolio was primarily due to modest returns on our hedge funds during 2014, compared to the strong returns provided by these holdings in 2013. The modest returns of these funds were reflective of the lower returns from global equity markets during 2014. The decline in income from CLO Equities in dollar terms was primarily due to a reduction in our direct investments as two holdings had completed their investment cycle and had returned all capital to equity tranche holders.

Net Realized Investment Gains (Losses)

Our fixed maturities and equities are classified as available for sale and reported at fair value. The effect of market movements on our available for sale investment portfolio impacts net income (through net realized investment gains) only when securities are sold or impaired. Additionally, changes in the fair value of investment derivatives, mainly foreign exchange forward contracts and interest rate swaps, are recorded in net realized investment gains.

The following table provides a breakdown of net realized investment gains (losses):

Year ended December 31,	2015	2014	2013
On sale of investments:			
Fixed maturities and short-term investments	$(83,600)	$39,080	$33,038
Equities	10,570	133,858	44,157
	(73,030)	172,938	77,195
OTTI charges recognized in earnings	(72,720)	(31,227)	(9,362)
Change in fair value of investment derivatives	7,259	(9,603)	7,731
Net realized investment gains (losses)	$(138,491)	$132,108	$75,564

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 issuer. We may also sell to rebalance our investment portfolio in order to change exposure to particular sectors or asset classes.

2015 versus 2014: Net realized losses during 2015 primarily reflect foreign exchange losses on non-U.S. denominated fixed maturities, as a result of the strengthening of the U.S. dollar during 2015. Lower net realized gains on the sale of equities reflect lower returns in the global equity markets during 2015.

2014 versus 2013: Improvements in global equity markets during 2013 and the first half of 2014 enabled us to realize net gains on sales of our equity securities (primarily common stock) during 2014. Proceeds from these sales were reallocated to

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exchange-traded funds ("ETF's"). The primary source of the net realized gains on fixed maturities in 2014 was municipal debt.

OTTI charges:

Refer to the 'Critical Accounting Estimates – OTTI' section for details on our impairment review process.

The following table provides a summary of the OTTI recognized in earnings by asset class:

Year ended December 31,	2015	2014	2013
Fixed maturities:			
Non-U.S. government	$3,538	$17,291	$120
Corporate debt	47,029	8,107	5,802
Non-Agency RMBS	111	7	57
ABS	124	61	129
Municipals	—	418	639
	50,802	25,884	6,747
Equity securities:			
Common stocks	—	741	2,092
Exchange-traded funds	10,732	4,602	523
Bond mutual funds	11,186	—	—
	21,918	5,343	2,615
Total OTTI recognized in earnings	$72,720	$31,227	$9,362

The level of OTTI losses increased in 2015 compared to 2014 and 2013 due mainly to losses recorded on high yield corporate debt securities as a result of the widening of credit spreads. The current year also included impairments on non-U.S denominated bond mutual funds that we were no longer able to assert that we had the intent to hold until full recovery of cost due to the future reallocation to other asset classes.

Change in Fair Value of Investment Derivatives:

From time to time, we may economically hedge the foreign exchange exposure of non-U.S. denominated securities by entering into foreign exchange forward contracts. During 2015, our foreign exchange hedges resulted in $11 million of net gains which related primarily to securities denominated in the Australian dollar, Mexican peso and euro. Each of these currencies declined against the U.S. dollar during 2015.

During 2013, we introduced the use of interest rate swaps to reduce duration risk of our fixed income portfolio. During 2015, we recorded $4 million of net losses relating to our interest rate swaps.

Hedge accounting was not applied to any of these derivatives so the corresponding net unrealized gains/losses on the hedged securities are recorded as part of accumulated other comprehensive income in shareholders' equity.

Total Return

Our investment strategy is to take a long-term view by actively managing our investment portfolio to maximize total return within certain guidelines and constraints. In assessing returns under this approach, we include net investment income, net realized investment gains and losses and the change in unrealized gains and losses generated by our investment portfolio. The following table provides a breakdown of the total return on cash and investments for the periods indicated:

Year ended December 31,	2015	2014	2013
Net investment income	$305,336	$342,766	$409,312
Net realized investments gains (losses)	(138,491)	132,108	75,564
Change in net unrealized gains/losses, net of currency hedges	(134,746)	(163,876)	(245,429)
Total	$32,099	$310,997	$239,447
Average cash and investments[(1)]	$14,894,856	$15,334,932	$14,660,012
Total return on average cash and investments, pre-tax:			
Inclusive of investment related foreign exchange movements	0.2%	2.0%	1.6%
Exclusive of investment related foreign exchange movements	0.9%	2.8%	1.6%

(1) The average cash and investments balance is calculated by taking the average of the month-end fair value balances held for the periods indicated.

CASH AND INVESTMENTS

The table below provides a breakdown of our cash and investments:

	December 31, 2015		December 31, 2014	
	Amortized Cost or Cost	Fair Value	Amortized Cost or Cost	Fair Value
Fixed maturities	$11,897,639	$11,719,749	$12,185,973	$12,129,273
Equities	575,776	597,998	531,648	567,707
Mortgage loans	206,277	206,277	—	—
Other investments	609,619	816,756	736,599	965,465
Short-term investments	34,406	34,406	107,534	107,534
Total investments	$13,323,717	$13,375,186	$13,561,754	$13,769,979
Cash and cash equivalents[(1)]	$1,174,751	$1,174,751	$1,209,695	$1,209,695

(1) Includes restricted cash and cash equivalents of $187 million and $288 million for 2015 and 2014, respectively.

Overview

The cost of our total investments decreased by $238 million from December 31, 2014, due to the timing and settlement of trade activity and the funding of financing and operating activities. The $395 million decrease in the fair value of our total investments was driven by the factors outlined above along with lower valuations as a result of the increase in U.S. interest rates and the widening of credit spreads on both investment grade and high-yield corporate debt.

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The following provides a further analysis on our investment portfolio.
Fixed Maturities
The following provides a breakdown of our investment in fixed maturities:

	December 31, 2015			December 31, 2014		
	Fair Value	% of Total		Fair Value	% of Total	
Fixed maturities:						
U.S. government and agency	$1,651,949	14	%	$1,620,077	12	%
Non-U.S. government	739,005	6	%	1,033,543	9	%
Corporate debt	4,362,769	37	%	4,361,124	36	%
Agency RMBS	2,249,236	19	%	2,278,108	19	%
CMBS	1,083,298	9	%	1,096,888	9	%
Non-Agency RMBS	101,008	1	%	73,086	1	%
ABS	1,371,270	12	%	1,461,586	12	%
Municipals(1)	161,214	2	%	204,861	2	%
Total	$11,719,749	100	%	$12,129,273	100	%
Credit ratings:						
U.S. government and agency	$1,651,949	14	%	$1,620,077	12	%
AAA(2)	4,266,673	36	%	4,720,852	39	%
AA	1,273,941	11	%	1,034,047	9	%
A	2,065,192	18	%	2,204,984	18	%
BBB	1,442,938	12	%	1,516,815	13	%
Below BBB(3)	1,019,056	9	%	1,032,498	9	%
Total	$11,719,749	100	%	$12,129,273	100	%

(1) Includes bonds issued by states, municipalities, and political subdivisions.
(2) Includes U.S. government-sponsored agency RMBS and CMBS.
(3) Non-investment grade and non-rated securities.

At December 31, 2015, fixed maturities had a weighted average credit rating of AA- (2014: AA-), a book yield of 2.5% (2014: 2.5%) and an average duration of 3.3 years (2014: 3.0 years). The interest rate swap positions, which reduced duration to 2.9 years at December 31, 2014, were closed during 2015. When incorporating short-term investments and cash and cash equivalents into this calculation (bringing the total to $12.9 billion), the weighted average credit rating would be AA- (2014: AA-) and duration (including interest rate swaps) would be 3.0 years (2014: 2.7 years).

Our methodology for assigning credit ratings to our fixed maturities is in line with the methodology used for the Barclays U.S. Aggregate Bond index. This methodology uses the middle of Standard & Poor's (S&P), Moody's and Fitch ratings. When ratings from only two of these agencies are available, the lower rating is used. When a rating from only one agency is available, it is used.

To calculate the weighted average credit rating for fixed maturities, we assign points to each rating with 29 points for the highest rating (AAA) and 2 points for the lowest rating (D) and then calculate the weighted average based on the fair values of the individual securities. Securities that are not rated by S&P, Moody’s or Fitch are excluded from weighted average calculations. At December 31, 2015, the fair value of fixed maturities not rated was $3.6 million (2014: $0.1 million).

In addition to managing our credit risk exposure within our fixed maturity portfolio we also monitor the aggregation of country risk exposure on a group-wide basis (refer to Item 1 ‘Risk and Capital Management’ for further details). Country risk exposure is the risk that events within a country, such as currency crises, regulatory changes and other political events, will adversely affect the ability of obligors within the country to honor their obligations to us. For corporate debt and

structured securities, we measure the country of risk exposure based on a number of factors including, but not limited to, location of management, principal operations and country of revenues.
In light of global concerns during recent years over the creditworthiness of certain sovereign debt within the eurozone, we have actively managed our exposure. Our current non-U.S. government holdings include exposure to only one country within the eurozone - Netherlands - which has a weighted average credit rating of AAA. At December 31, 2015, we held no sovereign debt issued by the peripheral European countries of Greece, Ireland, Italy, Portugal and Spain.
The following table provides a breakdown of the fair value of our eurozone exposure within our fixed maturity portfolio:

	Non-U.S. Government	Corporate	Non-Agency RMBS	ABS	Total	% of Total	
At December 31, 2015							
Eurozone countries:							
Netherlands	$4,711	$55,741	$545	$—	$60,997	24	%
Germany	—	44,389	8,888	—	53,277	21	%
France	—	42,103	—	—	42,103	16	%
Luxembourg	—	28,730	—	—	28,730	11	%
Ireland	—	20,972	—	4,181	25,153	10	%
Supranationals(1)	16,085	—	—	—	16,085	6	%
Italy	—	14,446	—	—	14,446	6	%
Belgium	—	11,543	—	—	11,543	4	%
Spain	—	3,072	—	—	3,072	1	%
Austria	—	1,663	—	—	1,663	1	%
Total eurozone	$20,796	$222,659	$9,433	$4,181	$257,069	100	%
At December 31, 2014							
Eurozone countries:							
Germany	$—	$135,454	$—	$1,108	$136,562	30	%
Supranationals(1)	107,299	8,673	—	—	115,972	25	%
Netherlands	10,054	49,524	3,450	—	63,028	14	%
France	—	59,792	—	64	59,856	13	%
Luxembourg	—	23,510	—	—	23,510	5	%
Ireland	—	10,347	—	10,600	20,947	5	%
Italy	—	14,649	—	—	14,649	3	%
Belgium	—	12,577	—	—	12,577	3	%
Spain	—	8,619	—	—	8,619	2	%
Slovenia	1,782	—	—	—	1,782	—	%
Austria	—	478	—	—	478	—	%
Total eurozone	$119,135	$323,623	$3,450	$11,772	$457,980	100	%

(1) Includes supranationals only within the eurozone.
We also have an indirect eurozone exposure through our investment in non-U.S. bond mutual funds and exchange traded funds, which are classified as equities. At December 31, 2015 our exposure was $21 million (2014: $158 million).

The following is an analysis of our fixed maturity portfolio by major asset classes.
Non-U.S. Government:
Our holdings in non-U.S. government securities consisted of fixed income obligations of non-U.S. sovereigns, including government agencies, local governments and supranationals. The table below summarizes our aggregate fixed maturity exposures to governments in the eurozone and other non-U.S. government concentrations by fair value at December 31, 2015 and 2014:

	December 31, 2015				December 31, 2014			
Country	Fair Value	% of Total		Weighted Average Credit Rating	Fair Value	% of Total		Weighted Average Credit Rating
Eurozone countries:								
Supranationals[1]	$16,085	2	%	AAA	$107,299	10	%	AA+
Netherlands	4,711	1	%	AAA	10,054	1	%	AA+
Slovenia	—	—	%	—	1,782	—	%	BBB+
Total eurozone	$20,796	3	%	AAA	$119,135	11	%	AA+
Other concentrations:								
United Kingdom	$211,020	29	%	AA+	$172,410	17	%	AA+
Australia	186,293	25	%	AAA	190,565	18	%	AAA
Canada	93,501	13	%	AAA	114,430	11	%	AAA
Mexico	52,125	7	%	A-	67,368	7	%	A-
Republic of Korea	27,348	4	%	AA-	48,536	5	%	AA-
Other	147,922	19	%	BBB+	321,099	31	%	A-
Total other concentrations	$718,209	97	%	AA	$914,408	89	%	AA-
Total non-U.S. government	$739,005	100	%	AA	$1,033,543	100	%	AA-

(1) Includes supranationals only within the eurozone.

During 2015, we continued to reduce our exposure to eurozone debt. "Other concentrations" are mainly local currency emerging market sovereign debt and were reduced during the year. At December 31, 2015, this portfolio had a weighted average credit rating of BBB+ (2014: BBB+), a duration of 4.8 years (2014: 4.5 years) and a yield-to-worst of 8.6% (2014: 6.8%).

At December 31, 2015, our non-U.S. government debt had net unrealized losses of $70 million (2014: $47 million) which included gross unrealized foreign exchange losses of $65 million (2014: $51 million), mainly on emerging market sovereign debt securities.

Corporate Debt:
The composition of our corporate debt securities by sector was as follows:

	December 31, 2015				December 31, 2014			
	Fair Value	% of Total		Weighted Average Credit Rating	Fair Value	% of Total		Weighted Average Credit Rating
Financial institutions:								
U.S. banking	$1,097,410	25	%	A-	$1,079,729	25	%	A-
Corporate/commercial finance	302,376	7	%	BBB-	317,676	7	%	BBB
Foreign banking	233,928	5	%	AA-	214,188	5	%	AA-
Insurance	129,660	3	%	A+	116,687	3	%	A
Investment brokerage	31,814	1	%	BBB	11,059	—	%	BBB+
Total financial institutions	1,795,188	41	%	A-	1,739,339	40	%	A-
Consumer non-cyclicals	534,273	12	%	BBB-	437,377	10	%	BBB
Consumer cyclical	511,643	12	%	BB+	487,968	11	%	BBB-
Industrials	399,835	9	%	BB+	401,033	9	%	BB+
Communications	380,832	9	%	BBB-	507,911	12	%	BBB-
Technology	233,670	5	%	BBB	166,541	4	%	BBB
Energy	191,481	4	%	BBB+	277,201	7	%	BBB-
Utilities	125,231	3	%	BBB+	139,576	3	%	BBB
Other	190,616	5	%	A	204,178	4	%	A
Total	$4,362,769	100	%	BBB	$4,361,124	100	%	BBB
Credit quality summary:								
Investment grade	$3,376,886	77	%	A-	$3,376,110	77	%	A-
Non-investment grade	985,883	23	%	B+	985,014	23	%	B+
Total	$4,362,769	100	%	BBB	$4,361,124	100	%	BBB

At December 31, 2015, our non-investment grade portfolio had a fair value of $986 million (2014: $985 million), a weighted average credit rating of B+ (2014: B+) and duration of 3.2 years (2014: 2.0 years). At December 31, 2015, our total corporate debt portfolio, including non-investment grade securities, had a duration of 3.3 years (2014: 2.8 years).

Mortgage-Backed Securities:
The following table provides a breakdown of the fair value of our RMBS and CMBS portfolios by credit rating:

	December 31, 2015		December 31, 2014	
	RMBS	CMBS	RMBS	CMBS
Government agency	$2,249,236	$—	$2,278,108	$—
AAA	17,925	682,456	22,360	701,316
AA	4,596	203,790	338	218,188
A	34,218	161,536	6,329	123,623
BBB	19,099	35,242	12,574	51,990
Below BBB(1)	25,170	274	31,485	1,771

Total	$2,350,244	$1,083,298	$2,351,194	$1,096,888

(1) Non-investment grade securities

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Residential MBS:
Our RMBS portfolio consists primarily of AAA rated U.S. agency issues and is supported by loans that are diversified across geographical areas. Due to a change in prepayment speed assumptions caused by rising interest rates, the duration of our agency MBS holdings increased from 4.0 years at December 31, 2014 to 4.2 years at December 31, 2015.
At December 31, 2015, our non-agency RMBS had an average duration and weighted average life of 0.3 years (2014: 0.5 years) and 4.0 years (2014: 4.3 years), respectively.
Commercial MBS:
Our CMBS portfolio continues to be primarily high grade, with approximately 82% rated AA or better (2014: 84%). Additionally, the weighted average estimated subordination percentage for the portfolio was 32% at December 31, 2015 (2014: 30%), which represents the current weighted average estimated percentage of the capital structure subordinated to the investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. At December 31, 2015, the average duration and weighted average life was 2.8 years (2014: 3.2 years) and 3.5 years (2014: 3.8 years), respectively.

Asset-Backed Securities:
The following table provides a breakdown of the fair value of our ABS by underlying collateral and credit rating:

	Asset-backed securities					
	AAA	AA	A	BBB	Below BBB	Total
At December 31, 2015						
CLO - debt tranches	$723,759	$273,613	$—	$—	$—	$997,372
Auto	122,125	43,992	26,126	17,848	—	210,091
Student loan	51,285	15,603	—	—	—	66,888
Credit card	11,846	—	—	—	—	11,846
Other	33,090	5,346	43,717	295	2,625	85,073
Total	$942,105	$338,554	$69,843	$18,143	$2,625	$1,371,270
% of total	69%	25%	5%	1%	—%	100%
At December 31, 2014						
CLO - debt tranches	$769,755	$266,928	$—	$—	$108	$1,036,791
Auto	170,521	39,818	29,815	21,761	—	261,915
Student loan	52,751	8,061	—	—	—	60,812
Credit card	21,517	—	—	—	—	21,517
Other	51,114	594	25,819	226	2,798	80,551
Total	$1,065,658	$315,401	$55,634	$21,987	$2,906	$1,461,586
% of total	73%	22%	4%	1%	—%	100%

The average duration and weighted average life of our ABS portfolio at December 31, 2015 was 0.5 years (2014: 0.5 years) and 3.2 years (2014: 3.7 years), respectively.

Municipals:
Our holdings in municipal debt are primarily held within the taxable portfolios of our U.S. subsidiaries and include debt issuance from states, municipalities and political subdivisions. The following table provides a breakdown of the fair value of our municipal debt portfolio by state and between Revenue and General Obligation ("G.O.") bonds:

	G.O.	Revenue	Total	% of Total Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Weighted Average Credit Rating
At December 31, 2015							
New York	$14,214	$25,480	$39,694	25%	$184	$(381)	AA
California	23,396	8,123	31,519	20%	765	(17)	AA-
Michigan	—	13,796	13,796	9%	—	(434)	A
Ohio	2,193	11,066	13,259	8%	316	(1)	A
Maryland	—	10,181	10,181	6%	201	(47)	AA-
Other	6,760	46,005	52,765	32%	853	(266)	A+
	$46,563	$114,651	$161,214	100%	$2,319	$(1,146)	AA-
At December 31, 2014							
California	$38,155	$24,827	$62,982	31%	$2,794	$(86)	A+
New York	16,497	20,351	36,848	18%	319	(377)	AA
Ohio	—	12,854	12,854	6%	404	(1)	A-
Michigan	—	12,672	12,672	6%	—	(82)	A
Pennsylvania	—	7,876	7,876	4%	241	(32)	AA-
Other	15,640	55,989	71,629	35%	1,524	(254)	AA-
	$70,292	$134,569	$204,861	100%	$5,282	$(832)	AA-

G.O. bonds are backed by the full faith and credit of the authority that issued the debt and are secured by the taxing powers of those authorities. Revenue bonds are backed by the revenue stream generated by the services provided by the issuer (e.g. sewer, water or utility projects). As issuers of revenue bonds do not have the ability to draw from tax revenues or levy taxes to fund obligations, revenue bonds may carry a greater risk of default than G.O. bonds. At December 31, 2015, the top three revenue streams related to transportation (44%), university (15%) and schools (12%) (2014: transportation (42%), university (17%) and hospital (7%)).

Gross Unrealized Losses:
At December 31, 2015, the gross unrealized losses on our fixed maturities portfolio were $230 million (2014: $173 million).
The following table provides information on the severity of the unrealized loss position as a percentage of amortized cost for all investment grade fixed maturities in an unrealized loss position and includes any impact of foreign exchange:

	December 31, 2015			December 31, 2014		
Severity of Unrealized Loss	Fair Value	Gross Unrealized Losses	% of Total Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	% of Total Gross Unrealized Losses
0-10%	$7,383,036	$(105,399)	56 %	$5,229,362	$(88,627)	65 %
10-20%	146,632	(25,426)	13 %	203,227	(28,578)	21 %
20-30%	70,293	(21,232)	11 %	48,010	(15,141)	11 %
30-40%	45,462	(23,574)	12 %	9,068	(4,236)	3 %
40-50%	14,833	(11,972)	6 %	—	—	— %
> 50%	3,080	(3,329)	2 %	—	—	— %
Total	$7,663,336	$(190,932)	100 %	$5,489,667	$(136,582)	100 %

The increase in gross unrealized losses on investment-grade fixed maturities reflected the upward shift in sovereign yield curves as a result of the increase in U.S. interest rates and the widening of credit spreads on investment grade corporate debt holdings.
The following table provides information on the severity of the unrealized loss position as a percentage of amortized cost for all non-investment grade fixed maturities in an unrealized loss position at December 31, 2015 and 2014:

	December 31, 2015			December 31, 2014		
Severity of Unrealized Loss	Fair Value	Gross Unrealized Losses	% of Total Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	% of Total Gross Unrealized Losses
0-10%	$707,030	$(18,033)	47 %	$594,960	$(11,887)	31 %
10-20%	68,079	(10,039)	25 %	30,574	(5,412)	15 %
20-30%	13,443	(4,103)	10 %	17,471	(5,371)	15 %
30-40%	6,057	(3,123)	8 %	14,696	(7,887)	22 %
40-50%	4,280	(3,287)	8 %	7,955	(6,099)	17 %
> 50%	636	(891)	2 %	—	—	— %
Total	$799,525	$(39,476)	100 %	$665,656	$(36,656)	100 %

The increase in gross unrealized losses on non-investment grade fixed maturities is primarily due to the widening of credit spreads on commodity related corporate debt holdings.
Equities
At December 31, 2015, our equities portfolio had net unrealized gains of $22 million (2014: $36 million); the decrease was due to a decline in valuations reflective of the performance of the global equity markets.
Mortgage Loans

During the year, we invested in $206 million of commercial mortgage loans. The commercial mortgage loans are high quality and collateralized by a variety of commercial properties and are diversified both geographically throughout the United States and by property type to reduce the risk of concentration.

Other Investments

The composition of our other investment portfolio is summarized as follows:

	December 31, 2015			December 31, 2014		
Hedge funds						
Multi-strategy funds	$355,073	43	%	$324,020	34	%
Long/short equity funds	154,348	19	%	298,907	31	%
Event-driven funds	147,287	18	%	185,899	19	%
Leveraged bank loan funds	65	—	%	9,713	1	%
Total hedge funds	656,773	80	%	818,539	85	%
Direct lending funds	90,120	11	%	54,438	6	%
Real estate funds	4,929	1	%	—	—	%
Total hedge, direct lending and real estate funds	751,822	92	%	872,977	91	%
CLO - Equities	64,934	8	%	92,488	9	%
Total other investments	$816,756	100	%	$965,465	100	%

The $162 million decrease in the fair value of our total hedge funds in 2015 was driven by $180 million of net redemptions offset by $18 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 Item 8, Note 5(c) to the Consolidated Financial Statements 'Investments' for further details on these restrictions.

We have made total commitments of $310 million to managers of direct lending funds. To date, $88 million of this commitment has been called. We have made a total commitment of $60 million as a limited partner in a multi-strategy hedge fund, of which $48 million has been called to date.

During 2015, we made a $100 million commitment to a real estate fund, of which $5 million has been called to date.

The $28 million decrease in the fair value of our CLO - Equities was driven by a decline in value of the underlying collateral balances, in addition to the receipt of $13 million of cash distributions.

Restricted Investments

In order to support our obligations in regulatory jurisdictions where we operate as a non-admitted carrier, we provide collateral in the form of assets held in trust and, to a lesser extent, letters of credit. Refer to Item 8, Note 10(b) to the Consolidated Financial Statements 'Debt and Financing Arrangements' for further information on our collateral requirements upon issuance of certain letters of credit. The fair value of our restricted investments primarily relates to these items, as noted in the table below. Our restricted investments primarily consist of high-quality fixed maturity and short-term investment securities.

At December 31,	2015	2014
Collateral in Trust for inter-company agreements	$2,766,453	$2,792,461
Collateral for secured letter of credit facility	481,023	468,923
Collateral in Trust for third party agreements (1)	551,985	567,060
Securities on deposit with regulatory authorities	57,597	58,476
Total restricted investments	$3,857,058	$3,886,920

(1) Includes $232 million (2014: $245 million) of fixed income securities deposited directly with Lloyd's to support the underwriting capacity of the Company's Lloyd's Syndicate, AXIS Syndicate 1686.

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LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Liquidity is a measure of a company's ability to generate cash flows sufficient to meet the short-term and long-term cash requirements of its business operations. We manage our liquidity at both the holding company and operating subsidiary level.

Holding Company

As a holding company, AXIS Capital has no operations of its own and its assets consist primarily of investments in its subsidiaries. Accordingly, AXIS Capital's future cash flows depend on the availability of dividends or other statutorily permissible distributions, such as returns of capital, from its subsidiaries. The ability to pay such dividends and/or distributions is limited by the applicable laws and regulations of the various countries and states in which AXIS Capital's subsidiaries operate (refer to Item 8, Note 21 to the Consolidated Financial Statements 'Statutory Financial Information' for further information), as well as the need to maintain capital levels to adequately support (re)insurance operations and to preserve financial strength ratings issued by independent rating agencies. During 2015, AXIS Capital received $420 million (2014: $1,221 million; 2013: $566 million) of distributions from its subsidiaries. AXIS Capital's primary uses of funds are dividend payments to both common and preferred shareholders, share repurchases, interest and principal payments on debt, capital investments in subsidiaries and payment of corporate operating expenses. We believe the dividend/distribution capacity of AXIS Capital's subsidiaries, which was over $1 billion at December 31, 2015, will provide AXIS Capital with sufficient liquidity for the foreseeable future.

Operating Subsidiaries

AXIS Capital's operating subsidiaries primarily derive cash from the net inflow of premiums less claim payments related to underwriting activities and from net investment income. Historically, these cash receipts have been sufficient to fund the operating expenses of these subsidiaries, as well as to fund dividend payments to AXIS Capital. The subsidiaries' remaining cash flows are generally reinvested in our investment portfolio, although they have also been used to fund common share repurchases in recent periods.

The (re)insurance business of our operating subsidiaries inherently provides liquidity, as premiums are received in advance (sometimes substantially in advance) of the time claims are paid. However, the amount of cash required to fund claim payments can fluctuate significantly from period to period, due to the low frequency/high severity nature of certain types of business we write.

The following table summarizes our consolidated cash flows from operating, investing and financing activities in the last three years:

Total cash provided by (used in)[1]	2015	2014	2013
Operating activities	$791,200	$862,182	$1,096,968
Investing activities	(225,697)	(154,076)	(489,287)
Financing activities	(487,006)	(686,015)	(441,094)
Effect of exchange rate changes on cash	(12,194)	(23,587)	(3,078)
Increase (decrease) in cash and cash equivalents	$66,303	$(1,496)	$163,509

(1) See Consolidated Statements of Cash Flows included in Item 8, 'Financial Statements and Supplementary Data', of this report for additional information.

- Net cash provided by operating activities was $0.8 billion in 2015, compared to $0.9 billion in 2014 and $1.1 billion in 2013. The Company's insurance and reinsurance operations typically receive principal cash inflows from premiums, net of policy acquisition costs, and reinsurance recoverables. Our principal cash outflows are for the payment of claims and loss adjustment expenses, premium payments to reinsurers and operating expenses. Cash provided by operating activities can fluctuate due to timing differences in the collection of premium receivable and reinsurance recoverables and the payment of losses and ceded premiums payable. The reductions in operating cash flows in 2015 and 2014 were primarily driven by an increase in net paid losses as we settled losses incurred in prior years. In 2015, the increase in net paid losses was primarily attributable to increased loss payments in insurance professional and agriculture lines, while in 2014, the increase was driven by increased loss payments in the professional, liability and motor lines. In 2015 operating cash flows were also reduced by increased purchases of reinsurance protection and retrocessional coverage, the settlement of reorganization expenses as well as an increase in general and administrative expenses paid, partially offset by the termination fee received by PartnerRe and increased reinsurance recoveries related to the increase in claims paid.

- The cash outflows from investing activities in 2015 related principally to the net purchases of fixed maturities of $172 million (2014: $162 million, 2013: $561 million) and the purchase of mortgage loans of $206 million partially offset by the net proceeds from the sale of other investments. The net purchases in all years were primarily a result of reinvesting of our net investment income.
- Dividends paid to common and preferred shareholders are the primary source of recurring cash flows used in financing activities and totaled $159 million in 2015 (2014: $158 million, 2013: $158 million). Financing cash outflows also included common share repurchases totaling $332 million, $543 million and $472 million in 2015, 2014 and 2013, respectively. We note that market share repurchases are completely discretionary; the timing and amount of the additional repurchase transactions will depend on a variety of factors including, but not limited to, global (re)insurance and financial market conditions and opportunities, capital management and regulatory considerations (see ‘Capital Resources – Share Repurchases’ below). Cash outflows in 2014 and 2013 were partially offset by $15 million and $50 million third party investment in shares issued by Ventures Re, respectively (refer to noncontrolling interests discussion in Item 8, Note 14 of the Consolidated Financial Statements 'Noncontrolling Interests'). During 2013, financing cash flows also included a net $118 million inflow related to the preferred share transactions discussed under 'Capital Resources - Preferred Shares' below.

Our diversified underwriting portfolio has demonstrated an ability to withstand catastrophic losses. Since 2003, with the only exception being 2009, our annual cash flows from operations were in excess of $0.7 billion, with 2009 being adversely impacted by claims arising from the global financial crisis. Besides 2009, these positive cash flows were generated notwithstanding the impacts of the global financial crisis on other financial years and the recognition of significant natural catastrophe-related losses during the period: our net losses and loss expenses, gross of reinstatement premiums, included $266 million for Hurricanes Charley, Frances, Ivan and Jeanne in 2004; $1,019 million for Hurricanes Katrina, Rita and Wilma in 2005; $408 million for Hurricanes Gustav and Ike in 2008; $256 million for the Chilean and New Zealand earthquakes in 2010; $944 million for numerous natural catastrophe and weather events in 2011; and $331 million for Storm Sandy in 2012. There remains significant uncertainty associated with our estimates of net losses for certain of these events (see ‘Underwriting Results – Group – Underwriting Expenses’ for further details), as well as the timing of the associated cash outflows.

Should claim payment obligations accelerate beyond our ability to fund payments from operating cash flows, we would utilize our cash and cash equivalent balances and/or liquidate a portion of our investment portfolio. Our investment portfolio is heavily weighted towards conservative, high quality and highly liquid securities. We expect that, if necessary, approximately $12.5 billion of cash and invested assets at December 31, 2015 could be available in one to three business days under normal market conditions; of this amount, $3.9 billion relates to restricted assets, which primarily support our obligations in regulatory jurisdictions where we operate as a non-admitted carrier (see Item 8, Note 5(f) to the Consolidated Financial Statements 'Investments' for further details). For context, our largest 1-in-250 year return period, single occurrence, single-zone modeled probable maximum loss (Southeast U.S. Hurricane) is approximately $0.9 billion, net of reinsurance; our claim payments pertaining to such an event would be paid out over a period spanning many months. Our internal risk tolerance framework aims to limit both the loss of capital due to a single event, and the loss of capital that would occur from multiple but perhaps smaller events, in any year. Refer to the ‘Risk and Capital Management’ section of Item 1 for further information.

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. Refer to the ‘Contractual Obligations and Commitments’ section below for further information about the anticipated amounts and timing of our contractual obligations and commitments.

CAPITAL RESOURCES

In addition to common equity, we have utilized other external sources of financing, including debt, preferred shares and credit facilities to support our business operations. We believe that we hold sufficient capital to allow us to take advantage of market

opportunities and to maintain our financial strength ratings, as well as to comply with various local statutory regulations. We monitor our capital adequacy on a regular basis and will seek to adjust our capital base (up or down) according to the needs of our business (refer to ‘Risk and Capital Management’ in Item 1).
The following table summarizes our consolidated capital position:

At December 31,	2015		2014	
Long-term debt	$991,825		$990,790	
Preferred shares	627,843		627,843	
Common equity	5,239,039		5,193,278	
Shareholders’ equity attributable to AXIS Capital	5,866,882		5,821,121	
Total capital	$6,858,707		$6,811,911	
Ratio of debt to total capital	14.5	%	14.5	%
Ratio of debt and preferred equity to total capital	23.6	%	23.8	%

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. A company with higher ratios in comparison to industry average may show weak financial strength because the cost of its debts may adversely affect results of operations and/or increase its default risk. We believe that our financial flexibility remains strong.
Long-term Debt: Long-term debt represents the senior notes we issued during 2010 which mature in 2020, and the two senior notes issued in 2014, which mature in 2019 and 2045. For further information, refer to Item 8, Note 10(a) of the Consolidated Financial Statements 'Debt and Financing Arrangements'.
Preferred Shares: During 2005, we issued $250 million of 7.50% Series B non-cumulative preferred shares. During April 2012, we closed a cash tender offer for any and all of our outstanding Series B preferred shares at a price of $102.81 per share. As a result, we repurchased 2,471,570 Series B Preferred shares, for $254 million. At December 31, 2015, 28,430 Series B preferred shares, representing $3 million in aggregate liquidation preference, remained outstanding.

On January 27, 2016 we redeemed the remaining 28,430 Series B preferred shares, for their aggregate liquidation preference.
During March 2012, we issued 16 million of 6.875% Series C preferred shares with a liquidation preference of $25.00 per share for gross proceeds of $400 million. Dividends on the Series C preferred shares are non-cumulative; to the extent declared, dividends will accumulate, with respect to each dividend period, in an amount per share equal to 6.875% of the liquidation preference per annum. We may redeem the shares on or after April 15, 2017 at a redemption price of $25.00 per share.
During May 2013, we issued 9 million of 5.50% Series D preferred shares with a liquidation preference of $25.00 per share for gross proceeds of $225 million. Dividends on the Series D preferred shares are non-cumulative; to the extent declared, dividends will accumulate, with respect to each dividend period, in an amount per share equal to 5.50% of the liquidation preference per annum. We may redeem these shares on or after June 1, 2018 at a redemption price of $25.00 per share.

Common Equity: Underlying movements in the value of our common equity over the past two years are outlined in the following table:

Year ended December 31,	2015	2014
Common equity - opening	$5,193,278	$5,190,119
Net income attributable to AXIS Capital	641,631	810,745
Change in unrealized losses on available for sale investments, net of tax	(121,393)	(153,137)
Share repurchases	(264,538)	(543,202)
Unsettled accelerated share repurchase	(60,000)	—
Common share dividends	(122,713)	(117,859)
Preferred share dividends	(40,069)	(40,088)
Share-based compensation	30,355	51,382
Other	(17,512)	(4,682)
Common equity - closing	$5,239,039	$5,193,278

Credit and Letter of Credit Facilities

We routinely enter into agreements with financial institutions to obtain secured and unsecured credit and letter of credit facilities. These facilities are primarily used for the issuance of letters of credit, in the normal course of operations, to certain (re)insurance operations that purchase reinsurance protection from us. These letters of credit allow those operations to take credit, under local insurance regulations, for reinsurance obtained in jurisdictions where AXIS Capital's subsidiaries are not licensed or otherwise admitted as an insurer. The value of our letters of credit outstanding is driven by, amongst other factors, loss development on existing reserves, the payment patterns of such reserves, the expansion of our business and the loss experience of such business. A portion of these facilities may also be used for liquidity purposes.

Each of our existing facilities is described further below; refer to Item 8, Note 10(b) of the Consolidated Financial Statements 'Debt and Financing Arrangements' for additional information.

Secured Letter of Credit Facility

We maintain a secured letter of credit facility (the "LOC Facility"). During 2015, we reduced the maximum aggregate utilization capacity of the LOC Facility from $750 million to $500 million. This facility is subject to certain covenants, including the requirement to maintain sufficient collateral to cover all of our obligations under the facility. Such obligations include contingent reimbursement obligations for outstanding letters of credit and fees payable to the lender. In the event of default, the lender may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the facility to any or all of the participating operating subsidiaries.

Credit Facility

From March 2013 we are party to a $250 million credit facility (the "Credit Facility"), which provides us with combined borrowing and letter of credit issuance capacity up to the aggregate amount of the facility. At our request, and subject to certain conditions, the aggregate commitment of this facility may be increased by up to $150 million. Interest on loans issued under this facility is payable based on underlying market rates at the time of loan issuance. While any loans are unsecured, we have the option to issue letters of credit on a secured basis in order to reduce associated fees. This facility is subject to certain non-financial covenants that we believe are customary for facilities of this type, including limitations on fundamental changes, the incurrence of additional indebtedness and liens and certain transactions with affiliates and investments, as defined in the facility documents.

Compliance with certain financial covenants that we believe are customary for (re)insurance companies in credit facilities of this type is also required. These covenants include:

(i) Maintenance of a minimum consolidated net worth, with the minimum being equal to the sum of $3.802 billion plus 25% of consolidated net income (if positive) for each semi-annual fiscal period ending on or after June 30, 2013 plus 25% of the net cash proceeds received by AXIS Capital from the issuance of its capital stock during each such semi-annual fiscal period. For the purposes of this covenant, consolidated net worth excludes unrealized appreciation (depreciation) on our available for sale investments.

(ii) Maintenance of a maximum debt to total capital ratio of 0.35 to 1. For the purposes of this covenant, unrealized appreciation (depreciation) on our available for sale investments is excluded from total capital.

(iii) Maintenance of an A.M. Best Company, Inc. (“A.M. Best”) financial strength rating of at least B++ for each of AXIS Capital’s material insurance/reinsurance subsidiaries that are party to the Credit Facility.

At December 31, 2015, this facility required a minimum consolidated net worth of $4.384 billion and our actual consolidated net worth, as calculated under the provisions of the Credit Facility, was $6.016 billion. We had a consolidated debt to total capital ratio, calculated in accordance with the Credit Facility provisions, of 0.14 to 1 and each of our material insurance/reinsurance subsidiaries party to the agreement had an A.M. Best financial strength rating of A+.

In the event of default, including a breach of the covenants outlined above, the lenders may exercise certain remedies including the termination of the facility, the declaration of all principal and interest amounts related to facility loans to be immediately due and the requirement that any outstanding letters of credit that we opted to obtain on an unsecured basis be collateralized.

Additionally, the facility allows for an adjustment to the level of pricing should AXIS Capital experience a change in its senior unsecured debt ratings.

During 2013, we also entered into an amendment to the Credit Facility in order to permit AXIS Capital and its subsidiaries to enter into swap contracts and other arrangements related to weather derivative transactions.

Available Capacity

At December 31, 2015, we had $341 million and $nil letters of credit outstanding under the LOC Facility and the Credit Facility, respectively. The remaining available capacity under these facilities was $409 million, before taking into consideration the $150 million potential increase in the amount available under the Credit Facility. There was no debt outstanding under the Credit Facility. We were in compliance with all covenants of the facilities at December 31, 2015.

Share Repurchases

As part of our capital management strategy, our Board of Directors authorizes common share repurchase programs. On December 7, 2015, our Board of Directors authorized a new share repurchase plan for up to $750 million of our common shares through December 31, 2016. The new share repurchase authorization, effective December 31, 2015, replaced the previous plan which had $444 million available until December 31, 2016 (refer to Item 5 ‘Market for Registrant’s Common Equity, Related Stockholder Matters and Issue Purchases of Equity Securities’). At February 24, 2016, we have $654 million of remaining authorization under this common share repurchase program. As noted above, repurchases under this program are entirely discretionary; the timing and amount of the additional repurchase transactions will depend on a variety of factors including, but not limited to, global (re)insurance and financial market conditions and opportunities, capital management and regulatory considerations.

Shelf Registrations

On January 16, 2014, we filed an unallocated universal shelf registration statement with the SEC, which became effective upon filing. Pursuant to the shelf registration, we may issue an unlimited amount of equity, debt, warrants, purchase contracts or a combination of those securities. Our intent and ability to issue securities pursuant to this registration statement will depend on market conditions at the time of any proposed offering.

Financial Strength Ratings

Our principal (re)insurance operating subsidiaries are assigned financial strength ratings from internationally recognized rating agencies, including Standard & Poor's, A.M. Best and Moody's Investors Service. These ratings are publicly announced and are available directly from the agencies, as well as on our website.

Such financial strength ratings represent the opinions of the rating agencies on the overall financial strength of a company and its capacity to meet the obligations of its (re)insurance contracts. Independent ratings are one of the important factors that establish our competitive position in (re)insurance markets. The rating agencies consider many factors in determining the financial strength rating of an insurance company, including the relative level of statutory surplus necessary to support the business operations of the company. These ratings are based upon factors considered by the rating agencies to be relevant to policyholders, agents and intermediaries and are not directed toward the protection of investors. Such ratings are not recommendations to buy, sell or hold securities.

The following are the most recent financial strength ratings from internationally recognized agencies in relation to our principal (re)insurance operating subsidiaries:

Rating agency	Agency's description of rating	Rating	Agency's rating definition	Ranking of rating
Standard & Poor's	An "opinion about the financial security characteristics of an insurance organization, with respect to its ability to pay under its insurance policies and contracts, in accordance with their terms".	A+ (Stable)	"Strong financial security characteristics"	The 'A' grouping is the third highest out of ten major rating categories. The second through eighth major rating categories may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.
A.M. Best	An "opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations".	A+ (Stable)	"Superior ability to meet ongoing insurance obligations"	The 'A+' grouping is the second highest rating out of fifteen. Ratings outlooks ('Positive', 'Negative' and 'Stable') are assigned to indicate a rating's potential direction over an intermediate term, generally defined as 36 months.
Moody's Investors Service	"Opinions of the ability of insurance companies to pay punctually senior policyholder claims and obligations."	A2 (Stable)	"Offers good financial security"	The 'A' grouping is the third highest out of nine rating categories. Each of the second through seventh categories are subdivided into three subcategories, as indicated by an appended numerical modifier of '1', '2' and '3'. The '1' modifier indicates that the obligation ranks in the higher end of the rating category, the '2' modifier indicates a mid-category ranking and the '3'

modifier indicates a ranking in the lower end of the rating category.

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CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table provides a breakdown of our contractual obligations and commitments at December 31, 2015 by period due:

	Payment Due By Period				
Contractual Obligations and Commitments	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating activities					
Estimated gross loss and loss expense payments(1)	$9,646,285	$2,417,775	$2,884,020	$1,638,502	$2,705,988
Operating lease obligations(2)	151,311	25,386	45,677	35,735	44,513
Reinsurance purchase commitments(3)	29,119	29,119	—	—	—
Investing activities					
Unfunded investment commitments(4)	$378,519	$3,000	66,488	309,031	—
Financing activities					
Senior notes (including interest payments)(5)	1,535,189	48,875	97,750	823,126	565,438
Total	$11,740,423	$2,524,155	$3,093,935	$2,806,394	$3,315,939

(1) We are obligated to pay claims for specified loss events covered by the (re)insurance contracts we write. Such loss payments represent our most significant future payment obligation. In contrast to our other contractual obligations, our cash payments are not determinable from the terms specified within the underlying contracts. The total amount in the table above reflects our best estimate of our reserve for losses and loss expenses. However, the actual amounts and timing may differ materially; refer to ‘Critical Accounting Estimates – Reserve for Losses and Loss Expenses’ for further information. We have not taken into account corresponding reinsurance recoverable amounts that would be due to us.

(2) We lease office space under operating leases which expire at various dates. We renew and enter into new leases in the ordinary course of business, as required.

(3) We purchase reinsurance protection for our insurance lines of business. The minimum premiums are contractually due in advance on a quarterly basis.

(4) We have $379 million of unfunded investment commitments related to our investments in hedge, direct-lending, real estate and bank revolver opportunity funds, which are callable by our investment managers. For further details, refer to Item 8, Note 5(c) to the Consolidated Financial Statements 'Investments'.

(5) For further details on the terms of our senior unsecured debt, refer to Item 8, Note 10(a) to the Consolidated Financial Statements 'Debt and Financing Arrangements'.

CRITICAL ACCOUNTING ESTIMATES

Our Consolidated Financial Statements include certain amounts that are inherently uncertain and judgmental in nature. As a result, we are required to make assumptions and best estimates in order to determine the reported values. We consider 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 our results of operations, financial condition or liquidity.

We believe that the material items requiring such subjective and complex estimates are our:

- 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.

Nevertheless, other significant accounting policies are important to understanding our Consolidated Financial Statements. Refer Item 8, Note 2 to the Consolidated Financial Statements ‘Significant Accounting Policies’ for further information.

We believe that the amounts included in our Consolidated Financial Statements reflect our best judgment. However, factors such as those described in Item 1A ‘Risk Factors’ could cause actual events or results to differ materially from our underlying assumptions and estimates; this could lead to a material adverse impact on our results of operations, financial condition and/or liquidity.

RESERVE FOR LOSSES AND LOSS EXPENSES

Overview

We believe the most significant accounting judgment we make is the estimate of our reserve for losses and loss expenses (“loss reserves”). Our loss reserves represent management’s estimate of the unpaid portion of our ultimate liability for losses and loss expenses (“ultimate losses”) for (re)insured events that have occurred at or before the balance sheet date. Our loss reserves reflect both claims that have been reported to us (“case reserves”) and claims that have been incurred but not yet reported to us (“IBNR”). Our loss reserves represent our best estimate of what the ultimate settlement and administration of claims will cost, based on our assessment of facts and circumstances known at that particular point in time.

Loss reserves are not an exact calculation of liability but instead are complex estimates. The process of estimating loss reserves involves a number of variables (see ‘Selection of Reported Reserves (Management’s Best Estimate)’ below for further details). We review our estimate of loss reserves each reporting period and consider all significant facts and circumstances then known. As additional experience and other data become available and/or laws and legal interpretations change, we may adjust our previous estimates of loss reserves; these adjustments are recognized in the period they are determined and, therefore, can impact that period’s underwriting results either favorably (when reserves established in prior years can be released) or adversely (when reserves established in prior years require upward adjustment).

Case Reserves

With respect to our insurance operations, we are generally notified of insured losses by our insureds and/or their brokers. Based on this information, our claims personnel estimate our ultimate losses arising from the claim, including the cost of administering the claims settlement process. These estimates reflect the judgment of our claims personnel based on general reserving practices, the experience and knowledge of such personnel regarding the nature of the specific claim and, where appropriate, the advice of legal counsel, loss adjusters and other relevant consultants.

For our reinsurance business, case reserves for reported claims are generally established based on reports received from ceding companies and/or their brokers. For excess of loss contracts, we are typically notified of insured losses on specific contracts and record a case reserve for the estimated ultimate liability arising from the claim. With respect to contracts written on a proportional basis, we typically receive aggregated claims information and record a case reserve based on that information. However, our proportional reinsurance contracts typically require that losses in excess of pre-defined amounts be separately notified so that we can adequately evaluate them. Our claims department evaluates each specific loss notification we receive and records additional case reserves when a ceding company’s reserve for a claim is not considered adequate.

In deciding whether to provide treaty reinsurance, we carefully review and analyze a cedant’s underwriting and risk management practices to ensure appropriate underwriting, data capture and reporting procedures. We also undertake an extensive program of cedant audits, using outsourced legal and industry experience where necessary. This allows us to review cedants’ claims administration practices to ensure that reserves are consistent with exposures, adequately established and properly reported in a timely manner and also allows us to verify that claims are appropriately handled.

IBNR

The estimation of IBNR is necessary due to the time lags between when a loss event occurs and when it is actually reported to us, referred to as the reporting lag. Reporting lags may arise from a number of factors, including but not limited to the nature of the loss, the use of intermediaries and complexities in the claims adjusting process. By definition, we do not have specific information on IBNR so it must be estimated. IBNR is calculated by deducting incurred losses (i.e. paid losses and case reserves) from management’s best estimate of ultimate losses. In contrast to case reserves, which are established at the contract level, IBNR reserves are generally estimated at an aggregate level and cannot be identified as reserves for a particular loss event or contract. Refer to the ‘Reserving For Significant Catastrophic Events’ section below for additional information on reserving for such events.

Reserving Process

Sources of Information

Our quarterly reserving process begins with the collection and analysis of paid and incurred claim data for each of our segments. The segmental data is disaggregated by reserving class and further disaggregated by either accident year (i.e. the year in which the loss event occurred) or by underwriting year (i.e., the year in which the contract generating premium and losses incepted). We use underwriting year information to analyze our reinsurance business and subsequently allocate reserves to the respective accident years. Our reserving classes are selected to ensure that the underlying contracts have homogeneous loss development characteristics, while remaining large enough to make the estimation of trends credible. We review our reserving classes on a regular basis and adjust them over time as our business evolves. This data, in addition to industry benchmarks, serves as a key input to many of the methods employed by our actuaries. The relative weights assigned to our own historical loss data versus industry data vary according to the length of the development profile for the reserving class being evaluated. At present, we generally give more weight to our own experience (and, correspondingly, less weight to industry data) for reserving classes with short and medium claim tails; the converse is true for reserving classes with longer claim tails. (See 'Claim Tail Analysis' below for more detailed information by claim tail class.)

Actuarial Analysis

Multiple actuarial methods are available to estimate ultimate losses. Each method has its own assumptions and its own advantages and disadvantages, with no single estimation method being better than the others in all situations and no one set of assumption variables being meaningful for all reserving classes. The relative strengths and weaknesses of the particular estimation methods when applied to a particular group of claims can also change over time.

The following is a brief description of the reserve estimation methods commonly employed by our actuaries and a discussion of their particular strengths and weaknesses:

- Expected Loss Ratio Method ("ELR"): This method estimates ultimate losses for an accident year or underwriting year by applying an expected loss ratio to the earned or written premium for that year. Generally, expected loss ratios are based on one or more of (a) an analysis of historical loss experience to date, (b) pricing information and (c) industry data, adjusted as appropriate, to reflect changes in rates and terms and conditions. This method is insensitive to actual incurred losses for the accident year or underwriting year in question and is, therefore, often useful in the early stages of development when very few losses have been incurred. Conversely, the lack of sensitivity to incurred/paid losses for the accident year or underwriting year in question means that this method is usually inappropriate in later stages of an accident year or underwriting year's development.
- Loss Development Method (also referred to as the Chain Ladder Method or Link Ratio Method): This method assumes that the losses incurred/paid for each accident year or underwriting year at a particular development stage follow a relatively similar pattern. It assumes that on average, every accident year or underwriting year will display the same percentage of ultimate losses incurred/paid at the same point in time after the inception of that year. The percentages incurred/paid are established for each development stage (e.g. 12 months, 24 months, etc.) after examining historical averages from historical loss development data and/or external industry benchmark information. Ultimate losses are then estimated by multiplying the actual incurred/paid losses by the reciprocal of the established incurred/paid percentage. The strengths of this method are that it reacts to loss emergence/payments and that it makes full use of historical claim emergence/payment experience. However, this method has weaknesses when the underlying assumption of stable loss development/payment patterns is not valid. This could be the consequence of changes in business mix, claim inflation trends or claim reporting practices and/or the presence of large claims, amongst other things. Furthermore, this method tends to produce volatile estimates of ultimate losses where there is volatility in the underlying incurred/paid patterns. In particular, where the expected percentage of incurred/paid losses is low, small deviations between actual and expected claims can lead to very volatile estimates of ultimate losses. As a result, this method is often unsuitable at early development stages for an accident year or underwriting year.
- Bornhuetter-Ferguson Method ("BF"): This method can be seen as a combination of the ELR and Loss Development Methods, under which the Loss Development Method is given progressively more weight as an accident year or underwriting year matures. The main advantage of the BF Method is that it provides a more stable estimate of

ultimate losses than the Loss Development Method at earlier stages of development, while remaining more sensitive to emerging loss development than the ELR Method. In addition, the BF Method allows for the incorporation of external market information through the use of expected loss ratios, whereas the Loss Development Method does not incorporate such information.

As part of our quarterly loss reserve review process, our actuaries employ the estimation method(s) that they believe will produce the most reliable estimate of ultimate losses, at that particular evaluation date, for each reserving class and accident year or underwriting year combination. Often, this is a blend (i.e. weighted average) of the results of two or more appropriate actuarial methods. These ultimate loss estimates are generally utilized to evaluate the adequacy of our ultimate loss estimates for previous accident or underwriting years, as established in the prior reporting period. For the initial estimate of the current accident or underwriting year, the available claim data is typically insufficient to produce a reliable estimate of ultimate losses. As a result, our initial estimate for an accident or underwriting year is generally based on the ELR Method for longer tailed lines and a BF method for shorter tailed lines. The initial ELR for each reserving class is established collaboratively by our actuaries, underwriters and management at the start of the year as part of the planning process, taking into consideration prior accident years' or underwriting years' experience and industry benchmarks, adjusted after considering factors such as exposure trends, rate differences, changes in contract terms and conditions, business mix changes and other known differences between the current year and prior accident or underwriting years. The initial expected loss ratios for a given accident or underwriting year may be modified over time if the underlying assumptions, such as loss development or premium rate changes, differ from the original assumptions.

Reserving for Credit and Political Risk Business

Our credit and political risk insurance business consists primarily of credit insurance and confiscation, expropriation, nationalization and deprivation coverages ("CEND"). Claims for this business tend to be characterized by their severity risk, as opposed to their frequency risk. Therefore, claim payment and reporting patterns are anticipated to be volatile. Under the notification provisions of our credit insurance, we anticipate being advised of an insured event within a relatively short time period. As a result, we generally estimate ultimate losses based on a contract-by-contract analysis which considers the contracts' terms, the facts and circumstances of underlying loss events and qualitative input from claims managers.

An important and distinguishing feature of many of these contracts, though, is our contractual right, subsequent to payment of a claim to our insured, to be subrogated to, or otherwise have an interest in, the insured's rights of recovery under an insured loan or facility agreement. These estimated recoveries are recorded as an offset to our credit and political risk loss reserves. The lag between the date of a claim payment and our ultimate recovery from the corresponding security can result in negative case reserves at a point in time (as was the case at December 31, 2015 and 2014). The nature of the underlying collateral is specific to each transaction and we also estimate the value of this collateral on a contract-by-contract basis. This valuation process is inherently subjective and involves the application of management's judgment because active markets for the collateral often do not exist. Our estimates of value are based on numerous inputs, including information provided by our insureds, as well as third party sources including rating agencies, asset valuation specialists and other publicly available information. We also assess any post-event circumstances, including restructurings, liquidations and possession of asset proposals/agreements.

In some instances, upon becoming aware of a loss event related to our credit and political risk business, we negotiate a final settlement of all of our policy liabilities for a fixed amount. In most circumstances, this occurs when the insured moves to realize the benefit of the collateral that underlies the insured loan or facility and presents us with a net settlement proposal that represents a full and final payment by us under the terms of the policy. In consideration for this payment, we secure a cancellation of the policy, or a release of all claims, and waive our right to pursue a recovery of these settlement payments against the security that may have been available to us under the insured loan or facility agreement. In certain circumstances, cancellation by way of net settlement or full payment can result in an adjustment of the net premium to be received and earned on the policy.

Reserving For Significant Catastrophic Events

We cannot estimate losses from widespread catastrophic events, such as hurricanes and earthquakes, using the traditional actuarial methods described above. Rather, loss reserves for such events are estimated by management after a catastrophe occurs by completing an in-depth analysis of individual contracts which may potentially be impacted by the catastrophic event. This in-depth analysis may rely on several sources of information, including: (1) estimates of the size of insured industry losses from the catastrophic event and our corresponding market share; (2) a review of our portfolio of contracts performed to identify those contracts which may be exposed to the catastrophic event; (3) a review of modeled loss estimates based on information previously reported by customers and brokers, including exposure data obtained during the underwriting process; (4) discussions of the impact of the event with our customers and brokers and (5) catastrophe bulletins published by various independent statistical reporting agencies. We generally use a blend of these information sources to arrive at our aggregate estimate of the ultimate losses arising from the catastrophic event. In subsequent reporting periods, we review changes in paid and incurred losses in relation to each significant catastrophe and adjust our estimates of ultimate losses for each event if there are developments that are different from our previous expectations; such adjustments are recorded in the period in which they are identified.

There are additional risks affecting our ability to accurately estimate ultimate losses for catastrophic events. For example, the estimation of loss reserves related to hurricanes and earthquakes can be affected by factors including, but not limited to: the inability to access portions of impacted areas, infrastructure disruptions, the complexity of factors contributing to losses, legal and regulatory uncertainties, complexities involved in estimating business interruption losses and additional living expenses, the impact of demand surge, fraud and the limited nature of information available. For hurricanes, additional complex coverage factors may include determining whether damage was caused by flooding versus wind, evaluating general liability and pollution exposures, and mold damage. The timing of a catastrophe, for example near the end of a reporting period, can also affect the level of information available to us to estimate reserves for that reporting period.

Our results of operations for each of 2015, 2014 and 2013 were impacted by natural catastrophe activity. See Item 7 'Underwriting Results – Group, Underwriting Expenses' for a discussion of these events and the remaining associated uncertainties.

Key Actuarial Assumptions

The use of the above actuarial methods requires us to make certain explicit assumptions, the most significant of which are: (1) expected loss ratios and (2) loss development patterns.

We began operations in late 2001. In our earlier years, we placed significant reliance on industry benchmarks in establishing our expected loss ratios. Over time, we have placed more reliance on our historical loss experience in establishing these ratios where we believe the weight of our own actual experience has become sufficiently credible for consideration. The weight given to our experience differs for each of our three claim tail classes and is discussed further in the 'Claim Tail Analysis' section below. In establishing expected loss ratios for our insurance segment, we give consideration to a number of other factors, including exposure trends, rate adequacy on new and renewal business, ceded reinsurance costs, changes in claims emergence and our underwriters' view of terms and conditions in the market environment. For our reinsurance segment, expected loss ratios are based on a contract-by-contract review, which considers information provided by clients together with estimates provided by our underwriters and actuaries about the impact of changes in pricing, terms and conditions and coverage. We also have considered the market experience of some classes of business as compiled and analyzed by an independent actuarial firm, as appropriate.

Similarly, we also placed significant reliance on industry benchmarks in selecting our loss development patterns in earlier years. Over time, we have given varying degrees of weight to our own historical loss experience, as further discussed in the 'Claim Tail Analysis' section.

Selection of Reported Reserves (Management's Best Estimate)

Our quarterly reserving process involves the collaboration of our underwriting, claims, actuarial, legal, ceded reinsurance and finance departments, includes various segmental committee meetings and culminates with the approval of a single point best estimate by our Group Reserving Committee, which comprises senior management. In selecting this best estimate, management considers actuarial estimates and applies informed judgment regarding qualitative factors that may not be fully captured in these actuarial estimates. Such factors include, but are not limited to: the timing of the emergence of claims, volume and complexity of claims, social and judicial trends, potential severity of individual claims and the extent of internal historical loss data versus industry information. While these qualitative factors are considered in arriving at the point estimate, no specific provisions for qualitative factors are established.

Beginning in 2013, the Company significantly enhanced the capabilities and resources dedicated to the actuarial reserving function. Consequently, from the first quarter of 2014, management began to rely upon its internal actuarial reserving function for the quarterly reserve evaluation process rather than utilizing the services of an independent actuarial firm. On an annual basis, the Company uses an independent actuarial firm to provide an actuarial opinion on the reasonableness of our loss reserves for each of our operating subsidiaries and statutory reporting entities; such actuarial opinions are required to meet various insurance regulatory requirements. The actuarial firm also discusses its conclusions from the annual review with management and presents its findings to our Board of Directors.

Claim Tail Analysis

The following table shows our total loss reserves for each of our reportable segments, segregated between case reserves and IBNR and by significant reserving class. This table is presented on a gross basis and, therefore, does not include the benefit of reinsurance recoveries.

	2015			2014		
At December 31,	Case Reserves	IBNR	Total	Case Reserves	IBNR	Total
Insurance segment:						
Property and other	$361,971	$306,323	$668,294	$476,106	$309,228	$785,334
Marine	293,592	129,575	423,167	151,733	116,384	268,117
Aviation	34,856	25,874	60,730	26,644	21,147	47,791
Credit and political risk	(29,756)	84,326	54,570	(45,691)	93,569	47,878
Professional lines	690,780	2,016,575	2,707,355	788,480	1,921,467	2,709,947
Liability	290,043	1,087,059	1,377,102	183,089	1,020,991	1,204,080
Total Insurance	1,641,486	3,649,732	5,291,218	1,580,361	3,482,786	5,063,147
Reinsurance segment:						
Property and other	531,771	376,825	908,596	607,061	489,505	1,096,566
Credit and surety	121,507	235,687	357,194	116,718	217,105	333,823
Professional lines	299,490	891,428	1,190,918	311,865	885,733	1,197,598
Motor	413,616	456,345	869,961	410,483	466,947	877,430
Liability	245,210	783,188	1,028,398	259,187	769,046	1,028,233
Total Reinsurance	1,611,594	2,743,473	4,355,067	1,705,314	2,828,336	4,533,650
Total	$3,253,080	$6,393,205	$9,646,285	$3,285,675	$6,311,122	$9,596,797

The overall increase in our gross loss reserves during 2015 was driven by incurred loss activity in insurance marine and liability reserve classes, partially offset by favorable prior year development in the property and other lines.

In order to capture the key dynamics of our loss reserve development and potential volatility, our reserving classes should be considered according to their potential expected length of loss emergence and settlement, generally referred to as the “tail”. We consider our business to consist of three claim tail classes: short-tail, medium-tail and long-tail. Below is a discussion of the specifics of our loss reserve process as they apply to each claim tail class, as well as commentary on the factors contributing to our historical loss reserve development for each class. Favorable development on prior accident year reserves indicates that our current estimates are lower than our previous estimates, while adverse development indicates that our current estimates are higher than our previous estimates.

Short-Tail Business

Our short-tail business generally includes exposures for which losses are usually known and paid within a relatively short period of time after the underlying loss event has occurred. Our short-tail business primarily relates to property coverages and includes the majority of our property, terrorism and marine business and certain aviation business within our insurance segment, together with the property, catastrophe and agriculture business within our reinsurance segment.

The key actuarial assumptions for our short-tail business in our early accident years were primarily developed with reference to industry benchmarks for both expected loss ratios and loss development patterns. As our own historical loss experience amassed, it gained credibility and became relevant for consideration in establishing these key actuarial assumptions. As a result, we gradually increased the weighting assigned to our own historical experience in selecting the expected loss ratios and loss development patterns utilized to establish our estimates of ultimate losses for an accident year.

Due to the relatively short reporting and settlement patterns for our short-tail business, we generally place more weight upon experience-based methods and other qualitative considerations in establishing reserves for both our recent and more mature accident years. As our experience developed more favorably than our initial expectations, we recognized favorable prior year development on short-tail business in recent years. See 'Underwriting Results - Group - Prior Year Reserve Development' for a discussion of the net favorable reserve development recognized when re-estimating our ultimate losses for short-tail business during the past three years.

Although our estimates of ultimate losses for our short-tail business are inherently less uncertain than for our medium and long-tail business, significant judgment is still required. For example, because much of our excess insurance and excess of loss reinsurance business has high attachment points, it is often difficult to estimate whether claims will exceed those attachment points. Also, the inherent uncertainties relating to catastrophe events previously discussed, together with our typically large line sizes, further add to the complexity of estimating our potential exposure. In addition, we use MGAs and other producers for certain business within our insurance segment; this can delay the reporting of loss information to us. We expect that the majority of development for an accident year or underwriting year will be recognized in the subsequent one to three years.

Medium-Tail Business

Our medium-tail business primarily consists of professional lines (re)insurance and trade credit and surety reinsurance business. Certain other classes of business, including aviation hull and engineering reinsurance, are also considered to have a medium-tail. Claim reporting and settlement periods on these classes are generally longer than those of our short-tail reserving classes. We also consider our credit and political risk insurance business to have a medium tail, due to the complex nature of claims and the potential additional time that may be required to realize our subrogation assets.

For our earliest accident and underwriting years, our initial key actuarial expected loss ratio and loss development assumptions were established utilizing industry benchmarks. Due to the longer claim tail, the length of time required to develop our own credible loss history for use in the reserving process is greater for our medium-tail business than for our short-tail business. As a result, the number of years where we relied heavily on industry benchmarks to establish our key actuarial assumptions is greater for our medium-tail business. Our reserving approach for medium-tail business is tailored by line of business, with our significant lines being specifically addressed below.

Professional Lines (Re)insurance

For our professional lines business, claim payment and reporting patterns are typically medium to long-tail in nature. The underlying business is predominantly written on a claims-made basis, with the majority of reinsurance treaties being written on a risks attaching basis. With respect to our key actuarial assumptions, we are progressively giving more weight to our own experience when establishing our expected loss ratios and our selected loss development patterns, though we continue to consider industry benchmarks.

Loss reporting patterns for professional lines business tend to be volatile, causing instability in actuarial indications based on incurred loss data until an accident year matures for a number of years. Consequently, our initial loss reserves for an accident year or underwriting year are generally based upon an ELR method and the consideration of relevant qualitative factors. As accident years and underwriting years mature, we increasingly give more weight to methods that reflect our actual experience until our selections are based almost exclusively on experience-based methods. We evaluate the appropriateness of the transition to experience-based methods at the reserving class level, commencing this transition when we believe that our incurred loss development is sufficient to produce meaningful actuarial indications. The rate at which we transition fully to sole reliance on experience-based methods can vary by reserving class and by year, depending on our assessment of the stability and relevance of such indications. For some professional lines in our insurance segment, we also rely upon the evaluation of the open claim inventory in addition to the commonly employed actuarial methods when establishing reserves.

Our transition from the ELR method to experience-based methods began during 2008, when we commenced gradual transition for the 2004 and prior accident years. As our loss history continued to develop, the transition was expanded to include additional accident years. With the exception of the experience in the insurance professional lines during 2013 through 2015, our actual loss experience has generally been more favorable than initial expectations and the transition led to the recognition of net favorable prior year reserve development in recent years. During 2013, the insurance professional lines actual loss development was worse than expected for accident years 2011 and 2012. Management recognized this experience by relying upon experience-based methods, an evaluation of the open claims inventory and other qualitative factors, resulting in a higher ultimate loss estimate than initial expected loss ratios. During 2014, Management continued to rely upon experience-based methods, an evaluation of the open claims inventory and other qualitative factors in establishing the ultimate loss estimates for the insurance professional lines portfolio. During 2015, updated actuarial assumptions in our Australian book of business impacting accident years 2010 to 2014 resulted in strengthening of the insurance professional lines portfolio, partially offset by favorable development in certain US professional lines classes. See 'Underwriting Results - Group - Prior Year Development' for a discussion of the development recognized during the last three years.

We believe that there continues to be a relatively higher level of uncertainty around ultimate loss estimates for the business classes impacted by the global financial crisis in the 2007 to 2009 accident years. As a result, we continue to rely upon the evaluation of the open claims inventory in addition to the consideration of the actuarial indications, while exercising a greater degree of caution in recognizing potential favorable loss emergence, when establishing loss reserves for these accident years.

Trade Credit and Surety Reinsurance

For our trade credit and surety reinsurance business, our initial and most recent underwriting year loss projections are generally based on the ELR method, with consideration given to qualitative factors. Given that there is a quicker and more stable reporting pattern for trade credit business, we generally commence the transition to experience-based methods sooner than for the surety business.

Credit and Political Risk Insurance

Refer to the previous discussions of this business under ‘Reserving Process – Actuarial Analysis’ and ‘Reserving Process – Reserving for Credit and Political Risk Business’ above for a discussion of specific loss reserve issues related to this business. When considering prior accident year reserve development for this line of business, it is important to note that the multi-year nature of the credit business distorts loss ratios when a single accident year is considered in isolation. In recent years, the average term of these contracts has been four to five years. The premiums we receive are generally earned evenly over the contract term, thus spanning multiple accident years. In contrast, losses incurred on these contracts, which can be characterized as low in frequency and high in severity, are reflected in a single accident year.

As previously described, the estimation of the value of our recoveries on credit and political risk business requires significant management judgment. At December 31, 2015, our total estimated recoveries on credit insurance business were $71 million, while comparatively, at December 31, 2014, our estimated recoveries were $79 million.

Long-Tail Business

In contrast to our short and medium-tail business, the claim tail for our long-tail business is expected to be notably longer, as claims are often reported and ultimately paid or settled years, or even decades, after the related loss events occur. Our long-tail business primarily relates to liability business written in our insurance and reinsurance segments, as well as our motor reinsurance business.

As a general rule, our estimates of accident year or underwriting year ultimate losses for our long-tail business are notably more uncertain than those for our short and medium-tail business. Factors that contribute additional uncertainty to estimates for our long-tail business include, but are not limited to:

- The more significant weight given to industry benchmarks in forming our key actuarial assumptions;

- The potential volatility of actuarial estimates, given the number of years of development it takes to produce a meaningful incurred loss as a percentage of ultimate losses;
- Inherent uncertainties about loss trends, claims inflation (e.g. medical, judicial, social) and general economic conditions; and
- The possibility of future litigation, legislative or judicial change that may impact future loss experience relative to the prior industry loss experience relied upon in reserve estimation.

To date, our key actuarial assumptions for our long-tail business have been derived extensively from industry benchmarks supplemented with our own historical experience. Given our relatively short operating history in comparison to the development tail for this business, we do not believe that our own historical loss development for our long-tail business has amassed an appropriate volume to serve as a fully credible input into the key actuarial assumptions previously outlined. While we consider industry benchmarks that we believe reflect the nature and coverage of our business, our actual loss experience may differ from the benchmarks based on industry averages.

Due to the length of the development tail for this business, our reserve estimates for most accident years and underwriting years are predominantly based on the BF or ELR method and the consideration of qualitative factors. As part of our quarterly reserving process, we monitor actual paid and incurred loss emergence relative to expected loss emergence based on our selected loss development patterns. The drivers of any unfavorable loss emergence are investigated and, as a result, have led to an immediate recognition of adverse development in some instances. Prior to the fourth quarter of 2012 (see additional details below), we did not recognize any favorable loss emergence. As a result, during some periods, we have recognized net adverse development for our liability insurance business in light of unfavorable loss emergence for certain reserving class and accident year combinations.

See 'Underwriting Results Group - Prior Year Reserve Development' for further details on the recognition of adverse development for our long-tail business during the last three years.

Commencing with our fourth quarter 2012 reserving process, we began to give weight to actuarial methods that reflect our actual experience for liability business as we believed that our oldest accident years were at a stage of expected development where such methods would produce meaningful actuarial indications. In 2015, we continued to give weight to experience-based methods for the insurance liability classes for accident years 2008 and prior, which led to the recognition of $3 million of net favorable prior year reserve development during 2015 on those accident years. For the reinsurance liability lines, we continued to give weight to experience-based methods for accident years 2009 and prior, resulting in the recognition of $56 million of net favorable prior year reserve development for those years during 2015.

Sensitivity Analysis

While we believe that our loss reserves at December 31, 2015 are adequate, new information, events or circumstances may result in ultimate losses that are materially greater or less than provided for in our loss reserves. As previously noted, there are many factors that may cause our reserves to increase or decrease, particularly those related to catastrophe losses and long-tail lines of business.

Our expected loss ratios are a key assumption in our estimate of ultimate losses for business at an early stage of development. All else remaining equal, a higher expected loss ratio would result in a higher ultimate loss estimate, and vice versa. Our assumed loss development patterns are another significant assumption in estimating our loss reserves. All else remaining equal, accelerating a loss reporting pattern (i.e. shortening the claim tail) would result in lower ultimate losses, as the estimated proportion of losses already incurred would be higher. The uncertainty in the timing of the emergence of claims (i.e. the length of the development pattern) is generally greater for a company like ours with a limited operating history which, therefore, must rely on industry benchmarks to a certain extent when establishing loss reserve estimates.

The following tables show the effect on our estimate of gross loss reserves of reasonably likely changes in the two key assumptions used to estimate our gross loss reserves at December 31, 2015.

The results show the cumulative increase (decrease) in our loss reserves across all accident years. For example, if our assumed loss development pattern for our property and other insurance business was three months shorter with no accompanying change in our ELR assumption, our loss reserves may decrease by approximately $27 million. Each of the impacts set forth in the tables is estimated individually, without consideration for any correlation among key assumptions or among reserving classes. Therefore, it would be inappropriate to take each of the amounts and add them together in an attempt to estimate total volatility. While we believe the variations in the expected loss ratios and loss development patterns presented could be reasonably expected, our own historical data regarding variability is generally limited and actual variations may be greater or less than these amounts. It is also important to note that the variations are not meant to be a “best-case” or “worst-case” series of scenarios and, therefore, it is possible that future variations in our loss reserves may be more or less than the amounts presented. While we believe that these are reasonably likely scenarios, we do not believe this sensitivity analysis should be considered an actual reserve range.

INSURANCE			
Development Pattern	Expected Loss Ratio		
Property and Other	5% lower	Unchanged	5% higher
3 months shorter	$(30,578)	$(26,990)	$(23,401)
Unchanged	(4,938)	—	4,938
3 months longer	40,802	48,148	55,493
Marine	5% lower	Unchanged	5% higher
3 months shorter	$(25,826)	$(21,000)	$(16,174)
Unchanged	(5,876)	—	5,876
3 months longer	25,005	32,506	40,008
Aviation	5% lower	Unchanged	5% higher
3 months shorter	$(7,791)	$(6,892)	$(5,993)
Unchanged	(1,244)	—	1,244
3 months longer	7,134	8,818	10,503
Credit and Political Risk	10% lower	Unchanged	10% higher
3 months shorter	$(8,400)	$—	$16,800
Unchanged	(8,400)	—	16,800
3 months longer	(8,400)	—	16,800
Professional Lines	10% lower	Unchanged	10% higher
6 months shorter	$(379,793)	$(47,412)	$284,968
Unchanged	(337,122)	—	337,122
6 months longer	(283,701)	59,357	402,414
Liability	10% lower	Unchanged	10% higher
6 months shorter	$(179,621)	$(26,850)	$125,921
Unchanged	(155,456)	—	155,456
6 months longer	(122,892)	36,182	195,256

REINSURANCE			
Development Pattern	Expected Loss Ratio		
Property and Other	5% lower	Unchanged	5% higher
3 months shorter	$(46,473)	$(28,443)	$(10,414)
Unchanged	(19,360)	—	18,487
3 months longer	16,193	35,857	55,956
Credit and Surety	10% lower	Unchanged	10% higher
6 months shorter	$(42,993)	$(26,599)	$(9,931)
Unchanged	(17,781)	—	17,051
6 months longer	37,205	56,467	77,351
Professional Lines	10% lower	Unchanged	10% higher
6 months shorter	$(119,294)	$(21,053)	$82,176
Unchanged	(89,292)	—	103,470
6 months longer	(48,491)	43,498	136,907
Motor	10% lower	Unchanged	10% higher
6 months shorter	$(69,765)	$(31,196)	$9,302
Unchanged	(36,253)	—	40,788
6 months longer	30,260	63,024	108,044
Liability	10% lower	Unchanged	10% higher
6 months shorter	$(116,780)	$(28,914)	$61,046
Unchanged	(84,451)	—	90,251
6 months longer	(45,582)	36,428	127,499

REINSURANCE RECOVERABLE

In the normal course of business, we purchase reinsurance to protect our business from losses due to exposure aggregation and to limit ultimate losses from catastrophic events. The purchase of reinsurance does not discharge our liabilities under contracts written by us. Consequently, an exposure exists with respect to reinsurance recoverable to the extent that any of our reinsurers are unwilling or unable to pay our claims.

The following table shows the composition of our reinsurance recoverable on unpaid losses for each of our reportable segments, segregated between those related to case reserves and those related to IBNR and by significant line of business:

At December 31,	2015 Case Reserves	IBNR	Total	2014 Case Reserves	IBNR	Total
Insurance segment:						
Property and other	$112,905	$46,384	$159,289	$139,193	$82,047	$221,240
Marine	126,947	42,003	168,950	54,681	29,549	84,230
Aviation	2,397	3,150	5,547	198	320	518
Credit and political risk	—	277	277	—	—	—
Professional lines	249,395	617,356	866,751	297,246	586,441	883,687
Liability	172,948	621,830	794,778	92,276	605,321	697,597
Total Insurance	664,592	1,331,000	1,995,592	583,594	1,303,678	1,887,272
Reinsurance segment:						
Property and other	11,654	23,438	35,092	985	1,469	2,454
Credit and surety	—	—	—	—	—	—
Professional lines	—	—	—	—	—	—
Motor	—	—	—	—	—	—
Liability	—	625	625	—	554	554
Total Reinsurance	11,654	24,063	35,717	985	2,023	3,008
Total	$676,246	$1,355,063	$2,031,309	$584,579	$1,305,701	$1,890,280

Reinsurance recoverable on unpaid losses as a percentage of gross loss reserves was 21% at December 31, 2015 (2014: 20%). At December 31, 2015 and 2014, respectively, 96.2% and 98.5% of our gross reinsurance recoverable (i.e. excluding the provision for uncollectible amounts) were collectible from reinsurers rated A- or better by A.M. Best. For an analysis of the credit risk associated with our reinsurance recoverable balances at December 31, 2015, refer to Item 8, Note 11 to the Consolidated Financial Statements 'Commitments and Contingencies'.

The recognition of reinsurance recoverable on unpaid losses and loss expenses requires two key estimates. The first estimate is the amount of loss reserves to be ceded to our reinsurers. This amount consists of two elements, those related to our gross case reserves and those related to our gross IBNR. Reinsurance recoveries related to our gross case reserves are estimated on a case-by-case basis by applying the terms of any applicable reinsurance coverage to our individual case reserve estimates. Our estimate of ceded IBNR is generally developed as part of our loss reserving process and, consequently, its estimation is subject to similar risks and uncertainties as the estimation of gross IBNR. Estimates of amounts to be ceded under non-proportional reinsurance contracts also take into account pricing information for those contracts and require greater judgment than estimates for proportional contracts.

The second estimate is the amount of reinsurance recoverable on unpaid and paid losses that we will ultimately be unable to recover from reinsurers. The majority of our reinsurance recoverable on unpaid losses will not be due for collection until some point in the future. As a result, the amount we ultimately collect may differ from our estimate due to the ability and willingness of reinsurers to pay our claims, which may be negatively impacted by factors such as insolvency, contractual disputes over contract language or coverage and/or other reasons. Additionally, over the period of time before the amounts become due to us, economic conditions and/or operational performance of a particular reinsurer may deteriorate and this

could also affect the willingness and ability of a reinsurer to meet their contractual obligations to us. Accordingly, we review our reinsurance recoverable on a quarterly basis and estimate and record an offsetting provision for uncollectible amounts. Any changes in this provision are reflected in net income. We are selective in choosing our reinsurers, placing reinsurance principally with reinsurers with a strong financial condition and industry ratings.
We apply case-specific provisions against certain recoveries that we deem unlikely to be collected in full. In addition, we use a default analysis to estimate our provision for uncollectible amounts on the remainder of the balance. The principal components of the default analysis are reinsurance recoverable by reinsurer and default factors applied to estimate uncollectible amounts based on our reinsurers' credit ratings. The default factors are based on a model developed by a major rating agency. The provision recorded against reinsurance recoverable was $18 million at December 31, 2015 and 2014. We have not written off any significant reinsurance recoverable balances in the last three years. At December 31, 2015, the use of different assumptions within our approach could have a material effect on our provision for uncollectible reinsurance recoverable. To the extent the creditworthiness of our reinsurers was to deteriorate due to an adverse event affecting the reinsurance industry, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than our provision. Given the various considerations used to estimate our uncollectible provision, we cannot precisely quantify the effect a specific industry event may have on our provision.

PREMIUMS

Our revenues are primarily generated from gross premiums written originating from our underwriting operations. The basis for our recognized gross premiums written varies by contract type.

Insurance Segment

For the majority of our insurance business, we receive a fixed premium which is identified in the policy and recorded as unearned premium on the inception date of the contract. This premium will be adjusted only if the underlying insured values ultimately differ. Accordingly, we actively monitor underlying insured values and record adjustment premiums in the period in which amounts are reasonably determinable. Gross premiums written on a fixed premium basis accounted for approximately 90%, 91% and 90% of the segment's total for the years ended December 31, 2015, 2014 and 2013, respectively. A portion of this business is written through MGAs, third parties granted authority to bind risks on our behalf in accordance with our underwriting guidelines. For this business, we record premiums based on monthly statements received from the MGAs. Due to inherent reporting delays, we generally record premiums written via MGAs one month in arrears. In the event that a significant individual statement is not received, we record our best estimate based upon our historical experience.
A limited portion of our insurance business is written on a line slip or proportional basis, under which we assume a fixed percentage of the premiums and losses on a particular risk or group of risks along with numerous other unrelated insurers. Although premiums on this business are not contractually stated, we recognize gross premiums written based on an estimate provided by the client via the broker. For further details on the estimation process, see the discussion provided for the reinsurance segment below. We review these estimates on a quarterly basis and record significant adjustments in premium estimates when identified. Gross premiums written on a line slip/proportional basis comprised 10%, 9% and 10% of the segment's total for the years ended December 31, 2015, 2014 and 2013, respectively, and therefore the associated impact of these estimates on our pre-tax net income was immaterial. The increase in 2015 compared to 2014 and decrease in 2014 compared to 2013 was driven by variability in the amount of proportional business written in our accident and health lines.
In our credit and political risk line of business, we write certain policies on a multi-year basis with premiums generally payable in installments. We record premiums at the inception of the policy based on our best estimate of total premiums, including assumptions relating to prepayments/refinancings. Furthermore, certain contracts within this line of business meet the U.S. GAAP definition of a financial guarantee insurance contract. Premiums for such contracts are recognized as the present value of the contractual premiums due or expected to be collected using a discount rate that reflects the risk-free rate at the inception of contract. Due to the scope exemption for insurance contracts that are similar to financial guarantee insurance contracts, the determination of whether certain of our credit and political risk contracts fall within the scope of the U.S. GAAP definition for financial guarantee contracts requires

significant management judgment. For the year ended December 31, 2015 we did not write any contracts that meet the definition of a financial guarantee insurance contract, and in the year ended December 31, 2014, our total premiums from financial guarantee insurance contracts were immaterial in the context of total gross premiums written for the segment. At December 31, 2015, the average duration of the outstanding unearned premiums written for our credit and political risk line of business was 4.8 years (2014: 4.3 years).

Reinsurance Segment

We provide excess of loss and proportional coverage to cedants (i.e. insurance companies). In most cases, cedants seek protection from us for business that they have not yet written at the time they enter into agreements with us. As a result, cedants must estimate their underlying premiums when purchasing reinsurance coverage from us.

For multi-year contracts where reinsurance premiums are payable in annual installments, premiums are recorded at the inception of the contract based on management's best estimate of total premiums to be received. However, premiums are recognized on an annual basis for multi-year contracts where the cedant has the ability to unilaterally commute or cancel coverage within the term of the policy. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term.

Our excess of loss reinsurance contracts with cedants typically include provisions for a deposit or minimum premiums payable to us, which are generally considered to be the best estimate of the excess of loss reinsurance written premium at inception. The minimum/deposit premium is normally adjusted at the end of the contract period to reflect changes in the underlying risks in force during the contract period. We record adjustments to the deposit/minimum premiums in the period during which they become determinable. Excess of loss contracts accounted for 38%, 38% and 42% of our reinsurance segment's total gross premiums written for the years ended December 31, 2015, 2014 and 2013, respectively. The percentage of excess of loss premiums written during 2015 was consistent with the percentage written in 2014. The decrease during 2014 compared to 2013 was primarily driven by an increase in proportional multi-year premiums written in our liability lines and an increase in the portion of motor and agriculture business written on a proportional basis, partially offset by the renewal timing of a large proportional treaty in professional lines.

Many of our excess of loss contracts also include provisions that require an automatic reinstatement of coverage in the event of a loss. In a year of large loss events, reinstatement premiums will be higher than in a year in which there are no such events. Reinstatement premiums are recognized when a triggering loss event occurs and losses are recorded by us. While the reinstatement premium amount is defined by contract terms, our recognition of reinstatement premiums is dependent on our estimate of losses and loss expenses, which reflect management's best judgment as described above in 'Critical Accounting Estimates – Reserves for Losses and Loss Expenses'.

For business written under proportional contracts, our initial recognition of gross premiums written is based on estimates of premiums written at contract inception. We review these premium estimates on a quarterly basis and evaluate their reasonability in light of actual premiums reported to date by cedants. Factors contributing to changes from the initial premium estimates may include:

- changes in renewal rates or rates of new business accepted by cedants (such changes could result from changes in the relevant insurance market that could affect more than one of our cedants or could be a consequence of changes in the marketing strategy or risk appetite of an individual cedant);
- changes in underlying exposure values; and/or
- changes in rates being charged by cedants.

As a result of this review process, any adjustments to estimates are recognized in gross premiums written during the period they are determined. Such changes in premium estimates could be material to gross premiums written and the resulting adjustments may directly and significantly impact net premiums earned favorably or unfavorably in the period they are determined because the adjustment may be substantially or fully earned. Gross premiums written for proportional contracts, including amounts related to the adjustment of premium estimates established in prior years, accounted for 62%, 62% and 58% of our reinsurance segment's gross premiums written for the years ended December 31, 2015, 2014 and 2013, respectively.

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Our estimates on proportional treaties incepting during the year were as follows:

Year ended December 31,	2015	2014	2013
Catastrophe	$7,400	$9,227	$3,896
Property	180,941	200,977	195,435
Professional lines	201,595	168,799	280,242
Credit and surety	202,609	226,254	222,486
Motor	222,091	207,218	177,834
Liability	182,246	180,388	152,790
Agriculture	119,695	139,640	103,869
Engineering	62,483	50,441	47,295
Other	12,945	13,685	11,582
Total estimated premiums	$1,192,005	$1,196,629	$1,195,429
Gross premiums written (reinsurance segment)	$2,020,649	$2,176,104	$2,137,903
As a % of total gross premiums written	59 %	55 %	56 %

Since inception, our historical experience has shown that cumulative adjustments to our annual initial premium estimates on proportional reinsurance contracts have ranged from a negative revision of 4% to a favorable revision of 9%. Giving more weight to recent years where premium volume was comparable to current levels, we believe that a reasonably likely change in our 2015 proportional reinsurance gross premiums written estimate would be 5% in either direction. Such a change would result in a variance in our gross premiums written of approximately $60 million and an immaterial impact on our pre-tax net income. However, larger variations, both positive and negative, are possible.

Earning Basis

Our premiums are earned over the period during which we are exposed to the underlying risk. Changes in circumstance subsequent to contract inception can impact the earning period. For example, when our exposure limit for a contract is reached, we fully earn any associated unearned premium. This can have a significant impact on net premiums earned, particularly for multi-year contracts such as those in our credit and political risk line of business.

Our fixed premium insurance and excess of loss reinsurance contracts are generally written on a “losses occurring” or “claims made” basis over the term of the contract. Accordingly, we earn the premium evenly over the contract term, which is generally 12 months.

Line slip and proportional (re)insurance contracts are generally written on a “risks attaching” basis, covering claims that relate to the underlying policies written during the terms of such contracts. As the underlying business incepts throughout the contract term (typically one year) and typically has a one-year coverage period, we generally earn these premiums evenly over a 24-month period.

FAIR VALUE MEASUREMENTS

Our estimates of fair value for financial assets and financial liabilities are based on the framework established in U.S. GAAP. This framework is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect our significant market assumptions. The three levels of the hierarchy are 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. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- 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 assumptions about assumptions that market participants might use.

Refer to Item 8, Note 6 to the Consolidated Financial Statements 'Fair Value Measurements' for further details on the valuation techniques and assumptions used in estimating the fair value of our financial instruments.

Our estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale, e.g., a forced transaction. Additionally, the valuation of fixed maturities is more subjective when markets are less liquid due to the lack of market based inputs, as was the case during the global financial market crisis in late 2008 and early 2009. This may lead us to change the selection of our valuation technique (from market to income approach) or may cause us to use multiple valuation techniques to estimate the fair value of a financial instrument. This circumstance may require significant management judgment and could cause an instrument to be reclassified between levels of the fair value hierarchy.

Fixed Maturities and Equities

At December 31, 2015, the fair value for 96% (2014: 97%) of our total fixed maturities and equities was based on prices provided by globally recognized independent pricing services where we have a current and detailed understanding of how their prices were derived. The remaining securities were priced by either non-binding broker quotes or internal valuation models.

Generally, we obtain quotes directly from broker-dealers who are active in the corresponding markets when prices are unavailable from independent pricing services. This may also be the case if the pricing from pricing services is not reflective of current market levels, as detected by our pricing control tolerance procedures. Generally, broker-dealers value securities through their trading desks based on observable market inputs. Their pricing methodologies include mapping securities based on trade data, bids or offers, observed spreads and performance on newly issued securities. They may also establish pricing through observing secondary trading of similar securities.

At December 31, 2015 and 2014, we have not adjusted any pricing provided by independent pricing services (see ‘Management Pricing Validation’ below). Additionally, our total Level 3 fixed maturities and equities amounted to $49 million (2014: $74 million), less than 1% of total fixed maturities and equities. Refer Item 8, Note 6 to the Consolidated Financial Statements 'Fair Value Measurements' for further information.

Management Pricing Validation

While we obtain pricing from pricing services and/or broker-dealers, management is ultimately responsible for determining the fair value measurements for all securities. To ensure fair value measurement is applied consistently and in accordance with U.S. GAAP, we annually update our understanding of the pricing methodologies used by the pricing services and broker-dealers.

We also challenge any prices we believe may not be representative of fair value under current market conditions. Our review process includes, but is not limited to: (i) initial and ongoing evaluation of the pricing methodologies and valuation models used by outside parties to calculate fair value; (ii) quantitative analysis; (iii) a review of multiple quotes obtained in the pricing process and the range of resulting fair values for each security, if available, and (iv) randomly selecting purchased or sold securities and comparing the executed prices to the fair value estimates provided by the independent pricing sources and broker-dealers.

Other Investments

Hedge Funds, Direct Lending Funds, Real Estate Funds and CLO Equity Funds

We measure the fair value for hedge, direct lending, real estate and CLO equity funds by obtaining the net asset value (NAV) as advised by our external fund manager or third party administrator. For any funds for which we did not receive a December 31, 2015 net asset value, we have recorded an estimate of the change in fair value for the latest period based on return estimates obtained from the fund managers and the inclusion of subscriptions, redemptions, drawdowns and distributions. Accordingly, we do not typically have a reporting lag in our fair value measurements for these funds. Historically, our estimated NAVs have not significantly diverged from the subsequent final audited

NAVs. Where we have the

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ability to liquidate our holdings at the reported NAV in the near term, these holdings are classified as Level 2 within the fair value hierarchy while the remaining holdings are classified as Level 3.

CLO – Equity Securities

We have also invested directly in CLO Equities, also known as "cash flow CLOs" in the industry. In 2015, the CLO – Equity market continues to be mostly inactive with only a small number of transactions being observed in the market and even fewer still involving deals we hold. With all of our direct investments in CLO - Equities past the end of their reinvestment period, there is uncertainty over the remaining time until maturity. As such our direct investments in CLO - Equities are valued at the lower of the liquidation value and our internal discounted cash flow modelled estimate of fair value. At December 31, 2015, the estimated fair value for CLO – Equities was $27 million (2014: $37 million).

The following significant inputs were used in the liquidation value.

At December 31,	2015	2014
Fair value of collateral	100%	—
Discount Margin	2.2% - 16.3%	—

The following significant inputs were used in our internal discounted cash flow model.

At December 31,	2015	2014
Default rates	4.0%	4.0% - 5.0%
Loss severity rate	53.5%	53.5%
Collateral spreads	3.2% - 3.5%	3.0% - 3.5%
Estimated maturity dates	2.6 - 4.1 years	3.1 - 4.2 years

Of these significant inputs, the default and loss severity rates are the most judgmental unobservable market inputs to which the valuation of CLO – Equities is most sensitive.

Actual default rates at November 30, 2015 for our CLO – Equities varied from 0% to 2.8% (November 30, 2014: 0% to 2.7%) on the remaining underlying collateral. While, on average, these default rates are much lower than our default rate assumptions noted above, we remain cautious on this favorable development given the continuing global economic uncertainty. Due to the use of significant unobservable inputs in our discounted cash flow model, we continue to classify the CLO – Equities as Level 3.

OTHER-THAN-TEMPORARY IMPAIRMENTS ("OTTI")

Because our available-for-sale ("AFS") investment portfolio is the largest component of our consolidated assets and a multiple of shareholders' equity, OTTI could be material to our financial condition and operating results particularly during periods of dislocation in the financial markets. During 2015, we recorded a total OTTI charge in earnings of $73 million (2014: $31 million; 2013: $9 million). Refer to the 'Net Investment Income and Net Realized Investment Gains (Losses)' section above for further details.

A security is "impaired" when its fair value is below its amortized cost (for fixed maturities) or cost (for equities). On a quarterly basis, we review all impaired AFS securities to determine if the impairment is other-than-temporary. The OTTI assessment is inherently judgmental, especially where securities have experienced severe declines in fair value in a short period. Our review process begins with a quantitative analysis to identify securities to be further evaluated for potential OTTI. For all identified securities, further fundamental analysis is performed that considers the following quantitative and qualitative factors:

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The length of time and extent to which the fair value has been less than the amortized cost for fixed maturities or cost for equity securities.

- The financial condition, near-term and long-term prospects for the issuer of the security, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.
- The historical and implied volatility of the fair value.
- The collateral structure and credit support.

The following provides further details regarding our OTTI recognition and processes for AFS fixed maturities and equity securities.

Fixed Maturities

For an impaired fixed maturity, we recognize an OTTI in earnings when we:

1) have the intent to sell the security,
2) more likely than not will be required to sell the security before its anticipated recovery, or
3) do not anticipate to recover fully the amortized cost based on projected cash flows to be collected (i.e. a credit loss exists).

For the first two criteria above, the OTTI charge is the entire difference between the security's fair value and its amortized cost. However, if the impairment arises due to an anticipated credit loss on the security (third criterion above), we recognize only the credit loss component of the OTTI amount in earnings with a corresponding adjustment to amortized cost (new cost basis). The non-credit component (e.g. interest rates, market conditions, etc.) of the OTTI amount is recognized in other comprehensive income in our shareholders' equity.

From time to time, we may sell fixed maturities subsequent to the balance sheet date that we did not intend to sell at the balance sheet date. Conversely, we may not sell fixed maturities that we previously asserted that we intended to sell at the balance sheet date. Such changes in intent may arise due to events occurring subsequent to the balance sheet date. The types of events that may result in a change in intent include, but are not limited to, significant changes in the economic facts and circumstances related to the specific issuer, changes in liquidity needs, or changes in tax laws or the regulatory environment.

For impaired investment-grade securities (i.e. rated BBB- or above) that we do not intend to sell and it is more likely than not that we will not be required to sell, we have established some parameters for identifying securities with potential credit impairments. Our parameters focus primarily on the extent and duration of the decline, including but not limited to:

- declines in value greater than 20% for nine consecutive months, and
- declines in value greater than 10% for twelve consecutive months.

For impaired securities held within our high yield portfolios (i.e. managed under a mandate to invest primarily in non-investment grade securities), we have established separate parameters for our credit loss assessment. Due to the additional volatility inherent in high yield securities relative to investment-grade securities, we focus on the severity of the impairment and work closely with our external high yield investment managers to identify securities with significant potential credit impairments.

If a security meets one of the above criteria, we then perform a fundamental analysis by considering the qualitative factors noted above. Our OTTI review process for credit impairment excludes all fixed maturities guaranteed by the U.S. government and its agencies because we anticipate these securities will not be settled below amortized costs. However, these securities are still evaluated for intention to sell at a loss.

The credit loss component of OTTI recognized in earnings is calculated based on the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to the impairment. The significant inputs and the methodology used to estimate the credit losses are disclosed in Item 8, Note 5(e) to the Consolidated Financial Statements 'Investments'.

Equities
We consider our ability and intent to hold an equity security in an unrealized loss position for a reasonable period of time to allow for a full recovery. As an equity security does not have a maturity date, the forecasted recovery for an equity security is inherently more judgmental than for a fixed maturity security.
In light of the volatile global equity markets we have experienced in recent years, we generally impair any equities for which we do not forecast a recovery to cost within two years. Further, we generally impair an equity security if its value is below its cost by 15%. We have also established parameters for identifying potential impaired equity securities for fundamental analysis based on the severity, in either percentage or absolute dollar terms, of the unrealized loss position.
From time to time, we may sell our AFS equities subsequent to the balance sheet date that were considered temporarily impaired at the balance sheet date. This may occur due to events occurring subsequent to the balance sheet date that result in a change in our intent or ability to hold an equity security. Such subsequent events that may result in a sale include significant deterioration in the financial condition of the issuer, significant unforeseen changes in our liquidity needs, or changes in tax laws or the regulatory environment.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Item 8, Note 2(m) to the Consolidated Financial Statements 'Significant Accounting Policies' for a discussion of recently issued accounting pronouncements that we have not yet adopted and refer to Item 8, Note 2(l) to the Consolidated Financial Statements 'Significant Accounting Policies' for a discussion on the early adoption of the new consolidation standard ASU 2015-02.

OFF-BALANCE SHEET AND SPECIAL PURPOSE ENTITY ARRANGEMENTS

At December 31, 2015, the Company is not party to any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K to which an entity unconsolidated with the Company is a party that management believes is reasonably likely to have a current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that the Company believes is material to investors.

NON-GAAP FINANCIAL MEASURES

In this report, we present operating income, consolidated underwriting income and underwriting-related general and administrative expenses, which are “non-GAAP financial measures” as defined in Regulation G.
Operating income represents after-tax operational results without consideration of after-tax net realized investment gains (losses), foreign exchange gains (losses), termination fee received, reorganization and related expenses and losses on repurchase of preferred shares. We also present diluted operating income per common share and operating return on average common equity (“operating ROACE”), which are derived from the non-GAAP operating income measure.
Consolidated 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. 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 these measures are presented in Item 8, Note 3 to the Consolidated Financial Statements 'Segment Information', they are considered non-GAAP financial measures when presented elsewhere on a consolidated basis.

Operating income, diluted operating income per common share and operating ROACE can be reconciled to the nearest GAAP financial measures as follows:

Year ended December 31,	2015	2014	2013
Net income available to common shareholders	$601,562	$770,657	$683,910
Net realized investment (gains) losses, net of tax[1]	135,320	(106,196)	(77,603)
Foreign exchange losses (gains), net of tax[2]	(99,291)	(101,586)	23,684
Termination fee received[3]	(280,000)	—	—
Reorganization and related expenses, net of tax[4]	42,924	—	—
Loss on repurchase of preferred shares, net of tax[3]	—	—	3,081
Operating income	$400,515	$562,875	$633,072
Earnings per common share - diluted	$6.04	$7.29	$5.93
Net realized investment (gains) losses, net of tax	1.36	(1.00)	(0.68)
Foreign exchange losses (gains), net of tax	(1.00)	(0.97)	0.21
Termination fee received	(2.81)	—	—
Reorganization and related expenses, net of tax	0.43	—	—