GOLDMAN SACHS GROUP INC
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The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated February 25, 2019.

GS Finance Corp.

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Buffered Digital S&P 500® Index-Linked Notes due

guaranteed by

The Goldman Sachs Group, Inc.

The notes do not bear interest. The amount that you will be paid on your notes on the stated maturity date (expected to be the second scheduled business day after the determination date) is based on the performance of the S&P 500® Index as measured from the trade date to and including the determination date (expected to be between 15 and 17 months after the trade date).

If the final index level on the determination date is greater than or equal to the initial index level (set on the trade date and may be higher or lower than the actual closing level of the index on that date), you will receive the maximum settlement amount (expected to be between $1,087.1 and $1,102.2 for each $1,000 face amount of your notes). If the final index level declines by up to 10% from the initial index level, you will receive the face amount of your notes.

If the final index level declines by more than 10% from the initial index level, the return on your notes will be negative and you will lose approximately 1.1111% of the face amount of your notes equal to the buffer rate (approximately 1.1111% calculated as described on page PS-5) for every 1% that the final index level has declined below 90% of the initial index level. See page PS-5. You could lose a significant portion of the face amount of your notes.

To determine your payment at maturity, we will calculate the index return, which is the percentage increase or decrease in the final index level from the initial index level. At maturity, for each $1,000 face amount of your notes, you will receive an amount in cash equal to:

if the index return is positive or zero (the final index level is greater than or equal to the initial index level), the maximum settlement amount;

if the index return is negative but not below -10% (the final index level is less than the initial index level, but not by more than 10%), $1,000; or

if the index return is negative and is below -10% (the final index level is less than the initial index level by more than 10%), the sum of (i) $1,000 plus (ii) the product of (a) the buffer rate of 111.11% (see page PS-5) times (b) the sum of the index return plus 10% times (c) $1,000. You will receive less than the face amount of your notes.

You should read the disclosure herein to better understand the terms and risks of your investment, including the credit risk of GS Finance Corp. and The Goldman Sachs Group, Inc. See page PS-12.

The estimated value of your notes at the time the terms of your notes are set on the trade date is expected to be between $960 and $990 per $1,000 face amount. For a discussion of the estimated value and the price at which Goldman Sachs & Co. LLC would initially buy or sell your notes, if it makes a market in the notes, see the following page.

Original issue date:	, 2019	Original issue price:	100% of the face amount
Underwriting discount:	% of the face amount	Net proceeds to the issuer:	% of the face amount

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense. The notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

Goldman Sachs & Co. LLC

Pricing Supplement No. dated , 2019.

The issue price, underwriting discount and net proceeds listed above relate to the notes we sell initially. We may decide to sell additional notes after the date of this pricing supplement, at issue prices and with underwriting discounts and net proceeds that differ from the amounts set forth above. The return (whether positive or negative) on your investment in notes will depend in part on the issue price you pay for such notes.

GS Finance Corp. may use this prospectus in the initial sale of the notes. In addition, Goldman Sachs & Co. LLC or any other affiliate of GS Finance Corp. may use this prospectus in a market-making transaction in a note after its initial sale. Unless GS Finance Corp. or its agent informs the purchaser otherwise in the confirmation of sale, this prospectus is being used in a market-making transaction.

Estimated Value of Your Notes

The estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by Goldman Sachs & Co. LLC (GS&Co.) and taking into account our credit spreads) is expected to be between $960 and $990 per $1,000 face amount, which is less than the original issue price. The value of your notes at any time will reflect many factors and cannot be predicted; however, the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would initially buy or sell notes (if it makes a market, which it is not obligated to do) and the value that GS&Co. will initially use for account statements and otherwise is equal to approximately the estimated value of your notes at the time of pricing, plus an additional amount (initially equal to $ per $1,000 face amount).

Prior to , the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would buy or sell your notes (if it makes a market, which it is not obligated to do) will equal approximately the sum of (a) the then-current estimated value of your notes (as determined by reference to GS&Co.'s pricing models) plus (b) any remaining additional amount (the additional amount will decline to zero on a straight-line basis from the time of pricing through). On and after , the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would buy or sell your notes (if it makes a market) will equal approximately the then-current estimated value of your notes determined by reference to such pricing models.

About Your Prospectus

The notes are part of the Medium-Term Notes, Series E program of GS Finance Corp. and are fully and unconditionally guaranteed by The Goldman Sachs Group, Inc. This prospectus includes this pricing supplement and the accompanying documents listed below. This pricing supplement constitutes a supplement to the documents listed below, does not set forth all of the terms of your notes and therefore should be read in conjunction with such documents:

Product supplement no. 1,742 dated July 10, 2017

General terms supplement no. 1,734 dated July 10, 2017

Prospectus supplement dated July 10, 2017

Prospectus dated July 10, 2017

The information in this pricing supplement supersedes any conflicting information in the documents listed above. In addition, some of the terms or features described in the listed documents may not apply to your notes.

We refer to the notes we are offering by this pricing supplement as the "offered notes" or the "notes". Each of the offered notes has the terms described below. Please note that in this pricing supplement, references to "GS Finance Corp.", "we", "our" and "us" mean only GS Finance Corp. and do not include its subsidiaries or affiliates, references to "The Goldman Sachs Group, Inc.", our parent company, mean only The Goldman Sachs Group, Inc. and do not include its subsidiaries or affiliates and references to "Goldman Sachs" mean The Goldman Sachs Group, Inc. together with its consolidated subsidiaries and affiliates, including us. The notes will be issued under the senior debt indenture, dated as of October 10, 2008, as supplemented by the First Supplemental Indenture, dated as of February 20, 2015, each among us, as issuer, The Goldman Sachs Group, Inc., as guarantor, and The Bank of New York Mellon, as trustee. This indenture, as so supplemented and as further supplemented thereafter, is referred to as the "GSFC 2008 indenture" in the accompanying prospectus supplement. The notes will be issued in book-entry form and represented by a master global note.

[redacted]

[redacted]

You should be willing to forgo:

- gains greater than a maximum settlement amount of between 108.71% and 110.22% of the face amount in exchange for a buffer against loss of principal in the event of a decline of up to 10% in the final underlier level relative to the initial underlier level.
- interest payments and risk losing your entire investment for the potential to earn a maximum settlement amount of between 108.71% and 110.22% of the face amount if the underlier return is positive or zero.

Your maximum return on your notes will not be greater than between 8.71% and 10.22%, and you could lose all or a portion of your investment if the underlier return is less than -10%.

[redacted]

At maturity, for each $1,000 face amount, the investor will receive (in each case as a percentage of the face amount):

- if the final underlier level is greater than or equal to 100% of the initial underlier level, a maximum settlement amount of between 108.71% and 110.22%;
- if the final underlier level is less than 100% of the initial underlier level but greater than or equal to 90% of the initial underlier level, 100%; or
- if the final underlier level is less than 90% of the initial underlier level, 100% minus approximately 1.1111% for every 1% that the final underlier level has declined below 90% of the initial underlier level

If the final underlier level declines by more than 10% from the initial underlier level, the return on the notes will be negative and the investor could lose their entire investment in the notes.

[redacted]

Issuer:	GS Finance Corp.
Guarantor:	The Goldman Sachs Group, Inc.
Underlier:	The S&P 500® Index (current Bloomberg symbol: "SPX Index")
Face Amount:	$ in the aggregate; each note will have a face amount equal to $1,000
Trade Date:	
Settlement Date:	Expected to be the fifth scheduled business day following the trade date
Determination Date:	Expected to be between 15 and 17 months following the trade date
Stated Maturity Date:	Expected to be the second scheduled business day following the determination date
Initial Underlier Level:	To be determined on the trade date
Final Underlier Level:	The closing level of the underlier on the determination date
Underlier Return:	The quotient of (i) the final underlier level minus the initial underlier level divided by (ii) the initial underlier level, expressed as a positive or negative percentage
Threshold Level:	100% of the initial underlier level
Threshold Settlement Amount:	Expected to be between $1,087.1 and $1,102.2
Buffer Level:	90% of the initial underlier level
Buffer Amount:	10%
Buffer Rate:	The quotient of the initial underlier level divided by the buffer level, which equals approximately 111.11%
Maximum Settlement Amount:	The threshold settlement amount
Cap Level:	Expected to be between 108.71% and 110.22% of the initial underlier level

CUSIP/ISIN: 40056EXZ6 / US40056EXZ68

[redacted]

* assumes a cap level set at the bottom of the cap level range (between 108.71% and 110.22% of the initial underlier level)

[redacted]

Please read the section entitled “Additional Risk Factors Specific to Your Notes” of this pricing supplement as well as the risks and considerations described in the accompanying prospectus dated July 10, 2017, in the accompanying prospectus supplement dated July 10, 2017, under “Additional Risk Factors Specific to the Underlier-Linked Digital Notes” in the accompanying product supplement no. 1,742 dated July 10, 2017, and under “Additional Risk Factors Specific to the Notes” in the accompanying general terms supplement no. 1,734 dated July 10, 2017.

Terms AND CONDITIONS

(Terms From Pricing Supplement No.   Incorporated Into Master Note No. 2)

These terms and conditions relate to pricing supplement no.   dated   , 2019 of GS Finance Corp. and The Goldman Sachs Group, Inc. with respect to the issuance by GS Finance Corp. of its Buffered Digital S&P 500® Index-Linked Notes due   and the guarantee thereof by The Goldman Sachs Group, Inc.

The provisions below are hereby incorporated into master note no. 2, dated August 22, 2018. References herein to "this note" shall be deemed to refer to "this security" in such master note no. 2, dated August 22, 2018. Certain defined terms may not be capitalized in these terms and conditions even if they are capitalized in master note no. 2, dated August 22, 2018. Defined terms that are not defined in these terms and conditions shall have the meanings indicated in such master note no. 2, dated August 22, 2018, unless the context otherwise requires.

CUSIP / ISIN: 40056EXZ6 / US40056EXZ68

Company (Issuer): GS Finance Corp.

Guarantor: The Goldman Sachs Group, Inc.

Underlier: the S&P 500® Index (current Bloomberg symbol: "SPX Index"), or any successor underlier, as it may be modified, replaced or adjusted from time to time as provided herein

Face amount: $ in the aggregate on the original issue date; the aggregate face amount may be increased if the company, at its sole option, decides to sell an additional amount on a date subsequent to the trade date.

Authorized denominations: $1,000 or any integral multiple of $1,000 in excess thereof

Principal amount: On the stated maturity date, the company will pay, for each $1,000 of the outstanding face amount, an amount, if any, in cash equal to the cash settlement amount.

Cash settlement amount:

- if the final underlier level is greater than or equal to the threshold level, the threshold settlement amount;
- if the final underlier level is less than the threshold level but greater than or equal to the buffer level, $1,000; or
- if the final underlier level is less than the buffer level, the sum of (1) $1,000 plus (2) the product of (i) $1,000 times (ii) the buffer rate times (iii) the sum of the underlier return plus the buffer amount

Initial underlier level (set on the trade date):

Final underlier level: the closing level of the underlier on the determination date, subject to adjustment as provided in "— Consequences of a market disruption event or non-trading day" and "— Discontinuance or modification of the underlier" below

Threshold level: 100% of the initial underlier level

Cap level: expected to be between 108.71% and 110.22% of the initial underlier level

Threshold settlement amount (set on the trade date): expected to be between $1,087.1 and $1,102.2

Maximum settlement amount (set on the trade date): the threshold settlement amount

Underlier return: the quotient of (1) the final underlier level minus the initial underlier level divided by (2) the initial underlier level, expressed as a percentage

Buffer level: 90% of the initial underlier level

Buffer rate: the quotient of the initial underlier level divided by the buffer level, which equals approximately 111.11%

Buffer amount: 10%

Trade date:

Original issue date (set on the trade date): expected to be the fifth scheduled business day following the trade date

Determination date (set on the trade date): a specified date that is expected to be between 15 and 17 months following the trade date, unless the calculation agent determines that a market disruption event occurs or is continuing on such day or such day is not a trading day. In that event, the determination date will be the first following trading day on which the calculation agent determines that a market disruption event does not occur and is not continuing. However, the determination date will not be postponed to a date later than the originally scheduled stated maturity date or, if the originally scheduled stated maturity date is not a business day, later than the first business day after the originally scheduled stated maturity date. If a market disruption event occurs or is continuing on the day that is the last possible determination date or such last possible day is not a trading day, that day will nevertheless be the determination date.

Stated maturity date (set on the trade date): a specified date that is expected to be the second scheduled business day following the determination date, unless that day is not a business day, in which case the stated maturity date will be postponed to the next following business day. The stated maturity date will also be postponed if the determination date is postponed as described under "— Determination date" above. In such a case, the stated maturity date will be postponed by the same number of business day(s) from but excluding the originally scheduled determination date to and including the actual determination date.

Closing level: for any given trading day, the official closing level of the underlier or any successor underlier published by the underlier sponsor on such trading day

Trading day: a day on which the respective principal securities markets for all of the underlier stocks are open for trading, the underlier sponsor is open for business and the underlier is calculated and published by the underlier sponsor

Successor underlier: any substitute underlier approved by the calculation agent as a successor underlier as provided under "— Discontinuance or modification of the underlier" below

Underlier sponsor: at any time, the person or entity, including any successor sponsor, that determines and publishes the underlier as then in effect. The notes are not sponsored, endorsed, sold or promoted by the underlier sponsor or any of its affiliates and the underlier sponsor and its affiliates make no representation regarding the advisability of investing in the notes.

Underlier stocks: at any time, the stocks that comprise the underlier as then in effect, after giving effect to any additions, deletions or substitutions

Market disruption event: With respect to any given trading day, any of the following will be a market disruption event with respect to the underlier:

- a suspension, absence or material limitation of trading in underlier stocks constituting 20% or more, by weight, of the underlier on their respective primary markets, in each case for more than two consecutive hours of trading or during the one-half hour before the close of trading in that market, as determined by the calculation agent in its sole discretion,
- a suspension, absence or material limitation of trading in option or futures contracts relating to the underlier or to underlier stocks constituting 20% or more, by weight, of the underlier in the respective primary markets for those contracts, in each case for more than two consecutive hours of trading or during the one-half hour before the close of trading in that market, as determined by the calculation agent in its sole discretion, or
- underlier stocks constituting 20% or more, by weight, of the underlier, or option or futures contracts, if available, relating to the underlier or to underlier stocks constituting 20% or more, by weight, of the underlier do not trade on what were the respective primary markets for those underlier stocks or contracts, as determined by the calculation agent in its sole discretion,

and, in the case of any of these events, the calculation agent determines in its sole discretion that such event could materially interfere with the ability of the company or any of its affiliates or a similarly situated person to unwind all or a material portion of a hedge that could be effected with respect to this note.

The following events will not be market disruption events:

- a limitation on the hours or numbers of days of trading, but only if the limitation results from an announced change in the regular business hours of the relevant market, and
- a decision to permanently discontinue trading in option or futures contracts relating to the underlier or to any underlier stock.

For this purpose, an "absence of trading" in the primary securities market on which an underlier stock is traded, or on which option or futures contracts relating to the underlier or an underlier stock are traded, will not include any time when that market is itself closed for trading under ordinary circumstances. In contrast, a suspension or limitation of trading in an underlier stock or in option or futures contracts, if available, relating to the underlier or an underlier stock in the primary market for that stock or those contracts, by reason of:

- a price change exceeding limits set by that market,
- an imbalance of orders relating to that underlier stock or those contracts, or
- a disparity in bid and ask quotes relating to that underlier stock or those contracts,

will constitute a suspension or material limitation of trading in that stock or those contracts in that market.

Consequences of a market disruption event or a non-trading day: If a market disruption event occurs or is continuing on a day that would otherwise be the determination date or such day is not a trading day, then the determination date will be postponed as described under "— Determination date" above.

If the calculation agent determines that the closing level of the underlier that must be used to determine the cash settlement amount is not available on the postponed determination date because of a market disruption event, a non-trading day or for any other reason (except as described under "— Discontinuance or modification of the underlier" below), the calculation agent will nevertheless determine the closing level of the underlier based on its assessment, made in its sole discretion, of the level of the underlier on that day.

Discontinuance or modification of the underlier: If the underlier sponsor discontinues publication of the underlier and the underlier sponsor or any other person or entity publishes a substitute underlier that the calculation agent determines is comparable to the underlier and approves as a successor underlier, or if the calculation agent designates a substitute underlier, then the calculation agent will determine the amount payable on the stated maturity date by reference to such successor underlier.

If the calculation agent determines that the publication of the underlier is discontinued and there is no successor underlier, the calculation agent will determine the amount payable on the stated maturity date by a computation methodology that the calculation agent determines will as closely as reasonably possible replicate the underlier.

If the calculation agent determines that the underlier, the underlier stocks or the method of calculating the underlier is changed at any time in any respect - including any split or reverse-split of the underlier and any addition, deletion or substitution and any reweighting or rebalancing of the underlier stocks and whether the change is made by the underlier sponsor under its existing policies or following a modification of those policies, is due to the publication of a successor underlier, is due to events affecting one or more of the underlier stocks or their issuers or is due to any other reason - and is not otherwise reflected in the level of the underlier by the underlier sponsor pursuant to the then-current underlier methodology of the underlier, then the calculation agent will be permitted (but not required) to make such adjustments in the underlier or the method of its calculation as it believes are appropriate to ensure that the final underlier level, used to determine the amount payable on the stated maturity date, is equitable.

All determinations and adjustments to be made by the calculation agent with respect to the underlier may be made by the calculation agent in its sole discretion. The calculation agent is not obligated to make any such adjustments.

Calculation agent: Goldman Sachs & Co. LLC ("GS&Co.")

Tax characterization: The holder, on behalf of itself and any other person having a beneficial interest in this note, hereby agrees with the company (in the absence of a change in law, an administrative determination or a judicial ruling to the contrary) to characterize this note for all U.S. federal income tax purposes as a pre-paid derivative contract in respect of the underlier.

Overdue principal rate: the effective Federal Funds rate

HYPOTHETICAL EXAMPLES

The following examples are provided for purposes of illustration only. They should not be taken as an indication or prediction of future investment results and merely are intended to illustrate the impact that the various hypothetical underlier levels on the determination date could have on the cash settlement amount at maturity assuming all other variables remain constant.

The examples below are based on a range of final underlier levels that are entirely hypothetical; the underlier level on any day throughout the life of the notes, including the final underlier level on the determination date, cannot be predicted. The underlier has been highly volatile in the past — meaning that the underlier level has changed considerably in relatively short periods — and its performance cannot be predicted for any future period.

The information in the following examples reflects hypothetical rates of return on the offered notes assuming that they are purchased on the original issue date at the face amount and held to the stated maturity date. If you sell your notes in a secondary market prior to the stated maturity date, your return will depend upon the market value of your notes at the time of sale, which may be affected by a number of factors that are not reflected in the table below, such as interest rates, the volatility of the underlier, the creditworthiness of GS Finance Corp., as issuer, and the creditworthiness of The Goldman Sachs Group, Inc., as guarantor. In addition, the estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by GS&Co.) is less than the original issue price of your notes. For more information on the estimated value of your notes, see "Additional Risk Factors Specific to Your Notes — The Estimated Value of Your Notes At the Time the Terms of Your Notes Are Set On the Trade Date (as Determined By Reference to Pricing Models Used By GS&Co.) Is Less Than the Original Issue Price Of Your Notes" on page PS-12 of this pricing supplement. The information in the examples also reflects the key terms and assumptions in the box below.

Key Terms and Assumptions	
Face amount	$1,000
Threshold settlement amount	$1,087.1
Threshold level	100% of the initial underlier level
Cap level	108.71% of the initial underlier level
Maximum settlement amount	$1,087.1
Buffer level	90% of the initial underlier level
Buffer rate	approximately 111.11%
Buffer amount	10%
Neither a market disruption event nor a non-trading day occurs on the originally scheduled determination date	
No change in or affecting any of the underlier stocks or the method by which the underlier sponsor calculates the underlier	
Notes purchased on original issue date at the face amount and held to the stated maturity date	

Moreover, we have not yet set the initial underlier level that will serve as the baseline for determining the underlier return and the amount that we will pay on your notes, if any, at maturity. We will not do so until the trade date. As a result, the actual initial underlier level may differ substantially from the underlier level prior to the trade date and may be higher or lower than the actual closing level of the underlier on that date.

For these reasons, the actual performance of the underlier over the life of your notes, as well as the amount payable at maturity, if any, may bear little relation to the hypothetical examples shown below or to the historical underlier levels shown elsewhere in this pricing supplement. For information about the historical levels of the underlier during recent periods, see "The Underlier — Historical Closing Levels of the Underlier" below. Before investing in the offered notes, you should consult publicly available information to determine the levels of the underlier between the date of this pricing supplement and the date of your purchase of the offered notes.

Also, the hypothetical examples shown below do not take into account the effects of applicable taxes. Because of the U.S. tax treatment applicable to your notes, tax liabilities could affect the after-tax rate of return on your notes to a comparatively greater extent than the after-tax return on the underlier stocks.

The levels in the left column of the table below represent hypothetical final underlier levels and are expressed as percentages of the initial underlier level. The amounts in the right column represent the hypothetical cash settlement amounts, based on the corresponding hypothetical final underlier level, and are expressed as percentages of the face amount of a note (rounded to the nearest one-thousandth of a percent). Thus, a hypothetical cash settlement amount of 100.000% means that the value of the cash payment that we would deliver for each $1,000 of the outstanding face amount of the offered notes on the stated maturity date would equal 100.000% of the face amount of a note, based on the corresponding hypothetical final underlier level and the assumptions noted above.

Hypothetical Final Underlier Level (as Percentage of Initial Underlier Level)	Hypothetical Cash Settlement Amount (as Percentage of Face Amount)
200.000%	108.710%
175.000%	108.710%
150.000%	108.710%
125.000%	108.710%
100.000%	108.710%
99.999%	100.000%
95.000%	100.000%
90.000%	100.000%
75.000%	83.333%
50.000%	55.556%
25.000%	27.778%
0.000%	0.000%

If, for example, the final underlier level were determined to be 25.000% of the initial underlier level, the cash settlement amount that we would deliver on your notes at maturity would be approximately 27.778% of the face amount of your notes, as shown in the table above. As a result, if you purchased your notes on the original issue date at the face amount and held them to the stated maturity date, you would lose approximately 72.222% of your investment (if you purchased your notes at a premium to face amount you would lose a correspondingly higher percentage of your investment). If the final underlier level were determined to be 0.000% of the initial underlier level, you would lose your entire investment in the notes. In addition, if the final underlier level were determined to be 200.000% of the initial underlier level, the cash settlement amount that we would deliver on your notes at maturity would be capped at the maximum settlement amount, or 108.710% of each $1,000 face amount of your notes, as shown in the table above. As a result, if you held your notes to the stated maturity date, you would not benefit from any increase in the final underlier level of over 100.000% of the initial underlier level.

The following chart shows a graphical illustration of the hypothetical cash settlement amounts that we would pay on your notes on the stated maturity date, if the final underlier level were any of the hypothetical levels shown on the horizontal axis. The hypothetical cash settlement amounts in the chart are expressed as percentages of the face amount of your notes and the hypothetical final underlier levels are expressed as percentages of the initial underlier level. The chart shows that any hypothetical final underlier level of less than 90.000% (the section left of the 90.000% marker on the horizontal axis) would result in a hypothetical cash settlement amount of less than 100.000% of the face amount of your notes (the section below the 100.000% marker on the vertical axis) and, accordingly, in a loss of principal to the holder of the notes. The chart also shows that any hypothetical final underlier level of greater than or equal to 100.000% (the section right of the 100.000% marker on the horizontal axis) would result in a capped return on your investment.

The cash settlement amounts shown above are entirely hypothetical; they are based on market prices for the underlier stocks that may not be achieved on the determination date and on assumptions that may prove to be erroneous. The actual market value of your notes on the stated maturity date or at any other time, including any time you may wish to sell your notes, may bear little relation to the hypothetical cash settlement amounts shown above, and these amounts should not be viewed as an indication of the financial return on an investment in the offered notes. The hypothetical cash settlement amounts on notes held to the stated maturity date in the examples above assume you purchased your notes at their face amount and have not been adjusted to reflect the actual issue price you pay for your notes. The return on your investment (whether positive or negative) in your notes will be affected by the amount you pay for your notes. If you purchase your notes for a price other than the face amount, the return on your investment will differ from, and may be significantly lower than, the hypothetical returns suggested by the above examples. Please read “Additional Risk Factors Specific to the Underlier-Linked Digital Notes — The Market Value of Your Notes May Be Influenced by Many Unpredictable Factors” on page S-33 of the accompanying product supplement no. 1,742.

Payments on the notes are economically equivalent to the amounts that would be paid on a combination of other instruments. For example, payments on the notes are economically equivalent to a combination of an interest-bearing bond bought by the holder and one or more options entered into between the holder and us (with one or more implicit option premiums paid over time). The discussion in this paragraph does not modify or affect the terms of the notes or the U.S. federal income tax treatment of the notes, as described elsewhere in this pricing supplement.

We cannot predict the actual final underlier level or what the market value of your notes will be on any particular trading day, nor can we predict the relationship between the underlier level and the market value of your notes at any time prior to the stated maturity date. The actual amount that you will receive, if any, at maturity and the rate of return on the offered notes will depend on the actual initial underlier level, the cap level, the threshold settlement amount and the maximum settlement amount, which we will set on the trade date, and the actual final underlier level determined by the calculation agent as described above. Moreover, the assumptions on which the hypothetical returns are based may turn out to be inaccurate. Consequently, the amount of cash to be paid in respect of your notes, if any, on the stated maturity date may be very different from the information reflected in the examples above.

ADDITIONAL RISK FACTORS SPECIFIC TO YOUR NOTES

An investment in your notes is subject to the risks described below, as well as the risks and considerations described in the accompanying prospectus, in the accompanying prospectus supplement, under "Additional Risk Factors Specific to the Notes" in the accompanying general terms supplement no. 1,734 and under "Additional Risk Factors Specific to the Underlier-Linked Digital Notes" in the accompanying product supplement no. 1,742. You should carefully review these risks and considerations as well as the terms of the notes described herein and in the accompanying prospectus, the accompanying prospectus supplement, the accompanying general terms supplement no. 1,734 and the accompanying product supplement no. 1,742. Your notes are a riskier investment than ordinary debt securities. Also, your notes are not equivalent to investing directly in the underlier stocks, i.e., the stocks comprising the underlier to which your notes are linked. You should carefully consider whether the offered notes are suited to your particular circumstances.

The Estimated Value of Your Notes At the Time the Terms of Your Notes Are Set On the Trade Date (as Determined By Reference to Pricing Models Used By GS&Co.) Is Less Than the Original Issue Price Of Your Notes

The original issue price for your notes exceeds the estimated value of your notes as of the time the terms of your notes are set on the trade date, as determined by reference to GS&Co.'s pricing models and taking into account our credit spreads. Such estimated value on the trade date is set forth above under "Estimated Value of Your Notes"; after the trade date, the estimated value as determined by reference to these models will be affected by changes in market conditions, the creditworthiness of GS Finance Corp., as issuer, the creditworthiness of The Goldman Sachs Group, Inc., as guarantor, and other relevant factors. The price at which GS&Co. would initially buy or sell your notes (if GS&Co. makes a market, which it is not obligated to do), and the value that GS&Co. will initially use for account statements and otherwise, also exceeds the estimated value of your notes as determined by reference to these models. As agreed by GS&Co. and the distribution participants, this excess (i.e., the additional amount described under "Estimated Value of Your Notes") will decline to zero on a straight line basis over the period from the date hereof through the applicable date set forth above under "Estimated Value of Your Notes". Thereafter, if GS&Co. buys or sells your notes it will do so at prices that reflect the estimated value determined by reference to such pricing models at that time. The price at which GS&Co. will buy or sell your notes at any time also will reflect its then current bid and ask spread for similar sized trades of structured notes.

(in thousands, except for per share amounts)
Revenues

Net premiums earned
$
1,185,548

$
981,431

$
2,352,950

$
1,920,133

Net investment income
109,960

106,063

210,961

204,728

Other insurance related income (losses)
3,730

2,560

10,335

(1,222
)
Bargain purchase gain
—

15,044

—

15,044

Net investment losses:

Other-than-temporary impairment ("OTTI") losses
(1,674
)

(1,528
)

(2,088
)

(8,082
)
Other realized and unrealized investment losses
(43,419
)

(2,864
)

(57,835
)

(21,361
)
Total net investment losses
(45,093
)

(4,392
)

(59,923
)

(29,443
)
Total revenues
1,254,145

1,100,706

2,514,323

2,109,240

Expenses

Net losses and loss expenses
706,641

605,332

1,367,986

1,212,273

Acquisition costs
231,952

204,361

461,212

394,153

General and administrative expenses
165,213

147,816

335,049

309,075

Foreign exchange losses (gains)

(44,099
)

36,118

(6,239
)

57,583

Interest expense and financing costs
17,098

12,751

33,861

25,543

Reorganization expenses
18,772

—

31,825

—

Amortization of value of business acquired
53,407

—

110,517

—

Amortization of intangible assets
4,029

—

6,811

—

Total expenses
1,153,013

1,006,378

2,341,022

1,998,627

Income before income taxes and interest in income (loss) of equity method investments
101,132

94,328

173,301

110,613

Income tax (expense) benefit
(996
)

3,333

40

12,670

Interest in income (loss) of equity method investments
3,378

(1,975
)

3,378

(7,741
)
Net income
103,514

95,686

176,719

115,542

Preferred share dividends
10,656

10,656

21,313

25,497

Net income available to common shareholders
$
92,858

$
85,030

$
155,406

$

90,045

Per share data

Net income per common share:

Basic net income
$
1.11

$
1.01

$
1.86

$
1.06

Diluted net income
$
1.11

$
1.01

$
1.85

$
1.05

Weighted average number of common shares outstanding - basic
83,539

84,141

83,431

85,076

Weighted average number of common shares outstanding - diluted
83,984

84,511

83,853

85,647

Cash dividends declared per common share
$
0.39

$
0.38

$
0.78

$
0.76

See accompanying notes to Consolidated Financial Statements.

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

	Three months ended		Six months ended	
	2018	2017	2018	2017
	(in thousands)			
Net income	$103,514	$95,686	$176,719	$115,542
Other comprehensive income (loss), net of tax:				
Available for sale investments:				
Unrealized investment gains (losses) arising during the period	(105,280)	76,243	(217,434)	143,953
Adjustment for reclassification of net realized investment gains (losses) and OTTI losses recognized in net income	36,456	(1,503)	37,240	23,458
Unrealized investment gains (losses) arising during the period, net of reclassification adjustment	(68,824)	74,740	(180,194)	167,411
Foreign currency translation adjustment	(9,129)	8,867	(7,858)	38,736
Total other comprehensive income (loss), net of tax	(77,953)	83,607	(188,052)	206,147
Comprehensive income (loss)	$25,561	$179,293	$(11,333)	$321,689

See accompanying notes to Consolidated Financial Statements.

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

	2018	2017
	(in thousands)	
Preferred shares		
Balance at beginning of period	$775,000	$1,126,074
Shares repurchased	—	(351,074)
Balance at end of period	$775,000	$775,000
Common shares (par value)		
Balance at beginning and end of period	2,206	2,206
Additional paid-in capital		
Balance at beginning of period	2,299,166	2,299,857
Treasury shares reissued	(21,879)	(38,840)
Share-based compensation expense	18,346	22,506
Balance at end of period	2,295,633	2,283,523
Accumulated other comprehensive income (loss)		
Balance at beginning of period	92,382	(121,841)
Unrealized gains (losses) on available for sale investments, net of tax:		
Balance at beginning of period	89,962	(82,323)
Cumulative effect of adoption of ASU No. 2018-02	2,106	—
Cumulative effect of adoption of ASU No. 2016-01, net of taxes	(69,604)	—
Unrealized gains (losses) arising during the period	(180,194)	167,411
Balance at end of period	(157,730)	85,088
Cumulative foreign currency translation adjustments, net of tax:		
Balance at beginning of period	2,420	(39,518)
Foreign currency translation adjustment	(7,858)	38,736
Balance at end of period	(5,438)	(782)
Balance at end of period	(163,168)	84,306
Retained earnings		
Balance at beginning of period	5,979,666	6,527,627
Cumulative effect of adoption of ASU No. 2018-02	(2,106)	—
Cumulative effect of adoption of ASU No. 2016-01, net of taxes	69,604	—
Net income	176,719	115,542
Preferred share dividends	(21,313)	(25,497)
Common share dividends	(66,945)	(65,871)
Balance at end of period	6,135,625	6,551,801
Treasury shares, at cost		
Balance at beginning of period	(3,807,156)	(3,561,553)
Shares repurchased	(8,676)	(282,313)
Shares reissued	23,541	39,725

Balance at end of period	(3,792,291)	(3,804,141)
Total shareholders' equity	$5,253,005	$5,892,695

See accompanying notes to Consolidated Financial Statements.

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

	2018	2017
	(in thousands)	
Cash flows from operating activities:		
Net income	$176,719	$115,542
Adjustments to reconcile net income to net cash provided by operating activities:		
Net investment losses	54,002	29,443
Net realized and unrealized gains on other investments	(26,876)	(40,226)
Amortization of fixed maturities	15,642	20,740
Interest in income (loss) of equity method investments	(1,891)	7,741
Amortization of value of business acquired	110,517	—
Other amortization and depreciation	22,680	12,638
Share-based compensation expense, net of cash payments	11,707	(10,846)
Non-cash foreign exchange losses	—	24,149
Bargain purchase gain	—	(15,044)
Changes in:		
Accrued interest receivable	(1,839)	4,208
Reinsurance recoverable balances	(283,733)	242,437
Deferred acquisition costs	(240,320)	(151,633)
Prepaid reinsurance premiums	(361,482)	(180,107)
Reserve for loss and loss expenses	118,803	8,015
Unearned premiums	991,992	724,407
Insurance and reinsurance balances, net	(654,090)	(540,557)
Other items	25,718	(102,014)
Net cash provided by (used in) operating activities	(42,451)	148,893
Cash flows from investing activities:		
Purchases of:		
Fixed maturities	(4,910,021)	(4,766,037)
Equity securities	(49,498)	(101,289)
Mortgage loans	(60,195)	(10,207)
Other investments	(57,477)	(107,020)
Equity method investments	—	(1,000)
Short-term investments	(239,313)	(9,029)
Proceeds from the sale of:		
Fixed maturities	4,452,631	3,955,065
Equity securities	219,916	127,182
Other investments	91,946	177,238
Short-term investments	101,510	13,539
Proceeds from redemption of fixed maturities	706,487	1,043,002
Proceeds from redemption of short-term investments	30,572	116,111
Proceeds from the repayment of mortgage loans	40,741	10,467
Purchase of other assets	(13,043)	(12,205)

Purchase of subsidiary, net	—	(78,872)
Net cash provided by investing activities	314,256	356,945
Cash flows from financing activities:		
Repurchase of common shares - open market	—	(262,592)
Taxes paid on withholding shares	(8,676)	(24,370)
Dividends paid - common shares	(68,172)	(71,189)
Repurchase of preferred shares	—	(351,074)
Dividends paid - preferred shares	(21,313)	(31,532)
Net cash used in financing activities	(98,161)	(740,757)
Effect of exchange rate changes on foreign currency cash, cash equivalents, and restricted cash	(10,737)	8,682
Increase (decrease) in cash, cash equivalents, and restricted cash	162,907	(226,237)
Cash, cash equivalents, and restricted cash - beginning of period	1,363,786	1,241,507
Cash, cash equivalents, and restricted cash - end of period	$1,526,693	$1,015,270

See accompanying notes to Consolidated Financial Statements.

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

Supplemental disclosures of cash flow information:		
Income taxes paid	$7,350	$4,104
Interest paid	$32,550	$24,438

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

See accompanying notes to Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the Company's financial position and results of operations for the periods presented.
The results of operations for any interim period are not necessarily indicative of the results for a full year. All inter-company accounts and transactions have been eliminated.

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

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

Significant Accounting Policies

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

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

- equity investments (except those accounted for under the equity method of accounting, investments that are consolidated or those that meet a practicability exception) to be measured at fair value with changes in fair value recognized in net income,
- simplifies the impairment assessment of equity investments without readily determinable values by requiring a qualitative assessment to identify impairment, eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost,
- requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes,
-

requires separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liabilities in accordance with the fair value option,

- requires the separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and
- clarifies that the reporting organization should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the organization's other deferred tax assets.

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

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

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

New Accounting Standards Adopted in 2018

Revenue From Contracts With Customers

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

The Company generated fee income of $18 million for the six months ended June 30, 2018 which is within the scope of this ASU. These fees represents service fees and reimbursement of expenses earned by the Company's reinsurance segment related to services provided to its strategic capital partners. These fees are recognized when the related services have been performed and are reported in other insurance related income (losses) in the Consolidated Statements of Operations. Given that the timing and measurement of revenue associated with impacted contracts did not change, the adoption of this guidance did not have a material impact on the Company's results of operations, financial condition and liquidity.

Classification of Certain Cash Receipts and Cash Payments

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

Restricted Cash

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

Stock Compensation - Scope of Modification Accounting

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

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

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

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

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

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

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

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

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

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

Recently Issued Accounting Standards Not Yet Adopted

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" which provides a new comprehensive model for lease accounting. The guidance will require a lessee to recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of this guidance on the Company's results of operations, financial condition and liquidity.

Measurement of Credit Losses on Financial Instrument

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

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

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

annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance on its results of operations, financial condition and liquidity.

Simplifying the Test for Goodwill Impairment

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

Premium Amortization on Purchased Callable Debt Securities

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

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

2. SEGMENT INFORMATION

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

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

Insurance

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

Reinsurance

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

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

2. SEGMENT INFORMATION (CONTINUED)

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

	2018			2017		
Three months ended and at June 30,	Insurance	Reinsurance	Total	Insurance	Reinsurance	Total
Gross premiums written	$1,026,644	$624,181	$1,650,825	$764,202	$598,125	$1,362,327
Net premiums written	598,179	402,276	1,000,455	496,109	459,908	956,017
Net premiums earned	577,271	608,277	1,185,548	417,541	563,890	981,431
Other insurance related income (losses)	1,214	2,516	3,730	508	2,052	2,560
Net losses and loss expenses	(328,773)	(377,868)	(706,641)	(275,465)	(329,867)	(605,332)
Acquisition costs	(90,864)	(141,088)	(231,952)	(62,390)	(141,971)	(204,361)
General and administrative expenses	(102,369)	(32,590)	(134,959)	(83,126)	(34,160)	(117,286)
Underwriting income (loss)	$56,479	$59,247	115,726	$(2,932)	$59,944	57,012
Corporate expenses			(30,254)			(30,530)
Net investment income			109,960			106,063
Net investment losses			(45,093)			(4,392)
Foreign exchange (losses) gains			44,099			(36,118)
Interest expense and financing costs			(17,098)			(12,751)
Bargain purchase gain			—			15,044
Reorganization expenses			(18,772)			—
Amortization of value of business acquired			(53,407)			—
Amortization of intangible assets			(4,029)			—
Income before income taxes and interest in income (loss) of equity method investments			$101,132			$94,328
Net loss and loss expense ratio	57.0%	62.1%	59.6%	66.0%	58.5%	61.7%
Acquisition cost ratio	15.7%	23.2%	19.6%	14.9%	25.2%	20.8%
General and administrative expense ratio	17.7%	5.4%	13.9%	19.9%	6.1%	15.1%
Combined ratio	90.4%	90.7%	93.1%	100.8%	89.7%	97.6%
Goodwill and intangible assets	$450,073	$—	$450,073	$86,220	$—	$86,220

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

2. SEGMENT INFORMATION (CONTINUED)

Six months ended and at June 30,	2018 Insurance	2018 Reinsurance	2018 Total	2017 Insurance	2017 Reinsurance	2017 Total
Gross premiums written	$1,907,492	$2,406,128	$4,313,620	$1,309,464	$1,964,735	$3,274,199
Net premiums written	1,146,071	1,840,255	2,986,326	852,945	1,612,031	2,464,976
Net premiums earned	1,157,330	1,195,620	2,352,950	809,504	1,110,629	1,920,133
Other insurance related income (losses)	1,833	8,502	10,335	551	(1,773)	(1,222)
Net losses and loss expenses	(650,312)	(717,674)	(1,367,986)	(516,549)	(695,724)	(1,212,273)
Acquisition costs	(178,193)	(283,019)	(461,212)	(116,394)	(277,759)	(394,153)
General and administrative expenses	(204,738)	(69,886)	(274,624)	(168,381)	(70,705)	(239,086)
Underwriting income	$125,920	$133,543	259,463	$8,731	$64,668	73,399
Corporate expenses			(60,425)			(69,989)
Net investment income			210,961			204,728
Net realized investment losses			(59,923)			(29,443)
Foreign exchange (losses) gains			6,239			(57,583)
Interest expense and financing costs			(33,861)			(25,543)
Bargain purchase gain			—			15,044
Reorganization expenses			(31,825)			—
Amortization of value of business acquired			(110,517)			—
Amortization of intangible assets			(6,811)			—
Income before income taxes and interest in income (loss) of equity method investments			$173,301			$110,613
Net loss and loss expense ratio	56.2%	60.0%	58.1%	63.8%	62.6%	63.1%
Acquisition cost ratio	15.4%	23.7%	19.6%	14.4%	25.0%	20.5%
General and administrative expense ratio	17.7%	5.8%	14.3%	20.8%	6.4%	16.2%
Combined ratio	89.3%	89.5%	92.0%	99.0%	94.0%	99.8%
Goodwill and intangible assets	$450,073	$—	$450,073	$86,220	$—	$86,220

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

3. INVESTMENTS

a) Fixed Maturities and Equity securities

Fixed maturities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI in AOCI(5)
At June 30, 2018					
Fixed maturities					
U.S. government and agency	$1,692,025	$556	$(23,160)	$1,669,421	$ —
Non-U.S. government	596,802	4,475	(16,114)	585,163	—
Corporate debt	4,945,251	18,686	(92,965)	4,870,972	—
Agency RMBS(1)	1,738,740	3,903	(42,915)	1,699,728	—
CMBS(2)	1,142,204	1,086	(21,323)	1,121,967	—
Non-Agency RMBS	38,572	1,574	(842)	39,304	(884)
ABS(3)	1,617,950	2,509	(6,425)	1,614,034	—
Municipals(4)	140,345	706	(2,335)	138,716	—
Total fixed maturities	$11,911,889	$33,495	$(206,079)	$11,739,305	$ (884)
At December 31, 2017					
Fixed maturities					
U.S. government and agency	$1,727,643	$1,735	$(16,909)	$1,712,469	$ —
Non-U.S. government	798,582	17,240	(9,523)	806,299	—
Corporate debt	5,265,795	61,922	(29,851)	5,297,866	—
Agency RMBS(1)	2,414,720	8,132	(27,700)	2,395,152	—
CMBS(2)	776,715	4,138	(3,125)	777,728	—
Non-Agency RMBS	45,713	1,917	(799)	46,831	(853)
ABS(3)	1,432,884	5,391	(1,994)	1,436,281	—
Municipals(4)	149,167	1,185	(972)	149,380	—
Total fixed maturities	$12,611,219	$101,660	$(90,873)	$12,622,006	$ (853)

(1) Residential mortgage-backed securities ("RMBS") originated by U.S. government-sponsored agencies.
(2) Commercial mortgage-backed securities ("CMBS").
(3) Asset-backed securities (ABS) include debt tranched securities collateralized primarily by auto loans, student loans, credit card receivables, collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs").
(4) Municipals include bonds issued by states, municipalities and political subdivisions.
(5) Represents the non-credit component of the other-than-temporary impairment ("OTTI") losses, adjusted for subsequent sales, maturities and redemptions. It does not include the change in fair value subsequent to the impairment measurement date.

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

3. INVESTMENTS (CONTINUED)

Equity Securities

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At June 30, 2018				
Equity securities				
Common stocks	$13,302	$ 1,239	$ (1,114)	$13,427
Exchange-traded funds	211,940	53,318	(1,413)	263,845
Bond mutual funds	141,173	3	(1,236)	139,940
Total equity securities	$366,415	$ 54,560	$ (3,763)	$417,212
At December 31, 2017				
Equity securities				
Common stocks	$22,836	$ 3,412	$ (590)	$25,658
Exchange-traded funds	356,252	71,675	(294)	427,633
Bond mutual funds	173,779	9,440	(999)	182,220
Total equity securities	$552,867	$ 84,527	$ (1,883)	$635,511

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

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

3. INVESTMENTS (CONTINUED)

Contractual Maturities

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

	Amortized Cost	Fair Value	% of Total Fair Value	
At June 30, 2018				
Maturity				
Due in one year or less	$470,471	$463,126	4.0	%
Due after one year through five years	4,881,214	4,828,882	41.1	%
Due after five years through ten years	1,818,888	1,769,098	15.1	%
Due after ten years	203,850	203,166	1.7	%
	7,374,423	7,264,272	61.9	%
Agency RMBS	1,738,740	1,699,728	14.5	%
CMBS	1,142,204	1,121,967	9.6	%
Non-Agency RMBS	38,572	39,304	0.3	%
ABS	1,617,950	1,614,034	13.7	%
Total	$11,911,889	$11,739,305	100.0	%
At December 31, 2017				
Maturity				
Due in one year or less	$486,659	$484,663	3.8	%
Due after one year through five years	4,906,207	4,912,189	38.9	%
Due after five years through ten years	2,338,964	2,350,433	18.6	%
Due after ten years	209,357	218,729	1.7	%
	7,941,187	7,966,014	63.0	%
Agency RMBS	2,414,720	2,395,152	19.0	%
CMBS	776,715	777,728	6.2	%
Non-Agency RMBS	45,713	46,831	0.4	%
ABS	1,432,884	1,436,281	11.4	%
Total	$12,611,219	$12,622,006	100.0	%

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

3. INVESTMENTS (CONTINUED)

Gross Unrealized Losses

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

	12 months or greater		Less than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At June 30, 2018[1]						
Fixed maturities						
U.S. government and agency	$125,039	$(6,565)	$1,378,293	$(16,595)	$1,503,332	$(23,160)
Non-U.S. government	63,216	(7,352)	326,670	(8,762)	389,886	(16,114)
Corporate debt	325,074	(17,362)	3,513,735	(75,603)	3,838,809	(92,965)
Agency RMBS	527,560	(23,601)	836,763	(19,314)	1,364,323	(42,915)
CMBS	29,405	(1,556)	925,264	(19,767)	954,669	(21,323)
Non-Agency RMBS	7,455	(763)	4,320	(79)	11,775	(842)
ABS	27,316	(413)	853,002	(6,012)	880,318	(6,425)
Municipals	11,037	(414)	97,649	(1,921)	108,686	(2,335)
Total fixed maturities	$1,116,102	$(58,026)	$7,935,696	$(148,053)	$9,051,798	$(206,079)
At December 31, 2017						
Fixed maturities						
U.S. government and agency	$194,916	$(5,963)	$1,389,792	$(10,946)	$1,584,708	$(16,909)
Non-U.S. government	62,878	(6,806)	204,110	(2,717)	266,988	(9,523)
Corporate debt	407,300	(11,800)	2,041,845	(18,051)	2,449,145	(29,851)
Agency RMBS	759,255	(17,453)	1,172,313	(10,247)	1,931,568	(27,700)
CMBS	31,607	(703)	348,943	(2,422)	380,550	(3,125)
Non-Agency RMBS	8,029	(788)	4,197	(11)	12,226	(799)
ABS	57,298	(570)	392,170	(1,424)	449,468	(1,994)
Municipals	11,230	(269)	65,632	(703)	76,862	(972)
Total fixed maturities	$1,532,513	$(44,352)	$5,619,002	$(46,521)	$7,151,515	$(90,873)
Equity securities						
Common stocks	$—	$—	$3,202	$(590)	$3,202	$(590)
Exchange-traded funds	—	—	12,323	(294)	12,323	(294)
Bond mutual funds	—	—	12,184	(999)	12,184	(999)
Total equity securities	$—	$—	$27,709	$(1,883)	$27,709	$(1,883)

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

Fixed Maturities

At June 30, 2018, 3,364 fixed maturities (2017: 2,424) were in an unrealized loss position of $206 million (2017: $91 million), of which $17 million (2017: $7 million) was related to securities below investment grade or not rated.

At June 30, 2018, 563 fixed maturities (2017: 627) had been in a continuous unrealized loss position for twelve months or greater and had a fair value of $1,116 million (2017: $1,533 million). Following a credit impairment review, it was concluded that these securities as well as the remaining securities in an unrealized loss position were temporarily impaired at June 30, 2018, and were expected to recover in value as the securities approach maturity. At June 30, 2018, the Company did not intend to sell the securities in an

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

3. INVESTMENTS (CONTINUED)

unrealized loss position and it is more likely than not that the Company will not be required to sell these securities before the anticipated recovery of their amortized costs.

b) Mortgage Loans

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

	June 30, 2018		December 31, 2017	
	Carrying Value	% of Total	Carrying Value	% of Total
Mortgage Loans held-for-investment:				
Commercial	$344,721	100%	$325,062	100%
Total Mortgage Loans held-for-investment	$344,721	100%	$325,062	100%

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

The Company has a high quality mortgage loan portfolio with weighted average debt service coverage ratios in excess of 2.8x and weighted average loan-to-value ratios of less than 60%. At June 30, 2018 there are no credit losses associated with the commercial mortgage loans held by the Company.

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

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

3. INVESTMENTS (CONTINUED)

c) Other Investments

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

	Fair Value		Redemption Frequency (if currently eligible)	Redemption Notice Period
At June 30, 2018				
Long/short equity funds	$ 26,693	3 %	Annually	60 days
Multi-strategy funds	276,914	30 %	Quarterly, Semi-annually	60-95 days
Event-driven funds	40,107	4 %	Annually	45 days
Direct lending funds	259,976	28 %	n/a	n/a
Private equity funds	65,513	7 %	n/a	n/a
Real estate funds	56,855	6 %	n/a	n/a
CLO-Equities	26,153	4 %	n/a	n/a
Other privately held investments	47,613	5 %	n/a	n/a
Overseas deposits	116,367	13 %	n/a	n/a
Total other investments	$ 916,191	100 %		
At December 31, 2017				
Long/short equity funds	$ 38,470	4 %	Annually	60 days
Multi-strategy funds	286,164	28 %	Quarterly, Semi-annually	60-95 days
Event-driven funds	39,177	4 %	Annually	45 days
Direct lending funds	250,681	25 %	n/a	n/a
Private equity funds	68,812	7 %	n/a	n/a
Real estate funds	50,009	5 %	n/a	n/a
CLO-Equities	31,413	2 %	n/a	n/a
Other privately held investments	46,430	5 %	n/a	n/a
Overseas deposits	198,217	20 %	n/a	n/a
Total other investments	$ 1,009,373	100 %		

n/a - not applicable

The investment strategies for the above funds are as follows:

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

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

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

- Direct lending funds: Seek to achieve attractive risk-adjusted returns, including current income generation, by investing in funds which provide financing directly to borrowers.

- Private equity funds: Seek to achieve attractive risk-adjusted returns by investing in private transactions over the course of several years.

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

3. INVESTMENTS (CONTINUED)

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

Two common redemption restrictions which may impact the Company's ability to redeem hedge funds are gates and lockups. A gate is a suspension of redemptions which may be implemented by the general partner or investment manager of the fund in order to defer, in whole or in part, the redemption request in the event the aggregate amount of redemption requests exceeds a predetermined percentage of the fund's net assets which may otherwise hinder the general partner or investment manager's ability to liquidate holdings in an orderly fashion in order to generate the cash necessary to fund extraordinarily large redemption payouts. A lockup period is the initial amount of time an investor is contractually required to hold the security before having the ability to redeem. During the six months ended June 30, 2018 and 2017, neither of these restrictions impacted the Company's redemption requests. At June 30, 2018, $40 million (2017: $38 million), representing 11% (2017: 11%) of total hedge funds, relate to a holding where the Company is still within the lockup period. The expiration of these lockup periods range from March 2019 to May 2020.

At June 30, 2018, the Company had $235 million (2017: $137 million) of unfunded commitments as a limited partner in direct lending funds. Once the full amount of committed capital has been called by the General Partner of each of these funds, the assets will not be fully returned until the completion of the fund's investment term. These funds have investment terms ranging from five to ten years and the General Partners of certain funds have the option to extend the term by up to three years.

At June 30, 2018, the Company had $54 million (2017: $16 million) of unfunded commitments as a limited partner in multi-strategy hedge funds. Once the full amount of committed capital has been called by the General Partner of each of these funds, the assets will not be fully returned until after the completion of the funds' investment term. These funds have investment terms ranging from two years to the dissolution of the underlying fund.

At June 30, 2018, the Company had $175 million (2017: $115 million) of unfunded commitments as a limited partner in funds which invest in real estate and real estate securities and businesses. These funds include an open-ended fund and funds with investment terms ranging from seven years to the dissolution of the underlying fund.

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

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

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

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

3. INVESTMENTS (CONTINUED)

d) Equity Method Investments

During 2016, the Company paid $108 million including direct transaction costs to acquire 19% of the common equity of Harrington Reinsurance Holdings Limited ("Harrington"), the parent company of Harrington Re Ltd. ("Harrington Re"), an independent reinsurance company jointly sponsored by AXIS Capital and The Blackstone Group L.P. ("Blackstone"). Through long-term service agreements, AXIS Capital will serve as Harrington Re's reinsurance underwriting manager and Blackstone will serve as exclusive investment management service provider. As an investor, the Company expects to benefit from underwriting profit generated by Harrington Re and the income and capital appreciation Blackstone seeks to deliver through its investment management services. In addition, the Company has entered into an arrangement with Blackstone under which underwriting and investment related fees will be shared equally. Harrington is not a variable interest entity. Given that the Company exercises significant influence over the operating and financial policies of this investee, the Company accounts for its ownership in Harrington under the equity method of accounting. The Company's proportionate share of the underlying equity in net assets resulted in a basis difference of $5 million which represents initial transactions costs.

During the six months ended June 30, 2017, the Company recorded an impairment charge of $9 million, related to a U.S. based insurance company, which reduced the carrying value of the investment to $nil. This charge was included in interest in income (loss) of equity method investments in the Consolidated Statement of Operations.

e) Net Investment Income

Net investment income was derived from the following sources:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Fixed maturities	$88,320	$78,218	$172,279	$155,625
Other investments	14,541	23,639	28,246	42,601
Equity securities	3,158	4,347	4,916	7,825
Mortgage loans	3,357	2,597	6,483	5,074
Cash and cash equivalents	5,627	3,433	9,779	6,529
Short-term investments	1,645	660	2,520	1,098
Gross investment income	116,648	112,894	224,223	218,752
Investment expenses	(6,688)	(6,831)	(13,262)	(14,024)
Net investment income	$109,960	$106,063	$210,961	$204,728

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

3. INVESTMENTS (CONTINUED)

f) Net Investment Losses

The following table provides an analysis of net investment losses:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Gross realized investment gains				
Fixed maturities and short-term investments	$5,761	$17,451	$37,389	$38,228
Equity securities	1,147	30	18,662	15,813
Gross realized investment gains	6,908	17,481	56,051	54,041
Gross realized investment losses				
Fixed maturities and short-term investments	(44,442)	(14,354)	(87,977)	(67,289)
Equity securities	—	(24)	(1,234)	(213)
Gross realized investment losses	(44,442)	(14,378)	(89,211)	(67,502)
Net OTTI recognized in net income	(1,674)	(1,528)	(2,088)	(8,082)
Change in fair value of investment derivatives(1)	5,134	(5,967)	7,157	(7,900)
Net unrealized gains (losses) on equity securities(2)	(11,019)	—	(31,832)	—
Net investment losses	$(45,093)	$(4,392)	$(59,923)	$(29,443)

(1) Refer to Note 5 'Derivative Instruments'.
(2) Effective January 1, 2018, the Company adopted ASU No. 2016-01. The change in fair value of equity securities is now recognized in net investment losses.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Fixed maturities:				
Non-U.S. government	$22	$—	$22	$4,282
Corporate debt	1,652	1,528	2,066	3,800
Total OTTI recognized in net income	$1,674	$1,528	$2,088	$8,082

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

3. INVESTMENTS (CONTINUED)

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Balance at beginning of period	$1,484	$1,483	$1,494	$1,493
Credit impairments recognized on securities not previously impaired	—	—	—	—
Additional credit impairments recognized on securities previously impaired	—	—	—	—
Change in timing of future cash flows on securities previously impaired	—	—	—	—
Intent to sell of securities previously impaired	—	—	—	—
Securities sold/redeemed/matured	(12)	(2)	(22)	(12)
Balance at end of period	$1,472	$1,481	$1,472	$1,481

g) Reverse Repurchase Agreements

At June 30, 2018, the Company held $86 million (2017: $37 million) of reverse repurchase agreements. These loans are fully collateralized, are generally outstanding for a short period of time and are presented on a gross basis as part of cash and cash equivalents in the Company's Consolidated Balance Sheets. The required collateral for these loans is either cash or U.S. Treasuries at a minimum rate of 102% of the loan principal. Upon maturity, the Company receives principal and interest income. The Company monitors the estimated fair value of the securities loaned and borrowed on a daily basis with additional collateral obtained as necessary throughout the duration of the transaction.

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

4. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

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

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

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

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

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

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

Valuation Techniques

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

Fixed Maturities

At each valuation date, the Company uses the market approach valuation technique to estimate the fair value of its fixed maturities portfolio, when possible. This market approach includes, but is not limited to, prices obtained from third party pricing services for identical or comparable securities and the use of "pricing matrix models" using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, and prepayment speeds.

Pricing from third party pricing services is sourced from multiple vendors, when available, and the Company maintains a vendor hierarchy by asset type based on historical pricing experience and vendor expertise. When prices are unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers who are active in the corresponding markets. The valuation techniques including significant inputs generally used to determine the fair values of the Company's fixed maturities by asset class as well as the classifications of the fair values of these securities in the fair value hierarchy are described in detail below.

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

4. FAIR VALUE MEASUREMENTS (CONTINUED)

U.S. government and agency

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

Non-U.S. government

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

Corporate debt

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

Agency RMBS

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

CMBS

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

Non-Agency RMBS

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

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

dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, the fair values of these securities are classified as Level 3.

ABS

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

Municipals

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

Equity Securities

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

Other Investments

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

Indirect investments in CLO-Equities are classified as Level 3 as the fair values of these securities are estimated using an income approach valuation technique, specifically an externally developed discounted cash flow model due to the lack of observable and relevant trades in secondary markets. Direct investments in CLO-Equities are also classified as Level 3 as the fair values of these securities are estimated using a liquidation valuation.

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

Short-Term Investments

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

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

Derivative Instruments

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

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

Insurance-linked Securities

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

Cash Settled Awards

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

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4. FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair value based on NAV practical expedient	Total Fair Value
At June 30, 2018					
Assets					
Fixed maturities					
U.S. government and agency	$ 1,644,684	$ 24,737	$ —	$—	$1,669,421
Non-U.S. government	—	585,163	—	—	585,163
Corporate debt	—	4,828,419	42,553	—	4,870,972
Agency RMBS	—	1,699,728	—	—	1,699,728
CMBS	—	1,103,818	18,149	—	1,121,967
Non-Agency RMBS	—	38,401	903	—	39,304
ABS	—	1,614,034	—	—	1,614,034
Municipals	—	138,716	—	—	138,716
	1,644,684	10,033,016	61,605	—	11,739,305
Equity securities					
Common stocks	13,427	—	—	—	13,427
Exchange-traded funds	263,845	—	—	—	263,845
Bond mutual funds	—	139,940	—	—	139,940
	277,272	139,940	—	—	417,212
Other investments					
Hedge funds (1)	—	—	—	343,714	343,714
Direct lending funds	—	—	—	259,976	259,976
Private equity funds	—	—	—	65,513	65,513
Real estate funds	—	—	—	56,855	56,855
Other privately held investments	—	—	47,613	—	47,613
CLO-Equities	—	—	26,153	—	26,153
Overseas deposits	—	116,367	—	—	116,367
	—	116,367	73,766	726,058	916,191
Short-term investments	—	168,944	—	—	168,944
Other assets					
Derivative instruments (see Note 5)	—	10,091	—	—	10,091
Total Assets	$ 1,921,956	$ 10,468,358	$ 135,371	$726,058	$13,251,743
Liabilities					
Derivative instruments (see Note 5)	$ —	$ 5,156	$ 10,589	$—	$15,745
Cash settled awards (see Note 8)	—	13,235	—	—	13,235
Total Liabilities	$ —	$ 18,391	$ 10,589	$—	$28,980

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

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

4. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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

Except certain fixed maturities and insurance-linked securities priced using broker-dealer quotes (underlying inputs are not available), the following table quantifies the significant unobservable inputs used in estimating fair values at June 30, 2018 for investments classified as Level 3 in the fair value hierarchy.

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

	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
Other investments - CLO-Equities	$24,715	Discounted cash flow	Default rates	3.0%	3.0%
			Loss severity rate	35.0%	35.0%
			Collateral spreads	3.0%	3.0%
			Estimated maturity dates	7 years	7 years
	$1,438	Liquidation value	Fair value of collateral	100%	100%
			Discount margin	0.0% - 10.9%	2.2%
Other investments - Other privately held investments	$47,613	Discounted cash flow	Discount rate	3.0% - 8.5%	7.2%
Derivatives - Other underwriting-related derivatives	$(10,589)	Discounted cash flow	Discount rate	2.9%	2.9%

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

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

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

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

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

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

reasonableness of the inputs that are used in the discounted cash flow models, the Company maintains an understanding of current market conditions, historical results, as well as investee specific information that may impact future cash flows.

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

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

4. FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Opening Balance	Transfers into Level 3	Transfers out of Level 3	Included in net income(1)	Included in OCI (2)	Purchases	Sales	Settlements/ Distributions	Closing Balance	Change in unrealized investment gains/(losses) (3)
Three months ended June 30, 2018										
Fixed maturities										
Corporate debt	$43,471	$1,589	$—	$(1)	$(388)	$3,185	$(3,218)	$(2,085)	$42,553	$—
Non-Agency RMBS	—	—	—	—	3	900	—	—	903	—
CMBS	—	1,936	—	—	(2)	16,215	—	—	18,149	—
	43,471	3,525	—	(1)	(387)	20,300	(3,218)	(2,085)	61,605	—
Other investments										
Other privately held investments	48,787	—	—	(1,174)	—	—	—	—	47,613	(1,174)
CLO - Equities	28,556	—	—	3,068	—	—	—	(5,471)	26,153	3,068
	77,343	—	—	1,894	—	—	—	(5,471)	73,766	1,894
Other assets										
Insurance-linked securities	25,000	—	—	—	—	—	—	(25,000)	—	—
	25,000	—	—	—	—	—	—	(25,000)	—	—
Total assets	$145,814	$3,525	$—	$1,893	$(387)	$20,300	$(3,218)	$(32,556)	$135,371	$1,894
Other liabilities										
Derivative instruments	$10,942	$—	$—	$(353)	$—	$—	$—	$—	$10,589	$(353)
Total liabilities	$10,942	$—	$—	$(353)	$—	$—	$—	$—	$10,589	$(353)
Six months ended June 30, 2018										
Fixed maturities										
Corporate debt	$52,897	$1,589	$(4,279)	$(119)	$1,015	$3,185	$(5,754)	$(5,981)	$42,553	$—
Non-Agency RMBS	—	—	—	—	3	900	—	—	903	—
CMBS	—	1,936	—	—	(2)	16,215	—	—	18,149	—
	52,897	3,525	(4,279)	(119)	1,016	20,300	(5,754)	(5,981)	61,605	—
Other investments										
Other privately held investments	46,430	—	—	(428)	—	3,111	(1,500)	—	47,613	(428)
CLO - Equities	31,413	—	—	4,684	—	—	—	(9,944)	26,153	4,684
	77,843	—	—	4,256	—	3,111	(1,500)	(9,944)	73,766	4,256

Other assets										
Insurance-linked securities	25,090	—	—	(90)	—	—	—	(25,000)	—	—
	25,090	—	—	(90)	—	—	—	(25,000)	—	—
Total assets	$155,830	$3,525	$(4,279)	$4,047	$1,016	$23,411	$(7,254)	$(40,925)	$135,371	$4,256
Other liabilities										
Derivative instruments	$11,510	$—	$—	$(921)	$—	$—	$—	$—	$10,589	$(921)
Total liabilities	$11,510	$—	$—	$(921)	$—	$—	$—	$—	$10,589	$(921)

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

4. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

(1) Realized gains (losses) on fixed maturities, and realized and unrealized gains (losses) on other assets and other liabilities included in net income are included in net investment gains (losses). Realized and unrealized gains (losses) on other investments included in net income are included in net investment income.
(2) Unrealized gains (losses) on fixed maturities are included in other comprehensive income ("OCI").
(3) Change in unrealized investment gains (losses) relating to assets held at the reporting date.

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

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4. FAIR VALUE MEASUREMENTS (CONTINUED)

Transfers into Level 3 from Level 2

The transfers to Level 3 from Level 2 made during the three and six months ended June 31, 2018 and 2017 were primarily due to the lack of observable market inputs and multiple quotes from pricing vendors and broker-dealers for certain fixed maturities.

Transfers out of Level 3 into Level 2

The transfers into Level 2 from Level 3 made during the three and six months ended June 30, 2018 and 2017 were primarily due to the availability of observable market inputs and quotes from pricing vendors on certain fixed maturities.

Measuring the Fair Value of Other Investments Using Net Asset Valuations

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

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

For direct lending funds, private equity funds, real estate funds and two of the Company's hedge funds, valuation statements are typically released on a reporting lag therefore the Company estimates the fair value of these funds by starting with the prior quarter-end fund valuations and adjusting for capital calls, redemptions, drawdowns and distributions. Return estimates are not available from the relevant fund managers for these funds therefore the Company typically has a reporting lag in its fair value measurements of these funds. For the six months ended June 30, 2018, funds reported on a lag represented 49% (2017: 44%) of the Company's total other investments balance.

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

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

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

4. FAIR VALUE MEASUREMENTS (CONTINUED)

Financial Instruments Disclosed, But Not Carried, at Fair Value

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

At June 30, 2018, the carrying values of cash and cash equivalents including restricted amounts, accrued investment income, receivable for investments sold, certain other assets, payable for investments purchased and certain other liabilities approximated their fair values due to their respective short maturities. As these financial instruments are not actively traded, their fair values are classified as Level 2.

At June 30, 2018, the carrying value of mortgage loans held-for-investment approximated their fair value. The fair values of mortgage loans are primarily determined by estimating expected future cash flows and discounting them using current interest rates for similar mortgage loans with similar credit risk, or are determined from pricing for similar loans. As mortgage loans are not actively traded their fair values are classified as Level 3.

At June 30, 2018, senior notes are recorded at amortized cost with a carrying value of $1,377 million (2017: $1,341 million) and a fair value of $1,352 million (2017: $1,412 million). The fair values of these senior notes are based on prices obtained from a third party pricing service and are determined using the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As these spreads and the yields for the risk-free yield curve are observable market inputs, the fair values of senior notes are classified as Level 2.

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

5. DERIVATIVE INSTRUMENTS

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

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

	June 30, 2018			December 31, 2017		
	Derivative Notional Amount	Derivative Asset Fair Value[(1)]	Derivative Liability Fair Value[(1)]	Derivative Notional Amount	Derivative Asset Fair Value[(1)]	Derivative Liability Fair Value[(1)]
Relating to investment portfolio:						
Foreign exchange forward contracts	$159,226	$ 231	$ 680	$137,422	$ 10	$ 619
Interest rate swaps	166,000	—	975	191,000	448	1,556

Relating to underwriting portfolio:						
Foreign exchange forward contracts	963,373	9,860	3,501	698,959	4,667	701
Weather-related contracts	—	—	—	—	—	—
Other underwriting-related contracts	85,000	—	10,589	85,000	—	11,510
Total derivatives		$ 10,091	$ 15,745		$ 5,125	$ 14,386

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

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

5. DERIVATIVE INSTRUMENTS (CONTINUED)

Offsetting Assets and Liabilities

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

	June 30, 2018			December 31, 2017		
	Gross Amounts	Gross Amounts Offset	Net Amounts[1]	Gross Amounts	Gross Amounts Offset	Net Amounts[1]
Derivative assets	$17,227	$(7,136)	$ 10,091	$8,178	$(3,053)	$ 5,125
Derivative liabilities	$22,881	$(7,136)	$ 15,745	$17,439	$(3,053)	$ 14,386

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

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

a) Relating to Investment Portfolio

Foreign Currency Risk

The Company's investment portfolio is exposed to foreign currency risk therefore the fair values of its investments are partially influenced by the change in foreign exchange rates. The Company may enter into foreign currency forward contracts to manage the effect of this foreign currency risk. These foreign currency hedging activities are not designated as specific hedges for financial reporting purposes.

Interest Rate Risk

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

b) Relating to Underwriting Portfolio

Foreign Currency Risk

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

Weather Risk

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

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

5. DERIVATIVE INSTRUMENTS (CONTINUED)

Other Underwriting-related Risks

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

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

	Location of Gain (Loss) Recognized in Income on Derivative	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
Relating to investment portfolio:					
Foreign exchange forward contracts	Net investment gains (losses)	$2,515	$(2,347)	$1,323	$(4,719)
Interest rate swaps	Net investment gains (losses)	2,619	(3,620)	5,833	(3,181)
Relating to underwriting portfolio:					
Foreign exchange forward contracts	Foreign exchange (losses) gains	(7,809)	16,385	(138)	13,628
Weather-related contracts	Other insurance related income (losses)	—	(1,697)	—	(9,629)
Other underwriting-related contracts	Other insurance related income (losses)	647	338	1,548	338
Total		$(2,028)	$9,059	$8,566	$(3,563)

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

6. RESERVE FOR LOSSES AND LOSS EXPENSES

Reserve Roll-Forward

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

	Six months ended June 30,	
	2018	2017
Gross reserve for losses and loss expenses, beginning of period	$12,997,553	$9,697,827
Less reinsurance recoverable on unpaid losses, beginning of period	(3,159,514)	(2,276,109)
Net reserve for unpaid losses and loss expenses, beginning of period	9,838,039	7,421,718
Net incurred losses and loss expenses related to:		
Current year	1,482,409	1,308,000
Prior years	(114,423)	(95,727)
	1,367,986	1,212,273
Net paid losses and loss expenses related to:		
Current year	(186,576)	(140,018)
Prior years	(1,233,793)	(969,153)
	(1,420,369)	(1,109,171)
Foreign exchange and other	(985,628)	242,973
Net reserve for unpaid losses and loss expenses, end of period	8,800,028	7,767,793
Reinsurance recoverable on unpaid losses, end of period	3,152,706	2,110,869
Gross reserve for losses and loss expenses, end of period	$11,952,734	$9,878,662

The Company writes business with loss experience generally characterized as low frequency and high severity in nature, which can result in volatility in its financial results. During the six months ended June 30, 2018, the Company recognized aggregate net losses and loss expenses of $73 million (2017: $85 million) attributable to catastrophe and weather-related events.

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

On January 1, 2018, AXIS Managing Agency Limited, the managing agent of Syndicate 2007 entered into an agreement for the RITC of the 2015 and prior years of account of Syndicate 2007. This agreement was accounted for as a novation reinsurance contract. At June 30, 2017, foreign exchange and other included a reduction in reserves for losses and loss expenses of $819 million related to this transaction.

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

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

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

6. RESERVE FOR LOSSES AND LOSS EXPENSES (CONTINUED)

Prior Year Development

Prior year reserve development arises from changes to loss and loss expense estimates related to loss events that occurred in previous calendar years. The following table presents prior year reserve development by segment:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Insurance	$24,294	$19,787	$47,068	$27,652
Reinsurance	35,822	51,146	67,355	68,075
Total	$60,116	$70,933	$114,423	$95,727

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

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

Reinsurance Segment

		Reported Lines of Business										
Reserve Classes	Tail	Catastrophe	Property	Credit and Surety	Professional Lines	Motor	Liability	Engineering	Agriculture	Marine and Other	Accident and Health	Discontin lines - No
Property and Other	Short	X	X					X	X	X	X	X
Credit and Surety	Medium			X								
Professional Lines	Medium				X							

Motor	Long	X		X
Liability	Long		X	X

Short-tail business

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

For the three and six months ended June 30, 2018, these reserve classes contributed net favorable prior year reserve development of $43 million (2017: $31 million) and $81 million (2017: $35 million), respectively, reflecting the recognition of better than expected loss emergence.

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AXIS CAPITAL HOLDINGS LIMITED
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6. RESERVE FOR LOSSES AND LOSS EXPENSES (CONTINUED)

Medium-tail business

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

For the six months ended June 30, 2018, the reinsurance professional reserve class recognized net favorable prior year development of $8 million. For the three and six months ended June 30, 2017, the reinsurance professional reserve class recognized net favorable prior year development of $11 million and $27 million, respectively. For the three and six months ended June 30, 2017, the insurance professional reserve class recognized net favorable prior year development of $11 million and $19 million, respectively. The net favorable prior year loss development on this reserve class continued to reflect the generally favorable experience as the Company continued to transition to more experienced based methods.

For the three and six months ended June 30, 2018, the credit and surety reinsurance reserve class recorded net favorable prior year reserve development of $9 million and $14 million, respectively, due to the recognition of better than expected loss emergence.

Long-tail business

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

For the three and six months ended June 30, 2018, the reinsurance liability reserve class contributed net favorable prior year reserve development of $6 million and $8 million (2017: $16 million and $40 million), respectively. The net favorable prior year reserve development primarily reflected the progressively increased weight given by management to experience based indications on older accident years, which has generally been favorable.

For the six months ended June 30, 2018, the insurance liability reserve class recorded net adverse prior year development of $7 million primarily related to slight reserve strengthening within the Company's U.S. excess casualty business. For the six months ended June 30, 2017, the insurance liability reserve class recorded net adverse prior year development of $7 million primarily attributable to reserve strengthening within our run-off Bermuda excess casualty book of business.

For the three and six months ended June 30, 2018, the motor reinsurance reserve class contributed net favorable prior year reserve development of $5 million and $9 million, respectively, primarily attributable to non proportional treaty business on older accident years. For the six months ended June 30, 2017, the motor reinsurance reserve class recognized net adverse prior year reserve development of $20 million mainly driven by the decrease in the discount rate used to calculate lump sum awards in U.K. bodily injury cases, known as the Ogden Rate which changed from plus 2.5% to minus 0.75% effective March 20, 2017.

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

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AXIS CAPITAL HOLDINGS LIMITED
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7. EARNINGS PER COMMON SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Basic earnings per common share				
Net income	$103,514	$95,686	$176,719	$115,542
Less: preferred share dividends	10,656	10,656	21,313	25,497
Net income available to common shareholders	92,858	85,030	155,406	90,045
Weighted average common shares outstanding - basic	83,539	84,141	83,431	85,076
Basic earnings per common share	$1.11	$1.01	$1.86	$1.06
Diluted earnings per common share				
Net income available to common shareholders	$92,858	$85,030	$155,406	$90,045
Weighted average common shares outstanding - basic	83,539	84,141	83,431	85,076
Share-based compensation plans	445	370	422	571
Weighted average common shares outstanding - diluted	83,984	84,511	83,853	85,647
Diluted earnings per common share	$1.11	$1.01	$1.85	$1.05
Weighted average anti-dilutive shares excluded from the dilutive computation	158	16	484	284

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

8. SHARE-BASED COMPENSATION

For the three months ended June 30, 2018, the Company incurred share-based compensation costs of $14 million (2017: $16 million) related to share-settled restricted stock units and cash-settled restricted stock units and recorded associated tax benefits of $3 million (2017: $3.5 million).

For the six months ended June 30, 2018, the Company incurred share-based compensation costs of $29 million (2017: $44 million) and recorded associated tax benefits of $4 million (2017: $17 million, including $7 million related to excess tax benefits associated with the vesting of restricted stock units).

During the six months ended June 30, 2018, the fair value of share-settled restricted stock units and cash-settled restricted stock units that vested was $47 million (2017: $124 million which included $44 million attributable to a grant made in 2014 of three year cliff vesting service-based awards). At June 30, 2018 there were $121 million of unrecognized compensation costs (2017: $115 million) which are expected to be recognized over the weighted average period of 2.8 years.

Share-settled Awards

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

	Share Settled Performance Vesting Restricted Stock Units		Share Settled - Service Based Restricted Stock Units	
	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value(1)	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value(1)
Nonvested restricted stock units - beginning of period	230	$ 57.08	1,355	$ 57.09
Granted	104	48.89	719	49.16
Vested	(87)	54.71	(483)	54.39
Forfeited	—	—	(47)	56.71
Nonvested restricted stock units - end of period	247	$ 54.49	1,544	$ 54.17

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

Cash-settled awards

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

	Cash Settled Performance Vesting Restricted Stock Units	Cash Settled Service-based Restricted Stock Units

	Number of Restricted Stock Units	Number of Restricted Stock Units
Nonvested restricted stock units - beginning of period	42	988
Granted	—	456
Vested	(12)	(377)
Forfeited	—	(47)
Nonvested restricted stock units - end of period	30	1,020

At June 30, 2018, the liability for cash-settled restricted stock units, included in other liabilities in the Consolidated Balance Sheets, was $13 million (2017: $14 million).

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AXIS CAPITAL HOLDINGS LIMITED
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9. SHAREHOLDERS' EQUITY

The following table presents common shares issued and outstanding:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Shares issued, balance at beginning of period	176,580	176,580	176,580	176,580
Shares issued	—	—	—	—
Total shares issued at end of period	176,580	176,580	176,580	176,580
Treasury shares, balance at beginning of period	(93,062)	(91,410)	(93,419)	(90,139)
Shares repurchased	(26)	(2,004)	(175)	(4,233)
Shares reissued	64	37	570	995
Total treasury shares at end of period	(93,024)	(93,377)	(93,024)	(93,377)
Total shares outstanding	83,556	83,203	83,556	83,203

Treasury Shares

The following table presents share repurchases:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
In the open market:				
Total shares	—	1,987	—	3,883
Total cost	$—	$129,960	$—	$257,943
Average price per share(1)	$—	$65.40	$—	$66.44
From employees:(2)				
Total shares	26	17	175	350
Total cost	$1,512	$1,110	$8,676	$24,370
Average price per share(1)	$57.97	$64.82	$49.56	$69.55
Total shares repurchased:				
Total shares	26	2,004	175	4,233
Total cost	$1,512	$131,070	$8,676	$282,313
Average price per share(1)	$57.97	$65.40	$49.56	$66.69

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

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

10. DEBT AND FINANCING ARRANGEMENTS

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

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

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

11. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

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

Investments

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

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AXIS CAPITAL HOLDINGS LIMITED
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12. OTHER COMPREHENSIVE INCOME (LOSS)

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

	2018			2017		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Three months ended June 30,						
Available for sale investments:						
Unrealized investment gains (losses) arising during the period	$(114,842)	$ 9,562	$(105,280)	$80,557	$ (4,314)	$76,243
Adjustment for reclassification of net realized investment (gains) losses and OTTI losses recognized in net income	39,100	(2,644)	36,456	(1,564)	61	(1,503)
Unrealized investment gains (losses) arising during the period, net of reclassification adjustment[1]	(75,742)	6,918	(68,824)	78,993	(4,253)	74,740
Non-credit portion of OTTI losses	—	—	—	—	—	—
Foreign currency translation adjustment	(9,129)	—	(9,129)	8,867	—	8,867
Total other comprehensive income (loss), net of tax	$(84,871)	$ 6,918	$(77,953)	$87,860	$ (4,253)	$83,607
Six months ended June 30,						
Available for sale investments:						
Unrealized investment gains (losses) arising during the period	$(220,480)	$ 3,046	$(217,434)	$150,929	$ (6,976)	$143,953
Adjustment for reclassification of net realized investment losses and OTTI losses recognized in net income	34,987	2,253	37,240	24,194	(736)	23,458
Unrealized investment gains (losses) arising during the period, net of reclassification adjustment	(185,493)	5,299	(180,194)	175,123	(7,712)	167,411
Non-credit portion of OTTI losses	—	—	—	—	—	—
Foreign currency translation adjustment	(7,858)	—	(7,858)	38,736	—	38,736
Total other comprehensive income (loss), net of tax	$(193,351)	$ 5,299	$(188,052)	$213,859	$ (7,712)	$206,147

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

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AXIS CAPITAL HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
12. OTHER COMPREHENSIVE INCOME (LOSS) (CONTINUED)

The following table presents reclassifications from AOCI to net income available to common shareholders:

AOCI Components	Consolidated Statement of Operations line item that includes reclassification	Amount reclassified from AOCI(1) Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Unrealized investment gains (losses) on available for sale investments					
	Other investment gains (losses)	$(37,426)	$3,092	$(32,899)	$(16,112)
	OTTI losses	(1,674)	(1,528)	(2,088)	(8,082)
	Total before tax	(39,100)	1,564	(34,987)	(24,194)
	Income tax (expense) benefit	2,644	(61)	(2,253)	736
	Net of tax	$(36,456)	$1,503	$(37,240)	$(23,458)
Foreign currency translation adjustment					
	Foreign exchange loss	$—	$—	$—	$(24,149)
	Income tax (expense) benefit	—	—	—	—
	Net of tax	$—	$—	$—	$(24,149)

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

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

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

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

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SECOND QUARTER 2018 FINANCIAL HIGHLIGHTS

Second Quarter 2018 Consolidated Results of Operations

- Net income available to common shareholders of $93 million, or $1.11 per common share and diluted common share
- Operating income(1) of $106 million, or $1.27 per diluted common share(1)
- Gross premiums written of $1.7 billion
- Net premiums written of $1.0 billion
- Net premiums earned of $1.2 billion
- Net favorable prior year reserve development of $60 million
- Estimated pre-tax catastrophe and weather-related losses of $38 million, or 3.2 points on current accident year loss ratio
- Underwriting income(2) of $116 million and combined ratio of 93.1%

- Net investment income of $110 million

- Net investment losses of $45 million

- Foreign exchange gains of $44 million

Second Quarter 2018 Consolidated Financial Condition

- Total cash and investments of $15.2 billion; fixed maturities, cash and short-term securities comprise 88% of total cash and investments and have an average credit rating of AA-
- Total assets of $25.0 billion
- Reserve for losses and loss expenses of $12.0 billion and reinsurance recoverable of $3.3 billion
- Total debt of $1.4 billion and the debt to total capital ratio of 20.8%
- Following the offer to acquire Novae Group plc ("Novae") on July 5, 2017, the Company suspended its open market share repurchase program.
- Common shareholders’ equity of $4.5 billion and diluted book value per common share of $52.47

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

Financial Condition and Results of Operations – Executive Summary – Results of Operations'.

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

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EXECUTIVE SUMMARY

Business Overview

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

Our mission is to provide our clients and distribution partners with a broad range of risk transfer products and services and meaningful capacity, backed by significant financial strength. We manage our portfolio holistically, aiming to construct the optimum consolidated portfolio of funded and unfunded risks, consistent with our risk appetite and development of our franchise. We nurture an ethical, entrepreneurial and disciplined culture that promotes outstanding client service, intelligent risk taking and the achievement of superior risk-adjusted returns for our shareholders. We believe that the achievement of our objectives will position us as a global leader in specialty risks. Our execution on this strategy for the first six months of 2018 included:

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

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

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

$819 million representing the transfer of liabilities to the reinsurer, and a reduction in investments and cash of $819 million representing the consideration paid to the reinsurer.

Realignment of our Accident and Health Business

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

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

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

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

Outlook

We are committed to being a leader in specialty risk, an area in which we already have depth of talent and experience, and have earned an outstanding reputation. Committed to our hybrid strategy, we have developed substantial platforms in both insurance and reinsurance, providing us with balance and diversification. Management believes its positioning, franchise, expert underwriters and strong relationships with distributors and clients will provide opportunities for further profitable growth in 2018, with variances amongst our lines driven by our tactical response to market conditions. At the same time, we are broadening our risk-funding sources and developing vehicles that utilize the industry’s available third party capital. Consequently, we expect that our net premiums written will not grow as much as our gross premiums written, as we intend to share more of our risk with strategic capital partners.

Since late 2017, market conditions and rates across most lines have generally improved, with catastrophe exposed property lines experiencing the most upward rate momentum. While market conditions have improved, they will likely remain variable through the year and possibly beyond as carriers assess pricing, portfolio construction and account preferences. In this competitive market environment with mixed market conditions, we are focusing on lines of business and market segments that are adequately priced. In addition, our acquisition of Novae increases our scale and relevance in the London marketplace, and we expect to be well-positioned to capitalize on new opportunities and benefit from improved market conditions emerging through the international specialty insurance market, including Lloyd's of London.

The reinsurance market is experiencing some upward movement in price after the substantial loss activity that occurred in 2017. These increases, both in catastrophe and other lines of business, are necessary to improve adequacy of rates and vary across geographies. The market overall is strongly capitalized and demand side conditions, while largely stable, do present opportunities to support clients in a world of changing exposures, regulation, and reinsurance panels. We also believe that there is a real opportunity to achieve more leadership and scale, by focusing on our clients to produce new streams of income in the future while still defending the quality of our existing portfolio. We are also focused on managing the volatility of our portfolio and expanding our already strong group of strategic capital partners.

Non-GAAP Financial Measures

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

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Underwriting-Related General and Administrative Expenses

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

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

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

Consolidated Underwriting Income (Loss)

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

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

Bargain purchase gain, recognized upon the acquisition of Aviabel, reflects the amount by which the fair value of the net identifiable assets acquired exceeded the fair value of consideration transferred and is not indicative of future revenues of the company, therefore, this revenue is excluded from consolidated underwriting income (loss).
Foreign exchange losses (gains) in our Consolidated Statements of Operations primarily relate to our net insurance-related liabilities. However, we manage our investment portfolio in such a way that unrealized and realized foreign exchange losses (gains) on our investment portfolio generally offset a large portion of the foreign exchange losses (gains) arising from our underwriting portfolio. As a result, we believe that foreign exchange losses (gains) are not a meaningful contributor to our underwriting performance, therefore, foreign exchange losses (gains) are excluded from consolidated underwriting income (loss).

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

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

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

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

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Operating Income (Loss)

Operating income (loss) represents after-tax operational results without consideration of after-tax net investment gains (losses), foreign exchange losses (gains), reorganization expenses and bargain purchase gain.

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

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

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

Bargain purchase gain, recognized upon the acquisition of Aviabel, reflects the amount by which the fair value of the net identifiable assets acquired exceeded the fair value of consideration transferred and is not indicative of future revenues of the company, therefore, this revenue is excluded from consolidated underwriting income (loss).
Certain users of our financial statements evaluate performance excluding after-tax net investment gains (losses), foreign exchange losses (gains), reorganization expenses and bargain purchase gain to understand the profitability of recurring sources of income.

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

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

Results of Operations'.

Constant Currency Basis

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

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

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

Ex-PGAAP Operating Income (Loss)

Ex-PGAAP operating income (loss) represents operating income (loss) adjusted for amortization of VOBA and intangible assets, net of tax and amortization of acquisition costs, net of tax both associated with Novae's balance sheet at October 2, 2017 (the "closing date" or "purchase date"). We present ex-PGAAP operating income per diluted common share and annualized operating return on average common equity adjusted for these purchase accounting impacts ("ex- PGAAP operating ROACE"), which are derived from the ex-PGAAP operating income (loss) measure. Ex-PGAAP operating ROACE is calculated by dividing ex-PGAAP operating income (loss) by weighted average common shares and common share equivalents - diluted.

The reconciliation of ex-PGAAP operating income (loss) to net income (loss) available (attributable) to common shareholders, the most comparable GAAP financial measure, is presented in 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Results of Operations'.

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

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

Acquisition of Novae

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

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Results of Operations

	Three months ended June 30,			Six months ended June 30,		
	2018	% Change	2017	2018	% Change	2017
Underwriting revenues:						
Net premiums earned	$1,185,548	21%	$981,431	$2,352,950	23%	$1,920,133
Other insurance related income (losses)	3,730	46%	2,560	10,335	nm	(1,222)
Underwriting expenses:						
Net losses and loss expenses	(706,641)	17%	(605,332)	(1,367,986)	13%	(1,212,273)
Acquisition costs	(231,952)	14%	(204,361)	(461,212)	17%	(394,153)
Underwriting general and administrative expenses(1)	(134,959)	15%	(117,286)	(274,624)	15%	(239,086)
Underwriting Income	$115,726		$57,012	$259,463		$73,399
Corporate expenses(1)	(30,254)	(1%)	(30,530)	(60,425)	(14%)	(69,989)
Net investment income	109,960	4%	106,063	210,961	3%	204,728
Net investment losses	(45,093)	nm	(4,392)	(59,923)	nm	(29,443)
Other (expenses) revenues, net	27,001	nm	(48,869)	(27,622)	(67%)	(83,126)
Reorganization expenses	(18,772)	nm	—	(31,825)	nm	—
Amortization of value of business acquired	(53,407)	nm	—	(110,517)	nm	—
Amortization of intangible assets	(4,029)	nm	—	(6,811)	nm	—
Bargain purchase gain	—	nm	15,044	—	nm	15,044
Income before income taxes and interest in income (loss) of equity method investments	101,132		94,328	173,301		110,613
Income tax benefit	(996)	nm	3,333	40	nm	12,670
Interest in income (loss) of equity method investments	3,378	nm	(1,975)	3,378	nm	(7,741)
Net income	$103,514		$95,686	$176,719		$115,542
Preferred share dividends	(10,656)	—%	(10,656)	(21,313)	(16%)	(25,497)
Net income available to common shareholders	$92,858	9%	$85,030	$155,406	73%	$90,045
Net investment losses, net of tax(2)	$40,562	nm	$4,450	$56,535	nm	$28,679
Foreign exchange losses (gains), net of tax(3)	(43,320)	nm	36,057	(9,794)	nm	57,780
Reorganization expenses, net of tax (4)	16,216	nm	—	26,798	nm	—
Bargain purchase gain(6)	—	nm	(15,044)	—	nm	(15,044)
Operating income (5)	$106,316	(4%)	$110,493	$228,945	42%	$161,460

nm – not meaningful

(1) Underwriting-related general and administrative expenses is a non-GAAP measure as defined in Item 10(e) of SEC Regulation S-K. The reconciliation to total general and administrative expenses, the most comparable GAAP measure, also included corporate expenses of $30,254 and $30,530 for the three months ended June 30, 2018 and 2017, respectively, and $60,425 and $69,989 for the six months ended June 30, 2018 and 2017, respectively. Refer to 'Management’s Discussion and Analysis of Financial Condition and Results of Operations – Other Expenses

(Revenues), Net' for additional information related to the corporate expenses. Also, refer to 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures' for additional information.

(2) Tax cost (benefit) of ($4,531) and $58 for the three months ended June 30, 2018 and 2017, respectively, and $(3,388) and $(764) for the six months ended June 30, 2018 and 2017, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the ability to utilize capital losses.

(3) Tax cost (benefit) of $779 and ($61) for the three months ended June 30, 2018 and 2017, respectively, and $(3,555) and $197 for the six months ended June 30, 2018 and 2017, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the tax status of specific foreign exchange transactions.

(4) Tax cost (benefit) of ($2,556) and $nil for the three months ended June 30, 2018 and 2017, respectively, and $(5,027) and $nil for the six months ended June 30, 2018 and 2017, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the tax status of specific foreign exchange transactions.

(5) Operating income (loss) is a non-GAAP financial measures as defined in Item 10(e) of SEC Regulation S-K. The reconciliations to the most comparable GAAP financial measures (net income (loss) available (attributable) to common shareholders) is provided in table above, and a discussion of the rationale for the presentation of this item is included in 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures'.

(6) Tax impact is nil.

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Non-GAAP Financial Measures

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income available to common shareholders	$92,858	$85,030	$155,406	$90,045
Operating income	106,316	110,493	228,945	161,460
Weighted average common shares and common share equivalents - diluted(1)	83,984	84,511	83,853	85,647
Earnings per common share - diluted	$1.11	$1.01	$1.85	$1.05
Operating income per common share - diluted(2)	$1.27	$1.31	$2.73	$1.89
Average common shareholders' equity	$4,483,700	$5,110,993	$4,522,135	$5,131,996
Annualized return on average common equity(3)	8.3 %	6.7 %	6.9 %	3.5 %
Annualized operating return on average common equity(4)	9.5 %	8.6 %	10.1 %	6.3 %

(1) Refer to Item 1, Note 7 to our Consolidated Financial Statements 'Earnings per Common Share' for additional information on the dilution calculation.

(2) Operating income (loss) per diluted common share is a non-GAAP financial measures as defined in Item 10(e) of SEC Regulation S-K. The reconciliation to the most comparable GAAP financial measures (diluted earnings per common share) is provided in the table above, and a discussion of the rationale for the presentation of this item is included in 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures'.

(3) Annualized ROACE is calculated by dividing annualized net income (loss) available (attributable) to common shareholders for the period by the average common shareholders' equity determined by using the common shareholders' equity balances at the beginning and end of the period.

(4) Annualized operating ROACE, a non-GAAP financial measure as defined in Item 10(e) of SEC Regulation S-K, is calculated by dividing annualized operating income for the period by the average common shareholders' equity. The reconciliation to ROACE, the most comparable GAAP measure, is presented above in 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations', also refer to 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures' for additional information.

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

	Three months ended		Six months ended	
	2018	2017	2018	2017
Net income available to common shareholders	$92,858	$85,030	$155,406	$90,045
Net investment losses, net of tax	40,562	4,450	56,535	28,679
Foreign exchange losses (gains), net of tax	(43,320)	36,057	(9,794)	57,780
Reorganization expenses, net of tax	16,216	—	26,798	—
Bargain purchase gain	—	(15,044)	—	(15,044)
Operating income	$106,316	$110,493	$228,945	$161,460
Amortization of VOBA and intangible assets, net of tax[2]	45,626	—	91,885	—
Amortization of acquisition costs, net of tax[3]	(32,109)	—	(64,873)	—
Ex-PGAAP operating income[1]	$119,833	$110,493	$255,957	$161,460
Earnings per common share - diluted	$1.11	$1.01	$1.85	$1.05
Net investment losses, net of tax	0.49	0.05	0.68	0.34
Foreign exchange losses (gains), net of tax	(0.52)	0.43	(0.12)	0.68
Reorganization expenses, net of tax	0.19	—	0.32	—
Bargain purchase gain	—	(0.18)	—	(0.18)
Operating income per common share - diluted	$1.27	$1.31	$2.73	$1.89
Amortization of VOBA and intangible assets, net of tax[2]	0.54	—	1.10	—
Amortization of acquisition cost, net of tax[3]	(0.38)	—	(0.77)	—
Ex-PGAAP operating income per common share - diluted[1]	$1.43	$1.31	$3.05	$1.89
Weighted average common shares and common share equivalents - diluted	83,984	84,511	83,853	85,647
Average common shareholders' equity	$4,483,700	$5,110,993	$4,522,135	$5,131,996
Annualized return on average common equity	8.3 %	6.7 %	6.9 %	3.5 %
Operating return on average common equity	9.5 %	8.6 %	10.1 %	6.3 %
Ex-PGAAP operating return on average common equity[1]	10.7 %	nm	11.3 %	nm

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

(2) Tax cost (benefit) of $(10,702) and $(21,553) for the three and six months ended June 30, 2018, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the tax status of specific foreign exchange transactions.

(3) Tax cost (benefit) of $7,532 and $15,217 for the three and six months ended June 30, 2018, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the tax status of specific foreign exchange transactions.

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Underwriting Results

Total underwriting income for the three months ended June 30, 2018 was $116 million, an increase of $59 million compared to the underwriting income of $57 million for the three months ended June 30, 2017. The increase in underwriting income was primarily driven by an increase in net premiums earned, a decrease in the current accident year loss ratio excluding catastrophe and weather-related losses, a decrease in catastrophe and weather-related losses, a decrease in the acquisition cost ratio and the general and administrative expense ratio, partially offset by a decrease in net favorable prior year reserve development.

The reinsurance segment underwriting income decreased by $1 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017. The decrease in underwriting income was primarily driven by a decrease in net favorable prior year reserve development and an increase in catastrophe and weather-related losses largely offset by an increase in net premiums earned, a decrease the current accident year loss ratio excluding catastrophe and weather-related losses, a decrease in the acquisition cost ratio and a decrease in the general and administrative expense ratio.

The insurance segment underwriting income increased by $59 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017. The increase in underwriting income was primarily driven by an increase in net premiums earned, a decrease in catastrophe and weather-related losses, a decrease in the current accident year loss ratio excluding catastrophe and weather-related losses, an increase in net favorable prior year reserve development and a decrease in the general and administrative expense ratio, partially offset by an increase in the acquisition cost ratio.

Total underwriting income in the six months ended June 30, 2018 was $259 million, an increase of $186 million compared to $73 million in the six months ended June 30, 2017. The increase in underwriting income was primarily driven by an increase in net premiums earned, a decrease in the current accident year loss ratio excluding catastrophe and weather-related losses, a decrease in catastrophe and weather-related losses, an increase in net favorable prior year development and a decrease in the acquisition cost ratio and the general and administrative expense ratio.

The reinsurance segment underwriting income increased by $69 million in the six months ended June 30, 2018, compared to the six months ended June 30, 2017. The increase in underwriting income was primarily driven by an increase in net premiums earned, a decrease in the current accident year loss ratio excluding catastrophe and weather-related losses, a decrease in the acquisition cost ratio and a decrease the general and administrative expense ratio.

The insurance segment underwriting income increased by $117 million in the six months ended June 30, 2018, compared to the six months ended June 30, 2017. The increase in underwriting income was primarily due to an increase in net premiums earned, a decrease in the current accident year loss ratio excluding catastrophe and weather-related losses, a decrease in catastrophe and weather-related losses, an increase in net favorable prior year development, and a decrease in the general and administrative expenses ratio, partially offset by an increase in the acquisition cost ratio.

Net Investment Income

Net investment income for the three and six months ended June 30, 2018 was $110 million and $211 million, respectively, an increase of $4 million and $6 million, respectively, compared to the three and six months ended June 30, 2017.

Net Investment Gains (Losses)

Net investment losses were $45 million for the three months ended June 30, 2018 compared to $4 million for the same period of 2017.
Net investment losses for the three months ended June 30, 2018, were primarily due to the sale of U.S. government and Agency RMBS and net unrealized investment losses on equity securities of $11 million which were reported in net investment losses as opposed to other comprehensive income following the adoption of Accounting Standards Update ("ASU") ASU 2016-01 "Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities," in the first quarter of 2018.

Net investment losses were $60 million in the six months ended June 30, 2018, compared to $29 million for the same period of 2017.
Net investment losses for the six months ended June 30, 2018, were primarily due to the sale of U.S. government and Agency RMBS and net unrealized investment losses on equity securities of $32 million which were reported in net investment losses as opposed to other comprehensive income following the adoption of ASU 2016-01.

Other Expenses (Revenues), Net

Corporate expenses were $30 million for the three months ended June 30, 2018, compared to $31 million for the three months ended June 30, 2017. The decrease was primarily attributable to an increase in allocations of corporate costs to our insurance and reinsurance segments, largely offset by an increase in performance related compensation costs and information technology costs.

Corporate expenses were $60 million for the six months ended June 30, 2018, compared to $70 million for the six months ended June 30, 2017. The decrease was primarily attributable to a decrease in personnel costs and executive transition costs, together with an increase in the allocation of corporate costs to our insurance and reinsurance segments, partially offset by an increase in performance related compensation costs and information technology costs.

Foreign exchange gains were $44 million and $6 million for the three and six months ended June 30, 2018, respectively, compared to foreign exchange losses of $36 million and $58 million for the three and six months ended June 30, 2017, respectively.

Foreign exchange gains for the three and six months ended June 30, 2018 were primarily attributable to the impact of the weakening of the U.S. dollar on the remeasurement of net insurance-related liabilities mainly denominated in pound sterling and euro.

Foreign exchange losses for the three and six months ended June 30, 2017 were primarily attributable to the impact of the weakening of the U.S. dollar on the remeasurement of net insurance-related liabilities mainly denominated in pound sterling and euro. In addition, foreign exchange losses for the six months ended June 30, 2017 included the reclass of a cumulative translation adjustment balance of $24 million related to the wind-down of AXIS Specialty Australia from accumulated other comprehensive income to foreign exchange losses.

Interest expenses and financing costs were $17 million and $34 million for the three and six months ended June 30, 2018, respectively compared to $13 million and $26 million for the three and six months ended June 30, 2017, respectively. The increase was primarily attributable to interest due on the 4.0% Senior Notes issued by the Company in the fourth quarter of 2017, as well as interest due on the Dekania Notes issued by Novae in 2004.

The financial results for the three and six months ended June 30, 2018 resulted in a tax expense of $1 million and $nil, respectively, compared to a tax benefit of $3 million and $13 million, for the three and six months ended June 30, 2017, respectively.

The tax expense of $1 million and $nil recognized in the three and six months ended June 30, 2018, respectively, were primarily driven by the generation of pre-tax income in our U.S. operations, offset by the generation of pre-tax losses in our U.K. and European operations.

The tax benefit of $3 million recognized in the three months ended June 30, 2017 was primarily driven by underwriting losses recognized in our U.S. operations and a tax adjustment related to the bargain purchase gain recognized in connection with the acquisition of Aviabel. The tax benefit of $13 million recognized in the six months ended June 30, 2017 was primarily driven by share based compensation excess tax benefits which were recognized in the income statement, as well as underwriting losses recognized in our U.S. and European operations and a tax adjustment related to the bargain purchase gain recognized in connection with the acquisition of Aviabel.

Reorganization Expenses

Reorganization related expenses were $19 million and $32 million for the three and six months ended June 30, 2018, respectively, compared to $nil for the three and six months ended June 30, 2017 related to the transformation program launched earlier this year. This program encompasses the integration of Novae which commenced in the fourth quarter of 2017, the realignment of our accident and health business, together with other initiatives designed to increase our efficiency and enhance our profitability while delivering a customer-centric operating model.

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

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In order to achieve annual run-rate cost savings across the transformation program with effect from 2020, we expect to incur cumulative pre-tax reorganization charges of approximately $100 million by 2020. Pre-tax reorganization charges of $48 million have already been incurred since the third quarter 2017. These expenses are not included in operating income.

Bargain Purchase Gain

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

Interest in Income (Loss) of Equity Method Investments

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

Interest in income of equity method investments was $3 million for both the three and six months ended June 30, 2018 relating to our share of income in a company where we have a significant influence over the operating and financial policies.

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

Financial Measures

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

	Three months ended and at June 30,		Six months ended and at June 30,	
	2018	2017	2018	2017
Annualized ROACE	8.3 %	6.7 %	6.9 %	3.5 %
Annualized operating ROACE	9.5 %	8.6 %	10.1 %	6.3 %
Ex-PGAAP operating return on average common equity	10.7 %	nm	11.3 %	nm
Diluted book value per common share(1)	$52.47	$60.45	$52.47	$60.45
Cash dividends declared per common share	0.39	0.38	0.78	0.76
Increase (decrease) in diluted book value per common share adjusted for dividends	$0.29	$1.94	$(6.43)	$4.32

nm – not meaningful

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

Return on Equity

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

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

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The increase in ROACE for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, was primarily driven by a decrease in average common equity due to net losses attributable to common shareholders generated over the past twelve months, unrealized investment losses reported in other comprehensive income and common share dividends declared.

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

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

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

The increase in operating ROACE in the six months ended June 30, 2018, compared to the six months ended June 30, 2017, was primarily driven by an increase in underwriting income, together with a decrease in corporate expenses, partially offset by amortization of VOBA and intangible assets associated with the acquisition of Novae and reorganization expenses.

Ex-PGAAP operating ROACE excludes the impact of amortization of VOBA and intangible assets, net of tax and amortization of acquisition costs, net of tax both associated with Novae's balance sheet at October 2, 2017.

Ex-PGAAP operating ROACE three and six months ended June 30, 2018 was 10.7% and 11.3% respectively.

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.

Diluted book value per common share decreased by 13% to $52.47 at June 30, 2018, from $60.45 at June 30, 2017, which primarily reflected net losses attributable to common shareholders generated over the past twelve months of $350 million, unrealized investment losses reported in other comprehensive income and common share dividends declared.

Cash Dividends Declared per Common Share

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

Diluted Book Value per Common Share Adjusted for Dividends

Diluted book value per common share adjusted for dividends increased by $0.29 or 1% per common share for the three months ended June 30, 2018 and decreased by $6.43, or 11%, per common share over the past twelve months.

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

During the three months ended June 30, 2018, total value created was primarily driven by the net income generated in the quarter, partially offset by an increase in unrealized investment losses reported in accumulated other comprehensive income.

During the six months ended June 30, 2018, the reduction in total value was primarily driven by the unrealized investment losses reported in accumulated other comprehensive income, partially offset by net income generated in the year.

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

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UNDERWRITING RESULTS – CONSOLIDATED

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.

	Three months ended June 30,			Six months ended June 30,		
	2018	% Change	2017	2018	% Change	2017
Revenues:						
Gross premiums written	$1,650,825	21%	$1,362,327	$4,313,620	32%	$3,274,199
Net premiums written	1,000,455	5%	956,017	2,986,326	21%	2,464,976
Net premiums earned	1,185,548	21%	981,431	2,352,950	23%	1,920,133
Other insurance related income (losses)	3,730	46%	2,560	10,335	nm	(1,222)
Expenses:						
Current year net losses and loss expenses	(766,757)		(676,265)	(1,482,409)		(1,308,000)
Prior year reserve development	60,116		70,933	114,423		95,727
Acquisition costs	(231,952)		(204,361)	(461,212)		(394,153)
Underwriting-related general and administrative expenses(1)	(134,959)		(117,286)	(274,624)		(239,086)
Underwriting income(2)	$115,726	nm	$57,012	$259,463	nm	$73,399
General and administrative expenses(1)	$165,213		$147,816	$335,049		$309,075
Income before income taxes and interest in income (loss) of equity method investments(2)	$101,132		$94,328	$173,301		$110,613

nm – not meaningful

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

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

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Underwriting Revenues

Gross and net premiums written by segment were as follows:

	Gross Premiums Written					
	Three months ended June 30,			Six months ended June 30,		
	2018	% Change	2017	2018	% Change	2017
Insurance	$1,026,644	34%	$764,202	$1,907,492	46%	$1,309,464
Reinsurance	624,181	4%	598,125	2,406,128	22%	1,964,735
Total	$1,650,825	21%	$1,362,327	$4,313,620	32%	$3,274,199
% ceded						
Insurance	42%	7 pts	35%	40%	5 pts	35%
Reinsurance	36%	13 pts	23%	24%	6 pts	18%
Total	39%	9 pts	30%	31%	6 pts	25%

	Net Premiums Written					
	Three months ended June 30,			Six months ended June 30,		
	2018	% Change	2017	2018	% Change	2017
Insurance	$598,179	21%	$496,109	$1,146,071	34%	$852,945
Reinsurance	402,276	(13%)	459,908	1,840,255	14%	1,612,031
Total	$1,000,455	5%	$956,017	$2,986,326	21%	$2,464,976

Gross Premiums Written:

Gross premiums written for the three and six months ended June 30, 2018 increased by $288 million or 21% and $1 billion or 32%, respectively, compared to the three and six months ended June 30, 2017. The increase for the three and six months ended June 30, 2018, compared to the same periods in 2017, was due to an increase in both the reinsurance and insurance segments.

The reinsurance segment's gross premiums written increased by $26 million or 4% and $441 million or 22% for the three and six months ended June 30, 2018, respectively, compared to the same period in 2017.

The increase in the reinsurance segment's gross premiums written for the three months ended June 30, 2018 included $33 million attributable to catastrophe, marine and aviation lines associated with our acquisition of Novae. Excluding the impact of Novae, gross premiums written decreased by $7 million or 1% ($15 million or 2% on a constant currency basis[1]) for the three months ended June 30, 2018, compared to the same period of 2017, driven by liability and catastrophe lines, partially offset by an increase in credit and surety lines.

The increase for the six months ended June 30, 2018, compared to the same period in 2017, included $83 million attributable to catastrophe, marine and aviation lines associated with our acquisition of Novae. In addition, gross premiums written increased by $358 million or 18% ($271 million or 14% on a constant currency basis[1]) for the six months ended June 30, 2018 compared to the same period of 2017, driven by motor, credit and surety, accident and health and catastrophe lines, partially offset by a decrease in marine and other lines.

The insurance segment's gross premiums written increased by $262 million or 34% and $598 million or 46% for the three and six months ended June 30, 2018, respectively, compared to the same period in 2017.

(1) Amounts presented on a constant currency basis are non-GAAP financial measures as defined in Item10 (e) of SEC Regulation S-K. The constant currency basis is calculated by applying the average foreign exchange rate from the current year to the prior year balance.

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The increase in the insurance segment gross premiums written for the three months ended June 30, 2018 included $291 million attributable to property, professional lines, marine, and credit and political risk lines associated with our acquisition of Novae. Excluding the impact of Novae, gross premiums written decreased by $29 million, or 4% ($45 million or 6% on a constant currency basis) for the three months ended June 30, 2018, compared to the same period of 2017, attributable to property and marine lines, partially offset by an increase in premiums written in professional lines.

The increase in the insurance segment gross premiums written for the six months ended June 30, 2018 included $593 million attributable to property, marine, professional lines, and credit and political risk lines associated with our acquisition of Novae.

Ceded Premiums Written:

Ceded premiums written for the three and six months ended June 30, 2018 were $650 million or 39% of gross premiums written and $1.3 billion or 31% of gross premiums written, respectively, compared to $406 million or 30% of gross premiums written and $809 million or 25% of gross premiums written, respectively, for the three and six months ended June 30, 2017. The increase in the ceded premiums written was attributable to both segments.

The increase in the reinsurance segment ceded premiums written of $84 million or 61% for the three months ended June 30, 2018, compared to the same period in 2017, was attributable to accident and health, catastrophe and agriculture lines.

The increase in the reinsurance segment ceded premiums written for the six months ended June 30, 2018 compared to the same period in 2017, included $26 million attributable to catastrophe, marine and aviation lines associated with the acquisition of Novae. In addition, ceded premiums written increased by $187 million, or 53% for the six months ended June 30, 2018 compared to the same period in 2017, attributable to accident and health, catastrophe and credit and surety lines.

The increase in the insurance segment ceded premiums written for the three months ended June 30, 2018 compared to the same period in 2017, included $111 million primarily attributable to property and professional lines associated with our acquisition of Novae. In addition, ceded premiums increased by $50 million or 19% for the three months ended June 30, 2018, compared to the same period in 2017 primarily driven by property and professional lines.

The increase in the insurance segment ceded premiums written for the six months ended June 30, 2018 compared to the same period in 2017, included $228 million primarily attributable to property, professional lines and marine lines associated with our acquisition of Novae. In addition, ceded premiums increased by $77 million or 17% for the six months ended June 30, 2018, compared to the same period in 2017, primarily driven by professional lines and property lines.

Net Premiums Earned:

Net premiums earned by segment were as follows:

	Three months ended June 30,					Six months ended June 30,				
	2018		2017		% Change	2018		2017		% Change
Insurance	$577,271	49 %	$417,541	43 %	38%	$1,157,330	49 %	$809,504	42 %	43%

Reinsurance	608,277	51 %	563,890	57 %	8%	1,195,620	51 %	1,110,629	58 %	8%
Total	$1,185,548	100%	$981,431	100%	21%	$2,352,950	100%	$1,920,133	100%	23%

Net premiums earned for the three and six months ended June 30, 2018 increased by $204 million or 21% and $433 million or 23%, respectively, compared to the three and six months ended June 30, 2017. The increases for the three and six months ended June 30, 2018 compared to the same period in 2017, was driven by increases in both the insurance and reinsurance segments.

Net premiums earned increased by $160 million or 38% in our insurance segment for the three months ended June 30, 2018 compared to the same period in 2017. The increase in net premiums earned included $171 million primarily attributable to property and marine lines associated with our acquisition of Novae. Excluding the impact of Novae, net premiums earned decreased by $12 million, or 3% ($20 million or 5% on a constant currency basis) driven by property and professional lines, partially offset by an increase in liability lines.

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Net premiums earned increased by $348 million or 43% in our insurance segment for the six months ended June 30, 2018 compared to the same period in 2017. The increase in net premiums earned included $349 million primarily attributable to property, marine, credit and political risk and professional lines associated with our acquisition of Novae.

Net premiums earned increased by 8% in our reinsurance segment for the three months ended June 30, 2018 compared to the same period in 2017. The increase in net premiums earned included $23 million primarily attributable to catastrophe, marine and aviation lines associated with our acquisition of Novae. In addition, net premiums earned increased by $21 million, or 4% ($13 million or 2% on a constant currency basis) for the three months ended June 30, 2018 compared to the same period in 2017, driven by motor and credit and surety lines, partially offset by a decrease in marine lines.

Net premiums earned increased by 8% in our reinsurance segment for the six months ended June 30, 2018 compared to the same period in 2017. The increase in net premiums earned included $36 million primarily attributable to catastrophe, marine and aviation lines associated with our acquisition of Novae. In addition, net premiums earned increased by $49 million, or 4% ($35 million or 3% on a constant currency basis) for the six months ended June 30, 2018 compared to the same period in 2017, driven by motor, catastrophe, accident and health and liability lines, partially offset by decreases in marine and other, and agriculture lines.

Other Insurance Related Income (Losses):

Other insurance related income was $4 million for the three months ended June 30, 2018, compared to $3 million for the same period in 2017. The increase in other insurance related income of $1 million for the three months ended June 30, 2018 compared to the same period in 2017, was driven by a decrease in realized losses and unfavorable mark-to-market adjustments on our weather and commodities derivative portfolio which we no longer write, partially offset by a decrease in fees from strategic capital partners.

Other insurance related income was $10 million for the six months ended June 30, 2018, compared to other insurance related loss of $1 million for the same period in 2017. The increase in other insurance related income of $12 million for the six months ended June 30, 2018 compared to the same period in 2017, was driven by a decrease in realized losses and unfavorable mark-to-market adjustments on our weather and commodities derivative portfolio which we no longer write, partially offset by a decrease in fees from strategic capital partners.

Underwriting Expenses

The following table provides a breakdown of our combined ratio:

	Three months ended June 30,			Six months ended June 30,		
	2018	% Point Change	2017	2018	% Point Change	2017
Current accident year loss ratio excluding catastrophe and weather-related losses	61.5%	(2.3)	63.8%	59.9%	(3.8)	63.7%
Catastrophe and weather-related losses ratio	3.2 %	(1.9)	5.1 %	3.1 %	(1.3)	4.4 %
Current accident year loss ratio	64.7%	(4.2)	68.9%	63.0%	(5.1)	68.1%
Prior year reserve development	(5.1 %)	2.1	(7.2 %)	(4.9 %)	0.1	(5.0 %)
Net loss and loss expense ratio	59.6%	(2.1)	61.7%	58.1%	(5.0)	63.1%

Acquisition cost ratio	19.6%	(1.2)	20.8%	19.6%	(0.9)	20.5%
General and administrative expense ratio[1]	13.9%	(1.2)	15.1%	14.3%	(1.9)	16.2%
Combined ratio	93.1%	(4.5)	97.6%	92.0%	(7.8)	99.8%

(1) The general and administrative expense ratio includes corporate expenses not allocated to reportable segments of 2.6% and 3.1% for the three months ended June 30, 2018 and 2017, respectively. These costs are further discussed in 'Management's Discussion and Analysis of Financial Condition and Results of Operations – Other Expenses (Revenues), Net'.

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Current Accident Year Loss Ratio:

The current accident year loss ratio decreased to 64.7% and 63.0% for the three and six months ended June 30, 2018, respectively, from 68.9% and 68.1% for the same periods in 2017. The decrease in the current accident year loss ratio for the three and six months ended June 30, 2018 compared to the same periods in 2017, was impacted by a lower level of catastrophe and weather-related losses. During the three and six months ended June 30, 2018, we incurred $38 million or 3.2 points and $73 million or 3.1 points, respectively, in pre-tax catastrophe and weather-related losses primarily attributable to the Hawaii Volcano, the Papua New Guinea earthquake, together with U.S. and European weather-related events. Comparatively, during the three and six months ended June 30, 2017, we incurred pre-tax catastrophe and weather-related losses of $50 million or 5.1 points and $85 million or 4.4 points, respectively.

After adjusting for the impact of catastrophe and weather-related losses, our current accident year loss ratio for the three and six months ended June 30, 2018 was 61.5% and 59.9%, respectively, compared to 63.8% and 63.7%, respectively, for the three and six months ended June 30, 2017. The decrease in the current accident year loss ratio after adjusting for the impact of catastrophe and weather-related losses for the three months ended June 30, 2018 compared to the same period in 2017, was principally due to changes in business mix predominantly related to the acquisition of Novae, together with favorable impact of rate and trend, partially offset by an increase in attritional loss experience in insurance property lines.

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

Estimates of Significant Catastrophe Events:

Our June 30, 2018 net reserves for losses and loss expenses includes estimated amounts for numerous catastrophe events. We caution that the magnitude and/or complexity of losses arising from certain of these events, in particular Hurricanes Harvey, Irma and Maria, the two earthquakes in Mexico and the wildfires in Northern and Southern California which occurred in 2017 inherently increase the level of uncertainty and, therefore, the level of management judgment involved in arriving at our estimated net reserves for losses and loss expenses. As a result, our actual losses for these events may ultimately differ materially from our current estimates.
Our estimated net losses in relation to the catastrophe events described above were derived from ground-up assessments of our in-force contracts and treaties providing coverage in the affected regions. These assessments take into account the latest information available from clients, brokers and loss adjusters. In addition, we consider industry insured loss estimates, market share analyses and catastrophe modeling analyses, when appropriate. Our estimates remain subject to change, as additional loss data becomes available.

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

Prior Year Reserve Development:

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

	Three months ended June 30,	Six months ended June 30,

	2018	2017	2018	2017
Insurance	$24,294	$19,787	$47,068	$27,652
Reinsurance	35,822	51,146	67,355	68,075
Total	$60,116	$70,933	$114,423	$95,727

Overview

Short-tail business:

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

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These reserve classes contributed net favorable prior year reserve development of $43 million and $81 million for the three and six months ended June 30, 2018, respectively, compared to net favorable prior year reserve development of $31 million and $35 million for the three and six months ended June 30, 2017, respectively, reflecting the recognition of better than expected loss emergence.

Medium-tail business:

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

Our reinsurance professional reserve class recognized net favorable prior year development of $8 million for the six months ended June 30, 2018 and net favorable prior year development of $11 million and $27 million for the three and six months ended June 30, 2017, respectively. Our insurance professional reserve class recognized net favorable $11 million and $19 million for the three and six months ended June 30, 2017, respectively. The net favorable prior year loss development on these reserve classes continued to reflect generally favorable experience as we continued to transition to more experienced based methods.

Our credit and surety reinsurance reserve class recorded net favorable prior year reserve development of $9 million and $14 million for the three and six months ended June 30, 2018, respectively, due to the recognition of better than expected loss emergence.

Long-tail business:

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

Our reinsurance liability reserve class contributed net favorable prior year reserve development of $6 million and $8 million for the three and six months ended June 30, 2018 compared to net favorable prior year reserve development of $16 million and $40 million for the three and six months ended June 30, 2017, respectively. The net favorable prior year reserve development primarily reflected the progressively increased weight given by management to experience based indications on older accident years, which has generally been favorable.

Our insurance liability reserve class recorded net adverse prior year development of $7 million for the six months ended June 30, 2018 primarily related to slight reserve strengthening within our U.S. excess casualty business. For the six months ended June 30, 2017, our insurance liability reserve class recorded net adverse prior year development of $7 million, primarily attributable to reserve strengthening within our run-off Bermuda excess casualty book of business.

Our motor reinsurance reserve class recognized net favorable prior year reserve development of $5 million and $9 million for the three and six months ended June 30, 2018, respectively, primarily attributable to non proportional treaty business on older accident years. For six months ended June 30, 2017, our motor reinsurance reserve class recognized net adverse prior year reserve development of $20 million mainly driven by the decrease in the discount rate used to calculate lump sum awards in U.K. bodily injury cases, known as the Ogden Rate which changed from plus 2.5% to minus 0.75% effective March 20, 2017.

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

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

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

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Reinsurance Segment

		Reported Lines of Business										
Reserve Classes	Tail	Catastrophe	Property	Credit and Surety	Professional Lines	Motor	Liability	Engineering	Agriculture	Marine and Other	Accident and Health	Discontin lines - No
Property and Other	Short	X	X					X	X	X	X	X
Credit and Surety	Medium			X								
Professional Lines	Medium				X							
Motor	Long					X						X
Liability	Long						X					X

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

Insurance Segment:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Property and other	$22,318	$3,735	$39,508	$3,517
Marine	3,363	9,408	14,635	15,496
Aviation	1,239	(1,968)	(2,453)	(3,513)
Credit and political risk	(687)	(18)	78	(35)
Professional lines	(1,673)	11,299	2,234	18,750
Liability	(266)	(2,669)	(6,934)	(6,563)
Total	$24,294	$19,787	$47,068	$27,652

For the three months ended June 30, 2018 we recognized $24 million of net favorable prior year reserve development, the principal component of which was:

- $22 million of net favorable prior year reserve development on property and other business primarily due to generally better than expected loss emergence related to the 2017 catastrophe events.

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

- $11 million of net favorable prior year reserve development on professional lines business primarily related to accident years 2013 and 2014 due to the recognition of better than expected development.
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- $9 million of net favorable prior year reserve development on marine business primarily related to accident years 2013 through 2016 driven by better than expected loss emergence.

For the six months ended June 30, 2018 we recognized $47 million of net favorable prior year reserve development, the principal component of which was:

- $40 million of net favorable prior year reserve development on property and other business primarily due to generally better than expected loss emergence related to the 2017 catastrophe events.
- $15 million of net favorable prior year reserve development on marine business due to better than expected loss emergence on recent accident years.
- $7 million of net adverse prior year reserve development on liability business due to slight reserve strengthening within our U.S. excess casualty book of business, mainly related to the 2013 to 2015 accident years.

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

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

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

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

Reinsurance Segment:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Property and other	$16,058	$19,995	$29,120	$19,171
Credit and surety	8,712	1,610	13,698	1,524
Professional lines	(467)	10,921	8,106	26,846
Motor	5,334	2,540	8,525	(19,616)
Liability	6,185	16,080	7,906	40,150
Total	$35,822	$51,146	$67,355	$68,075

For the three months ended June 30, 2018 we recognized $36 million of net favorable prior year reserve development, the principal components of which were:

- $16 million of net favorable prior year reserve development on property and other business primarily due to overall better than expected loss emergence related to the 2017 catastrophe events and better than expected loss emergence on agriculture business.

- $9 million of net favorable prior year reserve development on credit and surety business due to generally better than expected prior year loss emergence.

- $6 million of net favorable prior year reserve development on liability business reflecting the generally favorable experience on earlier accident years, particularly 2008, 2009 and 2013, reflecting the progressively increased weight given by management to experience based indications on older accident years, which has generally been favorable.

- $5 million of net favorable prior year reserve development on motor business related to favorable experience on non proportional business on earlier accident years.

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

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

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

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

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For the six months ended June 30, 2018 we recognized $67 million of net favorable prior year reserve development, the principal components of which were:

- $29 million of net favorable prior year reserve development on property and other business due to overall better than expected loss emergence related to the 2017 catastrophe events and better than expected loss emergence on agriculture business.
- $14 million of net favorable prior year reserve development on credit and surety due to generally better than expected prior year loss emergence.
- $9 million of net favorable prior year reserve development on motor business related to favorable non proportional business on earlier accident years.
- $8 million of net favorable prior year reserve development on professional lines business reflecting the generally favorable experience on earlier accident years as we continue to transition to more experience based methods.
- $8 million of net favorable prior year reserve development on liability business reflecting the generally favorable experience on earlier accident years reflecting the progressively increased weight given by management to experience based indications on older accident years, which has generally been favorable.

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

- $40 million of net favorable prior year reserve development on liability business primarily related to accident years 2006 through 2014, for reasons discussed in the overview.
- $27 million of net favorable prior year reserve development on professional lines business primarily related to earlier accident years, for reasons discussed in the overview.
- $19 million of net favorable prior year reserve development on property and other business primarily related to 2011 through 2016 accident years driven by better than expected loss emergence.
- $20 million of net adverse prior year reserve development on motor business related to the impact of the change in the Ogden rate, partially offset by continued better than expected loss emergence related to non-proportional business spanning multiple accident years.

Acquisition Cost Ratio:

The acquisition cost ratio decreased to 19.6% for both the three and six months ended June 30, 2018 from 20.8% and 20.5%, for the three and six months ended June 30, 2017, respectively, driven by our reinsurance segment primarily due to changes in business mix. This decrease was partially offset by an increase in our insurance segment attributable to changes in business mix largely due to the acquisition of Novae.

General and Administrative Expense Ratio:

The general and administrative expense ratio decreased to 13.9% and 14.3% for the three and six months ended June 30, 2018, respectively, from 15.1% and 16.2% for the three and six months ended June 30, 2017, respectively.

The decrease was driven by both segments reflecting an increase in net premiums earned, a decrease in personnel costs, together with an increase in fees associated with arrangements with strategic capital partners, partially offset by Novae general and administrative expenses.

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RESULTS BY SEGMENT

Insurance Segment

Results from our insurance segment were as follows:

	Three months ended June 30,			Six months ended June 30,		
	2018	% Change	2017	2018	% Change	2017
Revenues:						
Gross premiums written	$1,026,644	34%	$764,202	$1,907,492	46%	$1,309,464
Net premiums written	598,179	21%	496,109	1,146,071	34%	852,945
Net premiums earned	577,271	38%	417,541	1,157,330	43%	809,504
Other insurance related income	1,214	nm	508	1,833	nm	551
Expenses:						
Current year net losses and loss expenses	(353,067)		(295,251)	(697,380)		(544,201)
Prior year reserve development	24,294		19,787	47,068		27,652
Acquisition costs	(90,864)		(62,390)	(178,193)		(116,394)
General and administrative expenses	(102,369)		(83,126)	(204,738)		(168,381)
Underwriting income (loss)	$56,479	nm	$(2,932)	$125,920	nm	$8,731
Ratios:		% Point Change			% Point Change	
Current accident year loss ratio excluding catastrophe and weather-related losses	57.2%	(3.6)	60.8%	55.8%	(3.8)	59.6%
Catastrophe and weather-related losses ratio	4.0%	(5.9)	9.9%	4.5%	(3.1)	7.6%
Current accident year loss ratio	61.2%	(9.5)	70.7%	60.3%	(6.9)	67.2%
Prior year reserve development	(4.2%)	0.5	(4.7%)	(4.1%)	(0.7)	(3.4%)
Net loss and loss expense ratio	57.0%	(9.0)	66.0%	56.2%	(7.6)	63.8%
Acquisition cost ratio	15.7%	0.8	14.9%	15.4%	1.0	14.4%
General and administrative expense ratio	17.7%	(2.2)	19.9%	17.7%	(3.1)	20.8%
Combined ratio	90.4%	(10.4)	100.8%	89.3%	(9.7)	99.0%

nm – not meaningful

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Gross Premiums Written:

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

	Three months ended June 30,					Six months ended June 30,				
	2018		2017		% Change	2018		2017		% Change
Property	$344,737	33 %	$198,681	26 %	74%	$639,943	34 %	$343,245	26 %	86%
Marine	95,690	9 %	73,921	10 %	29%	222,432	12 %	139,522	11 %	59%
Terrorism	15,812	2 %	10,509	1 %	50%	32,712	2 %	22,323	2 %	47%
Aviation	21,048	2 %	21,037	3 %	—%	42,061	2 %	35,620	3 %	18%
Credit and Political Risk	30,736	3 %	15,139	2 %	nm	75,466	4 %	31,311	2 %	nm
Professional Lines	297,243	29 %	244,119	33 %	22%	505,208	26 %	399,588	31 %	26%
Liability	150,167	15 %	136,725	18 %	10%	255,828	13 %	227,328	17 %	13%
Accident and Health	69,860	7 %	64,071	8 %	9%	130,537	7 %	110,525	8 %	18%
Discontinued Lines	1,351	—%	—	— %	nm	3,305	— %	—	— %	nm
Total	$1,026,644	100%	$764,202	100%	34%	$1,907,492	100%	$1,309,464	100%	46%

nm – not meaningful

Gross premiums written for the three months ended June 30, 2018 increased by $262 million or 34% compared to the three months ended June 30, 2017. The increase in gross premiums written included $291 million attributable to property, professional lines, marine, and credit and political risk lines associated with our acquisition of Novae. Excluding the impact of Novae, gross premiums written decreased by $29 million or 4% ($45 million or 6% on a constant currency basis) for three months ended June 30, 2018, compared to the same period in 2017, attributable to property lines following our exit from onshore energy business and some U.S. retail insurance operations, together with a decrease in marine lines partly due to timing differences. These decreases were partially offset by an increase in premiums written in professional lines driven by new business.

Gross premiums written for the six months ended June 30, 2018 increased by $598 million or 46% compared to the six months ended June 30, 2017. The increase in gross premiums written included $593 million attributable to property, marine, professional lines, and credit and political risk lines associated with our acquisition of Novae. In addition, gross premiums written increased by $5 million (decrease of $18 million or 1% on a constant currency basis) for six months ended June 30, 2018, compared to the same period in 2017, attributable to professional lines, liability, and accident and health lines driven by new business opportunities, together with an increase in aviation lines associated with our acquisition of Aviabel which was completed last year. These increases were largely offset by a decrease in property lines following our exit from onshore energy business and some U.S. retail insurance operations, together with a decrease in marine, and credit and political risk lines largely due to timing differences.

Ceded Premiums Written:

Ceded premiums written for the three and six months ended June 30, 2018 were $428 million or 42% of gross premiums written and $761 million or 40%, of gross premiums written respectively, compared to $268 million or 35% of gross premiums written and $457 million or 35% of gross premiums written, respectively, for the three and six months ended June 30, 2017.

The increase in ceded premiums written of $161 million or 60% for the three months ended June 30, 2018 compared to the same period in 2017, included $111 million primarily attributable to property and professional lines associated with our acquisition of Novae. In addition, ceded premiums increased by $50 million or 19% for the three months ended June 30, 2018, compared to the same period in 2017, primarily driven by property and professional lines.

The increase in ceded premiums written of $305 million or 67% for the six months ended June 30, 2018 compared to the same period in 2017, included $228 million primarily attributable to property, professional lines and marine lines associated with our acquisition of Novae. In addition, ceded premiums increased by $77 million or 17% for the six months ended June 30, 2018, compared to the same period in 2017, primarily driven by professional lines and property lines.

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Net Premiums Earned:

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

	Three months ended June 30,					Six months ended June 30,				
	2018		2017		% Change	2018		2017		% Change
Property	$189,402	32 %	$119,746	29 %	58%	$386,015	34 %	$238,620	29 %	62%
Marine	73,194	13 %	35,936	9 %	104%	149,569	13 %	74,605	9 %	100%
Terrorism	11,879	2 %	8,848	2 %	34%	26,386	2 %	16,785	2 %	57%
Aviation	17,702	3 %	19,919	5 %	(11%)	36,188	3 %	30,766	4 %	18%
Credit and Political Risk	26,281	5 %	10,704	3 %	nm	53,999	5 %	20,883	3 %	nm
Professional Lines	136,306	24 %	127,342	30 %	7%	271,918	23 %	252,479	31 %	8%
Liability	58,465	10 %	43,559	10 %	34%	109,562	9 %	86,332	11 %	27%
Accident and Health	56,103	10 %	51,487	12 %	9%	104,686	9 %	89,031	11 %	18%
Discontinued Lines	7,939	1 %	—	— %	nm	19,007	2 %	—	— %	nm
Total	$577,271	100%	$417,541	100%	38%	$1,157,330	100%	$809,504	100%	43%

nm - not meaningful

Net premiums earned for the three and six months ended June 30, 2018 increased by $160 million or 38% and $348 million or 43%, respectively, compared to the three and six months ended June 30, 2017.

The increase in net premiums earned for the three months ended June 30, 2018, compared to the same period in 2017, included $171 million primarily attributable to property and marine lines associated with our acquisition of Novae. Excluding the impact of Novae, net premiums earned decreased by $12 million, or 3% ($20 million or 5% on a constant currency basis) driven by property and professional lines, partially offset by an increase in liability lines. The decrease was due to an increase in ceded premiums earned together with a decrease in gross premiums earned in property lines, an increase in ceded premiums earned partially offset by an increase in gross premium earned in professional lines and an increase in gross premium earned in liability lines.

Net premiums earned increased by $348 million or 43% in our insurance segment for the six months ended June 30, 2018 compared to the same period in 2017. The increase in net premiums earned included $349 million primarily attributable to property, marine, credit and political risk and professional lines associated with our acquisition of Novae.

Loss Ratio:

The table below shows the components of our loss ratio:

	Three months ended June 30,			Six months ended June 30,		
	2018	% Point Change	2017	2018	% Point Change	2017
Current accident year	61.2%	(9.5)	70.7%	60.3%	(6.9)	67.2%
Prior year reserve development	(4.2 %)	0.5	(4.7 %)	(4.1 %)	(0.7)	(3.4 %)

Loss ratio	57.0%	(9.0)	66.0%	56.2%	(7.6)	63.8%

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Current Accident Year Loss Ratio:

The current accident year loss ratios decreased to 61.2% and 60.3% for the three and six months ended June 30, 2018, respectively, from 70.7% and 67.2% for the three and six months ended June 30, 2017, respectively.

The decrease in the current accident year loss ratio for the three and six months ended June 30, 2018 compared to the same period in 2017, was impacted by a lower level of catastrophe and weather-related losses. During the three and six months ended June 30, 2018 we incurred $23 million, or 4.0 points and $51 million or 4.5 points, respectively, in pre-tax catastrophe and weather-related losses, primarily attributable to the Hawaii Volcano, the Papua New Guinea earthquake together with U.S. and European weather-related events. Comparatively, during the three and six months ended June 30, 2017, we incurred $41 million or 9.9 points and $61 million or 7.6 points, respectively, in pre-tax catastrophe and weather-related losses.

After adjusting for the impact of the catastrophe and weather-related losses, our current accident year loss ratio for the three and six months ended June 30, 2018 was 57.2% and 55.8%, respectively, compared to 60.8% and 59.6% for the three and six months ended June 30, 2017, respectively.

The decrease in the current accident year loss ratio after adjusting for the impact of the catastrophe and weather-related losses for the three months ended June 30, 2018 compared to the same period in 2017, was principally due to changes in business mix predominantly related to the acquisition of Novae, together with favorable impact of rate and trend and a decrease in attritional loss experience in liability lines, partially offset by an increase in attritional loss experience in property lines.

The decrease in the current accident year loss ratio after adjusting for the impact of the catastrophe and weather-related losses for the six months ended June 30, 2018 compared to the same period in 2017, was principally due to changes in business mix predominantly related to the acquisition of Novae, together with favorable impact of rate and trend, partially offset by an increase in attritional loss experience in property, marine and aviation lines.

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

Acquisition Cost Ratio:

The acquisition cost ratio increased to 15.7% and 15.4% for the three and six months ended June 30, 2018, respectively, from 14.9% and 14.4% for the three and six months ended June 30, 2017, respectively, primarily attributable to changes in business mix.

General and Administrative Expense Ratio:

The general and administrative expense ratio decreased to 17.7% for both the three and six months ended June 30, 2018, respectively, from 19.9% and 20.8% for the three and six months ended June 30, 2017, respectively, reflecting an increase in net premiums earned and a decrease in personnel costs, partially offset by general and administrative expenses associated with the acquisition of Novae and an increase in the allocation of corporate costs to the segment.

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Reinsurance Segment

Results from our reinsurance segment were as follows:

	Three months ended June 30,			Six months ended June 30,		
	2018	% Change	2017	2018	% Change	2017
Revenues:						
Gross premiums written	$624,181	4%	$598,125	$2,406,128	22%	$1,964,735
Net premiums written	402,276	(13%)	459,908	1,840,255	14%	1,612,031
Net premiums earned	608,277	8%	563,890	1,195,620	8%	1,110,629
Other insurance related income (losses)	2,516	23%	2,052	8,502	nm	(1,773)
Expenses:						
Current year net losses and loss expenses	(413,690)		(381,013)	(785,029)		(763,798)
Prior year reserve development	35,822		51,146	67,355		68,075
Acquisition costs	(141,088)		(141,971)	(283,019)		(277,759)
General and administrative expenses	(32,590)		(34,160)	(69,886)		(70,705)
Underwriting income	$59,247	(1%)	$59,944	$133,543	nm	$64,668
Ratios:		% Point Change			% Point Change	
Current accident year loss ratio excluding catastrophe and weather-related losses	65.5%	(0.6)	66.1%	63.8%	(2.9)	66.7%
Catastrophe and weather-related losses ratio	2.5%	0.9	1.6%	1.9%	(0.2)	2.1%
Current accident year loss ratio	68.0%	0.3	67.7%	65.7%	(3.1)	68.8%
Prior year reserve development	(5.9%)	3.2	(9.1%)	(5.7%)	0.5	(6.2%)
Net loss and loss expense ratio	62.1%	3.6	58.5%	60.0%	(2.6)	62.6%
Acquisition cost ratio	23.2%	(2.0)	25.2%	23.7%	(1.3)	25.0%
General and administrative expense ratio	5.4%	(0.7)	6.1%	5.8%	(0.6)	6.4%
Combined ratio	90.7%	1.0	89.7%	89.5%	(4.5)	94.0%

nm – not meaningful

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Gross Premiums Written:

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

	Three months ended June 30,					Six months ended June 30,				
	2018		2017		% Change	2018		2017		% Change
Catastrophe	$148,304	23 %	$135,560	24 %	9%	$430,188	19 %	$321,494	16 %	34%
Property	60,293	10 %	56,723	9 %	6%	261,000	11 %	251,264	13 %	4%
Professional Lines	116,273	19 %	120,584	20 %	(4%)	222,452	9 %	197,596	10 %	13%
Credit and Surety	52,685	8 %	25,143	4 %	nm	249,000	10 %	145,067	7 %	72%
Motor	43,279	7 %	42,093	7 %	3%	455,355	19 %	333,516	17 %	37%
Liability	91,343	15 %	118,095	20 %	(23%)	250,352	10 %	229,916	12 %	9%
Agriculture	53,953	9 %	58,094	10 %	(7%)	199,350	8 %	207,285	11 %	(4%)
Engineering	6,604	1 %	7,347	1 %	(10%)	33,110	1 %	47,880	2 %	(31%)
Marine and Other	13,631	2 %	2,665	— %	nm	40,279	2 %	50,151	3 %	(20%)
Accident and Health	37,808	6 %	31,821	5 %	19%	265,496	11 %	180,567	9 %	47%
Discontinued Lines	8	— %	—	— %	nm	(454)	— %	—	— %	nm
Total	$624,181	100%	$598,125	100%	4%	$2,406,128	100%	$1,964,735	100%	22%

nm – not meaningful

Gross premiums written increased by $26 million, or 4%, for the three months ended June 30, 2018 compared to the same period in 2017. The increase included $33 million attributable to catastrophe, marine and aviation lines associated with the acquisition of Novae. Excluding the impact of Novae, gross premiums written decreased by $7 million, or 1% ($15 million or 2% on a constant currency basis) for the three months ended June 30, 2018, compared to the same period of in 2017, driven by liability and catastrophe lines, partially offset by an increase in credit and surety lines.

The decrease in liability was largely due to timing differences and a lower level of premiums written on a multi year basis. The decrease in catastrophe lines was primarily due to premium adjustments, together with a lower level of premiums written on a multi year basis, partially offset by new business. The increase in credit and surety lines was largely due to favorable premiums adjustments and new business.

Gross premiums written increased by $441 million, or 22%, for the six months ended June 30, 2018 compared to the same period in 2017. The increase included $83 million attributable to catastrophe, marine and aviation lines associated with the acquisition of Novae. Excluding the impact of Novae, gross premiums written increased by $358 million, or 18% ($271 million or 14% on a constant currency basis) for the six months ended June 30, 2018, compared to the same period of in 2017, driven by motor, credit and surety, accident and health, and catastrophe partially offset by a decrease in marine and other lines.

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

Ceded Premiums Written:

Ceded premiums written for the three and six months ended June 30, 2018 were $222 million or 36% and $566 million or 24%, respectively, of gross premiums written compared to $138 million or 23% and $353 million or 18% of gross premiums written for the three and six months ended June 30, 2017, respectively.

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The increase in ceded premiums written for the three months ended June 30, 2018 of $84 million or 64% for the three months ended June 30, 2018 compared to the same period in 2017, was attributable to accident and health, catastrophe, and agriculture lines primarily due to an increase in premiums ceded a new quota share retrocessional treaties which covers accident and health lines, together with an increase in premiums ceded to our strategic capital partners in catastrophe lines and an increase in premiums ceded associated with a new fronting arrangement in agriculture lines.

The increase in ceded premiums written for the six months ended June 30, 2018 included $26 million attributable to catastrophe and marine lines associated with the acquisition of Novae. Excluding the impact of Novae, ceded premiums written increased by $187 million, or 53% for the six months ended June 30, 2018 compared to the same period in 2017, attributable to accident and health, catastrophe and credit and surety lines primarily due to an increase in premiums ceded to two new quota share retrocessional treaties which cover accident and health lines, together with an increase in premiums ceded to two new quota share retrocessional treaties which cover credit and surety lines, as well as an increase in premiums ceded to our strategic capital partners in catastrophe lines.

Net Premiums Earned:

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

	Three months ended June 30,					Six months ended June 30,				
	2018		2017		% Change	2018		2017		% Change
Catastrophe	$59,498	10 %	$45,584	8 %	31%	$121,352	9 %	$87,103	9 %	39%
Property	78,466	13 %	72,249	13 %	9%	156,923	13 %	146,521	13 %	7%
Professional Lines	51,558	8 %	58,148	10 %	(11%)	107,749	9 %	118,046	11 %	(9%)
Credit and Surety	65,746	11 %	58,491	10 %	12%	118,481	10 %	114,538	10 %	3%
Motor	117,975	19 %	93,956	17 %	26%	221,507	19 %	181,421	16 %	22%
Liability	89,511	15 %	87,740	16 %	2%	179,103	15 %	168,573	15 %	6%
Agriculture	35,330	6 %	40,071	7 %	(12%)	73,888	6 %	92,867	8 %	(20%)
Engineering	16,593	3 %	16,775	3 %	(1%)	34,298	3 %	31,048	3 %	10%
Marine and Other	12,616	2 %	14,581	3 %	(13%)	19,076	2 %	27,751	2 %	(31%)
Accident and Health	78,442	13 %	76,295	14 %	3%	156,999	13 %	142,761	13 %	10%
Discontinued Lines	2,542	— %	—	— %	nm	6,244	1 %	—	— %	nm
Total	$608,277	100%	$563,890	100%	8%	$1,195,620	100%	$1,110,629	100%	8%

nm – not meaningful

Net premiums earned increased by $44 million or 8% and $85 million or 8% for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017.

The increase in net premiums earned for the three months ended June 30, 2018, compared to the same period in 2017, included $23 million primarily attributable to catastrophe, and marine and aviation lines associated with our acquisition of Novae. In addition, net premiums earned increased by $21 million, or 4% ($13 million or 2% on a constant currency basis) for the three months ended June 30, 2018 compared to the same period in 2017, driven by strong premium growth in motor, and credit and surety lines, partially offset by an increase in ceded premiums earned in credit and surety lines and a decrease in gross premiums earned in marine and other lines.

The increase in net premiums earned for the six months ended June 30, 2018, compared to the same period in 2017, included $36 million primarily attributable to catastrophe, and marine and aviation lines associated with our acquisition of Novae. In addition, net premiums earned increased by $49 million, or 4% ($35 million or 3% on a constant currency basis) for the six months ended June 30, 2018 compared to the same period in 2017, driven by strong premium growth in motor, catastrophe, accident and health, and liability lines, partially offset by an increase in ceded premiums earned in catastrophe, accident and health, liability and agriculture lines and a decrease in gross premiums earned in marine and other, and agriculture lines.

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Other Insurance Related Income (Losses):

Other insurance related income was $3 million for the three months ended June 30, 2018, compared to other insurance related loss of $2 million for the same period in 2017. The increase of $1 million for the three months ended June 30, 2018 compared to the same period in 2017, reflected a decrease in realized losses and unfavorable mark-to-market adjustments related to our weather and commodities derivative business which we no longer write, partially offset by a decrease in fees from strategic capital partners.

Other insurance related income was $9 million for the six months ended June 30, 2018, compared to other insurance related loss of $2 million for the same period in 2017. The increase of $10 million for the six months ended June 30, 2018 compared to the same period in 2017, reflected a decrease in realized losses and unfavorable mark-to-market adjustments related to our weather and commodities derivative business which we no longer write, partially offset by a decrease in fees from strategic capital partners.

Loss Ratio:

The table below shows the components of our loss ratio:

	Three months ended June 30,			Six months ended June 30,		
	2018	% Point Change	2017	2018	% Point Change	2017
Current accident year	68.0%	0.3	67.7%	65.7%	(3.1)	68.8%
Prior year reserve development	(5.9 %)	3.2	(9.1 %)	(5.7 %)	0.5	(6.2 %)
Loss ratio	62.1%	3.6	58.5%	60.0%	(2.6)	62.6%

Current Accident Year Loss Ratio:

The current accident year loss ratio decreased to 68.0% and 65.7% for the three and six months ended June 30, 2018 respectively, from 67.7% and 68.8% for the three and six months ended June 30, 2017, respectively.

During the three months ended June 30, 2018, we incurred pre-tax catastrophe and weather-related losses of $15 million or 2.5 points attributable to U.S. weather-related events. Comparatively, during the three months ended June 30, 2017 we incurred pre-tax catastrophe and weather-related losses of $9 million, or 1.6 points. The decrease in the current accident year loss ratios for the six months ended June 30, 2018 compared to the same period in 2017, was impacted by a slightly lower level of catastrophe and weather-related losses. During the six months ended June 30, 2018, we incurred pre-tax catastrophe and weather-related losses of $22 million or 1.9 points, attributable to Windstorm Friederike and U.S. weather-related events. Comparatively, during the six months ended June 30, 2017 we incurred pre-tax catastrophe and weather-related losses of $24 million or 2.1 points.

After adjusting for the impact of the catastrophe and weather-related losses, our current accident year loss ratio for the three and six months ended June 30, 2018 was 65.5% and 63.8%, respectively, compared to 66.1% and 66.7% for the three and six months ended June 30, 2017, respectively. The decrease in the current accident year loss ratio after adjusting for the impact of the catastrophe and weather-related losses for the three and six months ended June 30, 2018 compared to the same period in 2017, was principally due favorable impact of rate and trend, partially offset by changes in business mix.

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

Acquisition Cost Ratio:

The acquisition cost ratio decreased to 23.2% and 23.7% for the three and six months ended June 30, 2018, respectively, compared to 25.2% and 25.0% for the three and six months ended June 30, 2017, respectively, primarily attributable to changes in business mix. In addition, the adjustments related to loss sensitive features in underlying contracts favorably impacted the acquisition cost ratio for the three months ended June 30, 2018

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General and Administrative Expense Ratio:

The general and administrative expense ratio decreased to 5.4% and 5.8% for the three and six months ended June 30, 2018, respectively, from 6.1% and 6.4% for the three and six months ended June 30, 2017, respectively, reflecting a decrease personnel costs together with an increase in fees associated with arrangements with strategic capital partners, partially offset by general and administrative expenses associated with the acquisition of Novae and an increase in the allocation of corporate costs to the segment.

OTHER EXPENSES (REVENUES), NET

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

	Three months ended June 30,			Six months ended June 30,		
	2018	% Change	2017	2018	% Change	2017
Corporate expenses	$30,254	(1%)	$30,530	$60,425	(14%)	$69,989
Foreign exchange losses (gains)	(44,099)	nm	36,118	(6,239)	nm	57,583
Interest expense and financing costs	17,098	34%	12,751	33,861	33%	25,543
Income tax expense (benefit)	996	nm	(3,333)	(40)	nm	(12,670)
Total	$4,249	nm	$76,066	$88,007	nm	$140,445

nm – not meaningful

Corporate Expenses

Our corporate expenses include holding company costs necessary to support our worldwide insurance and reinsurance operations and costs associated with operating as a publicly-traded company. As a percentage of net premiums earned, corporate expenses were 2.6% and 2.6% for the three and six months ended June 30, 2018, respectively, compared to 3.1% and 3.6% for the same periods in 2017, respectively.

The decrease in corporate expenses for the three months ended June 30, 2018 was primarily attributable to an increase in allocations of corporate costs to our insurance and reinsurance segments, largely offset by an increase in performance related compensation costs and information technology costs.

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

Foreign Exchange Losses (Gains)

Some of our business is written in currencies other than the U.S. dollar. Foreign exchange gains of $44 million for the three months ended June 30, 2018, were primarily attributable to the impact of the strengthening of the U.S. dollar on the remeasurement of net insurance-related liabilities mainly denominated in pound sterling and euro

Foreign exchange gains of $6 million for the six months ended June 30, 2018 were primarily attributable to the impact of the strengthening of the U.S. dollar on the remeasurement of net insurance-related liabilities mainly denominated in pound sterling and euro in the second quarter, largely offset by foreign exchange losses driven primarily by the impact of the weakening of the U.S. dollar on the re-measurement of net insurance-related liabilities mainly denominated in pound sterling and euro in the first quarter.

The foreign exchange losses of $36 million and $58 million for the three and six months ended June 30, 2017, respectively, were primarily attributable to the impact of the weakening of the U.S. dollar on the remeasurement of net insurance-related liabilities mainly denominated in pound sterling and euro. In addition, foreign exchange losses for the six months ended June 30, 2017 included

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the reclass of a cumulative translation adjustment balance of $24 million related to the wind-down of AXIS Specialty Australia from accumulated other comprehensive income to foreign exchange losses.

Interest Expense and Financing Costs

Interest expense and financing costs are related to interest due on 5.875% Senior Notes issued in 2010, 2.65% Senior Notes and the 5.15% Senior Notes issued in 2014, and 4.0% Senior Notes issued in 2017, as well as Dekania Notes issued by Novae in 2004. Interest expenses and financing costs increased by $4 million and $8 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017, primarily attributable to costs associated with the 4.0% Senior Notes and Dekania Notes.

Income Tax Expense (Benefit)

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

The tax expense of $1 million and $nil recognized for the three and six months ended June 30, 2018, respectively, was primarily driven by the generation of pre-tax income in our U.S. operations, largely offset by the generation of pre-tax losses in our U.K. and European operations.

The tax benefit of $3 million recognized for the three months ended June 30, 2017 was primarily driven by underwriting losses recognized in our U.S. operations and a tax adjustment related to the bargain purchase gain recognized in connection with the acquisition of Aviabel.

The tax benefit of $13 million recognized for the six months ended June 30, 2017 was primarily driven by share based compensation excess tax benefits which were recognized in the income statement, as well as underwriting losses recognized in our U.S. and European operations and a tax adjustment related to the bargain purchase gain recognized in connection with the acquisition of Aviabel.

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NET INVESTMENT INCOME AND NET INVESTMENT GAINS (LOSSES)

Net Investment Income

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

	Three months ended June 30,			Six months ended June 30,		
	2018	% Change	2017	2018	% Change	2017
Fixed maturities	$88,320	13%	$78,218	$172,279	11%	$155,625
Other investments	14,541	(38%)	23,639	28,246	(34%)	42,601
Equity securities	3,158	(27%)	4,347	4,916	(37%)	7,825
Mortgage loans	3,357	29%	2,597	6,483	28%	5,074
Cash and cash equivalents	5,627	64%	3,433	9,779	50%	6,529
Short-term investments	1,645	nm	660	2,520	nm	1,098
Gross investment income	116,648	3%	112,894	224,223	3%	218,752
Investment expense	(6,688)	(2%)	(6,831)	(13,262)	(5%)	(14,024)
Net investment income	$109,960	4%	$106,063	$210,961	3%	$204,728
Pre-tax yield:[1]						
Fixed maturities	3.0%		2.8%	2.8%		2.7%

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

Fixed Maturities

Net investment income attributable to fixed maturities for the three and six months ended June 30, 2018 was $88 million and $172 million, respectively, compared to net investment income of $78 million and $156 million for the three and six months ended June 30, 2017, respectively. The increase was due to the increase in yields as well as our acquisitions of Novae and Aviabel.

Other Investments

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Hedge, direct lending, private equity and real estate funds	$11,867	$20,795	$22,457	$37,741
Other privately held investments	(394)	1,345	1,105	2,332
CLO-Equities	3,068	1,499	4,684	2,528
Total net investment income from other investments	$14,541	$23,639	$28,246	$42,601
Pre-tax return on other investments[1]	1.8%	3.0%	3.5%	5.4%

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

Net investment income attributable to other investments was $15 million and $28 million for the three and six months ended June 30, 2018, respectively, compared to net investment income of $24 million and $43 million for the three and six months ended June 30, 2017, respectively. The decrease was due to lower returns from hedge funds as a result of the weaker performance of global equity markets and lower returns from direct lending funds which were impacted by the decline in the euro.

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Net Investment Losses

The following table provides details of net investment losses:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
On sale of investments:				
Fixed maturities and short-term investments	$(38,681)	$3,097	$(50,588)	$(29,061)
Equity securities	1,147	6	17,428	15,600
	(37,534)	3,103	(33,160)	(13,461)
OTTI charges recognized in net income	(1,674)	(1,528)	(2,088)	(8,082)
Change in fair value of investment derivatives	5,134	(5,967)	7,157	(7,900)
Net unrealized gains (losses) on equity securities	(11,019)	—	(31,832)	—
Net investment losses	$(45,093)	$(4,392)	$(59,923)	$(29,443)

Net investment losses for the three months ended June 30, 2018 were $45 million compared to net investment losses of $4 million for the three months ended June 30, 2017, an increase of $41 million. For the three months ended June 30, 2018, the net investment losses were primarily due to the sale of U.S. government and Agency RMBS and net unrealized investment losses on equity securities of $11 million which were reported in net investment losses as opposed to other comprehensive income following the adoption of ASU 2016-01 in the first quarter of 2018.

Net investment losses for the six months ended June 30, 2018 were $60 million compared to the net investment losses of $29 million for the six months ended June 30, 2017, an increase of $31 million. For the six months ended June 30, 2018, net investment losses were primarily due to the sale of U.S. government and Agency RMBS and net unrealized investment losses on equity securities of $32 million which were reported in net investment losses as opposed to other comprehensive income following the adoption of ASU 2016-01.

On Sale of Investments

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

OTTI Charges

The OTTI charges for the periods ended June 30, 2018 and 2017 were both $2 million. The OTTI charges for the six months ended June 30, 2018 were $2 million, compared to $8 million for the six months ended June 30, 2017, a decrease of $6 million. These OTTI charges were primarily due to impairments on non-U.S. denominated securities due of the decline in foreign exchange rates against the U.S. dollar.

Change in Fair Value of Investment Derivatives

From time to time, we economically hedge foreign exchange exposure of non-U.S. denominated securities by entering into foreign exchange forward contracts.

During 2017, we introduced the use of interest rate swaps to reduce duration risk of our fixed income portfolio.

For the three months ended June 30, 2018, we recorded gains of $2 million relating to foreign exchange contracts and gains of $3 million relating to interest rates swaps. For the three months ended June 30, 2017, we recorded losses of $2 million relating to foreign exchange contracts and losses of $4 million relating to interest rates swaps.

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For the six months ended June 30, 2018, we recorded gains of $1 million relating to foreign exchange contracts and gains of $6 million relating to interest rates swaps. For the six months ended June 30, 2017, we recorded losses of $5 million relating to foreign exchange contracts and losses of $3 million relating to interest rates swaps.

Total Return

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

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Net investment income	$109,960	$106,063	$210,961	$204,728
Net investments losses	(45,093)	(4,392)	(59,923)	(29,443)
Change in net unrealized gains (losses)(1)	(75,745)	78,992	(183,010)	175,123
Interest in income (loss) of equity method investments	3,378	(1,975)	3,378	(7,741)
Total	$(7,500)	$178,688	$(28,594)	$342,667
Average cash and investments(2)	$15,165,153	$14,354,498	$15,440,159	$14,492,970
Total return on average cash and investments, pre-tax:				
Inclusive of investment related foreign exchange movements	— %	1.2 %	(0.2 %)	2.4 %
Exclusive of investment related foreign exchange movements(3)	0.3 %	1.0 %	(0.1 %)	2.1 %

(1) Change in net unrealized gains (losses) is calculated by taking net unrealized gains (losses) at period end less net unrealized gains (losses) at the prior period end.

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

(3) Pre-tax total return on cash and investments excluding foreign exchange movements is a non-GAAP financial measure as defined in SEC Regulation S-K. The reconciliation to pre-tax total return on cash and investments, the most comparable GAAP financial measure, included foreign exchange gains (losses) of $(59) million and $28 million for the three months ended June 30, 2018 and 2017, respectively, and foreign exchange gains (losses) of $(19) million and $40 million for the six months ended June 30, 2018 and 2017, respectively.

CASH AND INVESTMENTS

The table below provides details of our cash and investments:

	June 30, 2018 Fair Value	December 31, 2017 Fair Value

Fixed maturities	$11,739,305	$12,622,006
Equity securities	417,212	635,511
Mortgage loans	344,721	325,062
Other investments	916,191	1,009,373
Equity method investments	110,488	108,597
Short-term investments	168,944	83,661
Total investments	$13,696,861	$14,784,210
Cash and cash equivalents[1]	$1,526,693	$1,363,786

(1) Includes restricted cash and cash equivalents of $437 million and $415 million at June 30, 2018 and at December 31, 2017, respectively.

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Overview

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

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

Fixed Maturities

The table below provides details of our fixed maturities portfolio:

	June 30, 2018			December 31, 2017		
	Fair Value	% of Total		Fair Value	% of Total	
Fixed maturities:						
U.S. government and agency	$1,669,421	14	%	$1,712,469	14	%
Non-U.S. government	585,163	5	%	806,299	6	%
Corporate debt	4,870,972	41	%	5,297,866	43	%
Agency RMBS	1,699,728	14	%	2,395,152	19	%
CMBS	1,121,967	10	%	777,728	6	%
Non-Agency RMBS	39,304	1	%	46,831	—	%
ABS	1,614,034	14	%	1,436,281	11	%
Municipals(1)	138,716	1	%	149,380	1	%
Total	$11,739,305	100	%	$12,622,006	100	%
Credit ratings:						
U.S. government and agency	$1,669,421	14	%	$1,712,469	14	%
AAA(2)	4,665,647	40	%	4,990,848	39	%
AA	842,792	7	%	1,050,631	8	%
A	1,919,126	16	%	2,090,632	17	%
BBB	1,631,552	14	%	1,758,291	14	%
Below BBB(3)	1,010,767	9	%	1,019,135	8	%
Total	$11,739,305	100	%	$12,622,006	100	%

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

At June 30, 2018, fixed maturities had a weighted average credit rating of AA- (2017: AA-) and an average duration of 3.1 years (2017: 3.3 years), and a duration inclusive of interest rate swaps of 3.0 years (2017: 3.2 years). At June 30, 2018, inclusive of short-term investments and cash and cash equivalents, the average credit rating was AA- (2017: AA-) and duration inclusive of interest rate swaps was 2.7 years (2017: 2.9 years).

At June 30, 2018, net unrealized investment losses on fixed maturities were $173 million, compared to net unrealized investment gains of $11 million at December 31, 2017, a decrease of $184 million primarily due to the rise in U.S. Treasury rates.

Equity Securities

At June 30, 2018, net unrealized investment gains on equity securities were $51 million, compared to unrealized gains of $83 million at December 31, 2017, a decrease of $32 million driven by sales of equity securities and the decline in the euro against the U.S. dollar.

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Mortgage Loans

During the six months ended June 30, 2018, our investment in commercial mortgage loans increased by $20 million. The commercial mortgage loans are high quality and collateralized by a variety of commercial properties and are diversified both geographically throughout the U.S. and by property type to reduce the risk of concentration. At June 30, 2018, there were no credit losses associated with our commercial mortgage loans portfolio.

Other Investments

The table below provides details of our other investments portfolio:

	June 30, 2018			December 31, 2017		
	Fair Value	% of Total		Fair Value	% of Total	
Hedge funds						
Long/short equity funds	$26,693	3	%	$38,470	4	%
Multi-strategy funds	276,914	30	%	286,164	28	%
Event-driven funds	40,107	4	%	39,177	4	%
Total hedge funds	343,714	37	%	363,811	36	%
Direct lending funds	259,976	28	%	250,681	25	%
Private equity funds	65,513	7	%	68,812	7	%
Real estate funds	56,855	6	%	50,009	5	%
Total hedge, direct lending, private equity and real estate funds	726,058	78	%	733,313	73	%
Other privately held investments	47,613	5	%	46,430	5	%
CLO-Equities	26,153	4	%	31,413	2	%
Overseas deposits	116,367	13	%	198,217	20	%
Total other investments	$916,191	100	%	$1,009,373	100	%

During the six month period ended June 30, 2018, the fair value of total hedge funds decreased by $20 million driven by $30 million of net redemptions offset by $10 million of price appreciation. Certain of these funds may be subject to restrictions on redemptions which may limit our ability to liquidate these investments in the short term. See Note 3(c) to the Consolidated Financial Statements 'Investments' for further details on these restrictions and details on unfunded commitments relating to our other investment portfolio.

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

Equity Method Investments

During 2016, we paid $108 million including direct transactions costs to acquire 19% of the common equity of Harrington Reinsurance Holdings Limited ("Harrington"), the parent company of Harrington Re Ltd. ("Harrington Re"), an independent reinsurance company jointly sponsored by AXIS Capital and The Blackstone Group L.P. ("Blackstone"). Harrington is not a variable interest entity. Given that we exercise significant influence over this investee we account for our ownership in Harrington under the equity method of accounting.

LIQUIDITY AND CAPITAL RESOURCES

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

	June 30, 2018		December 31, 2017	
Debt	$1,377,206		$1,376,529	
Preferred shares	775,000		775,000	
Common equity	4,478,005		4,566,264	
Shareholders' equity	5,253,005		5,341,264	
Total capital	$6,630,211		$6,717,793	
Ratio of debt to total capital	20.8	%	20.5	%
Ratio of debt and preferred equity to total capital	32.5	%	32.0	%

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

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

We believe that our financial flexibility remains strong.

Secured Letter of Credit Facility

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

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

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

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Common Equity

During the six months ended June 30, 2018, our common equity decreased by $88 million. The following table reconciles our opening and closing common equity positions:

Six months ended June 30,	2018
Common equity - opening	$4,566,264
Treasury shares reissued	1,662
Share-based compensation expense	18,346
Unrealized gains (losses) on available for sale investments, net of tax	(180,194)
Foreign currency translation adjustment	(7,858)
Net income	176,719
Preferred share dividends	(21,313)
Common share dividends	(66,945)
Treasury shares repurchased	(8,676)
Common equity - closing	$4,478,005

During the six months ended June 30, 2018, we repurchased 0.2 million common shares for a total cost of $9 million in connection with the vesting of restricted stock awards granted under our 2007 Long-Term Equity Compensation Plan.

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

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

CRITICAL ACCOUNTING ESTIMATES

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.

As disclosed in our 2017 Annual Report on Form 10-K, 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.

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

OFF-BALANCE SHEET AND SPECIAL PURPOSE ENTITY ARRANGEMENTS

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

	AUD	NZD	CAD	EUR	GBP	JPY	Other	Total
At June 30, 2018								
Net managed assets (liabilities), excluding derivatives	$45,480	$(3,376)	$103,097	$(176,160)	$99,809	$43,392	$143,476	$255,718
Foreign currency derivatives, net	(54,713)	3,047	(140,548)	337,459	(173,506)	—	3,819	(24,442)
Net managed foreign currency exposure	(9,233)	(329)	(37,451)	161,299	(73,697)	43,392	147,295	231,276
Other net foreign currency exposure	1	—	25	53	119	—	72,916	73,114
Total net foreign currency exposure	$(9,232)	$(329)	$(37,426)	$161,352	$(73,578)	$43,392	$220,211	$304,390
Net foreign currency exposure as a percentage of total shareholders' equity	(0.2%)	—%	(0.7%)	3.1%	(1.4%)	0.8%	4.2%	5.8%
Pre-tax impact of net foreign currency exposure on	$(923)	$(33)	$(3,743)	$16,135	$(7,358)	$4,339	$22,021	$30,438

shareholders' equity given a hypothetical 10% rate movement[1]

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

Total Net Foreign Currency Exposure

At June 30, 2018, our total net foreign currency exposure was $304 million net long, driven by increases in our exposures to the euro and other non-core currencies primarily due to new business written during the six months ended June 30, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

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PART II OTHER INFORMATION

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ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 1A. RISK FACTORS

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

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

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

ISSUER PURCHASES OF EQUITY SECURITIES

Common Shares

Period	Total Number of Shares Repurchased[a]	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Repurchased Under the Announced Plans or Programs[b]
April 1-30, 2018	—	—	—	—
May 1-31, 2018	26	$57.98	—	—
June 1-30, 2018	—	—	—	—
Total	26		—	—

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

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

ITEM 5. OTHER INFORMATION

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

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

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

ITEM 6. EXHIBITS

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

† Filed herewith.

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

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.
Dated: August 8, 2018

AXIS CAPITAL HOLDINGS LIMITED

By: /S/ ALBERT BENCHIMOL
Albert Benchimol
President and Chief Executive Officer
(Principal Executive Officer)

/S/ PETER VOGT
Peter Vogt
Chief Financial Officer
(Principal Financial Officer)