

AXIS CAPITAL HOLDINGS LTD

Form S-3ASR

November 22, 2016

Table of Contents

As filed with the Securities and Exchange Commission on November 22, 2016.

Registration No. 333-

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM S-3**

**REGISTRATION STATEMENT**

***UNDER***

***THE SECURITIES ACT OF 1933***

**AXIS CAPITAL HOLDINGS LIMITED**

**(Exact name of Registrant as specified in its charter)**

**Bermuda**

**(State or other jurisdiction of  
incorporation or organization)**

**6331**

**(Primary Standard Industrial  
Classification Code Number)**

**98-0395986**

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

**AXIS SPECIALTY FINANCE LLC**

**(Exact name of Registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of  
incorporation or organization)**

**6331**  
**(Primary Standard Industrial  
Classification Code Number)**

**27-2107947**  
**(I.R.S. Employer  
Identification No.)**

**AXIS SPECIALTY FINANCE PLC**

**(Exact name of Registrant as specified in its charter)**

**England and Wales**  
**(State or other jurisdiction of  
incorporation or organization)**

**6331**  
**(Primary Standard Industrial  
Classification Code Number)**

**98-1148840**  
**(I.R.S. Employer  
Identification No.)**

**92 Pitts Bay Road,  
Pembroke HM 08, Bermuda,  
Telephone: (441) 496-2600**

**(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)**

**AXIS Specialty Finance LLC**

**Attn: General Counsel  
11680 Great Oaks Way, Suite 500,  
Alpharetta, Georgia 30022**

**Telephone: (678) 746-9000**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

*Copies to:*

**Richard T. Gieryn, Jr., Esq.**  
**Corporate Secretary, General Counsel**  
**AXIS Capital Holdings Limited**  
**92 Pitts Bay Road,**

**Pembroke HM 08, Bermuda**  
**Telephone: (441) 496-2600**

**Gary Horowitz, Esq.**  
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**New York, NY 10017-3954**  
**Telephone: (212) 455-2000**

**Approximate Date of Commencement of Proposed Sale of the Securities to the Public:** From time to time after the filing of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

**Table of Contents**

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered(1)(2)</b>	<b>Proposed Maximum Offering Price per Unit(1)(2)</b>	<b>Proposed Maximum Aggregate Offering Price(1)(2)</b>	<b>Amount of Registration Fee(3)</b>
Common shares, par value \$0.0125 per share, of AXIS Capital				
Preference shares of AXIS Capital				
Depository shares of AXIS Capital(4)				

Debt securities of AXIS Capital  
Warrants of AXIS Capital(5)  
Purchase contracts of AXIS Capital  
Purchase units of AXIS Capital(6)  
Debt securities of AXIS Finance  
Guarantees issued by AXIS Capital of  
AXIS Finance debt securities(7)  
Debt securities of AXIS Finance PLC  
Guarantees issued by AXIS Capital of  
AXIS Finance PLC debt securities(7)

- (1) Not applicable pursuant to Form S-3 General Instruction II(E). An indeterminate aggregate initial offering price or number of the securities of each identified class (the Securities ) is being registered as may from time to time be issued at indeterminate prices and offered and sold by AXIS Capital Holdings Limited ( AXIS Capital ), AXIS Specialty Finance LLC ( AXIS Finance ) or AXIS Specialty Finance PLC ( AXIS Finance PLC ).
- (2) Also includes an indeterminate amount of Securities as may be issued pursuant to anti-dilution adjustments or upon conversion of or exchange for any other Securities that provide for conversion or exchange into such Securities, upon exercise of warrants for such Securities or upon settlement of purchase contracts. Separate consideration may or may not be received for Securities issuable upon such conversion, exchange, exercise or settlement.
- (3) Pursuant to Rules 456(b) and 457(r), the registrants elect to defer payment of all of the registration fees.
- (4) Such indeterminate number of depositary shares to be evidenced by depositary receipts issued pursuant to a deposit agreement. In the event AXIS Capital elects to offer to the public fractional interests in the preference shares or common shares registered hereunder, depositary receipts will be distributed to those persons purchasing such fractional interests and the preference shares or common shares will be issued to the depositary under the deposit agreement. No separate consideration will be received for the depositary shares.
- (5) Warrants may be sold separately or with securities.
- (6) Each purchase unit consists of (a) a purchase contract; (b) warrants and/or (c) debt securities or debt obligations of third parties (including U.S. treasury securities, other purchase contracts or common shares) that would secure the holders obligations to purchase or to sell, as the case may be, purchase contract property under the purchase contract.
- (7) No separate consideration will be received from the guarantees of the AXIS Finance debt securities or the AXIS Finance PLC debt securities.

**Table of Contents**

**PROSPECTUS**

**AXIS Capital Holdings Limited**

**Common Shares, Preference Shares, Depositary Shares, Debt Securities, Warrants, Purchase Contracts and Purchase Units**

**AXIS Specialty Finance LLC and**

**AXIS Specialty Finance PLC**

**Debt Securities Fully and Unconditionally Guaranteed by AXIS Capital Holdings Limited**

We may offer, from time to time, common shares, preference shares, depositary shares, debt securities, warrants, contracts to purchase shares of our common shares or purchase units consisting of (1) a purchase contract; (2) warrants and/or (3) debt securities or debt obligations of third parties (including U.S. treasury securities, other purchase contracts or common shares) that would secure the holders' obligations to purchase or to sell, as the case may be, purchase contract property under the purchase contract.

AXIS Specialty Finance LLC is a Delaware limited liability company. AXIS Specialty Finance LLC may offer, from time to time, debt securities. AXIS Specialty Finance PLC is an English public company limited by shares. AXIS Specialty Finance PLC may offer, from time to time, debt securities. We will fully and unconditionally guarantee all payment obligations due on the debt securities issued by AXIS Specialty Finance LLC and AXIS Specialty Finance PLC, as described in this prospectus and in an applicable prospectus supplement.

Specific terms of these securities will be provided in one or more supplements to this prospectus. You should read this prospectus and any applicable prospectus supplement carefully before you invest.

**Investing in these securities involves risks. See Risk Factors beginning on page 2 of this prospectus and Risk Factors in our Annual Report on Form 10-K and/or our Quarterly Reports on Form 10-Q, if any.**

Our common shares are listed on the New York Stock Exchange, Inc. ( NYSE ) under the trading symbol AXS.

**Neither the Securities and Exchange Commission, any state securities commission, the Registrar of Companies in Bermuda, the Bermuda Monetary Authority nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus or any prospectus supplement. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is November 22, 2016.**

Table of Contents

Table of Contents

	<b>Page</b>
<u>PROSPECTUS SUMMARY</u>	1
<u>RISK FACTORS</u>	2
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	2
<u>AXIS CAPITAL HOLDINGS LIMITED</u>	2
<u>AXIS FINANCE</u>	3
<u>AXIS FINANCE PLC</u>	3
<u>USE OF PROCEEDS</u>	3
<u>RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS</u>	3
<u>DESCRIPTION OF OUR SHARE CAPITAL</u>	4
<u>DESCRIPTION OF OUR DEPOSITARY SHARES</u>	16
<u>DESCRIPTION OF AXIS CAPITAL DEBT SECURITIES</u>	19
<u>DESCRIPTION OF OUR WARRANTS</u>	29
<u>DESCRIPTION OF AXIS FINANCE DEBT SECURITIES AND AXIS CAPITAL DEBT GUARANTEES</u>	31
<u>DESCRIPTION OF AXIS FINANCE PLC DEBT SECURITIES AND AXIS CAPITAL DEBT GUARANTEES</u>	40
<u>DESCRIPTION OF PURCHASE CONTRACTS AND PURCHASE UNITS</u>	51
<u>BOOK-ENTRY PROCEDURES AND SETTLEMENT</u>	52
<u>CERTAIN TAX CONSIDERATIONS</u>	54
<u>CERTAIN ERISA CONSIDERATIONS</u>	74
<u>PLAN OF DISTRIBUTION</u>	76
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	78
<u>LEGAL MATTERS</u>	79
<u>EXPERTS</u>	79
<u>ENFORCEABILITY OF CIVIL LIABILITIES UNDER U.S. FEDERAL SECURITIES LAWS AND OTHER MATTERS</u>	79



**Table of Contents**

**PROSPECTUS SUMMARY**

This prospectus is part of a joint registration statement filed by AXIS Capital Holdings Limited, AXIS Specialty Finance LLC and AXIS Specialty Finance PLC with the Securities and Exchange Commission (the SEC) using a shelf registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus in one or more offerings.

This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and any applicable prospectus supplement, you should rely on the information in the applicable prospectus supplement. You should read both this prospectus and any applicable prospectus supplement together with additional information described under the heading **Where You Can Find More Information**.

You should rely only on the information contained in this prospectus and the information to which we have referred you. We have not authorized any other person to provide you with information that is different. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus may only be accurate on the date of this document.

The permission of the Bermuda Monetary Authority is required, pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of shares of Bermuda companies to or from a non-resident of Bermuda for exchange control purposes, other than in cases where the Bermuda Monetary Authority has granted a general permission. The Bermuda Monetary Authority, in its notice to the public dated June 1, 2005, has granted a general permission for the issue and subsequent transfer of any securities of a Bermuda company from and/or to a non-resident of Bermuda for exchange control purposes for so long as the Equity Securities of the company (which includes our common shares) are listed on an Appointed Stock Exchange (which would include the NYSE). The Bermuda Monetary Authority and the Registrar of Companies in Bermuda accept no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed in this prospectus or in any prospectus supplement.

As used in this prospectus, references to the Company, AXIS Capital, we, us or our refer to the consolidated operations of AXIS Capital Holdings Limited and its direct and indirect subsidiaries and branches unless the context suggests otherwise. As used in this prospectus, references to AXIS Finance refer to AXIS Specialty Finance LLC and references to AXIS Finance PLC refer to AXIS Specialty Finance PLC.

References in this prospectus to dollars or \$ are to the lawful currency of the United States of America, unless otherwise indicated or the context suggests otherwise.

**Table of Contents**

**RISK FACTORS**

Investing in our securities involves risks. In addition to the risks discussed in the applicable prospectus supplement, you should carefully review the risks discussed under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, which is incorporated by reference in this prospectus, and under the caption "Risk Factors" or any similar caption in the documents that we subsequently file with the SEC that are deemed to be incorporated by reference in this prospectus and in any applicable prospectus supplement or free writing prospectus that we provide you in connection with an offering of securities pursuant to this prospectus. You should also carefully review the other risks and uncertainties discussed in the documents incorporated and deemed to be incorporated by reference in this prospectus and in any such prospectus supplement and free writing prospectus. The risks and uncertainties discussed in the documents referred to above and other matters discussed in those documents could materially and adversely affect our business, financial condition, liquidity and results of operations and the market price of our shares and any other securities we may issue.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the United States securities laws. In some cases, these statements can be identified by the use of forward-looking words such as "may", "should", "could", "anticipate", "estimate", "expect", "plan", "believe", "predict", "potential" and "intend". Statements contained in this prospectus may include information regarding our estimates of losses related to catastrophes and other large losses, measurements of potential losses in the fair value of our investment portfolio and derivative contracts, our expectations regarding pricing and other market conditions, our growth prospects, and valuations of the potential impact of movements in interest rates, equity prices, credit spreads and foreign currency rates. Forward-looking statements only reflect our expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from our expectations. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the caption "Risk Factors". These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this prospectus.

Any forward-looking statements made by or on behalf of us in this prospectus, any applicable prospectus supplement or in a document incorporated by reference into this prospectus speak only as of the date of this prospectus, that prospectus supplement or such document incorporated by reference, as the case may be. We undertake no obligation to update or revise publicly any forward-looking statements whether as a result of new information, future events or otherwise.

**AXIS CAPITAL HOLDINGS LIMITED**

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

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Our principal executive offices are located at 92 Pitts Bay Road, Pembroke HM 08, Bermuda, and our telephone number is (441) 496-2600.

**Table of Contents****AXIS FINANCE**

AXIS Finance was formed in Delaware on March 12, 2010 as a limited liability company and is a direct wholly owned subsidiary of AXIS Specialty U.S. Holdings, Inc. and an indirect 100% owned subsidiary of AXIS Capital. AXIS Finance is a finance subsidiary without other material business activities. The principal executive office of AXIS Finance is 11680 Great Oaks Way, Suite 500, Alpharetta, GA 30022 and its telephone number is (678) 746-9000.

Copies of the certificate of formation and the limited liability company agreement will be included as exhibits to the registration statement of which this prospectus is a part.

**AXIS FINANCE PLC**

AXIS Finance PLC was incorporated and registered in England and Wales on January 3, 2014 as a public company limited by shares and is a direct wholly owned subsidiary of AXIS Specialty Holdings Bermuda Limited and an indirect 100% owned subsidiary of AXIS Capital. AXIS Finance PLC is a finance subsidiary without other material business activities. The principal executive office is 4<sup>th</sup> Floor, Plantation Place South, 60 Great Tower Street, London, EC3R 5AZ, United Kingdom, and its telephone number is 44 207 877 3800.

Copies of the certificate of incorporation, the memorandum of association and the articles of association will be included as exhibits to the registration statement of which this prospectus is a part.

**USE OF PROCEEDS**

Unless otherwise indicated in an applicable prospectus supplement, the net proceeds from the sale of the securities offered by us, AXIS Finance and AXIS Finance PLC will be used for general corporate purposes. We may provide additional information on the use of the net proceeds from the sale of the offered securities in an applicable prospectus supplement relating to the offered securities.

**RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS**

For purposes of computing the following ratios, earnings consist of income before income taxes plus fixed charges to the extent that such charges are included in the determination of earnings. Fixed charges consist of interest, amortization of debt issuance costs and credit facility fees and the interest portion on rent expense (for this calculation, 33.3% represents a reasonable approximation of the interest factor). A computation of the ratio of earnings to fixed charges and preferred dividends will be included as an exhibit to the registration statement of which this prospectus is a part.

	<b>Nine Months Ended September 30,</b>	<b>Years Ended December 31,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Ratio of Earnings to Fixed Charges	9.3	12.0	11.4	11.8	9.1	1.9
Ratio of Earnings to Fixed Charges and Preferred Share Dividends(1)	5.5	7.1	7.6	7.4	5.8	1.2

(1) Dividends have been tax effected at a 0% rate because it is presumed they will be funded from a Bermuda entity.

**Table of Contents**

**DESCRIPTION OF OUR SHARE CAPITAL**

*The following is a summary of the material provisions of our memorandum of association and bye-laws and the shareholders agreement among substantially all of our founding shareholders. The summary is not complete. Accordingly, we strongly encourage you to refer to these documents for a complete understanding of them, copies of which are or will be included or incorporated by reference in the registration statement of which this prospectus forms a part. In this section, we, us and our refer to AXIS Capital and not any of our subsidiaries.*

**General**

We are authorized to issue up to an aggregate of 800,000,000 shares, par value U.S. \$0.0125 per share. As of September 30, 2016, there were (1) approximately 176,575,000 common shares issued and approximately 88,439,000 outstanding, (2) 16,000,000 Series C preferred shares, par value \$0.0125 per share and liquidation preference of \$25.00 per share, issued and outstanding and (3) 9,000,000 Series D preferred shares, par value \$0.0125 per share and liquidation preference of \$25.00 per share, issued and outstanding. On November 7, 2016, we issued 220,000 Series E preferred shares, par value \$0.0125 per share and liquidation of \$2,500.00 per share.

**Common Shares**

Except as described below, our common shares have no pre-emptive rights or other rights to subscribe for additional common shares, no rights of redemption, conversion or exchange and no sinking fund rights.

***Dividends***

Holders of our common shares are entitled to receive dividends as may be lawfully declared from time to time by our board of directors.

***Winding-Up or Distribution***

In the event of winding-up or distribution, the holders of our common shares are entitled to receive at least the pro-rata portion of any cash distributed, if any remain after the payment of all our debts and liabilities and the liquidation preference of any outstanding preference shares.

***Voting Rights***

In general, and except as provided below, shareholders have one vote for each share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders.

However, pursuant to a mechanism specified in our bye-laws, the voting rights exercisable by a shareholder may be limited. In any situation in which the controlled shares (as defined below) of a United States person (as defined in the Internal Revenue Code of 1986, as amended, hereinafter referred to as the Code) would constitute 9.5% or more of the votes conferred by the issued shares and such United States person would generally be required to recognize income with respect to AXIS Capital under Section 951(a)(1) of the Code, if AXIS Capital were a controlled foreign corporation as defined in Section 957 of the Code and if the ownership threshold under Section 951(b) of the Code were 9.5%, the voting rights exercisable by a shareholder with respect to such shares shall be reduced so that no United States person is deemed to hold 9.5% or more of the voting power conferred by our shares. In addition, the voting power for a Direct Foreign Shareholder Group (as defined below) shall be reduced so that no Direct Foreign Shareholder Group is deemed to hold 9.5% or more of the voting power conferred by our shares. Our board of

directors may also limit a shareholder's voting rights where it deems it necessary to do so to avoid adverse tax, legal or regulatory consequences. Controlled shares includes, among other things, all shares that a United States person owns directly, indirectly or constructively (within the meaning of Section 958 of the Code). A Direct Foreign Shareholder Group includes a shareholder

## **Table of Contents**

or group of commonly controlled shareholders that are not United States persons. This provision will not apply if a shareholder owns greater than 75% of our issued and outstanding shares.

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

## **Preference Shares**

From time to time, pursuant to the authority granted by our bye-laws to issue shares up to the amount of our authorized share capital, our board of directors may create and issue one or more series of preference shares having such preferred, deferred or other special rights or such restrictions, whether in regard to dividends, voting, return of capital or otherwise, as we may by resolution of the shareholders determine. Such preference shares, upon issuance against full consideration (not less than the par value of such shares), will be fully paid and nonassessable.

The particular rights and preferences of any preference shares will be described in a prospectus supplement. The applicable prospectus supplement will also state whether any of the general provisions summarized below do not apply to the preference shares being offered. We strongly encourage you to refer to our memorandum of association and bye-laws and any applicable certificate of designations for a complete understanding of the terms and conditions applicable to the preference shares.

A prospectus supplement will describe the terms of each class or series of preference shares we offer, including, to the extent applicable:

the number of shares to be issued and sold and the distinctive designation thereof;

the dividend rights of the preference shares, whether dividends will be cumulative and, if so, from which date or dates and the relative rights or priority, if any, of payment of dividends on preference shares and any limitations, restrictions or conditions on the payment of such dividends;

the voting powers, if any, of the preference shares, equal to or greater than one vote per share, which may include the right to vote, as a class or with other classes of capital shares, to elect one or more of our directors;

the terms and conditions (including the price or prices, which may vary under different conditions and at different redemption dates), if any, upon which all or any part of the preference shares may be redeemed, at whose option such a redemption may occur, and any limitations, restrictions or conditions on such redemption;

the terms, if any, upon which the preference shares will be convertible into or exchangeable for our shares of any other class, classes or series;



the relative amounts, and the relative rights or priority, if any, of payment in respect of preference shares, which the holders of the preference shares will be entitled to receive upon our liquidation, dissolution, winding up, amalgamation, merger or sale of assets;

the terms, if any, of any purchase, retirement or sinking fund to be provided for the preference shares;

the restrictions, limitations and conditions, if any, upon the issuance of our indebtedness so long as any preference shares are outstanding;

any other relative rights, preferences, limitations and powers not inconsistent with applicable law, our memorandum of association and bye-laws; and

if necessary, a discussion of material U.S. federal income tax considerations and Bermuda tax considerations.

## Table of Contents

### *Dividends*

The holders of preference shares will be entitled to receive dividends, if any, at the rate established in accordance with the bye-laws, payable on specified dates each year for the respective dividend periods ending on such dates, when and as declared by our board of directors and subject to Bermuda law and regulations. The dividends will accrue or be payable on each preference share from the first day of the dividend period in which such share is issued or from such other date as our board of directors may fix for such purpose. Dividends on preference shares may be cumulative or non-cumulative. The holders of preference shares will not be entitled to participate in any other or additional earnings or profits of ours, except for such preference amounts, if any, as may be payable in case of our liquidation, dissolution or winding up.

No dividends will be paid upon any shares of any class or series of preference shares for a current dividend period unless there will have been paid or declared and set apart for payment dividends required to be paid to the holders of each other class or series of preference shares for all past dividend periods of such other class or series that pay dividends on a cumulative basis or for the immediately preceding dividend period of the other class or series of preference shares that pay dividends on a non-cumulative basis. If any dividends are paid on any of the preference shares with respect to any past dividend period at any time when less than the total dividends then accumulated and payable for all past dividend periods on all of the preference shares then outstanding that pay dividends on a cumulative basis or for the immediately preceding dividend period on all of the preference shares then outstanding that pay dividends on a non-cumulative basis are to be paid or declared and set apart for payment, then the dividends being paid will be paid on each class or series of preference shares in the proportions that the dividends then accumulated and payable or payable with respect to such dividend period, as applicable, on each class or series for all past dividend periods bear to the total dividends then accumulated and payable or payable with respect to such dividend period, as applicable, for all past dividend periods on all outstanding preference shares.

AXIS Capital is a holding company and has no direct operations. The ability of AXIS Capital to pay dividends or distributions depends almost exclusively on the ability of its subsidiaries to pay dividends or distributions to AXIS Capital. Our operating subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends or distributions.

Under the Insurance Act 1978 of Bermuda (the Insurance Act ), AXIS Specialty Limited is required to maintain its statutory capital and surplus at levels equal to or in excess of its minimum liquidity ratio, its minimum solvency margin and its enhanced capital requirement. AXIS Specialty Limited may not declare or pay a dividend or distribution if such payment would cause it to no longer comply with its capital requirements under the Insurance Act.

In addition, as the AXIS group of companies (the AXIS Group ) is regulated by the Bermuda Monetary Authority for group supervision purposes, the AXIS Group is also required to maintain its group capital at a level equal to or in excess of its minimum group solvency margin and comply with its group enhanced capital requirement. The ability of AXIS Capital to declare and pay dividends and distributions will be conditional upon the AXIS Group continuing to comply with its group capital requirements.

As used in this prospectus, regulatory capital adequacy event means that our minimum solvency margin, capital adequacy ratios and/or any other comparable ratio, regulatory capital resource or level (applicable on an individual or group basis), or any equivalent terminology employed by the then-applicable capital adequacy regulations, is/are below the capital adequacy requirements imposed upon us by the Bermuda Monetary Authority (or any successor agency or then-applicable regulatory authority) pursuant to the then-applicable capital adequacy regulations which includes our Enhanced Capital Requirements (as defined in the Bermuda capital regulations) or any equivalent terminology employed by the then-applicable capital adequacy regulations.

As used in this prospectus, capital adequacy regulations means the solvency margin, capital adequacy regulations or any other regulatory capital rules applicable to us from time to time on an individual or group basis

## **Table of Contents**

pursuant to Bermuda law and/or the laws of any other relevant jurisdiction and which set out the requirements to be satisfied by financial instruments to qualify as solvency margin or additional solvency margin or regulatory capital (or any equivalent terminology employed by the then-applicable capital adequacy regulations). See **Risk Factors** in our Annual Report on Form 10-K for the most recent fiscal year.

Dividends on the preference shares will have a preference over dividends on the common shares.

### ***Liquidation, Dissolution or Winding Up***

In case of our voluntary or involuntary liquidation, dissolution or winding up, the holders of each class or series of preference shares will be entitled to receive out of our assets the liquidation preference with respect to that class or series of preference shares. If dividends on such class or series of preference shares are cumulative, holders will also receive an amount equal to all accrued but unpaid dividends thereon before any of our assets will be paid or distributed to holders of our common shares.

It is possible that, in case of our voluntary or involuntary liquidation, dissolution or winding up, our assets could be insufficient to pay the full amounts due to the holders of all of the classes or series of preference shares then outstanding. In that circumstance, the holders of each outstanding class or series of preference shares will share ratably in such assets in proportion to the amounts which would be payable with respect to such class or series if all amounts payable thereon were paid in full.

Our consolidation, amalgamation or merger with or into any other company or corporation, or a sale of all or any part of our assets, will not be deemed to constitute a liquidation, dissolution or winding up.

### ***Redemption***

The applicable prospectus supplement for any class or series of preference shares will state the terms, if any, on which such class or series of preference shares will be redeemable, whether in whole or in part, on a mandatory basis, at our option or at the option of the holder.

In case of redemption of only a part of a class or series of preference shares, we will designate by lot, in such manner as our board of directors may determine, the shares to be redeemed, or will effect such redemption pro-rata.

Under Bermuda law, the source of funds that may be used by a company to pay amounts to shareholders on the redemption of their shares in respect of the nominal or par value of their shares is limited to (1) the capital paid up on the shares being redeemed, (2) funds of the company otherwise available for payment of dividends or distributions or (3) the proceeds of a new issuance of shares made for purposes of the redemption, and in respect of the premium over the nominal or par value of their shares is limited to funds otherwise available for dividends or distributions or out of the company's share premium account before the redemption date.

Under Section 42 of the Bermuda Companies Act of 1981, as amended (the **Companies Act**), no redemption of shares may be made by a company if, on the date of the redemption, there are reasonable grounds for believing that the company is, or after the redemption would be, unable to pay its liabilities as they become due. In addition, if the redemption price is to be paid out of funds otherwise available for dividends or distributions, no redemption may be made if the realizable value of its assets would thereby be less than the aggregate of its liabilities.

### ***Conversion Rights***

The terms of preference shares of any series that are convertible into or exchangeable for our common shares or our other securities will be described in an applicable prospectus supplement. These terms will describe

## **Table of Contents**

whether conversion or exchange is mandatory, at the option of the holder or at our option. These terms may include provisions pursuant to which the number of shares of our common shares or our other securities to be received by the holders of preference shares upon conversion or exchange would be subject to adjustment. Any such conversion or exchange will comply with applicable Bermuda law, our memorandum of association and bye-laws.

All common shares issued upon conversion will be fully paid and nonassessable, and will be free of all taxes, liens and charges with respect to the issue thereof except taxes, if any, payable by reason of issuance in a name other than that of the holder of the shares converted and except as otherwise provided by applicable law or our bye-laws.

Preference shares converted to common shares will cease to form part of the authorized preference share capital and will, instead, become part of our authorized and issued common share capital.

## ***Reissuance of Shares***

Any preference shares retired by purchase or redemption, or otherwise acquired by us or converted into other shares, will have the status of authorized but unissued preference shares, and may be reissued as part of the same class or series or may be reclassified and reissued by our board of directors in the same manner as any other authorized and unissued shares.

## ***Voting Rights***

Except as otherwise stated in the applicable prospectus supplement and in the certificate of designation establishing such series of preference shares or as required by applicable law, the holders of preference shares will have no general voting rights, which means that they will not be entitled to vote on matters submitted to a vote of our common shareholders.

The applicable prospectus supplement for a series may provide for special voting rights, including that, whenever dividends payable on any class or series of preference shares are in arrears in an aggregate amount or for an aggregate period specified in the applicable prospectus supplement, the holders of preference shares of that class or series, together with the holders of each other class or series of preference shares ranking on a parity with respect to the payment of dividends and amounts upon our liquidation, dissolution or winding up, will have the right, voting together as a single class regardless of class or series, to elect two directors of our board of directors.

The applicable prospectus supplement for a series may also provide that rights attached to any class of preference shares (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not we are being wound-up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a resolution passed by a majority of the votes cast at a separate general meeting of the holders of the shares of the class held in accordance with Section 47(7) of the Companies Act. The rights conferred upon the holders of the shares of any class issued with preference or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith or having different restrictions. Further, the rights attaching to any shares shall be deemed not to be altered by the creation or issue of any shares ranking in priority for payment of a dividend or in respect of capital or which confer on the holder thereof voting rights more favorable than those conferred by our common shares.

Holders of preference shares would be entitled to vote in the event we were to merge into or amalgamate with another company. The approval of the holders of a majority of the preference shares would be required, voting as a separate class, if affected in a manner that would constitute a variation of the rights of such preference shares. In addition,

holders of preference shares would be entitled to vote at a court-ordered meeting in respect of a compromise or arrangement pursuant to section 99 of the Companies Act and their consent would be required

## **Table of Contents**

with respect to the waiver of the requirement to appoint an auditor and to lay audited financial statements before a general meeting pursuant to section 88 of the Companies Act.

### ***Restrictions in Event of Default in Dividends on Preference Shares***

Unless we provide otherwise in a prospectus supplement, if at any time we have failed to pay dividends in full on the preference shares, thereafter and until dividends in full, including all accrued and unpaid dividends for all past quarterly dividend periods on the preference shares outstanding, shall have been declared and set apart in trust for payment or paid, or if at any time we have failed to pay in full amounts payable with respect to any obligations to redeem preference shares, thereafter and until such amounts shall have been paid in full or set apart in trust for payment:

- (1) we may not redeem less than all of the preference shares outstanding at such time unless we obtain the affirmative vote or consent of the holders of at least 66 2/3% of the outstanding preference shares given in person or by proxy, either in writing or by resolution adopted at a special general meeting called for the purpose, at which the holders of the preference shares shall vote separately as a class, regardless of class or series;
- (2) we may not purchase any preference shares except in accordance with a purchase offer made in writing to all holders of preference shares of all classes or series upon such terms as our board of directors in its sole discretion, after consideration of the respective annual dividend rate and other relative rights and preferences of the respective classes or series, determines (which determination will be final and conclusive) will result in fair and equitable treatment among the respective classes or series; provided that nothing will prevent us from completing the purchase or redemption of preference shares for which a purchase contract was entered into for any purchase, retirement or sinking fund purposes, or the notice of redemption of which was initially mailed, prior to such failure; and
- (3) we may not redeem, purchase or otherwise acquire, or permit any subsidiary to purchase or acquire, any shares of any other class of our shares ranking junior to the preference shares as to dividends and upon liquidation.

### ***Pre-emptive Rights***

No holder of preference shares, solely by reason of such holding, has or will have any pre-emptive right to subscribe to any additional issue of shares of any class or series or to any security convertible into such shares.

### ***Bye-laws***

In addition to the provisions described above, the following provisions are a summary of some of the other important provisions of our bye-laws.

*Our Board of Directors.* Our bye-laws provide that our board of directors shall consist of between 9 and 16 members, or such number as determined by the shareholders. The current board of directors consists of 12 persons and is divided into three classes. Each director serves a three-year term, with termination staggered according to class. Shareholders may only remove a director for cause at an annual general meeting by the affirmative vote of shareholders holding a



majority of the aggregate voting power of all of our issued and outstanding shares; *provided* that the notice of any such meeting convened for the purpose of removing a director shall contain a statement of the intention to do so and shall be provided to that director at least 14 days before that meeting. Such vacancy may be filled by the shareholders at the meeting at which such director is removed. Vacancies on the board of directors can be filled by the board of directors if the vacancy occurs as a result of death, disability, disqualification or resignation of a director, from an increase in the size of the board of directors or from a vacancy left unfilled at a general meeting.

*Shareholder Action.* At the commencement of any general meeting, two or more persons present in person and representing, in person or by proxy, more than 50% of the aggregate voting power of our shares shall constitute a quorum for the transaction of business. In general, any questions proposed for the consideration of

## **Table of Contents**

the shareholders at any general meeting shall be decided by the affirmative votes of a majority of the votes cast in accordance with the bye-laws. In addition, most actions that may be approved by resolution of our shareholders in a general meeting may, without a meeting, be approved by a resolution in writing signed by all of the shareholders entitled to attend such meeting and vote on the resolution.

*Voting of Subsidiary Shares.* If we are required or entitled to vote at a general meeting of any of our direct subsidiaries on matters other than appointment, removal and remuneration of auditors, approval of financial statements and reports thereon and remuneration of directors, our directors must refer the subject matter of the vote to our shareholders and seek authority from such shareholders as to how they should vote on the resolution proposed by the subsidiary. Substantially similar provisions are contained in the bye-laws or equivalent governing documents of most of our non-U.S. subsidiaries.

*Amendment.* Our bye-laws may only be amended by a resolution adopted by our board of directors and by resolution of our shareholders.

## **Restrictions on Transfer of Shares**

Our board of directors may decline to register a transfer of any common shares or preference shares (1) if it appears to the board of directors, in its sole and reasonable discretion, after taking into account the limitations on voting rights contained in our bye-laws, that any non-*de minimis* adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders or their affiliates may occur as a result of such transfer or (2) subject to any applicable requirements of the NYSE, if a written opinion from counsel supporting the legality of the transaction under U.S. securities laws has not been provided or if any required governmental approvals have not been obtained.

## **Acquisition of Shares by Us**

Under our bye-laws and subject to Bermuda law, if our board of directors determines that any shareholder's ownership of common shares or preference shares may result in non-*de minimis* adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders or their affiliates, we have the option, but not the obligation, to require such shareholder to sell to us or to a third party to whom we assign the repurchase right the minimum number of common shares or preference shares that is necessary to avoid or cure any such adverse consequences at a price determined in the good faith discretion of the board of directors to represent the shares' fair market value.

## **Issuance of Shares**

Subject to our bye-laws and Bermuda law, our board of directors has the power to issue any of our unissued common shares or preference shares as it determines, including the issuance of any common shares or class or series of shares with preferred, deferred or other special rights.

The restrictions on transfer, voting restrictions, right to acquire shares and right to issue additional shares or a new class or series of shares described above may have the effect of delaying, deferring or preventing a change in control of AXIS Capital.

## **Anti-Takeover Provisions and Insurance Regulations Concerning Change of Control**

Some of the provisions of our bye-laws as well as some insurance regulations concerning change of control could delay or prevent a change of control.

**Differences in Corporate Law**

The Companies Act, which applies to us, differs in some material respects from laws generally applicable to U.S. corporations and their shareholders. In order to highlight these differences, set forth below is a summary of

**Table of Contents**

some significant provisions of the Companies Act (including modifications adopted pursuant to our bye-laws) applicable to us that differ from provisions of the State of Delaware corporate law, which is the law that governs many U.S. public companies. The following statements are summaries and do not purport to deal with all aspects of Bermuda law that may be relevant to us and our shareholders.

*Duties of Directors.* Under Bermuda law, at common law, members of a board of directors owe a fiduciary duty to the company to act in good faith in their dealings with or on behalf of the company and exercise their powers and fulfill the duties of their office honestly. This duty has the following essential elements:

a duty to act in good faith in the best interests of the company;

a duty not to make a personal profit from opportunities that arise from the office of director;

a duty to avoid conflicts of interest; and

a duty to exercise powers for the purpose for which such powers were intended.

The Companies Act imposes a duty on directors and officers of a Bermuda company:

to act honestly and in good faith with a view to the best interests of the company; and

to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

In addition, the Companies Act imposes various duties on directors and officers of a company with respect to matters of management and administration of the company.

The Companies Act provides that in any proceedings for negligence, default, breach of duty or breach of trust against any director or officer, if it appears to a court that such director or officer is or may be liable in respect of the negligence, default, breach of duty or breach of trust, but that he has acted honestly and reasonably, and that, having regard to all the circumstances of the case, including those connected with his appointment, he ought fairly to be excused for the negligence, default, breach of duty or breach of trust, that court may relieve him, either wholly or partly, from any liability on such terms as the court may think fit. This provision has been interpreted to apply only to actions brought by or on behalf of the company against such directors and officers. Our bye-laws, however, provide that shareholders waive all claims or rights of action that they might have, individually or in the right of AXIS Capital, against any director or officer of us for any act or failure to act in the performance of such director's or officer's duties, except this waiver does not extend to any claims or rights of action that arise out of fraud or dishonesty on the part of such director or officer.

Under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its shareholders.

The duty of care requires that directors act in an informed and deliberative manner and inform themselves, prior to making a business decision, of all material information reasonably available to them. The duty of care also requires that directors exercise care in overseeing and investigating the conduct of corporate employees. The duty of loyalty may be summarized as the duty to act in good faith, not out of self-interest, and in a manner which the director reasonably believes to be in the best interests of the shareholders.

A party challenging the propriety of a decision of a board of directors bears the burden of rebutting the applicability of the presumptions afforded to directors by the business judgment rule. If the presumption is not rebutted, the business judgment rule attaches to protect the directors and their decisions, and their business judgments will not be second guessed. Where, however, the presumption is rebutted, the directors bear the burden of demonstrating the entire fairness of the relevant transaction. Notwithstanding the foregoing, Delaware courts subject directors' conduct to enhanced scrutiny in respect of defensive actions taken in response to a threat to corporate control and approval of a transaction resulting in a sale of control of the corporation.

## **Table of Contents**

*Interested Directors.* Under Bermuda law and our bye-laws, a transaction entered into by us in which a director has an interest will not be voidable by us, and such director will not be liable to us for any profit realized pursuant to such transaction; *provided* that the nature of the interest is disclosed at the first opportunity at a meeting of directors, or in writing to the directors. In addition, our bye-laws allow a director to be taken into account in determining whether a quorum is present and to vote on a transaction in which the director has an interest following a declaration of the interest pursuant to the Companies Act; *provided* that the director is not disqualified from doing so by the chairman of the meeting.

Under Delaware law, such a transaction would be voidable unless (1) the material facts as to such interested director's relationship or interests are disclosed or are known to the board of directors or a committee of disinterested directors and the board of directors or committee in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, (2) such material facts are disclosed or are known to the shareholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the shareholders or (3) the transaction is fair as to the corporation as of the time it is authorized, approved or ratified by the board of directors, a committee or the shareholders. Under Delaware law, an interested director could be held liable for a transaction in which such director derived an improper personal benefit.

*Dividends and Distributions.* Bermuda law permits the declaration and payment of dividends and the making of distributions from contributed surplus by a company only if there are no reasonable grounds for believing that the company is, or would after the payment be, unable to pay its liabilities as they become due, or the realizable value of the company's assets would be less, as a result of the payment, than the aggregate of its liabilities. The excess of the consideration paid on the issue of shares over the aggregate par value of such shares must (except in limited circumstances) be credited to a share premium account. Share premium may be distributed in limited circumstances, for example, to pay up unissued shares which may be distributed to shareholders in proportion to their holdings, but is otherwise subject to limitation. In addition, our ability to pay dividends is subject to applicable Bermuda insurance laws and regulatory constraints. See [Preference Shares](#) [Dividends](#).

Under Delaware law, subject to any restrictions contained in the company's certificate of incorporation, a company may pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Delaware law also provides that dividends may not be paid out of net profits at any time when capital is less than the capital represented by the outstanding shares of all classes having a preference upon the distribution of assets.

*Amalgamations, Mergers and Similar Arrangements.* We may acquire the business of another Bermuda exempted company or a company incorporated outside Bermuda when conducting such business would benefit the company and would be conducive to attaining the objectives contained within our memorandum of association. We may, with the approval of at least 75% of the votes cast at a general meeting of our shareholders at which a quorum is present, amalgamate or merge with another Bermuda company or with a body incorporated outside Bermuda. In the case of an amalgamation or merger, a shareholder who did not vote in favor of the amalgamation or merger may apply to a Bermuda court for a proper valuation of such shareholder's shares if such shareholder is not satisfied that fair market value has been paid for such shares. The court ordinarily would not disapprove the transaction on that ground absent evidence of fraud or bad faith.

Under Delaware law, with certain exceptions, a merger, consolidation or sale of all or substantially all the assets of a corporation must be approved by the board of directors and a majority of the outstanding shares entitled to vote thereon. Under Delaware law, a shareholder of a corporation participating in certain major corporate transactions may, under certain circumstances, be entitled to appraisal rights pursuant to which such stockholder may receive payment in the amount of the fair market value of the shares held by such shareholder (as determined by a court) in lieu of the

consideration such shareholder would otherwise receive in the transaction.

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**Table of Contents**

*Takeovers.* Bermuda law provides that where an offer is made for shares of a company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer (other than shares held by or for the offeror or its subsidiaries) accept, the offeror may by notice in accordance with the Companies Act require the non-tendering shareholders to transfer their shares on the terms of the offer. Dissenting shareholders may apply to the court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholders to show that the court should exercise its discretion to enjoin the required transfer, which the court will be unlikely to do unless there is evidence of fraud or bad faith or collusion between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders. Delaware law provides that a parent corporation, by resolution of its board of directors and without any shareholder vote, may merge with any subsidiary of which it owns at least 90% of each class of capital shares. Upon any such merger, dissenting shareholders of the subsidiary would have appraisal rights.

*Certain Transactions with Significant Shareholders.* As a Bermuda company, we may enter into certain business transactions with our significant shareholders, including asset sales, in which a significant shareholder receives, or could receive, a financial benefit that is greater than that received, or to be received, by other shareholders with prior approval from our board of directors but without obtaining prior approval from our shareholders. Amalgamations and mergers require the approval of the board of directors and, except in the case of amalgamations and mergers with and between wholly owned subsidiaries, a resolution of shareholders approved by a majority of at least 75% of the votes cast. If we were a Delaware corporation, we would need, subject to certain exceptions, prior approval from shareholders, and not by written consent, holding at least two-thirds of our outstanding common shares not owned by such interested shareholder to enter into a business combination (which, for this purpose, includes asset sales of greater than 10% of our assets) with an interested shareholder for a period of three years from the time the person became an interested shareholder, unless we opted out of the relevant Delaware statute.

*Shareholders' Suits.* The rights of shareholders under Bermuda law are not as extensive as the rights of stockholders under legislation or judicial precedent in many U.S. jurisdictions. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. However, the Bermuda courts ordinarily would be expected to follow English case law precedent, which would permit a shareholder to commence an action in our name to remedy a wrong done to us where the act complained of is alleged to be beyond our corporate power or is illegal or would result in the violation of our memorandum of association or bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or where an act requires the approval of a greater percentage of our shareholders than actually approved it. The winning party in such an action generally would be able to recover a portion of attorneys' fees incurred in connection with such action. Our bye-laws provide that shareholders waive all claims or rights of action that they might have, individually or in the right of AXIS Capital, against any director or officer for any action or failure to act in the performance of such director's or officer's duties, except such waiver shall not extend to claims or rights of action that arise out of any fraud or dishonesty of such director or officer. Class actions and derivative actions generally are available to shareholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court generally has discretion to permit the winning party to recover attorneys' fees incurred in connection with such action.

*Indemnification of Directors and Officers.* Under Bermuda law and our bye-laws, we may indemnify and secure harmless out of our assets our directors, officers or any other person appointed to a committee of the board of directors (and their respective heirs, executors or administrators) (the "Indemnitees") from and against all actions, costs, charges, losses, damages or expenses incurred or suffered by such person by reason of any act done, concurred in or omitted in the conduct of our business or in the discharge of his/her duties; *provided* that such indemnification shall not extend to any matter involving any fraud or dishonesty (as determined in a final judgment or decree not subject to appeal) on the part of such director, officer or other person. Under Delaware law, a corporation may indemnify a director or officer



of the corporation against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action,

## Table of Contents

suit or proceeding by reason of such position if (1) such director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and (2) with respect to any criminal action or proceeding, such director or officer had no reasonable cause to believe his conduct was unlawful. We may also advance moneys to the Indemnitees for the costs, charges and expenses incurred by them in defending any civil or criminal proceedings against them, on the condition that any person to whom such moneys are advanced will repay the advance if any allegation of fraud or dishonesty is proved against such person.

*Inspection of Corporate Records.* Members of the general public have the right to inspect our public documents available at the office of the Registrar of Companies in Bermuda and our registered office in Bermuda, which will include our memorandum of association and any alteration to our memorandum of association and documents relating to any increase or reduction of authorized capital. Our shareholders have the additional right to inspect our bye-laws, minutes of general meetings and financial statements, which must be presented to the annual general meeting of shareholders. The register of our shareholders is also open to inspection by shareholders and members of the public without charge. We are required to maintain our share register in Bermuda but may establish a branch register outside of Bermuda. We are required to keep at our registered office a register of our directors and officers that is open for inspection by members of the public without charge. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records. Delaware law permits any shareholder to inspect or obtain copies of a corporation's shareholder list and its other books and records for any purpose reasonably related to such person's interest as a shareholder.

*Shareholder Proposals.* Under Bermuda law, the Companies Act provides that shareholders may, as set forth below and at their own expense (unless a company otherwise resolves), require a company to give notice of any resolution that the shareholders can properly propose at the next annual general meeting and/or to circulate a statement prepared by the requesting shareholders in respect of any matter referred to in a proposed resolution or any business to be conducted at a general meeting. The number of shareholders necessary for such a requisition is either that number of shareholders representing at least 5% of the total voting rights of all shareholders having a right to vote at the meeting to which the requisition relates or not less than 100 shareholders. Delaware law does not include such a provision restricting the manner in which nominations for directors may be made by shareholders or the manner in which business may be brought before a meeting.

*Calling of Special Shareholders Meetings.* Under our bye-laws, a special general meeting may be called by our President or by our Chairman. Under Bermuda law, a special meeting may also be called by the shareholders when requisitioned by the holders of at least 10% of the paid up voting share capital of AXIS Capital as provided by the Companies Act. Delaware law permits the board of directors or any person who is authorized under a corporation's certificate of incorporation or bye-laws to call a special meeting of shareholders.

*Approval of Corporate Matters by Written Consent.* Under our bye-laws and the Companies Act, shareholders may take action by written consent and pursuant to our bye-laws, 100% shareholders consent is required. Delaware law permits shareholders to take action by the consent in writing by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting of shareholders at which all shares entitled to vote thereon were present and voted.

*Amendment of Memorandum of Association.* Bermuda law provides that the memorandum of association of a company may be amended by a resolution passed at a general meeting of shareholders of which due notice has been given. The holders of an aggregate of not less than 20% in par value of a company's issued share capital or any class thereof who did not vote in favor of the amendment have the right to apply to the Bermuda courts for an annulment of any amendment of the memorandum of association adopted by shareholders at any general meeting, other than an amendment which alters or reduces a company's share capital as provided in the Companies Act. Where such an

application is made, the amendment becomes effective only to the extent that it is confirmed by the Bermuda court.

## **Table of Contents**

Under Delaware law, amendment of the certificate of incorporation of a company must be made by a resolution of the board of directors setting forth the amendment, declaring its advisability, and either calling a special meeting of the shareholders entitled to vote or directing that the amendment proposed be considered at the next annual meeting of the shareholders. Delaware law requires that, unless a different percentage is provided for in the certificate of incorporation, a majority of the outstanding shares entitled to vote thereon is required to approve the amendment of the certificate of incorporation at the shareholders meeting. If the amendment would alter the number of authorized shares or otherwise adversely affect the rights or preference of any class of a company's stock, Delaware law provides that the holders of the outstanding shares of such affected class should be entitled to vote as a class upon the proposed amendment, regardless of whether such holders are entitled to vote by the certificate of incorporation. However, the number of authorized shares of any class may be increased or decreased, to the extent not falling below the number of shares then outstanding, by the affirmative vote of the holders of a majority of the shares entitled to vote, if so provided in the company's certificate of incorporation or any amendment that created such class or was adopted prior to the issuance of such class or that was authorized by the affirmative vote of the holders of a majority of such class of shares.

*Amendment of Bye-laws.* Consistent with the Companies Act, AXIS Capital's bye-laws provide that the bye-laws may only be rescinded, altered or amended upon approval by a resolution of our board of directors and by a resolution of our shareholders.

Under Delaware law, holders of a majority of the voting power of a corporation and, if so provided in the certificate of incorporation, the directors of the corporation, have the power to adopt, amend and repeal the bylaws of a corporation.

## **Listing**

Our common shares are listed on the NYSE under the trading symbol **AXS**. Our preference shares may be listed from time to time as set forth in the applicable prospectus supplement.

## **Transfer Agent and Registrar**

The transfer agent and registrar for the common shares is Computershare Trust Company, N.A., whose principal executive office is located at 480 Washington Boulevard, Jersey City, NJ 07310. The transfer agent and registrar for each class or series of preference shares will be set forth in the applicable prospectus supplement.

**Table of Contents**

**DESCRIPTION OF OUR DEPOSITARY SHARES**

*The following is a summary of the material provisions of the forms of depositary agreement and depositary receipt we may issue from time to time. This summary is not complete. Accordingly, we strongly encourage you to refer to these documents for a complete understanding of them, copies of which are or will be included or incorporated by reference in the registration statement of which this prospectus is a part.*

**General**

We may issue depositary shares representing proportional fractional interests in common shares or preference shares which will be evidenced by depositary receipts. We will deposit the underlying common shares or preference shares with a depositary pursuant to a deposit agreement among us, the depositary, and the holders from time to time of the depositary receipts evidencing the depositary shares (such agreement, the **Deposit Agreement** ). Subject to the terms of the **Deposit Agreement**, each holder of a depositary share will be entitled, through the depositary, in proportion to the applicable fraction of the common share or preference share represented by such depositary share, to all the rights and preferences of the common shares or preference shares represented thereby (including dividend, voting, redemption and liquidation rights) as specified in the applicable prospectus supplement.

**Dividends and Other Distributions**

Unless otherwise specified in the applicable prospectus supplement, the depositary will distribute any cash dividends or other cash distributions received in respect of the deposited common shares or preference shares, including any additional amounts as described in the applicable prospectus supplement, to the record holders of depositary shares relating to the underlying common shares or preference shares in proportion to the number of depositary shares held by the holders. If we make a distribution on the deposited common shares or preference shares other than in cash, the depositary will distribute any property received by it to the record holders of depositary shares entitled to those distributions, unless it determines that the distribution cannot be made proportionally among those holders or that it is not feasible to make a distribution. In that event, the depositary may, with our approval, sell the property and distribute the net proceeds from the sale to the holders of the depositary shares.

**Redemption of Depositary Shares**

Subject to Bermuda law, if we redeem preference shares represented by the depositary shares, the depositary shares will be redeemed from the proceeds received by the depositary resulting from the redemption of the preference shares held by the depositary.

Whenever we redeem preference shares held by the depositary, the depositary will redeem, as of the same redemption date, the number of depositary shares representing preference shares so redeemed. If fewer than all of the outstanding depositary shares are redeemed, the depositary will select the depositary shares to be redeemed *pro rata* or in such other manner as we may determine to be fair and equitable. Unless otherwise specified in the applicable prospectus supplement, the depositary will mail notice of redemption to record holders of the depositary receipts not less than 30 and not more than 60 days prior to the date fixed for redemption of the preference shares and a corresponding number of depositary shares.

**Voting Deposited Common Shares or Preference Shares**

Because each depositary share will represent a fractional interest in a common share or preference share, holders of depositary receipts will be entitled to a fraction of a vote per deposited common share or preference share under the

circumstances in which holders of such deposited common shares or preference shares are entitled to a vote.

## **Table of Contents**

When the depositary receives notice of any meeting at which the holders of any deposited common shares or preference shares are entitled to vote, the depositary will mail the information contained in the notice of meeting to the record holders of the depositary shares relating to such common shares or preference shares. Each record holder of the depositary shares on the record date, which will be the same date as the record date for the common shares or preference shares, may instruct the depositary to vote the amount of the common shares or preference shares represented by the holder's depositary shares. To the extent possible, the depositary will vote the amount of the common shares or preference shares represented by depositary shares in accordance with the instructions it receives. We will agree to take all reasonable actions that the depositary determines are necessary to enable the depositary to vote as instructed. If the depositary does not receive specific instructions from the holders of any depositary shares representing the common shares or preference shares, it will not vote the amount of the common shares or preference shares represented by such depositary shares.

## **Preemptive and Conversion Rights**

Unless otherwise specified in an applicable prospectus supplement, the holders of the depositary shares do not have any preemptive or conversion rights.

## **Depositary, Transfer Agent and Registrar**

Unless otherwise specified in the applicable prospectus supplement, Computershare, Inc. and Computershare Trust Company, N.A. will be the depositary for the depositary shares. Computershare Trust Company, N.A. will be the transfer agent and registrar for the depositary shares.

## **Amendment and Termination of the Deposit Agreement**

We and the depositary may generally amend the form of depositary receipt evidencing the depositary shares and any provision of the Deposit Agreement at any time without the consent of the holders of depositary shares. However, any amendment that materially and adversely alters the rights of the holders will not be effective unless such amendment has been approved by holders of depositary shares representing at least a majority of the depositary shares then outstanding.

The Deposit Agreement may be terminated by us or the depositary if:

all outstanding depositary shares have been redeemed; or

there has been made a final distribution in respect of the common shares or preference shares in connection with our liquidation, dissolution or winding-up, and such distribution has been distributed to the holders of depositary shares.

## **Fees, Charges and Expenses**

Unless otherwise specified in the applicable prospectus supplement, we will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements regarding any depositary shares we may offer. We will also pay all charges of the depositary in connection with the initial deposit of the common shares or the preference shares and the initial issuance of the depositary shares, all withdrawals and any redemption or repurchase, as applicable, of deposited common shares or preference shares. All other transfer and other

taxes and governmental charges are at the expense of holders of depositary shares.

**Resignation and Removal of Depositary**

Unless otherwise specified in the applicable prospectus supplement, the depositary may resign at any time by delivering a notice to us of its election to do so. We may remove the depositary at any time by providing notice. Any such resignation or removal will take effect upon the appointment of a successor depositary and its acceptance of such appointment. The successor depositary must, generally, be appointed within 60 days after delivery of the notice of resignation or removal and be a person with a principal office in the United States and



**Table of Contents**

having a combined capital and surplus (along with its affiliates) of at least \$50 million. If a successor is not appointed within 60 days, the outgoing depositary may petition a court to do so.

**Miscellaneous**

Unless otherwise specified in the applicable prospectus supplement, the depositary will not be liable for any delays or failures in performance of its obligations under the Deposit Agreement resulting from acts beyond its reasonable control. The depositary will not be obligated to appear in, prosecute or defend any legal proceeding relating to any depositary shares or deposited common shares or preference shares unless satisfactory indemnity is furnished.

**Table of Contents**

**DESCRIPTION OF AXIS CAPITAL DEBT SECURITIES**

*The following is a summary of the material terms and conditions of the forms of indentures and debt securities we may issue from time to time. The summary is not complete. Accordingly, we strongly encourage you to refer to these documents for a complete understanding of them, copies of which are or will be included or incorporated by reference in the registration statement of which this prospectus forms a part.*

*For purposes of the description set forth under Description of AXIS Capital Debt Securities, references to the Company, we, our, and us, refer to AXIS Capital and not to any of its subsidiaries.*

**Senior Debt Indenture and Subordinated Debt Indenture**

We may issue debt securities, consisting of notes, debentures or other indebtedness, from time to time in one or more series. We will issue any senior debt securities pursuant to a senior debt indenture dated as of November 15, 2004 between AXIS Capital and The Bank of New York Mellon, as trustee. We will issue any subordinated debt securities pursuant to a subordinated debt indenture to be entered into between AXIS Capital and The Bank of New York Mellon, as trustee. In addition, we may issue junior subordinated debt securities under the subordinated indenture between us and The Bank of New York Mellon, as trustee. The senior indenture and the subordinated debt indenture are collectively referred to in this section as the indentures.

The senior debt indenture and the subordinated debt indenture are substantially the same except that (1) the senior debt indenture, unlike the subordinated debt indenture, restricts the ability of AXIS Capital to dispose of its restricted subsidiaries and to use the shares of its restricted subsidiaries to secure any of its indebtedness, unless it grants a similar security interest in these subsidiary shares to the holders of the debt securities issued pursuant to the senior debt indenture and (2) the subordinated debt indenture, unlike the senior debt indenture, provides for debt securities that are specifically made junior in right of payment to other specified indebtedness of AXIS Capital. Neither the senior debt indenture nor the subordinated debt indenture limits the aggregate principal amount of indebtedness that we may issue from time to time.

**Senior and Subordinated Debt Securities**

The debt securities will be our unsecured senior or subordinated obligations. The term senior is generally used to describe debt obligations that entitle the holder to receive payment of principal and interest upon the happening of specified events prior to the holders of subordinated debt. Events that can trigger the right of holders of senior debt securities to receive payment of principal and interest prior to payments to the holders of subordinated indebtedness include insolvency, bankruptcy, liquidation, dissolution, receivership, reorganization or an event of default under the senior debt indenture.

We may issue the senior debt securities pursuant to the senior debt indenture in one or more series. All series of senior debt securities issued under the senior debt indenture will be equal in ranking. The senior debt securities also will rank equally with all our other unsecured indebtedness, other than unsecured indebtedness expressly designated by the holders thereof to be subordinate to our senior debt securities.

We may issue the subordinated debt securities pursuant to the subordinated debt indenture in one or more series. All series of subordinated debt securities issued under the subordinated debt indenture will be equal in ranking. The debt securities issued under the subordinated debt indenture will be subordinate in right of payment in respect of principal, any premium or interest on and any additional amounts owing under the subordinated debt securities to all our senior indebtedness in the manner described below under the caption Subordination Under the Subordinated Debt Indenture.

AXIS Capital is a holding company and has no direct operations. The ability of AXIS Capital to make payments on its debt securities depends almost exclusively on the ability of its subsidiaries to pay dividends to AXIS Capital. AXIS Specialty Limited, AXIS Re SE, AXIS Specialty Europe SE, AXIS Reinsurance Company,

## **Table of Contents**

AXIS Specialty Insurance Company, AXIS Surplus Insurance Company, AXIS Insurance Company and AXIS Ventures Reinsurance Limited (collectively, our Insurance Subsidiaries ) are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. See Risk Factors and the Note entitled Statutory Financial Information to our Consolidated Financial Statements in our Annual Report on Form 10-K for the most recent fiscal year.

Additionally, the senior debt securities issued pursuant to the senior debt indenture and the subordinated indebtedness issued under the subordinated debt indenture will effectively be subordinated to any indebtedness of our subsidiaries. In the event of a bankruptcy, receivership, state-ordered rehabilitation, liquidation or similar event involving a subsidiary, the assets of that subsidiary would be used to satisfy claims of policyholders and creditors of the subsidiary rather than our creditors. As a result of the application of the subsidiary's assets to satisfy claims of policyholders and creditors, the value of the stock of the subsidiary would be diminished and perhaps rendered worthless. Any such diminution in the value of the shares of our subsidiaries would adversely impact our financial condition and possibly impair our ability to meet our obligations on the debt securities. In addition, any liquidation of the assets of any of our subsidiaries to satisfy claims of the subsidiary's policyholders and creditors might make it impossible for such subsidiary to pay dividends to us. This inability to pay dividends would further impair our ability to satisfy our obligations under the debt securities.

Further, in the event of a bankruptcy or other liquidation event involving a distribution of assets to satisfy our outstanding indebtedness or an event of default under a loan agreement relating to the secured indebtedness, the holders of our secured indebtedness would be entitled to receive payment of principal and interest prior to payments on the senior debt securities issued under the senior debt indenture and to payments on the subordinated indebtedness issued under the subordinated debt indenture.

## **Prospectus Supplements**

A prospectus supplement will describe the terms of each series of debt securities we offer, including, to the extent applicable:

the specific designation of the series of debt securities being offered, the aggregate principal amount of debt securities of such series, the purchase price for the debt securities, including whether such debt securities will be issued with original issue discount, and the denominations of the debt securities;

whether the securities are senior or subordinated;

the currency or currencies in which the debt securities will be denominated and in which principal, any premium, interest and additional amounts will or may be payable or a description of any units based on or relating to a currency or currencies in which the debt securities will be denominated;

the date or dates upon which the debt securities are payable and will mature;

the interest rate or rates applicable to the debt securities or the method for determining such rate or rates, whether the rate or rates are fixed or variable and the dates on which interest will be payable;

the place or places where the principal of, any premium or interest on or any additional amounts with respect to the debt securities will be payable;

any mandatory or optional redemption, repayment or sinking fund provisions applicable to the debt securities. A redemption or repayment provision could either obligate or permit us to buy back the debt securities on terms that we designate in the prospectus supplement. A sinking fund provision could either obligate or permit us to set aside a certain amount of assets for payments upon the debt securities, including payment upon maturity of the debt securities or payment upon redemption of the debt securities;

whether the debt securities will be issued in registered form, in bearer form or in both registered and bearer form. In general, ownership of registered debt securities is evidenced by the records of the issuing entity. Accordingly, a holder of registered debt securities may transfer the securities only on the

**Table of Contents**

records of the issuer. By contrast, ownership of bearer debt securities generally is evidenced by physical possession of the securities. Accordingly, the holder of a bearer debt security can transfer ownership merely by transferring possession of the security;

any restrictions or special procedures applicable to (1) the place of payment of the principal, any premium or interest on or additional amounts with respect to bearer debt securities, (2) the exchange of bearer debt securities for registered debt securities or (3) the sale and delivery of bearer debt securities. A holder of debt securities will not be able to exchange registered debt securities into bearer debt securities except in limited circumstances;

whether we are issuing the debt securities in whole or in part in global form. If debt securities are issued in global form, the prospectus supplement will disclose the identity of the depository for such debt securities and any terms and conditions applicable to the exchange of debt securities in whole or in part for other definitive securities. Debt securities in global form are discussed in greater detail below under the heading Book-Entry Procedures and Settlement;

any proposed listing of the debt securities on a securities exchange;

any right we may have to satisfy, discharge and defease our obligations under the debt securities, or terminate or eliminate restrictive covenants or events of default in the indentures, by depositing money or U.S. government obligations with the trustee of the indentures;

the names of any trustee, depository, authenticating or paying agent, transfer agent, registrar or other agent with respect to the debt securities;

any right we may have to defer payments of interest on the debt securities;

any other specific terms of the debt securities, including any modifications to the events of default or covenants under the debt securities and any other terms that may be required by or advisable under applicable laws or regulations; and

if necessary, a discussion of material U.S. federal income tax considerations and Bermuda tax considerations.

Holders of the debt securities may present their securities for exchange and may present registered debt securities for transfer in the manner described in the applicable prospectus supplement. Except as limited by the applicable indenture, we will provide these services without charge, other than any tax or other governmental charge payable in connection with the exchange or transfer.

Debt securities may bear interest at a fixed rate or a floating rate as specified in the prospectus supplement. In addition, if specified in the prospectus supplement, we may sell debt securities bearing no interest or interest at a rate

that at the time of issuance is below the prevailing market rate, or at a discount below their stated principal amount. We will describe in the applicable prospectus supplement any special U.S. federal income tax considerations applicable to these discounted debt securities.

We may issue debt securities with the principal amount payable on any principal payment date, or the amount of interest payable on any interest payment date, to be determined by referring to one or more currency exchange rates, commodity prices, equity indices or other factors. Holders of such debt securities may receive a principal amount on any principal payment date, or interest payments on any interest payment date, that are greater or less than the amount of principal or interest otherwise payable on such dates, depending upon the value on such dates of applicable currency, commodity, equity index or other factors. The applicable prospectus supplement will contain information as to how we will determine the amount of principal or interest payable on any date, as well as the currencies, commodities, equity indices or other factors to which the amount payable on that date relates and certain additional tax considerations.

**Table of Contents**

**Covenants Applicable to the Debt Securities**

*Limitations on Liens.* Under the senior debt indenture, so long as any debt securities are outstanding, neither we nor any of our restricted subsidiaries may use any voting stock of a restricted subsidiary as security for any of our debt or other obligations unless any debt securities issued under the senior debt indenture are secured to the same extent as that debt or other obligation. This restriction does not apply to liens existing at the time a corporation becomes our restricted subsidiary or any renewal or extension of existing liens and does not apply to shares of subsidiaries that are not restricted subsidiaries.

The senior debt indenture defines restricted subsidiaries as (1) AXIS Specialty Limited, AXIS Reinsurance Company and AXIS Specialty Holdings Ireland Limited; (2) any other present or future subsidiary of AXIS Capital, the consolidated total assets of which constitute at least 20% of our total consolidated assets; and (3) any successor to any such subsidiary. As of September 30, 2016, the consolidated total assets of each of AXIS Specialty Holdings Bermuda Limited, AXIS Specialty Limited, AXIS Specialty Global Holdings Limited, AXIS Reinsurance Company, AXIS Insurance Company, AXIS Specialty Holdings Ireland Limited and AXIS Re SE constituted at least 20% of our total consolidated assets.

*Consolidation, Merger, Amalgamation and Sale of Assets.* The indentures provide that we will not (1) consolidate with or merge or amalgamate into a third party, (2) sell, other than for cash, all or substantially all of our assets to any third party or (3) purchase all or substantially all of the assets of any third party, unless:

we are the continuing entity in the transaction or, if not, the successor entity is a corporation or limited liability company organized and existing under the laws of the United States, any state thereof, the District of Columbia, Bermuda, the Cayman Islands, Barbados or any country or state which is a member of the Organization for Economic Cooperation and Development ( OECD ) and expressly assumes by supplemental indenture our obligations on the securities and under the indentures;

following the completion of the transaction, we or the successor entity in the transaction would be in compliance with the covenants and conditions contained in the indentures; and

a specified officers certificate and an opinion of counsel are delivered to the applicable trustee, each stating that such transaction and any supplemental indenture pertaining thereto comply with the provisions of the indentures relating to supplemental indentures and consolidation, merger, amalgamation, sale or conveyance.

In the context of a consolidation, merger or amalgamation or sale or purchase of assets, the successor entity is the entity that assumes or otherwise becomes obligated for the rights and obligations of the other party or parties to the transaction.

The limitations on the transactions described above do not apply to a recapitalization, change of control or highly leveraged transaction unless the transaction involves a transaction enumerated above. In addition, the indentures do not include any provisions that would increase interest, provide an option to dispose of securities at a fixed price or otherwise protect debt security holders in the event of any recapitalization, change of control or highly leveraged transaction.



*Restrictions on Dispositions.* The senior debt indenture provides that, except in a transaction otherwise governed by such indenture, neither we nor any of our restricted subsidiaries may issue, sell, assign, transfer or otherwise dispose of any of the voting stock of a restricted subsidiary so long as any of the debt securities remain outstanding. However, exceptions to this restriction include situations where:

the action must be taken to comply with the order of a court or regulatory authority, unless the order was requested by us or one of our restricted subsidiaries;

we dispose of all of the voting stock of a restricted subsidiary owned by us or by a restricted subsidiary for cash or other property having a fair market value that is at least equal to the fair market value of the disposed stock, as determined in good faith by our board of directors;

## **Table of Contents**

the issuance, sale, assignment, transfer or other disposition is made to us or another restricted subsidiary; or

after completion of a sale or other disposition of the stock of a restricted subsidiary, we and our restricted subsidiaries would own 80% or more of the voting stock of the restricted subsidiary and the consideration received for the disposed stock is at least equal to the fair market value of the disposed stock, as determined in good faith by our board of directors.

The senior debt indenture does not restrict the transfer of assets from a restricted subsidiary to any other person, including us or another of our subsidiaries.

## **Events of Default**

Unless we provide other or substitute events of default in a prospectus supplement, the following events will constitute an event of default under the applicable indenture with respect to a series of debt securities:

a default in payment of principal or any premium or any additional amounts when due; provided, however, that if we are permitted by the terms of the debt securities to defer the payment in question, the date on which such payment is due and payable shall be the date on which we must make payment following such deferral, if the deferral has been made pursuant to the terms of the securities of that series;

a default for 30 days in payment of any interest; provided, however, that if we are permitted by the terms of the debt securities to defer the payment in question, the date on which such payment is due and payable shall be the date on which we must make payment following such deferral, if the deferral has been made pursuant to the terms of the securities of that series;

a default in payment of any sinking fund installment when due;

a failure to observe or perform any other covenant or agreement in the debt securities or indenture, other than a covenant or agreement included solely for the benefit of a different series of debt securities, after 90 days written notice of the failure;

events of bankruptcy, insolvency or reorganization; or

a continuing default, for more than 30 days after we receive notice of the default, under any other indenture, mortgage, bond, debenture, note or other instrument, under which we or our restricted subsidiaries may incur recourse indebtedness for borrowed money in an aggregate principal amount exceeding \$100,000,000, if the default has resulted in the acceleration of that indebtedness, and such acceleration has not been waived or cured.

The indentures provide that, under limited conditions specified in the indentures, where an event of default occurs and is continuing, either the trustee or the holders of not less than 33% in principal amount of each affected series of debt securities issued under the relevant indenture (voting as separate classes), may declare the principal and accrued

interest of all the affected debt securities to be due and payable immediately. A similar right exists for the trustee and the holders of not less than 33% of all outstanding debt securities issued under an indenture, in the event of a default in the performance of any covenants or agreements applicable to all outstanding debt securities.

Upon conditions specified in the indentures, however, the holders of a majority in principal amount of the affected outstanding series of debt securities, or of all the debt securities as the case may be, voting as a single class, may waive past defaults under the indentures. Such a waiver may not occur where there is a continuing default in payment of principal, any premium or interest on the affected debt securities.

The indentures entitle the trustee to obtain assurances of indemnity or security reasonably satisfactory to it by the debt security holders for any actions taken by the trustee at the request of the security holders. The right of the trustee to indemnity or security is subject to the trustee carrying out its duties with a level of care or standard

## **Table of Contents**

of care that is generally acceptable and reasonable under the circumstances. An indemnity or indemnification is an undertaking by one party to reimburse another upon the occurrence of an anticipated loss.

Subject to the right of the trustee to indemnification as described above and except as otherwise described in the indentures, the indentures provide that the holders of a majority of the aggregate principal amount of the affected outstanding debt securities of each series, treated as one class, may direct the time, method and place of any proceeding to exercise any right or power conferred in the indentures or for any remedy available to the trustee.

The indentures provide that no holders of debt securities may institute any action against us, except for actions for payment of overdue principal, any premium or interest or any additional amounts, unless:

such holder previously gave written notice of the continuing default to the trustee;

the holders of at least 33% in principal amount of the outstanding debt securities of the affected series, treated as one class, asked the trustee to institute the action and offered indemnity to the trustee for doing so;

the trustee did not institute the action within 60 days of the request; and

the holders of a majority in principal amount of the outstanding debt securities of the affected series treated as one class, did not direct the trustee to refrain from instituting the action.

The indentures provide that we will file annually with the trustee a certificate either stating that no default exists or specifying any default that does exist.

## **Discharge, Defeasance and Covenant Defeasance**

Except as set forth in the applicable prospectus supplement, we can discharge and defease our obligations under the applicable indenture and debt securities as set forth below and as provided in the indentures. For purposes of the indentures, obligations with respect to debt securities are discharged and defeased when, through the fulfillment of the conditions summarized below, we are released and discharged from performing any further obligations under the relevant indenture with respect to the debt securities. Covenant defeasance occurs when we are released from performing any further obligations under specific covenants in the relevant indenture relating to the debt securities.

Except as set forth in the prospectus supplement, we may elect to be discharged from any and all future obligations with respect to debt securities of a particular series or debt securities within a particular series if the debt securities that remain outstanding (1) have been delivered to the trustee for cancellation, (2) have either become due and payable or are by their terms due and payable within one year or (3) are scheduled for redemption within one year. We may make such discharge by irrevocably depositing cash with the trustee in an amount sufficient to pay in full the principal, any premium, interest and additional amounts on the relevant debt securities when due.

Except as set forth in the prospectus supplement, we may elect to defease and be discharged from all of our obligations contained in the indentures or from specific obligations under the covenants contained in the indentures with respect to any debt securities of or within a series. We may make this defeasance election by irrevocably depositing cash or U.S. government obligations with the trustee in an amount certified to be sufficient to pay in full

the principal, any premium, interest and additional amounts on the relevant debt securities when due.

As a condition to any such defeasance or covenant defeasance, we must provide the trustee an opinion of counsel to the effect that the holders of the affected debt securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance and will be taxed by the U.S. federal government on the same amounts, in the same manner, and at the same times as if the defeasance had not occurred. This opinion of counsel, in the case of defeasance of all obligations with respect to any debt securities, must refer to

## **Table of Contents**

and be based upon a ruling of the U.S. Internal Revenue Service ( IRS ) or a change in applicable U.S. federal income tax law occurring after the date of the relevant indenture.

We may exercise our defeasance option notwithstanding any prior covenant defeasance upon the affected debt securities. If we exercise our defeasance option, payment of the affected debt securities may not be accelerated because of an event of default. If we exercise our covenant defeasance option, payment of the affected debt securities may not be accelerated by reason of a default or an event of default with respect to the covenants which have been defeased. If, however, acceleration of the indebtedness under the debt securities occurs by reason of another event of default, the value of the money and government obligations in the defeasance trust on the date of acceleration could be less than the principal and interest then due on the affected securities because the required defeasance deposit is based upon scheduled cash flow rather than market value, which will vary depending upon interest rates and other factors.

## **Modification of the Indentures**

The indentures provide that we and the trustee may enter into supplemental indentures without the consent of the holders of outstanding debt securities to:

secure any debt securities;

evidence a successor person's assumption of our obligations under the indentures and the debt securities;

add covenants that protect holders of the debt securities;

cure any ambiguity, mistake or inconsistency in the indenture; provided that such correction does not materially adversely affect the holders of the affected debt securities;

establish forms or terms for debt securities of any series;

evidence a successor trustee's acceptance of appointment; and

make any other changes that do not materially adversely affect the holders of the affected debt securities. The indentures also permit us and the trustee, with the consent of the holders of at least a majority in aggregate principal amount of outstanding affected debt securities of all series issued under the relevant indenture, voting as one class, to change, in any manner, the relevant indenture and the rights of the holders of debt securities issued under that indenture. However, the consent of each holder of an affected debt security is required for changes that:

extend the stated maturity of, or reduce the principal of, any debt security;

reduce the rate or extend the time of payment of interest;

reduce any amount payable upon redemption;

change the currency in which the principal, any premium or interest on or any additional amount is payable;

reduce the amount of any original issue discount debt security that is payable upon acceleration or provable in bankruptcy;

impair the right to institute suit for the enforcement of any payment on any debt security when due; or

reduce the percentage of the outstanding debt securities of any series required to approve changes to the indenture.

The subordinated debt indenture may not be amended to alter the subordination of any outstanding subordinated debt securities without the consent of each holder of then outstanding senior debt securities that would be adversely affected by the amendment.

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**Table of Contents**

**Payment of Additional Amounts**

Unless otherwise described in a prospectus supplement, we will make all payments of principal of and premium, if any, interest and any other amounts on, or in respect of, the debt securities without withholding or deduction at source for, or on account of, any present or future taxes, fees, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Bermuda or any other jurisdiction in which we are organized (each, a taxing jurisdiction ) or any political subdivision or taxing authority thereof or therein, unless such taxes, fees, duties, assessments or governmental charges are required to be withheld or deducted by (1) the laws (or any regulations or rulings promulgated thereunder) of a taxing jurisdiction or any political subdivision or taxing authority thereof or therein or (2) an official position regarding the application, administration, interpretation or enforcement of any such laws, regulations or rulings (including, without limitation, a holding by a court of competent jurisdiction or by a taxing authority in a taxing jurisdiction or any political subdivision thereof). If a withholding or deduction at source is required, we will, subject to the limitations and exceptions described below, pay to the holder of any debt securities such additional amounts as may be necessary so that every net payment of principal, premium, if any, interest or any other amount made to such holder, after the withholding or deduction, will not be less than the amount provided for in such debt security or in the indenture to be then due and payable.

We will not be required to pay any additional amounts for or on account of:

- (1) any tax, assessment or governmental charge of whatever nature which would not have been imposed but for the fact that (a) the holder or beneficial owner of such debt security was a resident, domiciliary or national of, or engaged in business or maintained a permanent establishment or was physically present in, the relevant taxing jurisdiction or any political subdivision thereof or otherwise had some connection with the relevant taxing jurisdiction other than by reason of the mere ownership of, or receipt of payment under, such debt security, (b) the holder presented, where presentation is required, such debt security for payment in the relevant taxing jurisdiction or any political subdivision thereof, unless such debt security could not have been presented for payment elsewhere, or (c) the holder presented, where presentation is required, such debt security for payment more than 30 days after the date on which the payment in respect of such debt security became due and payable or provided for, whichever is later, except to the extent that the holder would have been entitled to such additional amounts if it had presented such debt security for payment on any day within that 30-day period;
- (2) any estate, inheritance, gift, sale, transfer, personal property or similar tax, fee, duty, assessment or other governmental charge;
- (3) any tax, fee, duty, assessment or other governmental charge that is imposed or withheld by reason of the failure by the holder or beneficial owner of such debt security to comply with any reasonable request by us addressed to the holder within 90 days of such request (a) to provide information concerning the nationality, residence or identity of the holder or beneficial owner or (b) to make any declaration or other similar claim or satisfy any information or reporting requirement, which is required or imposed by statute, treaty, regulation or administrative practice of the relevant taxing jurisdiction or any political subdivision thereof as a precondition to exemption from all or part of such tax, assessment or other governmental charge;



(4) any withholding or deduction imposed on or in respect of any debt security pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, any current or future regulations or official interpretations thereof or intergovernmental agreements in connection therewith, and any agreements entered into pursuant to Section 1471(b)(1) of the U.S. Internal Revenue Code of 1986, as amended; or

(5) any combination of items (1), (2), (3) and (4).

In addition, we will not pay additional amounts with respect to any payment of principal of, or premium, if any, interest or any other amounts on, any such debt security to any holder who is a fiduciary or partnership or

## **Table of Contents**

other than the sole beneficial owner of such debt security if such payment would be required by the laws of the relevant taxing jurisdiction (or any political subdivision or relevant taxing authority thereof or therein) to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner to the extent such beneficiary, settlor, member or beneficial owner would not have been entitled to such additional amounts had it been the holder of the debt security.

### **Redemption for Tax Purposes**

Unless otherwise described in a prospectus supplement, we may redeem the debt securities of a series at our option, in whole but not in part, at a redemption price equal to 100% of the principal amount, together with accrued and unpaid interest and additional amounts, if any, to the date fixed for redemption, at any time we receive an opinion of counsel that as a result of (1) any change in or amendment to the laws or treaties (or any regulations or rulings promulgated under these laws or treaties) of Bermuda or any other taxing jurisdiction (or of any political subdivision or taxation authority affecting taxation) or any change in the application or official interpretation of such laws, treaties, regulations or rulings, (2) any action taken by a taxing authority of Bermuda or any other taxing jurisdiction (or any political subdivision or taxing authority affecting taxation) which action is generally applied or is taken with respect to us, or (3) a decision rendered by a court of competent jurisdiction in Bermuda or any taxing jurisdiction (or any political subdivision) whether or not such decision was rendered with respect to us, there is a substantial probability that we will be required as of the next interest payment date to pay additional amounts with respect to the debt securities of such series as provided in **Payment of Additional Amounts** above and such requirements cannot be avoided by the use of reasonable measures (consistent with practices and interpretations generally followed or in effect at the time such measures could be taken) then available. If we elect to redeem the debt securities under this provision, we will give written notice of such election to the trustee and the holders of the debt securities. Interest on the debt securities will cease to accrue unless we default in the payment of the redemption price.

### **Subordination Under the Subordinated Debt Indenture**

The subordinated debt indenture provide that payment of the principal, any premium and interest on and additional amounts with respect to debt securities issued under the subordinated debt indenture will be subordinate and junior in right of payment, to the extent and in the manner set forth in that indenture, to all our senior indebtedness. The subordinated debt indenture defines senior indebtedness as the principal, any premium and interest on and additional amounts with respect to all our indebtedness, whether incurred prior to or after the date of the indenture:

for money borrowed by us;

for obligations of others that we directly or indirectly either assume or guarantee;

in respect of letters of credit and acceptances issued or made by banks in favor of us; or

issued or assumed as all or part of the consideration for the acquisition of property, however acquired, or indebtedness secured by property included in our property, plant and equipment accounts at the time of acquisition, if we are directly liable for the payment of such debt.

Senior indebtedness also includes all deferrals, renewals, extensions and refundings of, and amendments, modifications and supplements to, the indebtedness listed above.

Senior indebtedness does not include:

any of our indebtedness which, by its terms or the terms of the instrument creating or evidencing it, has a subordinate or equivalent right to payment with the subordinated debt securities; or

any of our indebtedness to our subsidiaries.

The subordinated debt indenture does not limit the amount of senior indebtedness that we can incur.

## **Table of Contents**

The holders of all senior indebtedness will be entitled to receive payment of the full amount due on that indebtedness before the holders of any subordinated debt securities receive any payment on account of such subordinated debt securities, in the event:

of any insolvency, bankruptcy, receivership, liquidation, reorganization or other similar proceedings in respect of us or our property; or

that debt securities of any series are declared due and payable before their expressed maturity because of an event of default other than an insolvency, bankruptcy, receivership, liquidation, reorganization or other similar proceeding in respect of us or our property.

We may not make any payment of the principal or interest on the subordinated debt securities during a continued default in payment of any senior indebtedness or if any event of default exists under the terms of any senior indebtedness.

## **Conversion Rights**

The terms of debt securities of any series that are convertible into or exchangeable for our common shares or our other securities will be described in an applicable prospectus supplement. These terms will describe whether conversion or exchange is mandatory, at the option of the holder or at our option. These terms may include provisions pursuant to which the number of shares of our common shares or our other securities to be received by the holders of debt securities would be subject to adjustment. Any such conversion or exchange will comply with applicable Bermuda law, our memorandum of association and bye-laws.

## **Governing Law**

The indentures and the debt securities will be governed by, and construed in accordance with, the laws of the State of New York.

## **The Indenture Trustees**

The Bank of New York Mellon, formerly known as The Bank of New York, acts as the trustee under the senior debt indenture and will act as trustee under the subordinated debt indenture. The Bank of New York Mellon acts as a lender under our credit facility, and The Bank of New York Mellon Trust Company, N.A. acts as trustee under the AXIS Finance senior debt indenture, acts as trustee under the AXIS Finance PLC senior debt indenture, will act as trustee under the AXIS Finance subordinated debt indenture, will act as trustee under the AXIS Finance PLC subordinated debt indenture and as institutional trustee.

**Table of Contents**

**DESCRIPTION OF OUR WARRANTS**

*The following is a summary of the material terms and conditions of the forms of warrant agreement and warrant certificate representing each warrant. This summary is not complete. Accordingly, we strongly encourage you to refer to these documents for a complete understanding of them, copies of which are or will be included or incorporated by reference in the registration statement of which this prospectus forms a part.*

Warrants may be issued independently or together with any securities and may be attached to or separate from the securities. The warrants will be issued under warrant agreements to be entered into between us and a bank or trust company, as warrant agent. The applicable prospectus supplement will state whether any of the general provisions summarized below do not apply to the warrants being offered. The applicable prospectus supplement will describe the various factors considered in determining the price or prices at which the warrants will be issued and the exercise price of such warrants.

**Warrants**

The applicable prospectus supplement will describe the terms of warrants we offer, the warrant agreement relating to the warrants and the certificates representing the warrants, including, to the extent applicable:

the title of the warrants;

the aggregate number of warrants;

the price or prices at which the warrants will be issued;

provisions for changes to or adjustments in the exercise price;

the currency or currencies, including composite currencies or currency units, in which the price of the warrants may be payable;

the designation, number or aggregate principal amount and terms of the warrant property (as defined below) purchasable upon exercise of the warrants, and the procedures and conditions relating to the exercise of the warrants;

the date on which the right to exercise the warrants will commence, and the date on which the right will expire;

the designation and terms of any related securities with which the warrants are issued, and the number of the warrants issued with each security;

the currency or currencies, including composite currencies or currency units, in which any principal, premium, if any, or interest on the warrant property purchasable upon exercise of the warrants will be payable;

the date, if any, on and after which the warrants and the related securities will be separately transferable;

the maximum or minimum number of the warrants which may be exercised at any time;

any other specific terms of the warrants; and

if necessary, a discussion of material U.S. federal income tax considerations and Bermuda tax considerations.

Certificates representing warrants will be exchangeable for new certificates representing warrants of different denominations, and warrants may be exercised at the corporate trust office of the warrant agent or any other office indicated in the applicable prospectus supplement. Before the exercise of their warrants, holders of warrants will not have any of the rights of holders of the shares or debt securities issuable upon exercise and will not be entitled to payment of dividends on shares or principal of or any premium or interest on debt securities issuable upon exercise.

## **Table of Contents**

### **Exercise of Warrants**

Each warrant will entitle the holder to purchase, or receive cash value determined in whole or in part by reference to the performance, level or value of, one or more of the following:

our securities or the securities of one or more other issuers;

one or more currencies or commodities;

any other financial, economic or other measure or instrument, including the occurrence or non-occurrence of any event or circumstance; and/or

one or more indices or baskets of the items described above.

Each, security, instrument, measure or event described above is referred to as a warrant property.

The prospectus supplement or supplements will describe what we may deliver to satisfy our obligations with respect to any warrants.

No holder of a warrant will, as such, have any rights of a holder of the warrant property purchasable under or referenced in the warrant, including any right to receive interest, dividends, distributions or other payments thereunder. Any securities deliverable by us with respect to any warrants will be freely transferable by the holder.

Warrants may be exercised at any time up to the close of business on the expiration date described in the applicable prospectus supplement. After the close of business on the expiration date, unexercised warrants will become void. Warrants may be exercised as described in the applicable prospectus supplement. Upon receipt of payment and the certificate representing the warrant properly completed and duly executed at the corporate trust office of the warrant agent or any other offices indicated in the applicable prospectus supplement, we will, as soon as practicable, forward the securities issuable upon exercise. If less than all of the warrants represented by the certificate are exercised, a new certificate will be issued for the remaining warrants.

### **Warrant Agreements Will Not Generally be Qualified Under Trust Indenture Act**

Warrant agreements will not generally be qualified as indentures, and warrant agents will not generally be required to qualify as trustees, under the Trust Indenture Act. Therefore, holders of warrants issued under a warrant agreement may not have the protection of the Trust Indenture Act with respect to their warrants.

### **Enforceability of Rights by Holders**

In the case of any warrants issued under warrant agreements that are not qualified as indentures under the Trust Indenture Act, each warrant agent will act solely as our agent in connection with the issuance and exercise of the applicable warrants and will not assume any obligation or relationship of agency or trust for or with any registered holder of or owner of a beneficial interest in any warrant. A warrant agent will not be obligated to take any action on behalf of those holders or owners to protect their rights under the warrants.

Holders may, without the consent of the applicable warrant agent, enforce by appropriate legal action, on their own behalf, their right to exercise their warrants, to receive debt securities, in the case of debt warrants, and to receive delivery of warrant property or payment, if any, for their warrants, in the case of other warrants.

**Governing Law**

Unless otherwise stated in the prospectus supplement or supplements, the warrants and each warrant agreement will be governed by New York law.



## **Table of Contents**

### **DESCRIPTION OF AXIS FINANCE DEBT SECURITIES AND AXIS CAPITAL DEBT GUARANTEES**

*The following is a summary of the material terms and conditions of the forms of indentures and debt securities AXIS Finance may issue from time to time. The summary is not complete. Accordingly, we strongly encourage you to refer to these documents for a complete understanding of them, copies of which are or will be included or incorporated by reference in the registration statement of which this prospectus forms a part.*

*For purposes of the description set forth under Description of AXIS Finance Debt Securities and AXIS Capital Debt Guarantees, references to AXIS Finance refer to AXIS Finance and not to any subsidiaries and references to AXIS Capital refer to AXIS Capital and not to any of its subsidiaries.*

#### **The AXIS Finance Senior Debt Indenture and the AXIS Finance Subordinated Debt Indenture**

AXIS Finance, an indirect and wholly owned subsidiary of AXIS Capital, may issue debt securities, consisting of notes, debentures or other indebtedness, from time to time in one or more series. The debt securities of AXIS Finance will be fully and unconditionally guaranteed by AXIS Capital. The debt securities of AXIS Finance will not be guaranteed by any subsidiaries of AXIS Capital. AXIS Finance will issue any senior debt securities pursuant to the senior debt indenture dated as of March 23, 2010 among AXIS Finance, as issuer, AXIS Capital, as guarantor, and The Bank of New York Mellon Trust Company, N.A., as trustee. Such senior debt indenture is referred to in this prospectus as the AXIS Finance senior debt indenture. AXIS Finance will issue any subordinated debt securities pursuant to a subordinated debt indenture to be entered into among AXIS Finance, as issuer, AXIS Capital, as guarantor, and The Bank of New York Mellon Trust Company, N.A., as trustee. Such subordinated debt indenture is referred to in this section as the AXIS Finance subordinated debt indenture. In addition, AXIS Finance may issue junior subordinated debt securities under the AXIS Finance subordinated debt indenture. The AXIS Finance senior indenture and the AXIS Finance subordinated debt indenture are collectively referred to in this section as the AXIS Finance indentures.

The AXIS Finance senior debt indenture and the AXIS Finance subordinated debt indenture are substantially the same except that (1) the AXIS Finance senior debt indenture, unlike the AXIS Finance subordinated debt indenture, restricts the ability of AXIS Capital to dispose of its restricted subsidiaries and to use the shares of its restricted subsidiaries to secure any of its indebtedness, unless it grants a similar security interest in these subsidiary shares to the holders of the debt securities issued pursuant to the AXIS Finance senior debt indenture and (2) the AXIS Finance subordinated debt indenture, unlike the AXIS Finance senior debt indenture, provides for debt securities that are specifically made junior in right of payment to other specified indebtedness of AXIS Finance. Neither the AXIS Finance senior debt indenture nor the AXIS Finance subordinated debt indenture limits the aggregate principal amount of indebtedness that AXIS Finance may issue, or that AXIS Capital may guarantee, from time to time.

#### **Senior and Subordinated Debt Securities**

The debt securities will be AXIS Finance's unsecured senior or subordinated obligations. The term senior is generally used to describe debt obligations that entitle the holder to receive payment of principal and interest upon the happening of specified events prior to the holders of subordinated debt. Events that can trigger the right of holders of senior debt securities to receive payment of principal and interest prior to payments to the holders of subordinated indebtedness include insolvency, bankruptcy, liquidation, dissolution, receivership, reorganization or an event of default under the AXIS Finance senior debt indenture.

AXIS Finance may issue the senior debt securities pursuant to the AXIS Finance senior debt indenture in one or more series. All series of senior debt securities issued under the AXIS Finance senior debt indenture will be equal in

ranking. The senior debt securities also will rank equally with all of AXIS Finance's other unsecured indebtedness, other than unsecured indebtedness expressly designated by the holders thereof to be subordinate to its senior debt securities.

## **Table of Contents**

AXIS Finance may issue the subordinated debt securities pursuant to the AXIS Finance subordinated debt indenture in one or more series. All series of subordinated debt securities issued under the AXIS Finance subordinated debt indenture will be equal in ranking. The debt securities issued under the AXIS Finance subordinated debt indenture will be subordinate in right of payment in respect of principal, any premium or interest owing under the subordinated debt securities to all of AXIS Finance's senior indebtedness in the manner described below under the caption

Subordination Under the AXIS Finance Subordinated Debt Indenture.

AXIS Finance is a finance subsidiary with no operations or assets other than in such capacity, and AXIS Capital is a holding company and has no direct operations. Accordingly, the credit character of the AXIS Finance debt securities is comparable to debt issued by a holding company. The ability of AXIS Finance and AXIS Capital to make payments on the debt securities and the guarantee depends almost exclusively on the ability of AXIS Capital's subsidiaries to pay dividends and make intercompany transfers. The notes will be effectively subordinated to the obligations of AXIS Capital's subsidiaries, other than AXIS Finance, meaning that holders of the notes will have a junior position to the claims of creditors of AXIS Capital's subsidiaries (including policyholders, trade creditors, debt holders, taxing authorities, guarantee holders and preference shareholders) on their assets and earnings. AXIS Capital's Insurance Subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends.

Additionally, the senior debt securities issued pursuant to the AXIS Finance senior debt indenture, the AXIS Finance subordinated indebtedness issued under the AXIS Finance subordinated debt indenture and the guarantees will effectively be subordinated to any indebtedness of AXIS Capital's subsidiaries. In the event of a bankruptcy, receivership, state-ordered rehabilitation, liquidation or similar event involving a subsidiary, the assets of that subsidiary would be used to satisfy claims of policyholders and creditors of the subsidiary rather than its creditors. As a result of the application of the subsidiary's assets to satisfy claims of policyholders and creditors, the value of the stock of the subsidiary would be diminished and perhaps rendered worthless. Any such diminution in the value of the shares of AXIS Capital's subsidiaries would adversely impact its financial condition and possibly impair its ability to meet its obligations on the guarantees. In addition, any liquidation of the assets of any of AXIS Capital's subsidiaries to satisfy claims of the subsidiary's policyholders and creditors might make it impossible for such subsidiary to pay dividends to AXIS Capital. This inability to pay dividends would further impair AXIS Capital's ability to satisfy its obligations under the guarantees.

Further, in the event of a bankruptcy or other liquidation event involving a distribution of assets to satisfy AXIS Finance's or AXIS Capital's outstanding indebtedness or an event of default under a loan agreement relating to the secured indebtedness, the holders of AXIS Finance's or AXIS Capital's secured indebtedness would be entitled to receive payment of principal and interest prior to payments on the senior debt securities issued under the AXIS Finance senior debt indenture and to payments on the subordinated indebtedness issued under the AXIS Finance subordinated debt indenture.

## **Guarantees**

The payment obligations of AXIS Finance pursuant to the debt securities will be fully and unconditionally guaranteed by AXIS Capital. None of the subsidiaries of AXIS Capital will guarantee or have an obligation in respect of the debt securities.

## **Prospectus Supplements**

A prospectus supplement will describe the terms of each series of debt securities AXIS Finance offers and the related guarantees, including, to the extent applicable:

the specific designation of the series of debt securities being offered, the aggregate principal amount of debt securities of such series, the purchase price for the debt securities, including whether such debt securities will be issued with original issue discount, and the denominations of the debt securities;

whether the securities are senior or subordinated;

**Table of Contents**

the currency or currencies in which the debt securities will be denominated and in which principal, any premium and interest will or may be payable or a description of any units based on or relating to a currency or currencies in which the debt securities will be denominated;

the date or dates upon which the debt securities are payable and will mature;

the interest rate or rates applicable to the debt securities or the method for determining such rate or rates, whether the rate or rates are fixed or variable and the dates on which interest will be payable;

the place or places where the principal of, any premium or interest with respect to the debt securities will be payable;

any mandatory or optional redemption, repayment or sinking fund provisions applicable to the debt securities. A redemption or repayment provision could either obligate or permit AXIS Finance to buy back the debt securities on terms that it designates in the prospectus supplement. A sinking fund provision could either obligate or permit AXIS Finance to set aside a certain amount of assets for payments upon the debt securities, including payment upon maturity of the debt securities or payment upon redemption of the debt securities;

whether the debt securities will be issued in registered form, in bearer form or in both registered and bearer form. In general, ownership of registered debt securities is evidenced by the records of the issuing entity. Accordingly, a holder of registered debt securities may transfer the securities only on the records of the issuer. By contrast, ownership of bearer debt securities generally is evidenced by physical possession of the securities. Accordingly, the holder of a bearer debt security can transfer ownership merely by transferring possession of the security;

any restrictions or special procedures applicable to (1) the place of payment of the principal, any premium or interest with respect to bearer debt securities, (2) the exchange of bearer debt securities for registered debt securities or (3) the sale and delivery of bearer debt securities. A holder of debt securities will not be able to exchange registered debt securities into bearer debt securities except in limited circumstances;

whether AXIS Finance is issuing the debt securities in whole or in part in global form. If debt securities are issued in global form, the prospectus supplement will disclose the identity of the depository for such debt securities and any terms and conditions applicable to the exchange of debt securities in whole or in part for other definitive securities. Debt securities in global form are discussed in greater detail below under the heading **Book-Entry Procedures and Settlement**;

any proposed listing of the debt securities on a securities exchange;

any right AXIS Finance may have to satisfy, discharge and defease its obligations under the debt securities, or terminate or eliminate restrictive covenants or events of default in the AXIS Finance indentures, by depositing money or U.S. government obligations with the trustee of the indentures;

the names of any trustee, depository, authenticating or paying agent, transfer agent, registrar or other agent with respect to the debt securities;

any right AXIS Finance may have to defer payments of interest on the debt securities;

any other specific terms of the debt securities or the guarantees, including any modifications to the events of default or covenants under the debt securities and any other terms that may be required by or advisable under applicable laws or regulations; and

if necessary, a discussion of material U.S. federal income tax considerations and Bermuda tax considerations.

Holders of the debt securities may present their securities for exchange and may present registered debt securities for transfer in the manner described in the applicable prospectus supplement. Except as limited by the applicable indenture, AXIS Finance will provide these services without charge, other than any tax or other governmental charge payable in connection with the exchange or transfer.

## **Table of Contents**

Debt securities may bear interest at a fixed rate or a floating rate as specified in the prospectus supplement. In addition, if specified in the prospectus supplement, AXIS Finance may sell debt securities bearing no interest or interest at a rate that at the time of issuance is below the prevailing market rate, or at a discount below their stated principal amount. AXIS Finance will describe in the applicable prospectus supplement any special U.S. federal income tax considerations applicable to these discounted debt securities.

AXIS Finance may issue debt securities with the principal amount payable on any principal payment date, or the amount of interest payable on any interest payment date, to be determined by referring to one or more currency exchange rates, commodity prices, equity indices or other factors. Holders of such debt securities may receive a principal amount on any principal payment date, or interest payments on any interest payment date, that are greater or less than the amount of principal or interest otherwise payable on such dates, depending upon the value on such dates of applicable currency, commodity, equity index or other factors. The applicable prospectus supplement will contain information as to how AXIS Finance will determine the amount of principal or interest payable on any date, as well as the currencies, commodities, equity indices or other factors to which the amount payable on that date relates and certain additional tax considerations.

## **Covenants Applicable to the Debt Securities**

*Limitations on Liens.* Under the AXIS Finance senior debt indenture, so long as any debt securities are outstanding, neither AXIS Capital nor any of its restricted subsidiaries may use any voting stock of a restricted subsidiary as security for any of its respective debt or other obligations unless any AXIS Finance debt securities and related guarantee issued under the AXIS Finance senior debt indenture are secured to the same extent as that debt or other obligation. This restriction does not apply to liens existing at the time a corporation becomes AXIS Capital's restricted subsidiary or any renewal or extension of existing liens and does not apply to shares of subsidiaries that are not restricted subsidiaries.

The AXIS Finance senior debt indenture defines restricted subsidiaries as (1) AXIS Specialty Limited; (2) any other present or future subsidiary of AXIS Capital, the consolidated total assets of which constitute at least 20% of its total consolidated assets; and (3) any successor to any such subsidiary. As of September 30, 2016, the consolidated total assets of each of AXIS Specialty Holdings Bermuda Limited, AXIS Specialty Limited, AXIS Specialty Global Holdings Limited, AXIS Reinsurance Company, AXIS Insurance Company, AXIS Specialty Holdings Ireland Limited and AXIS Re SE constituted at least 20% of AXIS Capital's total consolidated assets.

*Consolidation, Merger, Amalgamation and Sale of Assets.* The AXIS Finance indentures provide that AXIS Finance or AXIS Capital will not (1) consolidate with or merge or amalgamate into a third party, (2) sell, other than for cash, all or substantially all of its assets to any third party or (3) purchase all or substantially all of the assets of any third party, unless:

AXIS Finance or AXIS Capital is the continuing entity in the transaction or, if not, the successor entity is a corporation or limited liability company organized and existing under the laws of the United States, any state thereof, the District of Columbia, Bermuda, the Cayman Islands, Barbados or any country or state which is a member of the OECD and expressly assumes by supplemental indenture its obligations on the securities and under the AXIS Finance indentures;

following the completion of the transaction, AXIS Finance, AXIS Capital or the successor entity in the transaction would be in compliance with the covenants and conditions contained in the AXIS Finance indentures; and

a specified officers certificate and an opinion of counsel are delivered to the applicable trustee, each stating that such transaction and any supplemental indenture pertaining thereto comply with the provisions of the AXIS Finance indentures relating to supplemental indentures and consolidation, merger, amalgamation, sale or conveyance.



## **Table of Contents**

In the context of a consolidation, merger or amalgamation or sale or purchase of assets, the successor entity is the entity that assumes or otherwise becomes obligated for the rights and obligations of the other party or parties to the transaction.

The limitations on the transactions described above do not apply to a recapitalization, change of control or highly leveraged transaction unless the transaction involves a transaction enumerated above. In addition, the AXIS Finance indentures do not include any provisions that would increase interest, provide an option to dispose of securities at a fixed price or otherwise protect debt security holders in the event of any recapitalization, change of control or highly leveraged transaction.

The indenture relating to the AXIS Finance debt securities permits the surviving entity following a consolidation, merger or certain other action of the issuer or the guarantor to be organized under the laws of jurisdictions other than the United States or Bermuda. It is possible as a result that the jurisdiction of organization of such a surviving entity could impose withholding on payments made on the AXIS Finance debt securities. The terms of the AXIS Finance debt securities do not provide for the payment of additional amounts to holders in such a circumstance.

*Restrictions on Dispositions.* The AXIS Finance senior debt indenture provides that, except in a transaction otherwise governed by such indenture, neither AXIS Capital nor any of its restricted subsidiaries may issue, sell, assign, transfer or otherwise dispose of any of the voting stock of a restricted subsidiary so long as any of the AXIS Finance debt securities remain outstanding. However, exceptions to this restriction include situations where:

the action must be taken to comply with the order of a court or regulatory authority, unless the order was requested by AXIS Finance, AXIS Capital or one of AXIS Capital's restricted subsidiaries;

AXIS Capital disposes of all of the voting stock of a restricted subsidiary owned by it or by a restricted subsidiary for cash or other property having a fair market value that is at least equal to the fair market value of the disposed stock, as determined in good faith by AXIS Capital's board of directors;

the issuance, sale, assignment, transfer or other disposition is made to AXIS Finance, AXIS Capital or another restricted subsidiary of AXIS Capital; or

after completion of a sale or other disposition of the stock of a restricted subsidiary, AXIS Capital and its restricted subsidiaries would own 80% or more of the voting stock of the restricted subsidiary and the consideration received for the disposed stock is at least equal to the fair market value of the disposed stock, as determined in good faith by AXIS Capital's board of directors.

The AXIS Finance senior debt indenture does not restrict the transfer of assets from a restricted subsidiary of AXIS Capital to any other person, including AXIS Finance, AXIS Capital or another of AXIS Capital's subsidiaries.

## **Events of Default**

Unless AXIS Finance provides other or substitute events of default in a prospectus supplement, the following events will constitute an event of default under the applicable indenture with respect to a series of debt securities:

a default in payment of principal or any premium when due; *provided, however*, that if AXIS Finance and AXIS Capital are permitted by the terms of the debt securities to defer the payment in question, the date on which such payment is due and payable shall be the date on which AXIS Finance and AXIS Capital must make payment following such deferral, if the deferral has been made pursuant to the terms of the securities of that series;

a default for 30 days in payment of any interest; *provided, however*, that if AXIS Finance and AXIS Capital are permitted by the terms of the debt securities to defer the payment in question, the date on

**Table of Contents**

which such payment is due and payable shall be the date on which AXIS Finance and AXIS Capital must make payment following such deferral, if the deferral has been made pursuant to the terms of the securities of that series;

a default in payment of any sinking fund installment when due;

a failure to observe or perform any other covenant or agreement in the debt securities or indenture, other than a covenant or agreement included solely for the benefit of a different series of debt securities, after 90 days written notice of the failure;

events of bankruptcy, insolvency or reorganization of AXIS Finance or AXIS Capital;

a continuing default, for more than 30 days after AXIS Finance or AXIS Capital receives notice of the default, under any other indenture, mortgage, bond, debenture, note or other instrument, under which AXIS Finance, AXIS Capital or AXIS Capital's restricted subsidiaries may incur recourse indebtedness for borrowed money in an aggregate principal amount exceeding \$100,000,000, if the default has resulted in the acceleration of that indebtedness, and such acceleration has not been waived or cured; or

the guarantee ceases to be in full force and effect or is declared to be null and void and unenforceable (other than by reason of release of AXIS Capital in accordance with the terms of the AXIS Finance indenture).

The AXIS Finance indentures provide that, under limited conditions specified in the AXIS Finance indentures, where an event of default occurs and is continuing, either the trustee or the holders of not less than 33% in principal amount of each affected series of debt securities issued under the relevant AXIS Finance indenture (voting as separate classes) may declare the principal and accrued interest of all the affected debt securities to be due and payable immediately. A similar right exists for the trustee and the holders of not less than 33% of all outstanding debt securities issued under an indenture, in the event of a default in the performance of any covenants or agreements applicable to all outstanding debt securities.

Upon conditions specified in the AXIS Finance indentures, however, the holders of a majority in principal amount of the affected outstanding series of debt securities, or of all the debt securities as the case may be, voting as a single class, may waive past defaults under the AXIS Finance indentures. Such a waiver may not occur where there is a continuing default in payment of principal, any premium or interest on the affected debt securities.

The AXIS Finance indentures entitle the trustee to obtain assurances of indemnity or security reasonably satisfactory to it by the debt security holders for any actions taken by the trustee at the request of the security holders. The right of the trustee to indemnity or security is subject to the trustee carrying out its duties with a level of care or standard of care that is generally acceptable and reasonable under the circumstances. An indemnity or indemnification is an undertaking by one party to reimburse another upon the occurrence of an anticipated loss.

Subject to the right of the trustee to indemnification as described above and except as otherwise described in the AXIS Finance indentures, the AXIS Finance indentures provide that the holders of a majority of the aggregate principal amount of the affected outstanding debt securities of each series, treated as one class, may direct the time, method and place of any proceeding to exercise any right or power conferred in the AXIS Finance indentures or for any remedy

available to the trustee.

The AXIS Finance indentures provide that no holders of debt securities may institute any action against AXIS Finance, except for actions for payment of overdue principal, any premium or interest, unless:

such holder previously gave written notice of the continuing default to the trustee;

the holders of at least 33% in principal amount of the outstanding debt securities of each affected series, treated as one class, asked the trustee to institute the action and offered indemnity to the trustee for doing so;

## **Table of Contents**

the trustee did not institute the action within 60 days of the request; and

the holders of a majority in principal amount of the outstanding debt securities of each affected series, treated as one class, did not direct the trustee to refrain from instituting the action.

The AXIS Finance indentures provide that AXIS Finance will file annually with the trustee a certificate either stating that no default exists or specifying any default that does exist.

## **Discharge, Defeasance and Covenant Defeasance**

Except as set forth in the applicable prospectus supplement, AXIS Finance and AXIS Capital can discharge and defease obligations of AXIS Finance and AXIS Capital under the applicable indenture, debt securities and guarantees as set forth below and as provided in the AXIS Finance indentures. For purposes of the AXIS Finance indentures, obligations with respect to debt securities and guarantees are discharged and defeased when, through the fulfillment of the conditions summarized below, AXIS Finance and AXIS Capital are released and discharged from performing any further obligations under the relevant AXIS Finance indenture with respect to the debt securities. Covenant defeasance occurs when AXIS Finance and AXIS Capital are released from performing any further obligations under specific covenants in the relevant AXIS Finance indenture relating to the debt securities.

Except as set forth in the prospectus supplement, AXIS Finance and AXIS Capital may elect to be discharged from any and all future obligations with respect to debt securities of a particular series and the related guarantees or debt securities within a particular series and the related guarantees if the debt securities that remain outstanding (1) have been delivered to the trustee for cancellation, (2) have either become due and payable or are by their terms due and payable within one year or (3) are scheduled for redemption within one year. AXIS Finance or AXIS Capital may make such discharge by irrevocably depositing cash with the trustee in an amount sufficient to pay in full the principal, any premium, and interest on the relevant debt securities when due.

Except as set forth in the prospectus supplement, AXIS Finance and AXIS Capital may elect to defease and be discharged from all of their obligations contained in the AXIS Finance indentures or from specific obligations under the covenants contained in the AXIS Finance indentures with respect to any debt securities of or within a series and the related guarantees. AXIS Finance or AXIS Capital may make this defeasance election by irrevocably depositing cash or U.S. government obligations with the trustee in an amount certified to be sufficient to pay in full the principal, any premium and interest on the relevant debt securities when due.

As a condition to any such defeasance or covenant defeasance, AXIS Finance must provide the trustee an opinion of counsel to the effect that the holders of the affected debt securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance and will be taxed by the U.S. federal government on the same amounts, in the same manner, and at the same times as if the defeasance had not occurred. This opinion of counsel, in the case of defeasance of all obligations with respect to any debt securities, must refer to and be based upon a ruling of the IRS or a change in applicable U.S. federal income tax law occurring after the date of the relevant indenture.

AXIS Finance and AXIS Capital may exercise the defeasance option notwithstanding any prior covenant defeasance upon the affected debt securities and guarantees. If AXIS Finance and AXIS Capital exercise the defeasance option, payment of the affected debt securities and guarantees may not be accelerated because of an event of default. If AXIS Finance and AXIS Capital exercise the covenant defeasance option, payment of the affected debt securities and related guarantees may not be accelerated by reason of a default or an event of default with respect to the covenants which have been defeased. If, however, acceleration of the indebtedness under the debt securities and related guarantees

occurs by reason of another event of default, the value of the money and government obligations in the defeasance trust on the date of acceleration could be less than the principal and interest then due on the affected securities because the required defeasance deposit is based upon scheduled cash flow rather than market value, which will vary depending upon interest rates and other factors.

**Table of Contents**

**Modification of the AXIS Finance Indentures**

The AXIS Finance indentures provide that AXIS Finance, AXIS Capital and the trustee may enter into supplemental indentures without the consent of the holders of outstanding debt securities to:

secure any debt securities;

evidence a successor person's assumption of its obligations under the AXIS Finance indentures, the debt securities or the guarantees;

add covenants that protect holders of the debt securities;

cure any ambiguity, mistake or inconsistency in the indenture; provided that such correction does not materially adversely affect the holders of the affected debt securities;

establish forms or terms for debt securities of any series;

evidence a successor trustee's acceptance of appointment; and

make any other changes that do not materially adversely affect the holders of the affected debt securities. The AXIS Finance indentures also permit AXIS Finance, AXIS Capital and the trustee, with the consent of the holders of at least a majority in aggregate principal amount of outstanding affected debt securities of a series issued under the relevant indenture, to change, in any manner, the relevant indenture and the rights of the holders of debt securities of that series issued under that indenture. However, the consent of each holder of an affected debt security is required for changes that:

extend the stated maturity of, or reduce the principal of, any debt security;

reduce the rate or extend the time of payment of interest;

reduce any amount payable upon redemption;

change the currency in which the principal, any premium or interest is payable;

reduce the amount of any original issue discount debt security that is payable upon acceleration or provable in bankruptcy;

impair the right to institute suit for the enforcement of any payment on any debt security when due;

reduce the percentage of the outstanding debt securities of any series required to approve changes to the indenture; or

modify the guarantees in any manner adverse to the holders.

The AXIS Finance subordinated debt indenture may not be amended to alter the subordination of any outstanding subordinated debt securities without the consent of each holder of then outstanding senior debt securities that would be adversely affected by the amendment.

### **Subordination Under the AXIS Finance Subordinated Debt Indenture**

The AXIS Finance subordinated debt indenture provides that payment of the principal, any premium and interest with respect to debt securities issued under the AXIS Finance subordinated debt indenture will be subordinate and junior in right of payment, to the extent and in the manner set forth in that indenture, to all AXIS Finance's senior indebtedness. The AXIS Finance subordinated debt indenture defines senior indebtedness as the principal, any premium and interest on all its indebtedness, whether incurred prior to or after the date of the indenture:

for money borrowed by AXIS Finance or AXIS Capital;

for obligations of others that AXIS Finance or AXIS Capital directly or indirectly either assume or guarantee;



**Table of Contents**

in respect of letters of credit and acceptances issued or made by banks in favor of AXIS Finance or AXIS Capital; or

issued or assumed as all or part of the consideration for the acquisition of property, however acquired, or indebtedness secured by property included in its property, plant and equipment accounts at the time of acquisition, if AXIS Finance or AXIS Capital is directly liable for the payment of such debt.

AXIS Finance senior indebtedness also includes all deferrals, renewals, extensions and refundings of, and amendments, modifications and supplements to, the indebtedness listed above.

AXIS Finance senior indebtedness does not include:

any indebtedness which, by its terms or the terms of the instrument creating or evidencing it, has a subordinate or equivalent right to payment with the AXIS Finance subordinated debt securities; or

any indebtedness of AXIS Capital owed to its subsidiaries.

The AXIS Finance subordinated debt indenture does not limit the amount of senior indebtedness that AXIS Finance can incur.

The holders of all AXIS Finance senior indebtedness will be entitled to receive payment of the full amount due on that indebtedness before the holders of any AXIS Finance subordinated debt securities receive any payment on account of such subordinated debt securities, in the event:

of any insolvency, bankruptcy, receivership, liquidation, reorganization or other similar proceedings in respect of AXIS Finance or its property; or

that debt securities of any series are declared due and payable before their expressed maturity because of an event of default other than an insolvency, bankruptcy, receivership, liquidation, reorganization or other similar proceeding in respect of AXIS Finance or its property.

AXIS Finance may not make any payment of the principal or interest on the subordinated debt securities during a continued default in payment of any AXIS Finance senior indebtedness or if any event of default exists under the terms of any AXIS Finance senior indebtedness.

The obligations of AXIS Capital under its guarantees will be subordinated obligations of AXIS Capital. As such, the rights of holders to receive payment pursuant to guarantees will be subordinated in right of payment to the rights of holders of senior indebtedness of AXIS Capital. The subordination provisions described above with respect to AXIS Finance's obligations under the AXIS Finance subordinated debt securities apply equally to the obligations of AXIS Capital under its guarantees.

**Governing Law**

The AXIS Finance indentures, the debt securities and the guarantees will be governed by, and construed in accordance with, the laws of the State of New York.

**The Indenture Trustees**

The Bank of New York Mellon Trust Company, N.A. acts as trustee under the AXIS Finance senior debt indenture and will act as trustee under the AXIS Finance subordinated debt indenture. The Bank of New York Mellon acts as a lender under AXIS Capital's credit facility, and The Bank of New York Mellon, formerly known as The Bank of New York, acts as the trustee under the AXIS Capital senior debt indenture and will act as trustee under AXIS Capital subordinated debt indenture and as institutional trustee.

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**Table of Contents**

**DESCRIPTION OF AXIS FINANCE PLC DEBT SECURITIES AND**

**AXIS CAPITAL DEBT GUARANTEES**

*The following is a summary of the material terms and conditions of the forms of indentures and debt securities AXIS Finance PLC may issue from time to time. The summary is not complete. Accordingly, we strongly encourage you to refer to these documents for a complete understanding of them, copies of which are or will be included or incorporated by reference in the registration statement of which this prospectus forms a part.*

*For purposes of the description set forth under Description of AXIS Finance PLC Debt Securities and AXIS Capital Debt Guarantees, references to AXIS Finance PLC refer to AXIS Finance PLC and not to any subsidiaries and references to AXIS Capital refer to AXIS Capital and not to any of its subsidiaries.*

**The AXIS Finance PLC Senior Debt Indenture and the AXIS Finance PLC Subordinated Debt Indenture**

AXIS Finance PLC, an indirect and wholly owned subsidiary of AXIS Capital, may issue debt securities, consisting of notes, debentures or other indebtedness, from time to time in one or more series. The debt securities of AXIS Finance PLC will be fully and unconditionally guaranteed by AXIS Capital. The debt securities of AXIS Finance PLC will not be guaranteed by any subsidiaries of AXIS Capital. AXIS Finance PLC will issue any senior debt securities pursuant to the senior debt indenture dated as of March 13, 2014 among AXIS Finance PLC, as issuer, AXIS Capital, as guarantor, and The Bank of New York Mellon Trust Company, N.A., as trustee. Such senior debt indenture is referred to in this prospectus as the AXIS Finance PLC senior debt indenture. AXIS Finance PLC will issue any subordinated debt securities pursuant to a subordinated debt indenture to be entered into among AXIS Finance PLC, as issuer, AXIS Capital, as guarantor, and The Bank of New York Mellon Trust Company, N.A., as trustee. Such subordinated debt indenture is referred to in this section as the AXIS Finance PLC subordinated debt indenture. In addition, AXIS Finance PLC may issue junior subordinated debt securities under the AXIS Finance PLC subordinated debt indenture. The AXIS Finance PLC senior indenture and the AXIS Finance PLC subordinated debt indenture are collectively referred to in this section as the AXIS Finance PLC indentures.

The AXIS Finance PLC senior debt indenture and the AXIS Finance PLC subordinated debt indenture are substantially the same except that (1) the AXIS Finance PLC senior debt indenture, unlike the AXIS Finance PLC subordinated debt indenture, restricts the ability of AXIS Capital to dispose of its restricted subsidiaries and to use the shares of its restricted subsidiaries to secure any of its indebtedness, unless it grants a similar security interest in these subsidiary shares to the holders of the debt securities issued pursuant to the AXIS Finance PLC senior debt indenture and (2) the AXIS Finance PLC subordinated debt indenture, unlike the AXIS Finance PLC senior debt indenture, provides for debt securities that are specifically made junior in right of payment to other specified indebtedness of AXIS Finance PLC. Neither the AXIS Finance PLC senior debt indenture nor the AXIS Finance PLC subordinated debt indenture limits the aggregate principal amount of indebtedness that AXIS Finance PLC may issue, or that AXIS Capital may guarantee, from time to time.

**Senior and Subordinated Debt Securities**

The debt securities will be AXIS Finance PLC's unsecured senior or subordinated obligations. The term senior is generally used to describe debt obligations that entitle the holder to receive payment of principal and interest upon the happening of specified events prior to the holders of subordinated debt. Events that can trigger the right of holders of senior debt securities to receive payment of principal and interest prior to payments to the holders of subordinated indebtedness include insolvency, bankruptcy, liquidation, dissolution, receivership, reorganization or an event of default under the AXIS Finance PLC senior debt indenture.

AXIS Finance PLC may issue the senior debt securities pursuant to the AXIS Finance PLC senior debt indenture in one or more series. All series of senior debt securities issued under the AXIS Finance PLC senior debt indenture will be equal in ranking. The senior debt securities also will rank equally with all of AXIS Finance PLC's other unsecured indebtedness, other than unsecured indebtedness expressly designated by the holders thereof to be subordinate to its senior debt securities.

## **Table of Contents**

AXIS Finance PLC may issue the subordinated debt securities pursuant to the AXIS Finance PLC subordinated debt indenture in one or more series. All series of subordinated debt securities issued under the AXIS Finance PLC subordinated debt indenture will be equal in ranking. The debt securities issued under the AXIS Finance PLC subordinated debt indenture will be subordinate in right of payment in respect of principal, any premium or interest on and any additional amounts owing under the subordinated debt securities to all of AXIS Finance PLC's senior indebtedness in the manner described below under the caption "Subordination Under the AXIS Finance PLC Subordinated Debt Indenture."

AXIS Finance PLC is a finance subsidiary with no operations or assets other than in such capacity, and AXIS Capital is a holding company and has no direct operations. Accordingly, the credit character of the AXIS Finance PLC debt securities is comparable to debt issued by a holding company. The ability of AXIS Finance PLC and AXIS Capital to make payments on the debt securities and the guarantee depends almost exclusively on the ability of AXIS Capital's subsidiaries to pay dividends and make intercompany transfers. The notes will be effectively subordinated to the obligations of AXIS Capital's subsidiaries, other than AXIS Finance PLC, meaning that holders of the notes will have a junior position to the claims of creditors of AXIS Capital's subsidiaries (including policyholders, trade creditors, debt holders, taxing authorities, guarantee holders and preference shareholders) on their assets and earnings. AXIS Capital's Insurance Subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. See "Risk Factors" in our Annual Report on Form 10-K for the most recent fiscal year.

Additionally, the senior debt securities issued pursuant to the AXIS Finance PLC senior debt indenture, the AXIS Finance subordinated indebtedness issued under the AXIS Finance PLC subordinated debt indenture and the guarantees will effectively be subordinated to any indebtedness of AXIS Capital's subsidiaries. In the event of a bankruptcy, receivership, state-ordered rehabilitation, liquidation or similar event involving a subsidiary, the assets of that subsidiary would be used to satisfy claims of policyholders and creditors of the subsidiary rather than its creditors. As a result of the application of the subsidiary's assets to satisfy claims of policyholders and creditors, the value of the stock of the subsidiary would be diminished and perhaps rendered worthless. Any such diminution in the value of the shares of AXIS Capital's subsidiaries would adversely impact its financial condition and possibly impair its ability to meet its obligations on the guarantees. In addition, any liquidation of the assets of any of AXIS Capital's subsidiaries to satisfy claims of the subsidiary's policyholders and creditors might make it impossible for such subsidiary to pay dividends to AXIS Capital. This inability to pay dividends would further impair AXIS Capital's ability to satisfy its obligations under the guarantees.

Further, in the event of a bankruptcy or other liquidation event involving a distribution of assets to satisfy AXIS Finance PLC's or AXIS Capital's outstanding indebtedness or an event of default under a loan agreement relating to the secured indebtedness, the holders of AXIS Finance PLC's or AXIS Capital's secured indebtedness would be entitled to receive payment of principal and interest prior to payments on the senior debt securities issued under the AXIS Finance PLC senior debt indenture and to payments on the subordinated indebtedness issued under the AXIS Finance PLC subordinated debt indenture.

## **Guarantees**

The payment obligations of AXIS Finance PLC pursuant to the debt securities will be fully and unconditionally guaranteed by AXIS Capital. None of the subsidiaries of AXIS Capital will guarantee or have an obligation in respect of the debt securities.

## **Prospectus Supplements**

A prospectus supplement will describe the terms of each series of debt securities AXIS Finance PLC offers and the related guarantees, including, to the extent applicable:

the specific designation of the series of debt securities being offered, the aggregate principal amount of debt securities of such series, the purchase price for the debt securities, including whether such debt securities will be issued with original issue discount, and the denominations of the debt securities;

**Table of Contents**

whether the securities are senior or subordinated;

the currency or currencies in which the debt securities will be denominated and in which principal, any premium, interest and any additional amounts will or may be payable or a description of any units based on or relating to a currency or currencies in which the debt securities will be denominated;

the date or dates upon which the debt securities are payable and will mature;

the interest rate or rates applicable to the debt securities or the method for determining such rate or rates, whether the rate or rates are fixed or variable and the dates on which interest will be payable;

the place or places where the principal of, any premium or interest on or any additional amounts with respect to the debt securities will be payable;

any mandatory or optional redemption, repayment or sinking fund provisions applicable to the debt securities. A redemption or repayment provision could either obligate or permit AXIS Finance PLC to buy back the debt securities on terms that it designates in the prospectus supplement. A sinking fund provision could either obligate or permit AXIS Finance PLC to set aside a certain amount of assets for payments upon the debt securities, including payment upon maturity of the debt securities or payment upon redemption of the debt securities;

whether the debt securities will be issued in registered form, in bearer form or in both registered and bearer form. In general, ownership of registered debt securities is evidenced by the records of the issuing entity. Accordingly, a holder of registered debt securities may transfer the securities only on the records of the issuer. By contrast, ownership of bearer debt securities generally is evidenced by physical possession of the securities. Accordingly, the holder of a bearer debt security can transfer ownership merely by transferring possession of the security;

any restrictions or special procedures applicable to (1) the place of payment of the principal, any premium or interest on or additional amounts with respect to bearer debt securities, (2) the exchange of bearer debt securities for registered debt securities or (3) the sale and delivery of bearer debt securities. A holder of debt securities will not be able to exchange registered debt securities into bearer debt securities except in limited circumstances;

whether AXIS Finance PLC is issuing the debt securities in whole or in part in global form. If debt securities are issued in global form, the prospectus supplement will disclose the identity of the depositary for such debt securities and any terms and conditions applicable to the exchange of debt securities in whole or in part for other definitive securities. Debt securities in global form are discussed in greater detail below under the heading **Book-Entry Procedures and Settlement**;

any proposed listing of the debt securities on a securities exchange;

any right AXIS Finance PLC may have to satisfy, discharge and defease its obligations under the debt securities, or terminate or eliminate restrictive covenants or events of default in the AXIS Finance PLC indentures, by depositing money or U.S. government obligations with the trustee of the indentures;

the names of any trustee, depository, authenticating or paying agent, transfer agent, registrar or other agent with respect to the debt securities;

any right AXIS Finance PLC may have to defer payments of interest on the debt securities;

any other specific terms of the debt securities or the guarantees, including any modifications to the events of default or covenants under the debt securities and any other terms that may be required by or advisable under applicable laws or regulations; and

if necessary, a discussion of material U.S. federal income tax considerations and Bermuda and United Kingdom tax considerations.

Holders of the debt securities may present their securities for exchange and may present registered debt securities for transfer in the manner described in the applicable prospectus supplement. Except as limited by the



## **Table of Contents**

applicable indenture, AXIS Finance PLC will provide these services without charge, other than any tax or other governmental charge payable in connection with the exchange or transfer.

Debt securities may bear interest at a fixed rate or a floating rate as specified in the prospectus supplement. In addition, if specified in the prospectus supplement, AXIS Finance PLC may sell debt securities bearing no interest or interest at a rate that at the time of issuance is below the prevailing market rate, or at a discount below their stated principal amount. AXIS Finance PLC will describe in the applicable prospectus supplement any special U.S. federal income tax considerations applicable to these discounted debt securities.

AXIS Finance PLC may issue debt securities with the principal amount payable on any principal payment date, or the amount of interest payable on any interest payment date, to be determined by referring to one or more currency exchange rates, commodity prices, equity indices or other factors. Holders of such debt securities may receive a principal amount on any principal payment date, or interest payments on any interest payment date, that are greater or less than the amount of principal or interest otherwise payable on such dates, depending upon the value on such dates of applicable currency, commodity, equity index or other factors. The applicable prospectus supplement will contain information as to how AXIS Finance PLC will determine the amount of principal or interest payable on any date, as well as the currencies, commodities, equity indices or other factors to which the amount payable on that date relates and certain additional tax considerations.

## **Covenants Applicable to the Debt Securities**

*Limitations on Liens.* Under the AXIS Finance PLC senior debt indenture, so long as any debt securities are outstanding, neither AXIS Capital nor any of its restricted subsidiaries may use any voting stock of a restricted subsidiary as security for any of its respective debt or other obligations unless any AXIS Finance PLC debt securities and related guarantee issued under the AXIS Finance PLC senior debt indenture are secured to the same extent as that debt or other obligation. This restriction does not apply to liens existing at the time a corporation becomes AXIS Capital's restricted subsidiary or any renewal or extension of existing liens and does not apply to shares of subsidiaries that are not restricted subsidiaries.

The AXIS Finance PLC senior debt indenture defines restricted subsidiaries as (1) AXIS Specialty Limited; (2) any other present or future subsidiary of AXIS Capital, the consolidated total assets of which constitute at least 20% of its total consolidated assets; and (3) any successor to any such subsidiary. As of September 30, 2016, the consolidated total assets of each of AXIS Specialty Holdings Bermuda Limited, AXIS Specialty Limited, AXIS Specialty Global Holdings Limited, AXIS Reinsurance Company, AXIS Insurance Company, AXIS Specialty Holdings Ireland Limited and AXIS Re SE constituted at least 20% of AXIS Capital's total consolidated assets.

*Consolidation, Merger, Amalgamation and Sale of Assets.* The AXIS Finance PLC indentures provide that AXIS Finance PLC or AXIS Capital will not (1) consolidate with or merge or amalgamate into a third party, (2) sell, other than for cash, all or substantially all of its assets to any third party or (3) purchase all or substantially all of the assets of any third party, unless:

AXIS Finance PLC or AXIS Capital is the continuing entity in the transaction or, if not, the successor entity is a corporation or limited liability company organized and existing under the laws of the United States, any state thereof, the District of Columbia, the United Kingdom, Bermuda, the Cayman Islands, Barbados or any country or state which is a member of the OECD and expressly assumes by supplemental indenture its obligations on the securities and under the AXIS Finance PLC indentures;

following the completion of the transaction, AXIS Finance PLC, AXIS Capital or the successor entity in the transaction would be in compliance with the covenants and conditions contained in the AXIS Finance PLC indentures; and

a specified officers' certificate and an opinion of counsel are delivered to the applicable trustee, each stating that such transaction and any supplemental indenture pertaining thereto comply with the provisions of the AXIS Finance PLC indentures relating to supplemental indentures and consolidation, merger, amalgamation, sale or conveyance.

## **Table of Contents**

In the context of a consolidation, merger or amalgamation or sale or purchase of assets, the successor entity is the entity that assumes or otherwise becomes obligated for the rights and obligations of the other party or parties to the transaction.

The limitations on the transactions described above do not apply to a recapitalization, change of control or highly leveraged transaction unless the transaction involves a transaction enumerated above. In addition, the AXIS Finance PLC indentures do not include any provisions that would increase interest, provide an option to dispose of securities at a fixed price or otherwise protect debt security holders in the event of any recapitalization, change of control or highly leveraged transaction.

The indenture relating to the AXIS Finance PLC debt securities permits the surviving entity following a consolidation, merger or certain other action of the issuer or the guarantor to be organized under the laws of jurisdictions other than the United States or Bermuda. It is possible as a result that the jurisdiction of organization of such a surviving entity could impose withholding on payments made on the AXIS Finance PLC debt securities. The terms of the AXIS Finance PLC debt securities do not provide for the payment of additional amounts to holders in such a circumstance.

*Restrictions on Dispositions.* The AXIS Finance PLC senior debt indenture provides that, except in a transaction otherwise governed by such indenture, neither AXIS Capital nor any of its restricted subsidiaries may issue, sell, assign, transfer or otherwise dispose of any of the voting stock of a restricted subsidiary so long as any of the AXIS Finance PLC debt securities remain outstanding. However, exceptions to this restriction include situations where:

the action must be taken to comply with the order of a court or regulatory authority, unless the order was requested by AXIS Finance PLC, AXIS Capital or one of AXIS Capital's restricted subsidiaries;

AXIS Capital disposes of all of the voting stock of a restricted subsidiary owned by it or by a restricted subsidiary for cash or other property having a fair market value that is at least equal to the fair market value of the disposed stock, as determined in good faith by AXIS Capital's board of directors;

the issuance, sale, assignment, transfer or other disposition is made to AXIS Finance PLC, AXIS Capital or another restricted subsidiary of AXIS Capital; or

after completion of a sale or other disposition of the stock of a restricted subsidiary, AXIS Capital and its restricted subsidiaries would own 80% or more of the voting stock of the restricted subsidiary and the consideration received for the disposed stock is at least equal to the fair market value of the disposed stock, as determined in good faith by AXIS Capital's board of directors.

The AXIS Finance PLC senior debt indenture does not restrict the transfer of assets from a restricted subsidiary of AXIS Capital to any other person, including AXIS Finance PLC, AXIS Capital or another of AXIS Capital's subsidiaries.

## **Events of Default**

Unless AXIS Finance PLC provides other or substitute events of default in a prospectus supplement, the following events will constitute an event of default under the applicable indenture with respect to a series of debt securities:

a default in payment of principal or any premium or any additional amounts when due; *provided, however,* that if AXIS Finance PLC and AXIS Capital are permitted by the terms of the debt securities to defer the payment in question, the date on which such payment is due and payable shall be the date on which AXIS Finance PLC and AXIS Capital must make payment following such deferral, if the deferral has been made pursuant to the terms of the securities of that series;

a default for 30 days in payment of any interest; *provided, however,* that if AXIS Finance PLC and AXIS Capital are permitted by the terms of the debt securities to defer the payment in question, the

**Table of Contents**

date on which such payment is due and payable shall be the date on which AXIS Finance PLC and AXIS Capital must make payment following such deferral, if the deferral has been made pursuant to the terms of the securities of that series;

a default in payment of any sinking fund installment when due;

a failure to observe or perform any other covenant or agreement in the debt securities or indenture, other than a covenant or agreement included solely for the benefit of a different series of debt securities, after 90 days written notice of the failure;

events of bankruptcy, insolvency or reorganization of AXIS Finance PLC or AXIS Capital;

a continuing default, for more than 30 days after AXIS Finance PLC or AXIS Capital receives notice of the default, under any other indenture, mortgage, bond, debenture, note or other instrument, under which AXIS Finance PLC, AXIS Capital or AXIS Capital's restricted subsidiaries may incur recourse indebtedness for borrowed money in an aggregate principal amount exceeding \$100,000,000, if the default has resulted in the acceleration of that indebtedness, and such acceleration has not been waived or cured; or

the guarantee ceases to be in full force and effect or is declared to be null and void and unenforceable (other than by reason of release of AXIS Capital in accordance with the terms of the AXIS Finance PLC indenture). The AXIS Finance PLC indentures provide that, under limited conditions specified in the AXIS Finance PLC indentures, where an event of default occurs and is continuing, either the trustee or the holders of not less than 33% in principal amount of each affected series of debt securities issued under the relevant AXIS Finance PLC indenture (voting as separate classes) may declare the principal and accrued interest of all the affected debt securities to be due and payable immediately. A similar right exists for the trustee and the holders of not less than 33% of all outstanding debt securities issued under an indenture, in the event of a default in the performance of any covenants or agreements applicable to all outstanding debt securities.

Upon conditions specified in the AXIS Finance PLC indentures, however, the holders of a majority in principal amount of the affected outstanding series of debt securities, or of all the debt securities as the case may be, voting as a single class, may waive past defaults under the AXIS Finance PLC indentures. Such a waiver may not occur where there is a continuing default in payment of principal, any premium or interest on the affected debt securities.

The AXIS Finance PLC indentures entitle the trustee to obtain assurances of indemnity or security reasonably satisfactory to it by the debt security holders for any actions taken by the trustee at the request of the security holders. The right of the trustee to indemnity or security is subject to the trustee carrying out its duties with a level of care or standard of care that is generally acceptable and reasonable under the circumstances. An indemnity or indemnification is an undertaking by one party to reimburse another upon the occurrence of an anticipated loss.

Subject to the right of the trustee to indemnification as described above and except as otherwise described in the AXIS Finance PLC indentures, the AXIS Finance PLC indentures provide that the holders of a majority of the aggregate principal amount of the affected outstanding debt securities of each series, treated as one class, may direct the time, method and place of any proceeding to exercise any right or power conferred in the AXIS Finance PLC indentures or

for any remedy available to the trustee.

The AXIS Finance PLC indentures provide that no holders of debt securities may institute any action against AXIS Finance PLC, except for actions for payment of overdue principal, any premium or interest or any additional amounts, unless:

such holder previously gave written notice of the continuing default to the trustee;

the holders of at least 33% in principal amount of the outstanding debt securities of each affected series, treated as one class, asked the trustee to institute the action and offered indemnity to the trustee for doing so;

## **Table of Contents**

the trustee did not institute the action within 60 days of the request; and

the holders of a majority in principal amount of the outstanding debt securities of each affected series, treated as one class, did not direct the trustee to refrain from instituting the action.

The AXIS Finance PLC indentures provide that AXIS Finance PLC will file annually with the trustee a certificate either stating that no default exists or specifying any default that does exist.

## **Discharge, Defeasance and Covenant Defeasance**

Except as set forth in the applicable prospectus supplement, AXIS Finance PLC and AXIS Capital can discharge and defease obligations of AXIS Finance PLC and AXIS Capital under the applicable indenture, debt securities and guarantees as set forth below and as provided in the AXIS Finance PLC indentures. For purposes of the AXIS Finance PLC indentures, obligations with respect to debt securities and guarantees are discharged and defeased when, through the fulfillment of the conditions summarized below, AXIS Finance PLC and AXIS Capital are released and discharged from performing any further obligations under the relevant AXIS Finance PLC indenture with respect to the debt securities. Covenant defeasance occurs when AXIS Finance PLC and AXIS Capital are released from performing any further obligations under specific covenants in the relevant AXIS Finance PLC indenture relating to the debt securities.

Except as set forth in the prospectus supplement, AXIS Finance PLC and AXIS Capital may elect to be discharged from any and all future obligations with respect to debt securities of a particular series and the related guarantees or debt securities within a particular series and the related guarantees if the debt securities that remain outstanding (1) have been delivered to the trustee for cancellation, (2) have either become due and payable or are by their terms due and payable within one year or (3) are scheduled for redemption within one year. AXIS Finance PLC or AXIS Capital may make such discharge by irrevocably depositing cash with the trustee in an amount sufficient to pay in full the principal, any premium, interest and additional amounts on the relevant debt securities when due.

Except as set forth in the prospectus supplement, AXIS Finance PLC and AXIS Capital may elect to defease and be discharged from all of their obligations contained in the AXIS Finance PLC indentures or from specific obligations under the covenants contained in the AXIS Finance PLC indentures with respect to any debt securities of or within a series and the related guarantees. AXIS Finance PLC or AXIS Capital may make this defeasance election by irrevocably depositing cash or U.S. government obligations with the trustee in an amount certified to be sufficient to pay in full the principal, any premium, interest and additional amounts on the relevant debt securities when due.

As a condition to any such defeasance or covenant defeasance, AXIS Finance PLC must provide the trustee an opinion of counsel to the effect that the holders of the affected debt securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance and will be taxed by the U.S. federal government on the same amounts, in the same manner, and at the same times as if the defeasance had not occurred. This opinion of counsel, in the case of defeasance of all obligations with respect to any debt securities, must refer to and be based upon a ruling of the IRS or a change in applicable U.S. federal income tax law occurring after the date of the relevant indenture.

AXIS Finance PLC and AXIS Capital may exercise the defeasance option notwithstanding any prior covenant defeasance upon the affected debt securities and guarantees. If AXIS Finance PLC and AXIS Capital exercise the defeasance option, payment of the affected debt securities and guarantees may not be accelerated because of an event of default. If AXIS Finance PLC and AXIS Capital exercise the covenant defeasance option, payment of the affected debt securities and related guarantees may not be accelerated by reason of a default or an event of default with respect

to the covenants which have been defeased. If, however, acceleration of the indebtedness under the debt securities and related guarantees occurs by reason of another event of default, the value of the money and government obligations in the defeasance trust on the date of acceleration could be less



**Table of Contents**

than the principal and interest then due on the affected securities because the required defeasance deposit is based upon scheduled cash flow rather than market value, which will vary depending upon interest rates and other factors.

**Modification of the AXIS Finance PLC Indentures**

The AXIS Finance PLC indentures provide that AXIS Finance PLC, AXIS Capital and the trustee may enter into supplemental indentures without the consent of the holders of outstanding debt securities to:

secure any debt securities;

evidence a successor person's assumption of its obligations under the AXIS Finance PLC indentures, the debt securities or the guarantees;

add covenants that protect holders of the debt securities;

cure any ambiguity, mistake or inconsistency in the indenture; provided that such correction does not materially adversely affect the holders of the affected debt securities;

establish forms or terms for debt securities of any series;

evidence a successor trustee's acceptance of appointment; and

make any other changes that do not materially adversely affect the holders of the affected debt securities. The AXIS Finance PLC indentures also permit AXIS Finance PLC, AXIS Capital and the trustee, with the consent of the holders of at least a majority in aggregate principal amount of outstanding affected debt securities of a series issued under the relevant indenture, to change, in any manner, the relevant indenture and the rights of the holders of debt securities of that series issued under that indenture. However, the consent of each holder of an affected debt security is required for changes that:

extend the stated maturity of, or reduce the principal of, any debt security;

reduce the rate or extend the time of payment of interest;

reduce any amount payable upon redemption;

change the currency in which the principal, any premium or interest or any additional amounts is payable;

reduce the amount of any original issue discount debt security that is payable upon acceleration or provable in bankruptcy;

impair the right to institute suit for the enforcement of any payment on any debt security when due;

reduce the percentage of the outstanding debt securities of any series required to approve changes to the indenture; or

modify the guarantees in any manner adverse to the holders.

The AXIS Finance PLC subordinated debt indenture may not be amended to alter the subordination of any outstanding subordinated debt securities without the consent of each holder of then outstanding senior debt securities that would be adversely affected by the amendment.

#### **Payment of Additional Amounts**

Unless otherwise described in a prospectus supplement, AXIS Finance PLC and AXIS Capital will make all payments of principal of and premium, if any, interest and any other amounts on, or in respect of, the debt securities or the related guarantees without withholding or deduction at source for, or on account of, any present or future taxes, fees, duties, assessments or governmental charges of whatever nature imposed or levied by or on

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**Table of Contents**

behalf of the United Kingdom or Bermuda or any other jurisdiction in which AXIS Finance PLC or AXIS Capital is organized (each, a taxing jurisdiction ) or any political subdivision or taxing authority thereof or therein, unless such taxes, fees, duties, assessments or governmental charges are required to be withheld or deducted by (1) the laws (or any regulations or rulings promulgated thereunder) of a taxing jurisdiction or any political subdivision or taxing authority thereof or therein or (2) an official position regarding the application, administration, interpretation or enforcement of any such laws, regulations or rulings (including, without limitation, a holding by a court of competent jurisdiction or by a taxing authority in a taxing jurisdiction or any political subdivision thereof). If a withholding or deduction at source is required, AXIS Finance PLC or AXIS Capital will, subject to the limitations and exceptions described below, pay to the holder of any debt securities such additional amounts as may be necessary so that every net payment of principal, premium, if any, interest or any other amount made to such holder, after the withholding or deduction, will not be less than the amount provided for in such debt security or in the indenture to be then due and payable.

AXIS Finance PLC and AXIS Capital will not be required to pay any additional amounts for or on account of:

- (1) any tax, fee, duty, assessment or governmental charge of whatever nature which would not have been imposed but for the fact that (a) the holder or beneficial owner of such debt security was a resident, domiciliary or national of, or engaged in business or maintained a permanent establishment or was physically present in, the relevant taxing jurisdiction or any political subdivision thereof or otherwise had some connection with the relevant taxing jurisdiction other than by reason of the mere ownership of, or receipt of payment under, such debt security or the related guarantee, (b) the holder presented, where presentation is required, such debt security for payment in the relevant taxing jurisdiction or any political subdivision thereof, unless such debt security could not have been presented for payment elsewhere, or (c) the holder presented, where presentation is required, such debt security for payment more than 30 days after the date on which the payment in respect of such debt security became due and payable or provided for, whichever is later, except to the extent that the holder would have been entitled to such additional amounts if it had presented such debt security for payment on any day within that 30-day period;
- (2) any estate, inheritance, gift, sale, transfer, personal property or similar tax, fee, duty, assessment or other governmental charge;
- (3) any tax, fee, duty, assessment or other governmental charge that is imposed or withheld by reason of the failure by the holder or beneficial owner of such debt security to comply with any reasonable request by AXIS Finance PLC or AXIS Capital addressed to the holder within 90 days of such request (a) to provide information concerning the nationality, residence or identity of the holder or beneficial owner or (b) to make any declaration or other similar claim or satisfy any information or reporting requirement, which is required or imposed by statute, treaty, regulation or administrative practice of the relevant taxing jurisdiction or any political subdivision thereof as a precondition to exemption from all or part of such tax, assessment or other governmental charge;
- (4) any withholding or deduction imposed on or in respect of any debt security pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, any current or future regulations or official interpretations thereof or intergovernmental agreements in connection therewith, and any agreements

entered into pursuant to Section 1471(b)(1) of the U.S. Internal Revenue Code of 1986, as amended; or

(5) any combination of items (1), (2), (3) and (4).

In addition, AXIS Finance PLC and AXIS Capital will not pay additional amounts with respect to any payment of principal of, or premium, if any, interest or any other amounts on, any such debt security or the related guarantee to any holder who is a fiduciary or partnership or other than the sole beneficial owner of such debt security if such payment would be required by the laws of the relevant taxing jurisdiction (or any political subdivision or relevant taxing authority thereof or therein) to be included in the income for tax purposes of a

## **Table of Contents**

beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner to the extent such beneficiary, settlor, member or beneficial owner would not have been entitled to such additional amounts had it been the holder of the debt security.

### **Redemption for Tax Purposes**

Unless otherwise described in a prospectus supplement, AXIS Finance PLC may redeem the debt securities of a series at its option, in whole but not in part, at a redemption price equal to 100% of the principal amount, together with accrued and unpaid interest and additional amounts, if any, to the date fixed for redemption, at any time AXIS Finance PLC receives an opinion of counsel that as a result of (1) any change in or amendment to the laws or treaties (or any regulations or rulings promulgated under these laws or treaties) of the United Kingdom or Bermuda or any other taxing jurisdiction (or of any political subdivision or taxation authority affecting taxation) or any change in the application or official interpretation of such laws, treaties, regulations or rulings, (2) any action taken by a taxing authority of the United Kingdom or Bermuda or any other taxing jurisdiction (or any political subdivision or taxing authority affecting taxation) which action is generally applied or is taken with respect to AXIS Finance PLC or AXIS Capital, or (3) a decision rendered by a court of competent jurisdiction in the United Kingdom or Bermuda or any other taxing jurisdiction (or any political subdivision) whether or not such decision was rendered with respect to AXIS Finance PLC or AXIS Capital, there is a substantial probability that AXIS Finance PLC or AXIS Capital will be required as of the next interest payment date to pay additional amounts with respect to the debt securities of such series as provided in Payment of Additional Amounts above and such requirements cannot be avoided by the use of reasonable measures (consistent with practices and interpretations generally followed or in effect at the time such measures could be taken) then available. If AXIS Finance PLC elects to redeem the debt securities under this provision, AXIS Finance PLC will give written notice of such election to the trustee and the holders of the debt securities. Interest on the debt securities will cease to accrue unless AXIS Finance PLC defaults in the payment of the redemption price.

### **Subordination Under the AXIS Finance PLC Subordinated Debt Indenture**

The AXIS Finance PLC subordinated debt indenture provides that payment of the principal, any premium and interest on and additional amounts with respect to debt securities issued under the AXIS Finance PLC subordinated debt indenture will be subordinate and junior in right of payment, to the extent and in the manner set forth in that indenture, to all AXIS Finance PLC's senior indebtedness. The AXIS Finance PLC subordinated debt indentures define senior indebtedness as the principal, any premium and interest on and additional amounts with respect to all its indebtedness, whether incurred prior to or after the date of the indenture:

for money borrowed by AXIS Finance PLC or AXIS Capital;

for obligations of others that AXIS Finance PLC or AXIS Capital directly or indirectly either assume or guarantee;

in respect of letters of credit and acceptances issued or made by banks in favor of AXIS Finance PLC or AXIS Capital; or

issued or assumed as all or part of the consideration for the acquisition of property, however acquired, or indebtedness secured by property included in its property, plant and equipment accounts at the time of acquisition, if AXIS Finance PLC or AXIS Capital is directly liable for the payment of such debt.

AXIS Finance PLC senior indebtedness also includes all deferrals, renewals, extensions and refundings of, and amendments, modifications and supplements to, the indebtedness listed above.

AXIS Finance PLC senior indebtedness does not include:

any indebtedness which, by its terms or the terms of the instrument creating or evidencing it, has a subordinate or equivalent right to payment with the AXIS Finance PLC subordinated debt securities; or

any indebtedness of AXIS Capital owed to its subsidiaries.

**Table of Contents**

The AXIS Finance PLC subordinated debt indenture does not limit the amount of senior indebtedness that AXIS Finance PLC can incur.

The holders of all AXIS Finance PLC senior indebtedness will be entitled to receive payment of the full amount due on that indebtedness before the holders of any AXIS Finance PLC subordinated debt securities receive any payment on account of such subordinated debt securities, in the event:

of any insolvency, bankruptcy, receivership, liquidation, reorganization or other similar proceedings in respect of-

17

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We also evaluate the carrying values of title plants, other intangible assets and other long-lived assets when events occur that may indicate impairment. The process of determining impairment for such assets involves determining whether the carrying amount of the asset is recoverable using the undiscounted cash flows expected from the use and eventual disposition of the asset. If the carrying amount is determined not to be recoverable, we estimate the fair value of the asset using projections of future cash flows, operating results, discount rates and overall market conditions. Any excess of the carrying amount over the fair value is considered as an impairment of the asset. Uncertainties exist in these projections and they are subject to changes relating to factors such as interest rates and overall real estate and financial market conditions, our market capitalization and overall stock market performance. Actual market conditions and operating results may vary materially from our projections. As a result of our impairment analysis on our other intangible assets, we recorded impairment charges of \$1.8 million and \$1.7 million for the years ended December 31, 2015 and 2014, respectively. No impairment loss was recognized during the year ended December 31, 2013.

Operations. Our business has three operating segments: title insurance and related services (title), mortgage services and corporate.

Our primary business is title insurance and settlement-related services. We close transactions and issue title policies on homes, commercial and other real properties located in all 50 states, the District of Columbia and international markets through policy-issuing offices, agencies and centralized title services centers. Our mortgage services segment provides loan origination and servicing support; loan review services; real estate valuation services; REO asset management; home and personal insurance services; loan due diligence; compliance solutions; service performance management; and technology to streamline the real estate process.

Factors affecting revenues. The principal factors that contribute to changes in operating revenues for our title and mortgage services segments include:

- mortgage interest rates;
- availability of mortgage loans;
- ability of potential purchasers to qualify for loans;
- inventory of existing homes available for sale;
- ratio of purchase transactions compared with refinance transactions;
- ratio of closed orders to open orders;
- home prices;
- volume of distressed property transactions;
- consumer confidence, including employment trends;
- demand by buyers;
- number of households;
- premium rates;
- foreign currency exchange rates;
- market share;
- independent agency remittance rates;
- opening of new offices and acquisitions;
- number of commercial transactions, which typically yield higher premiums;
- government or regulatory initiatives, including tax incentives, and, for 2015, implementation of new CFPB regulations;
- acquisitions or divestitures of businesses; and
- seasonality and/or weather.



Premiums are determined in part by the values of the transactions we handle. To the extent inflation or market conditions cause increases in the prices of homes and other real estate, premium revenues are also increased. Conversely, falling home prices cause premium revenues to decline. As an overall guideline, a 5% increase in home prices results in an approximate 3.7% increase in net title premiums. Home price changes may override the seasonal nature of the title insurance business. Historically, our first quarter is the least active in terms of title insurance revenues as home buying is generally depressed during winter months. Our second and third quarters are the most active as the summer is the traditional home buying season, and while commercial transaction closings are skewed to the end of the year, individually large commercial transactions can occur any time of year.

Industry data. Published mortgage interest rates and other selected residential housing data for the years ended December 31, 2015, 2014 and 2013 follow (amounts shown for 2015 are preliminary and subject to revision). The amounts below may not relate directly to or provide accurate data for forecasting our operating revenues or order counts.

Our statements on home sales, mortgage interest rates and loan activity are based on published industry data from sources including Fannie Mae, the National Association of Realtors®, the Mortgage Bankers Association and Freddie Mac.

	2015	2014	2013
Mortgage interest rates (30-year, fixed-rate) – %			
Averages for the year	3.85	4.17	3.98
First quarter	3.73	4.36	3.50
Second quarter	3.83	4.23	3.69
Third quarter	3.95	4.14	4.44
Fourth quarter	3.90	3.97	4.30
Mortgage originations – \$ billions	1,673	1,301	1,866
Refinancings – % of originations	46.5	39.8	60.2
New home sales – in \$ millions	0.50	0.44	0.43
Existing home sales – in \$ millions	5.26	4.94	4.48
Existing home sales – median sales price in \$ thousands	222.4	208.3	197.4

The real estate market remained strong in 2015 and mortgage rates remain low, although Fannie Mae is forecasting the 30-year rate to increase to around 4.2% by the end of 2016. Further, Fannie Mae expects total home sales to grow moderately by about 4.0% in 2016. It is expected the rising share of new home sales will lead to a healthy increase in single-family construction of about 17.0%, or 827,000 units.

For the three years ended December 31, 2015, mortgage interest rates (30-year, fixed-rate) have fluctuated from a monthly low of 3.41% in January 2013 to a monthly high of 4.49% in September 2013. In 2015, total mortgage originations and refinancing mortgage originations increased 28.6% and 50.2%, respectively, from 2014. During 2015, sales of new and existing homes increased 13.5% and 5.3%, respectively, from 2014.

During 2014, sales of new and existing homes increased 1.9% and decreased 2.9%, respectively, from 2013.

Order counts. The following open and closed order information for 2015 and 2014 is based on more detailed reporting information that became available beginning in the fourth quarter 2014. Due to system constraints, we are unable to provide comparable data for 2013. The new reporting is more comprehensive than in prior quarters, as it now includes orders through our centralized title operations.

	2015 Opened Orders					2014 Opened Orders				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Commercial	14,610	12,545	11,766	11,073	49,994	11,662	13,598	14,217	12,541	52,018
Purchase	60,092	70,970	63,836	50,271	245,169	52,431	65,073	63,874	54,466	235,844
Refi	54,944	44,923	40,542	36,663	177,072	18,164	22,560	39,443	38,161	118,328
Other	6,220	5,762	5,380	3,771	21,133	3,409	3,170	8,223	6,139	20,941
Total	135,866	134,200	121,524	101,778	493,368	85,666	104,401	125,757	111,307	427,131

  

	2015 Closed Orders					2014 Closed Orders				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Commercial	10,014	8,562	8,173	8,317	35,066	8,003	8,917	8,916	8,195	34,031
Purchase	38,506	54,419	53,532	44,314	190,771	33,247	46,518	49,027	45,504	174,296
Refi	32,301	33,160	28,849	26,517	120,827	11,716	14,022	20,885	25,245	71,868
Other	4,919	5,438	4,669	3,530	18,556	2,297	2,451	6,358	4,985	16,091

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Total	85,740	101,579	95,223	82,678	365,220	55,263	71,908	85,186	83,929	296,286
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19

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## RESULTS OF OPERATIONS

A comparison of our consolidated results of operations for 2015 to 2014 and 2014 to 2013 follows. Factors contributing to fluctuations in results of operations are presented in the order of their monetary significance, and we have quantified, when necessary, significant changes. Results from our mortgage services and corporate segments are included in year-to-year discussions and, when relevant, are discussed separately. Our employee costs and certain other operating expenses are sensitive to inflation.

**Title revenues.** Revenues from direct title operations increased \$88.8 million, or 11.0%, and \$44.7 million, or 5.9%, in 2015 and 2014, respectively. Revenues in 2015 increased primarily due to higher refinancing and residential resale closed orders, driven by the rise in new and existing home sales, and contribution from our centralized title operations acquired in mid-2014. Revenues in 2014 increased relative to 2013 primarily due to our 2014 acquisitions and a continued shift in mix to more residential resale and commercial orders, partially offset by a decline in refinance transaction volume. International revenues (including foreign-sourced commercial revenues of \$19.8 million and \$25.4 million for 2015 and 2014, respectively) decreased \$10.6 million, or 9.1%, in 2015 compared to 2014 and increased \$3.8 million, or 3.4%, in 2014 compared to 2013. International revenues in 2015 grew on a local currency basis, however, the strengthening of the U.S. dollar, primarily against the Canadian dollar and British pound, was the principal cause of the reported net revenues decline. Total commercial revenues increased \$15.8 million, or 9.3%, and \$18.4 million, or 13.4%, in 2015 compared to 2014 and in 2014 compared to 2013, respectively. While year-to-year results for commercial business can fluctuate considerably due to timing of when large transactions close, our commercial operation continued to improve its position in the marketplace.

Revenues from independent agencies increased \$85.3 million, or 9.4%, in 2015 compared to 2014 and decreased \$140.3 million, or 13.4%, in 2014 compared to 2013. Revenues from independent agencies fluctuate based on the same general factors that influence revenues from direct title operations, although we do not specifically know our agents' order composition. The 2015 increase in agency revenues was generally consistent with that of our direct title operations' revenues. The decrease in 2014, relative to our direct revenues, was due to the higher proportion of refinancing transactions in our independent agencies than in our direct operations and certain of our 2014 acquisitions that formerly contributed to agency revenues but are now recorded as direct revenues. Consistent with our strategy for this channel, our focus is on increasing profit margins in every state, increasing premium revenue in states where remittance rates are above 20%, and maintaining the quality of our agency network, which we believe to be the industry's best, in order to mitigate claims risk and drive consistent future performance. While market share is important in our agency operations channel, it is not as important as margins, risk mitigation and profitability.

**Title revenues by geographic location.** The approximate amounts and percentages of consolidated title operating revenues for the last three years were as follows:

	Amounts (\$ millions)			Percentages		
	2015	2014	2013	2015	2014	2013
Texas	341	338	328	18	20	18
New York	250	238	219	13	14	12
California	142	123	146	8	7	8
International	107	118	118	6	7	7
Florida	88	73	73	5	4	4
All others	960	824	926	50	48	51
	1,888	1,714	1,810	100	100	100

**Mortgage services revenues.** Mortgage services revenues decreased \$2.9 million, or 2.2%, in 2015 compared to 2014 and increased \$29.4 million, or 28.4%, in 2014 compared to 2013. The revenue reduction in 2015 was primarily due to decreased demand within our delinquent loan servicing activities as the overall inventory of defaulted and distressed loans across the lending industry continues to fall as well as pricing

pressures relating to certain contracts within those activities. The revenue increase in 2014 was driven by the acquisitions completed in mid-2014. Revenues from the acquisitions pertaining to centralized title operations are included in the mortgage services segment revenues in accordance with applicable segment accounting rules.

20

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During 2014, we completed acquisitions of three companies that provide collateral valuation, settlement services, title and closing services and loan quality control and due diligence services. These acquisitions expanded our offerings to mortgage lenders and are meeting our expectations. However, as announced in July 2015, we are exiting the delinquent loan servicing activities within our mortgage services segment. We anticipate the orderly wind-down and final exit of these operations will occur by the end of first quarter 2016. We will continue to operate the business in a phased exit process until then. These activities were profitable in 2014, but became less so in the first half of 2015 and turned unprofitable in the second half of 2015, contributing significantly to the segment's operating losses. We expect the wind-down of these activities to continue to negatively impact the segment's revenues and profitability in the first quarter 2016. We believe this decision, while significant to historic segment revenues, will focus our capital and resources on our business units that have the strongest future for ongoing, stable growth, including centralized title, loan origination and capital markets offerings.

**Investment income.** Investment income for 2015 was comparable to 2014 while investment income increased \$1.3 million, or 8.5%, in 2014 compared to 2013. Income from our debt securities increased slightly (4.0%) in 2015, which was offset by the reduction in income from our short term investments, cash equivalents and equity securities as a result of lower average balances of short term and cash equivalent investments and the stock market decline. The increase in 2014 was primarily due to increases in average balances invested.

In 2015, investment and other (losses) gains – net included realized losses of \$2.7 million relating to other-than-temporary impairment of investments in equity securities available-for-sale, a \$1.8 million impairment of other intangible assets and \$1.4 million relating to office closure costs, partially offset by realized gains of \$2.4 million from the sale of debt and equity investments available-for-sale and \$1.5 million from the sale of office buildings.

In 2014, investment and other gains (losses) – net included realized gains of \$5.6 million from the reduction in the fair value of a contingent consideration liability, \$3.8 million from the sale of a business and \$1.1 million from the sale of debt and equity investments available-for-sale, partially offset by charges of \$1.9 million relating to office closure costs and \$1.0 million relating to the impairment of a cost-basis investment. In 2013, investment and other (losses) gains – net included a \$5.4 million non-cash charge relating to the early retirement of \$37.8 million of Convertible Senior Notes (Notes), a \$1.5 million loss on the sale of an equity investment and \$1.0 million for the impairment of cost-basis investments offset by realized gains of \$2.7 million from the sale of debt and equity investments available-for-sale, \$2.3 million from non-title-related insurance policy proceeds and \$1.9 million from the sale of real estate.

**Retention by agencies.** Amounts retained by title agencies are based on agreements between the agencies and our title underwriters. On average, amounts retained by independent agencies, as a percentage of revenues generated by them, were 81.7%, 81.5% and 81.1% in the years 2015, 2014 and 2013, respectively. The average retention percentage may vary from year-to-year due to the geographical mix of agency operations, the volume of title revenues and, in some states, laws or regulations. Due to the variety of such laws or regulations, as well as competitive factors, the average retention rate can differ significantly from state to state. In addition, a high proportion of our independent agencies are in states with retention rates greater than 80%. Consequently, we expect our average annual retention percentage to remain in the 81% - 82% range over the near to medium term.

**Selected cost ratios (by segment).** The following table shows employee costs and other operating expenses as a percentage of related title insurance and mortgage services operating revenues.

	Employee costs (%)			Other operating (%)		
	2015	2014	2013	2015	2014	2013
Title	23.0	23.9	21.6	13.5	15.4	13.1
Mortgage services	63.3	63.5	65.0	38.0	30.3	19.5

These two categories of expenses are discussed below in terms of year-to-year monetary changes.

Employee costs. Employee costs for the combined business segments increased \$33.9 million, or 5.4%, in 2015 compared to 2014 and \$53.3 million, or 9.3%, in 2014 compared to 2013. As a percentage of total operating revenues, employee costs were 32.6%, 33.8% and 29.8% in 2015, 2014 and 2013, respectively. The higher employee cost ratios in 2015 and 2014 as compared to 2013 were primarily due to our acquisitions in the mortgage services segment in 2014. Our total employee count at December 31, 2015, 2014 and 2013 was approximately 6,900, 7,400 and 6,600, respectively.

21

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In 2015, total employee count decreased by approximately 490 employees, or 6.4%. This decrease was mainly the result of our previously announced cost management program as well as reduction in force tied to volume declines, primarily in mortgage services. Mortgage services' employee count decreased by about 190 employees in 2015 as we continued to wind down our delinquent loan servicing activities. We also reduced headcount in the corporate and title segments by approximately 270 and 30 employees, respectively, in relation to our cost management program which we completed in 2015.

In 2014, total employee count increased by approximately 770 employees, or 11.7%. We experienced an increase of approximately 890 employees due to the previously described acquisitions and 370 employees related to a new service offering and contract, partially offset by subsequent reductions of approximately 120 employees at these acquired operations and reductions of approximately 370 employees at existing operations. The title segment had a net reduction of 35 employees in 2014.

In 2013, total employee count increased by approximately 350, or 5.6%, as a result of increased business activity and acquisitions.

Employee costs in the title segment increased \$19.3 million, or 4.9%, and \$8.9 million, or 2.3%, in 2015 and 2014, respectively, as the result of increased commissions and incentive compensation on higher revenues primarily from direct title operations. Mortgage services' employee costs increased \$16.5 million, or 13.9%, and \$39.9 million, or 50.3%, in 2015 and 2014, respectively, primarily due to the acquisitions and the new service offering and contract in 2014. The lower increase in mortgage services' employee costs in 2015 was due to our exiting of the delinquent loan servicing activities starting in the second half of 2015. As a percentage of operating revenues, employee costs for mortgage services were 63.3% and 63.5% in 2015 and 2014, respectively.

Other operating expenses. Other operating expenses include costs that are fixed in nature, costs that follow, to varying degrees, changes in transaction volumes and revenues and costs that fluctuate independently of revenues. Costs that are fixed in nature include attorney and professional fees, third-party outsourcing provider fees, equipment rental, insurance, rent and other occupancy expenses, repairs and maintenance, technology costs, telephone and title plant expenses. Costs that follow, to varying degrees, changes in transaction volumes and revenues include fee attorney splits, bad debt expenses, certain mortgage services expenses, copy supplies, delivery fees, outside search fees, postage, premium taxes and title plant maintenance expenses. Costs that fluctuate independently of revenues include general supplies, litigation defense, business promotion and marketing and travel.

Other operating expenses for the combined business segments increased \$34.7 million, or 10.0%, and \$67.0 million, or 23.9%, in 2015 and 2014, respectively. As a percentage of total operating revenues, other operating costs were 18.9%, 18.8% and 14.6% in 2015, 2014 and 2013, respectively. In 2015, other operating expenses included approximately \$6.0 million for litigation-related accruals and \$19.5 million of aggregate costs related to our cost management program (consisting of consulting and third party service provider transition costs), costs associated with a shareholder settlement announced in the first quarter 2015, and CFPB integrated disclosure preparations. In 2014, other operating expenses included an aggregate of \$18.3 million for litigation-related accruals and approximately \$11.6 million related to costs incurred for acquisition integration, the cost management program and a shareholder settlement announced in the first quarter 2014. Excluding the impact of these non-operating charges, other operating expenses as a percentage of total operating revenues would have been 17.7% and 17.2% in 2015 and 2014, respectively.

In 2015, excluding the costs listed above, costs fixed in nature increased \$10.1 million, or 7.4%, primarily due to \$10.8 million of additional professional and consulting fees and third-party outsourcing provider fees.



Costs that follow, to varying degrees, changes in transaction volumes and revenues increased \$29.6 million, or 23.3%, mainly due to increases in mortgage services expenses resulting from increased mortgage service revenues during the first through third quarters of 2015 and fee attorney splits driven by increased title revenues. Excluding the non-operating litigation-related costs, costs that fluctuate independently of revenues in 2015 were comparable to 2014.

In 2014, excluding the nonrecurring costs above, costs fixed in nature increased \$14.7 million, or 12.1%, primarily due to \$16.9 million of fixed other operating costs of the mid-year acquisitions partially offset by \$2.2 million of decreased costs incurred by existing operations. These acquisition-related increases were primarily due to increased technology costs, rent and other occupancy expenses. Costs that follow, to varying degrees, changes in transaction volumes and revenues increased \$21.9 million, or 21.8%, in 2014, primarily due to increases in mortgage services expenses (resulting from increased mortgage service revenues related to the acquisitions) and fee attorney splits. Lastly, costs that fluctuate independently of revenues decreased \$0.3 million, or less than 1%.

Title losses. Provisions for title losses, as a percentage of title operating revenues, were 5.6%, 4.7% and 5.9% in 2015, 2014 and 2013, respectively, including adjustments to certain large claims and escrow losses. The title loss ratio in any given year can be significantly influenced by new large claims incurred as well as adjustments to reserves for existing large claims. We continue to manage and resolve large claims prudently and in keeping with our commitments to our policyholders.

For the year ended December 31, 2015, we recorded \$22.1 million of increases to existing large losses relating to prior policy years, partially offset by a \$17.5 million policy loss reserve reduction relating to non-large policy losses as a result of favorable loss development experience. For the year ended December 31, 2015, title losses increased \$25.0 million, or 30.7%, when compared to the same period in 2014.

For the year ended December 31, 2014, we recorded a reduction of \$14.8 million to our policy loss provision due to a bond claim which resulted in a partial recovery on a large claim recorded in the prior years. We also recorded a reduction of \$6.5 million during 2014 relating to non-large incurred losses. In 2014, title losses decreased \$25.0 million, or 23.5%, when compared to the same period in 2013.

For the year ended December 31, 2013, title losses decreased \$33.7 million, or 24.1%, in connection with the 3.8% increase in the title operating revenues when compared to the same period in 2012. We recorded policy loss reserve reductions relating to non-large losses on prior policy years aggregating approximately \$22.1 million. However, these reductions were partially offset by increases in reserves relating to new and existing large losses aggregating approximately \$19.3 million.

Excluding the impact of the reserve reductions and large losses (net of recoveries), title losses as a percent of title operating revenues were 5.4%, 5.6% and 6.0% in 2015, 2014 and 2013, respectively. Cash claim payments in 2015 increased 42.6%, mainly due to a \$22.5 million payment for a large, previously reserved, claim, as compared with the 25.1% decrease in cash claim payments in 2014, primarily due to the partial recovery of \$14.8 million for the large claim described above.

Our liability for estimated title losses as of December 31, 2015 and 2014 comprises both known claims and our estimate of claims that may be reported in the future (IBNR). Known claims reserves are reserves related to actual losses reported to us. Our reserve for known claims comprises both claims related to title insurance policies as well as losses arising from escrow, closing and funding operations due to fraud or error (which are recognized as expense when discovered). The amount of the reserve represents the aggregate, non-discounted future payments (net of recoveries) that we expect to incur on policy and escrow losses and in costs to settle claims.

Total title policy loss reserve balances:

	December 31, 2015 (\$000 omitted)	December 31, 2014
Known claims	83.2	111.7
IBNR	379.4	383.7
Total estimated title losses	462.6	495.4

Title claims are generally incurred three to five years after policy issuance and the timing of payments on these claims can significantly impact the balance of known claims, since in many cases claims may be open for several years before resolution and payment occur. As a result, the estimate of ultimate amount to be paid on any claim may be modified over that time period.

23

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Due to the inherent uncertainty in predicting future title policy losses, significant judgment is required by our management and our third party actuaries in estimating reserves. As a consequence, our ultimate liability may be materially greater or less than current reserves and/or our third party actuary's calculated estimates. As of December 31, 2015 and 2014, our reserve balance was above the actuarial midpoint of total estimated policy loss reserves.

Impairment of goodwill. During the year ended December 31, 2015, we recorded a non-cash impairment charge of \$35.7 million on the goodwill of our mortgage services segment. The impairment charge was triggered by the segment's continued losses and reduced revenue and margin outlook, driven primarily by falling demand and contract pricing pressures related to our delinquent loan servicing activities. We are exiting these activities by the end of first quarter 2016. No such impairment was recorded during the years ended December 31, 2014 and 2013. Refer to our foregoing discussion of Goodwill and other long-lived assets under Critical Accounting Estimates for details of our impairment analysis.

Depreciation and amortization. Depreciation and amortization expense increased \$6.1 million, or 25.1%, in 2015 compared to 2014. The increase in 2015 was driven by \$1.5 million of accelerated amortization of assets used in the delinquent loan servicing activities that we are exiting. In addition, approximately \$2.7 million of amortization expense relating to 2014 acquired intangible assets of the mortgage services segment and \$1.5 million of amortization expense relating to an underwriter production system placed into service in July 2014 contributed to the increase during 2015.

Depreciation and amortization expense increased \$6.3 million, or 35.2%, in 2014 compared to 2013. The increase is primarily due to \$3.3 million of amortization expense on acquired intangible assets of the mortgage services segment, \$1.6 million of amortization expense relating to an underwriter production system placed into service in the second half of 2014 and \$0.7 million of additional depreciation expense on the fixed assets of the acquisitions.

Income taxes. Our effective tax rates were (1,019.4)%, 31.2% and 31.1% for 2015, 2014 and 2013, respectively, based on (loss) income before taxes, after deducting noncontrolling interests, of \$(0.6) million, \$43.3 million and \$91.5 million in 2015, 2014 and 2013, respectively. Our 2015 effective tax rate resulted principally from the \$35.7 million goodwill impairment recorded during the year, of which \$20.3 million was not subject to tax benefits, combined with the effects of a small pretax loss for the year.

During 2014 and 2013, we released \$5.0 million and \$6.6 million, respectively, of our deferred tax assets valuation allowance relating to foreign tax credit carryforwards. As of December 31, 2015, our remaining valuation allowance relating principally to certain state and foreign net operating loss carryforwards was \$2.2 million. The Company believes it is more-likely-than-not it will be able to utilize its net deferred tax assets.

Contractual obligations. Our material contractual obligations at December 31, 2015 were:

	Payments due by period (\$ millions)				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
Credit facility	—	—	98.0	—	98.0
Other notes payable	2.5	1.7	0.2	—	4.4
Operating leases	45.1	68.5	35.1	18.3	167.0
Estimated title losses	92.5	166.5	83.3	120.3	462.6
	140.1	236.7	216.6	138.6	732.0

Material contractual obligations consist primarily of amounts drawn on our line of credit facility which expires October 2019, other notes payable, operating leases and estimated title losses. The timing above for

payments of notes payable is based upon contractually stated payment terms of each debt agreement. Operating leases are primarily for office space and expire over the next ten years. The timing shown above for the payments of estimated title losses is not set by contract. Rather, it is projected based on historical payment patterns. The actual timing of estimated title loss payments may vary materially from the above projection since claims, by their nature, are complex and paid over long periods of time. Title losses paid were \$123.6 million, \$86.7 million and \$115.7 million in 2015, 2014 and 2013, respectively

## LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources reflect our ability to generate cash flow to meet our obligations to shareholders, customers (payments to satisfy claims on title policies), vendors, employees, lenders and others. As of December 31, 2015, our cash and investments, including amounts reserved pursuant to statutory requirements, aggregated \$798.6 million (\$298.1 million net of statutory reserves). Of our total cash and investments at December 31, 2015, \$601.0 million was held in the United States and the rest internationally, principally in Canada.

Cash held at the parent company totaled \$0.8 million at December 31, 2015. As a holding company, the parent company is funded principally by cash from its subsidiaries in the form of dividends, operating and other administrative expense reimbursements, and pursuant to intercompany tax sharing agreements. The expense reimbursements are paid in accordance with management agreements, approved by the Texas Department of Insurance (TDI), among the parent company, the underwriter and its subsidiaries. In addition to funding operating expenses, cash held at the parent company is used for dividend payments to common shareholders and our stock repurchase program. To the extent such uses exceed cash available, the parent company is dependent on distributions from its regulated title insurance underwriter, Stewart Title Guaranty Company (Guaranty).

A substantial majority of our consolidated cash and investments as of December 31, 2015 was held by Guaranty and its subsidiaries. The use and investment of these funds, dividends to the parent company, and cash transfers between Guaranty and its subsidiaries and the parent company are subject to certain legal and regulatory restrictions. In general, Guaranty may use its cash and investments in excess of its legally-mandated statutory premium reserve (established in accordance with requirements under Texas law) to fund its insurance operations, including claims payments. Guaranty may also, subject to certain limitations, provide funds to its subsidiaries (whose operations consist principally of field title offices and entities comprising the mortgage services segment) for their operating and debt service needs.

All of our international operations are conducted by Guaranty or its subsidiaries. Cash and investments held by our international operations are also subject to regulatory minimums, and thus the distribution of those funds to Guaranty is limited.

We maintain investments in accordance with certain statutory requirements in the states of domicile of our underwriters for the funding of statutory premium reserves. Statutory premium reserves, which approximated \$483.3 million and \$438.5 million at December 31, 2015 and 2014, respectively, are required to be fully funded and invested in high-quality securities and short-term investments. In addition, included within cash and cash equivalents are statutory reserve funds of approximately \$17.2 million and \$57.4 million at December 31, 2015 and 2014, respectively. These cash statutory reserve funds are not restricted or segregated in depository accounts. If the Company fails to maintain minimum investments or cash and cash equivalents to meet statutory requirements, the Company may be subject to fines or other penalties, including potential revocation of its business license. As of December 31, 2015, our known claims reserve totaled \$83.2 million and our statutory estimate of claims that may be reported in the future totaled \$379.4 million. In addition to this, we had cash and investments (excluding equity method investments) of \$160.2 million which are available for underwriter operations, including claims payments.

The ability of Guaranty to pay dividends to its parent is governed by Texas insurance law. The TDI must be notified of any dividend declared, and any dividend in excess of a statutory maximum (20% of surplus, which approximated \$100.4 million as of December 31, 2015) would be by regulation considered extraordinary and subject to preapproval by the Department. Also, the Texas Insurance Commissioner may raise an objection to a planned distribution during the notification period. However, Guaranty's actual ability or intent to pay dividends to its parent may be constrained by business and regulatory considerations, such as the impact of dividends on surplus and the liquidity ratio, which could affect its ratings and competitive position, the amount of insurance it can write and its ability to pay future dividends. As of December 31,

2015, our statutory liquidity ratio for our principal underwriter was 1.03 to 1. Our internal objective is to achieve and maintain a ratio of at least 1:1, as we believe that ratio is crucial from both a ratings agency and competitive perspective. On an ongoing basis, this ratio will largely guide our decisions as to frequency and magnitude of dividends from the underwriter to the parent company. Further, depending on business and regulatory conditions, we may in the future need to retain cash in Guaranty or even raise cash in the capital markets to contribute to it in order to maintain its ratings or statutory capital position. Such a requirement could be the result of investment losses, reserve charges, adverse operating conditions in the current economic environment or changes in interpretation of statutory accounting requirements by regulators. Guaranty paid \$15.0 million and \$25.0 million in dividends to its parent in 2015 and 2014, respectively.

As the parent company conducts no operations apart from its wholly-owned subsidiaries, the discussion below focuses on consolidated cash flows.

	2015	2014	2013
	(\$ millions)		
Net cash provided by operating activities	80.5	64.0	87.2
Net cash used by investing activities	(68.8	) (78.6	) (78.4
Net cash provided (used) by financing activities	(25.6	) 26.0	(18.2

#### Operating activities

Our principal sources of cash from operations are premiums on title policies and revenue from title service-related transactions and mortgage services. Our independent agencies remit cash to us net of their contractual retention. Our principal cash expenditures for operations are employee costs, operating costs and title claims payments.

Cash provided by operations in 2015 was \$80.5 million, an increase of \$16.5 million from \$64.0 million provided by operations in 2014. This increase was primarily the result of the increase in net income when adjusted for non-cash charges compared to 2014, collections on accounts receivable and lower payments of liabilities relative to the prior period. The decrease in cash provided by operations in 2014 was primarily due to the decline in net income in 2014 compared with 2013.

Although our business is labor intensive, we are focused on a cost-effective, scalable business model which includes utilization of technology, centralized back and middle office functions and business process outsourcing. Our approach allows us to adjust more easily to seasonal and cyclical fluctuations in transaction volumes. As of December 31, 2015, we have completed the cost management program announced in 2014 and have achieved our revised target of \$30.0 million of annualized savings, exceeding our original goal of \$25.0 million.

Cash payments on title claims in 2015, 2014 and 2013 were \$123.6 million, \$86.7 million and \$115.7 million, respectively. The increase in cash claims payments for 2015 was primarily the result of a \$22.5 million payment to fully resolve a large prior policy year claim. Claim payments made, net of insurance recoveries, during 2015, 2014 and 2013 include \$48.4 million, \$5.4 million and \$23.2 million, respectively, on large title claims.

#### Investing activities

Cash used by investing activities was primarily driven by purchases of investments, capital expenditures and acquisition of subsidiaries, offset by proceeds from matured and sold available-for-sale investments. Total proceeds from available-for-sale investments matured and sold amounted to \$111.5 million, \$106.6 million and \$93.8 million in 2015, 2014 and 2013, respectively. We used cash for the purchases of available-for-sale investments in the amounts of \$147.7 million, \$147.4 million and \$148.5 million in 2015, 2014 and 2013, respectively. Cash (used) provided by net (purchases) sale of short-term investments amounted to \$(14.7) million, \$13.3 million and \$(1.3) million in 2015, 2014 and 2013, respectively.

Capital expenditures were \$19.7 million, \$17.5 million, and \$12.5 million in 2015, 2014 and 2013, respectively. We maintain investment in capital expenditures at a level that enables us to implement technologies for increasing our operational and back-office efficiencies and paid cash for acquisitions of \$4.0 million, \$40.0 million and \$14.9 million in 2015, 2014 and 2013, respectively.

#### Financing activities and capital resources

Total debt and stockholders' equity were \$102.4 million and \$637.1 million, respectively, as of December 31, 2015. In 2015 and 2014, we repaid \$22.5 million and \$63.8 million, respectively, of debt in accordance with the underlying terms of the debt instruments.





In October 2014, we exchanged the remaining \$27.2 million of our Notes, at maturity, for an aggregate of 2,111,017 shares of Common Stock. In October 2014, we replaced our \$75.0 million unsecured line of credit with a \$125.0 million unsecured line of credit, which expires October 2019. Amounts outstanding under this line of credit at December 31, 2015 were \$98.0 million and were used principally to fund acquisitions and related working capital needs, as well as to strengthen the statutory liquidity of Guaranty and to partially fund the 2014 and 2015 stock repurchases. In February 2016, we entered into an amendment agreement, effective December 31, 2015, relating to our unsecured line of credit. The amendment primarily provided revisions to the limitations on restricted payments, as stipulated in the original line of credit agreement, provided for an exclusion from the calculation of EBITDA (as defined in the credit agreement) of the non-cash goodwill impairment charge in the third quarter 2015 and increased the permitted capital expenditures for any calendar year from \$20.0 million to \$25.0 million. Refer to Note 10 to the consolidated financial statement for details of the amendment.

During the second and third quarters of 2015, the Board of Directors declared quarterly cash dividends of \$0.25 per share to Common stockholders. On November 16, 2015, the Board of Directors announced a 20% increase, to \$1.20 per share, in the Company's annual cash dividend payable to Common stockholders and declared a quarterly dividend of \$0.30 per share which was paid in December 2015. During 2014, the Board of Directors declared an annual cash dividend of \$0.10 per Common share. Total dividends paid in 2015 and 2014 were approximately \$18.0 million and \$2.3 million, respectively.

During 2015 and 2014, we acquired approximately 762,000 and 685,000 shares, respectively, of our Common Stock for an aggregate purchase price of approximately \$28.0 million and \$22.0 million, respectively, pursuant to the previously announced \$70 million stock repurchase program announced in the first quarter 2014. Including the dividends paid in 2015, we substantially completed \$70 million of capital return to shareholders as of December 31, 2015.

In November 2015, we announced a new stock repurchase program which may return up to \$50.0 million to stockholders over a three-year period. Under the stock repurchase program, we have the ability to purchase shares of our outstanding Common Stock in both open market and privately negotiated transactions as we deem appropriate. The timing, form and amount of share repurchases under the program will depend on a variety of factors, including market conditions, share price, our capital and liquidity position relative to internal and rating agency targets, legal requirements, including approval of the release of cash from the regulated underwriter by the insurance regulators and corporate and other considerations.

#### Effect of changes in foreign currency rates

The effect of changes in foreign currency rates on the consolidated statements of cash flows was a net decrease in cash and cash equivalents of \$7.7 million, \$5.2 million and \$4.9 million in 2015, 2014 and 2013, respectively. Our principal foreign operating unit is in Canada, and, on average, the value of the Canadian dollar relative to the U.S. dollar decreased during 2015.

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We believe we have sufficient liquidity and capital resources to meet the cash needs of our ongoing operations. However, we may determine that additional debt or equity funding is warranted to provide liquidity for achievement of strategic goals or acquisitions or for unforeseen circumstances. Other than scheduled maturities of debt, operating lease payments and anticipated claims payments, we have no material contractual commitments. We expect that cash flows from operations and cash available from our underwriters, subject to regulatory restrictions, will be sufficient to fund our operations, including claims payments. However, to the extent that these funds are not sufficient, we may be required to borrow funds on terms less favorable than we currently have or seek funding from the equity market, which may not be successful or may be on terms that are dilutive to existing stockholders.

Other-than-temporary impairments of investments. We recorded other-than-temporary impairments on cost-basis investments of approximately \$0.6 million, \$1.0 million and \$1.0 million in 2015, 2014 and 2013, respectively. Additionally, during 2015, we recognized a \$2.7 million other-than-temporary impairment on certain equity securities available-for-sale.

Other comprehensive (loss) income. Unrealized gains and losses on investments and changes in foreign currency exchange rates are reported net of deferred taxes in accumulated other comprehensive (loss) income, a component of stockholders' equity, until realized. In 2015, net unrealized investment losses of \$5.4 million, which increased our other comprehensive loss, were primarily related to temporary decreases in fair values of corporate and government bond investments and equity securities, partially offset by the increase in fair values of municipal bond investments. Changes in foreign currency exchange rates, primarily related to our Canadian operations, increased other comprehensive loss by \$11.1 million, net of taxes, in 2015.

In 2014, net unrealized investment gains of \$9.2 million, which increased our other comprehensive income, were primarily related to increases in fair values of corporate, municipal and government bond investments, partially offset by temporary decreases in fair values of equity securities and deferred taxes. Changes in foreign currency exchange rates, primarily related to our Canadian operations, decreased other comprehensive income by \$7.6 million, net of taxes, in 2014.

In 2013, net unrealized investment losses of \$8.9 million, which increased our other comprehensive loss, were primarily related to temporary decreases in fair values of corporate, municipal and government bond investments, partially offset by increases in fair values of equity securities and deferred taxes. Changes in foreign currency exchange rates, primarily related to our Canadian operations, increased other comprehensive loss by \$6.8 million, net of taxes, in 2013.

Off-balance sheet arrangements. We do not have any material source of liquidity or financing that involves off-balance sheet arrangements, other than our contractual obligations under operating leases. We also routinely hold funds in segregated escrow accounts pending the closing of real estate transactions and have qualified intermediaries in tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code. The Company holds the proceeds from these transactions until a qualifying exchange can occur. In accordance with industry practice, these segregated accounts are not included on the balance sheet. See Note 17 to our audited consolidated financial statements included in Item 15 of Part IV of this report.

Forward-looking statements. Certain statements in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to future, not past, events and often address our expected future business and financial performance. These statements often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "will," "foresee" or similar words. Forward-looking statements by their nature are subject to various risks and uncertainties that could cause our actual results to be materially different than those expressed in the forward-looking statements. These risks and uncertainties include, among other things, challenging economic conditions; adverse changes in the level of real estate activity; changes in mortgage interest rates, existing and new home sales, and availability of mortgage financing; our ability to respond to and implement technology changes, including the completion of the implementation of our enterprise systems; the impact of unanticipated title losses or the need to strengthen our policy loss reserves; any effect of title losses on our cash flows and financial condition; our exit of the delinquent loan servicing business lines and the wind down of these operations; the impact of vetting our agency operations for quality and profitability; changes to the participants in the secondary mortgage market and the rate of refinancing that affects the demand for title insurance products; regulatory non-compliance, fraud or defalcations by our title insurance agencies or employees; our ability to timely and cost-effectively respond to significant industry changes and introduce new products and services; the outcome of pending litigation; the impact of changes in governmental and insurance regulations, including any future reductions in the pricing of title insurance products and services; our dependence on our operating subsidiaries as a source of cash flow; the continued realization of expense savings from our cost management program; our ability to successfully integrate acquired businesses; our ability to access the equity and debt financing markets when and if needed; our ability to grow our

international operations; and our ability to respond to the actions of our competitors. We expressly disclaim any obligation to update any forward-looking statements contained in this report to reflect events or circumstances that may arise after the date hereof, except as may be required by applicable law.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The discussion below about our risk management strategies includes forward-looking statements that are subject to risks and uncertainties. Management's projections of hypothetical net losses in the fair values of our market rate-sensitive financial instruments, should certain potential changes in market rates occur, are presented below. While we believe that the potential market rate changes are possible, actual rate changes could differ from our projections.

Our only material market risk in investments in financial instruments is our debt securities portfolio. We invest primarily in municipal, corporate, foreign and U.S. Government debt securities. We do not invest in financial instruments of a derivative or hedging nature.

We have established policies and procedures to minimize our exposure to changes in the fair values of our investments. These policies include retaining an investment advisory firm, an emphasis upon credit quality, management of portfolio duration, maintaining or increasing investment income through high coupon rates and actively managing our risk profile and security mix depending upon market conditions. We have classified all of our investments as available-for-sale.

Investments in debt securities at December 31, 2015 mature, according to their contractual terms, as follows (actual maturities may differ because of call or prepayment rights):

	Amortized costs (\$ thousands)	Fair values
In one year or less	27,118	27,256
After one year through two years	54,038	54,947
After two years through three years	47,715	48,672
After three years through four years	44,902	45,680
After four years through five years	79,842	81,543
After five years	284,272	290,498
	537,887	548,596

We believe our investment portfolio is diversified and do not expect any material loss to result from the failure to perform by issuers of the debt securities we hold. Our investments are not collateralized. Foreign debt securities primarily include Canadian government and corporate bonds with aggregate fair values of \$124.1 million and \$135.8 million as of December 31, 2015 and 2014, respectively. Also included in foreign debt securities are United Kingdom treasury bonds at fair values of \$23.1 million and \$27.3 million as of December 31, 2015 and 2014, respectively.

Based on our foreign debt securities portfolio and foreign currency exchange rates at December 31, 2015, a 100 basis-point increase (decrease) in foreign currency exchange rates would result in an increase (decrease) of approximately \$1.5 million, or 1.0%, in the fair value of our foreign debt securities portfolio. We do not currently employ hedging strategies with respect to foreign currency risk as we do not consider this risk material to the Company. In addition, our international businesses conduct substantially all of their operations in their respective local currencies. Changes in foreign currency exchange rates may affect the fair value of the debt securities portfolio and may result in unrealized gains or losses. Gains or losses would only be realized upon the sale of the investments. Any other-than-temporary declines in fair values of securities are charged to operations.

Based on our debt securities portfolio and interest rates at December 31, 2015, a 100 basis-point increase (decrease) in interest rates would result in a decrease (increase) of approximately \$25.7 million, or 4.7%, in the fair value of our portfolio. Changes in interest rates may affect the fair value of the debt securities portfolio and may result in unrealized gains or losses. Gains or losses would only be realized upon the sale of the investments. Any other-than-temporary declines in fair values of securities are charged to operations.



Item 8. Financial Statements and Supplementary Data

The information required to be provided in this item is included in our audited consolidated financial statements, including the Notes thereto, attached hereto as pages F-1 to F-29, and such information is incorporated in this report by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure  
None.

Item 9A. Controls and Procedures

Our principal executive officer and principal financial officer are responsible for establishing and maintaining disclosure controls and procedures. They evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2015 and have concluded that, as of such date, our disclosure controls and procedures are adequate and effective to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)). Our internal control over financial reporting is a process, under the supervision of our principal executive officer and principal financial officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management, with the participation of our principal executive officer and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013). Based on this assessment, management believes that, as of December 31, 2015, our internal control over financial reporting is effective based on those criteria.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Due to such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

See page F-2 for the Report of Independent Registered Public Accounting Firm on our effectiveness of internal control over financial reporting.

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. As a result, no corrective actions were required or undertaken.

Item 9B. Other Information

None.





### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

Information regarding our directors and management team will be included in our proxy statement for our 2016 Annual Meeting of Stockholders (Proxy Statement), to be filed within 120 days after December 31, 2015, and is incorporated in this report by reference.

Our Board of Directors and Management Team as of February 26, 2016 are:

##### Board of Directors:

Thomas G. Apel	Chairman of the Board of the Company and CEO of VLN, Inc.
Arnaud Ajdler	Managing Partner of Engine Capital LP
James Chadwick	Director, Ancora Advisors LLC
Glenn C. Christenson	Managing Director of Velstand Investments, LLC
Robert L. Clarke	Of Counsel, Bracewell LLP
Frank Keating	Senior Partner, Holland and Knight
Laurie C. Moore	Founder and former CEO (retired), The Institute for Luxury Home Marketing
Malcolm S. Morris	Vice Chairman of the Board
Stewart Morris, Jr.	Vice Chairman of the Board

##### Management Team:

Matthew W. Morris	Chief Executive Officer
J. Allen Berryman	Chief Financial Officer, Secretary, Treasurer and Principal Financial Officer
Jay Milligan	Chief Enterprise Sales Officer
John L. Killea	Chief Legal Officer
John A. Arcidiacono	Chief Marketing Officer
Brad Rable	Chief Information Officer
Susan C. McLaughlan	Chief Human Resources Officer
Steven M. Lessack	Group President, International Operations
David A. Fauth	Group President, Centralized Operations
Glenn H. Clements	Group President, Direct Operations
Patrick Beall	Group President, Agency Operations
Jason Nadeau	Group President, Mortgage and Title Services

The Board of Directors has adopted the Stewart Code of Business Conduct and Ethics and Guidelines on Corporate Governance, as well as the Code of Ethics for Chief Executive Officers, Principal Financial Officer and Principal Accounting Officer. Each of these documents can be found at our website, [www.stewart.com](http://www.stewart.com).

#### Item 11. Executive Compensation

Information regarding compensation for our executive officers will be included in the Proxy Statement and is incorporated in this report by reference. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and based on that review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information regarding security ownership of certain beneficial owners and management and related stockholder matters will be included in the Proxy Statement and is incorporated in this report by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information regarding certain relationships and related transactions and director independence will be included in the Proxy Statement and is incorporated in this report by reference.

**Item 14. Principal Accounting Fees and Services**

Information regarding fees paid to and services provided by our independent registered public accounting firm will be included in the Proxy Statement and is incorporated in this report by reference.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

**(a) Financial Statements and Financial Statement Schedules**

The financial statements and financial statement schedules filed as part of this report are listed in the Index to Consolidated Financial Statements and Financial Statement Schedules on Page F-1 of this document. All other schedules are omitted, as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

**(b) Exhibits**

Those exhibits required to be filed by Item 601 of Regulation S-K are listed in the Index to Exhibits immediately preceding the exhibits filed herewith and such listing is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

STEWART INFORMATION SERVICES CORPORATION

(Registrant)

By: /s/Matthew W. Morris  
Matthew W. Morris, Chief Executive Officer

By: /s/J. Allen Berryman  
J. Allen Berryman, Chief Financial Officer, Secretary, Treasurer and Principal Financial Officer

By: /s/Brian K. Glaze  
Brian K. Glaze, Controller and  
Principal Accounting Officer

Date: February 26, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on our behalf on February 26, 2016 by the following Directors:

/s/ Thomas G. Apel  
(Thomas G. Apel)

/s/ Glenn C. Christenson  
(Glenn C. Christenson)

/s/ Laurie C. Moore  
(Laurie C. Moore)

/s/ Arnaud Ajdler  
(Arnaud Ajdler)

/s/ Robert L. Clarke  
(Robert L. Clarke)

/s/ Malcolm S. Morris  
(Malcolm S. Morris)

/s/ James Chadwick  
(James Chadwick)

/s/ Frank Keating  
(Frank Keating)

/s/ Stewart Morris, Jr.  
(Stewart Morris, Jr.)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
AND FINANCIAL STATEMENT SCHEDULES

Stewart Information Services Corporation and Subsidiaries' Consolidated Financial Statements:	
<u>Reports of Independent Registered Public Accounting Firm</u>	<u>F - 2</u>
<u>Consolidated Statements of Operations and Comprehensive (Loss) Income for the Years Ended December 31, 2015, 2014 and 2013</u>	<u>F - 4</u>
<u>Consolidated Balance Sheets as of December 31, 2015 and 2014</u>	<u>F - 5</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013</u>	<u>F - 6</u>
<u>Consolidated Statements of Equity for the Years Ended December 31, 2015, 2014 and 2013</u>	<u>F - 8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F - 9</u>
Financial Statement Schedules:	
<u>Schedule I - Financial Information of the Registrant (Parent Company)</u>	<u>S - 1</u>
<u>Schedule II - Valuation and Qualifying Accounts</u>	<u>S - 5</u>

F - 1

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Stewart Information Services Corporation:

We have audited Stewart Information Services Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Stewart Information Services Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A. Controls and Procedures. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Stewart Information Services Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stewart Information Services Corporation and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive (loss) income, cash flows, and equity for each of the years in the three year period ended December 31, 2015, and the financial statement schedules as listed in the accompanying index, and our report dated February 26, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP  
Houston, Texas  
February 26, 2016



Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Stewart Information Services Corporation:

We have audited the accompanying consolidated balance sheets of Stewart Information Services Corporation and subsidiaries (“the Company”) as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive (loss) income, cash flows, and equity for each of the years in the three year period ended December 31, 2015. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules as listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stewart Information Services Corporation and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stewart Information Services Corporation’s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2016 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ KPMG LLP  
Houston, Texas  
February 26, 2016



## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

	For the Years Ended December 31,		
	2015	2014	2013
	(\$000 omitted, except per share)		
Revenues			
Title insurance:			
Direct operations	897,118	808,327	763,649
Agency operations	991,332	906,062	1,046,378
Mortgage services	129,954	132,891	103,527
Investment income	16,850	16,806	15,492
Investment and other (losses) gains – net	(1,369 )	6,744	(1,066 )
	2,033,885	1,870,830	1,927,980
Expenses			
Amounts retained by agencies	809,564	738,649	848,437
Employee costs	658,266	624,326	571,026
Other operating expenses	381,954	347,276	280,258
Title losses and related claims	106,265	81,305	106,318
Impairment of goodwill	35,749	—	—
Depreciation and amortization	30,298	24,226	17,920
Interest	2,096	3,236	2,956
	2,024,192	1,819,018	1,826,915
Income before taxes and noncontrolling interests	9,693	51,812	101,065
Income tax expense	5,650	13,503	28,481
Net income	4,043	38,309	72,584
Less net income attributable to noncontrolling interests	10,247	8,556	9,558
Net (loss) income attributable to Stewart	(6,204 )	29,753	63,026
Net income	4,043	38,309	72,584
Other comprehensive (loss) income, net of taxes:			
Foreign currency translation	(11,145 )	(7,565 )	(6,819 )
Change in unrealized gains (losses) on investments	(3,741 )	9,793	(7,282 )
Reclassification of adjustment for net gains included in net (loss) income	(1,626 )	(555 )	(1,601 )
Other comprehensive (loss) income, net of taxes	(16,512 )	1,673	(15,702 )
Comprehensive (loss) income	(12,469 )	39,982	56,882
Less comprehensive income attributable to noncontrolling interests	10,247	8,556	9,558
Comprehensive (loss) income attributable to Stewart	(22,716 )	31,426	47,324
Basic average shares outstanding (000)	23,544	22,778	22,096
Basic (loss) earnings per share attributable to Stewart	(0.26 )	1.31	2.85
Diluted average shares outstanding (000)	23,544	24,710	24,741
Diluted (loss) earnings per share attributable to Stewart	(0.26 )	1.24	2.60
See notes to consolidated financial statements.			

## CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2015	2014
	(\$000 omitted)	
Assets		
Cash and cash equivalents	179,067	200,558
Short-term investments	39,707	25,042
Investments in debt and equity securities available-for-sale, at fair value:		
Statutory reserve funds	483,312	438,511
Other	96,537	141,592
	579,849	580,103
Receivables:		
Notes	3,744	4,031
Premiums from agencies	36,393	42,929
Income taxes	1,914	253
Trade and other	49,453	60,654
Allowance for uncollectible amounts	(9,833)	(9,193)
	81,671	98,674
Property and equipment, at cost:		
Land	3,991	5,524
Buildings	22,898	26,399
Furniture and equipment	214,350	215,344
Accumulated depreciation	(169,870)	(171,914)
	71,369	75,353
Title plants, at cost	75,743	76,779
Real estate, at lower of cost or net realizable value	570	600
Investments in investees, on an equity method basis	9,628	9,880
Goodwill	217,722	251,868
Intangible assets, net of amortization	18,075	26,311
Deferred tax assets	4,949	800
Other assets	43,237	46,510
	1,321,587	1,392,478
Liabilities		
Notes payable	102,399	71,180
Accounts payable and accrued liabilities	118,082	111,965
Estimated title losses	462,622	495,395
Deferred tax liabilities	1,356	13,485
	684,459	692,025
Contingent liabilities and commitments		
Stockholders' equity		
Common Stock – \$1 par, authorized 50,000,000; issued 22,643,255 and 23,307,909; outstanding 22,291,094 and 22,955,748, respectively	22,643	23,308
Class B Common Stock – \$1 par, authorized 1,500,000; issued and outstanding 1,050,012 for 2015 and 2014	1,050	1,050
Additional paid-in capital	156,692	179,205
Retained earnings	455,519	479,733
Accumulated other comprehensive (loss) income:		
Foreign currency translation adjustments	(13,360)	(2,215)
Net unrealized gains on investments available-for-sale	9,403	14,770
Treasury stock – 352,161 common shares, at cost, for 2015 and 2014	(2,666)	(2,666)

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Total stockholders' equity attributable to Stewart	629,281	693,185
Noncontrolling interests	7,847	7,268
Total stockholders' equity	637,128	700,453
	1,321,587	1,392,478

See notes to consolidated financial statements.

F - 5

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2015	2014	2013
	(\$000 omitted)		
Reconciliation of net income to cash provided by operating activities:			
Net income	4,043	38,309	72,584
Add (deduct):			
Depreciation and amortization	30,298	24,226	17,920
Provision for bad debt	3,023	1,371	2,170
Investment and other (gains) losses – net	1,369	(6,744)	) 1,066
Payments for title losses in excess of provisions	(17,154)	) (18,803)	) (11,280)
Insurance recoveries of title losses	213	17,181	1,914
Impairment of goodwill	35,749	—	—
Decrease (increase) in receivables – net	13,267	9,397	(5,796)
Decrease (increase) in other assets – net	3,073	(1,878)	) (1,467)
Increase (decrease) in payables and accrued liabilities – net	2,088	(6,854)	) (8,100)
Decrease (increase) in net deferred income taxes	(5,800)	) 3,176	16,260
Net income from equity investees	(3,579)	) (3,442)	) (4,137)
Dividends received from equity investees	3,811	3,582	4,766
Stock based compensation expense	4,445	4,020	1,006
Other – net	5,668	448	281
Cash provided by operating activities	80,514	63,989	87,187
Investing activities:			
Proceeds from investments available-for-sale sold	69,280	58,132	81,999
Proceeds from investments available-for-sale matured	42,195	48,427	11,849
Purchases of investments available-for-sale	(147,697)	) (147,372)	) (148,512)
Net (purchases) sales of short-term investments	(14,664)	) 13,294	(1,311)
Purchases of property and equipment, title plants and real estate net	(19,658)	) (19,537)	) (17,282)
Proceeds from the sale of land, buildings, and furniture and equipment	4,214	1,415	2,168
Increases in notes receivable	(915)	) (307)	) (1,002)
Collections on notes receivable	1,302	386	2,666
Cash paid for acquisition of subsidiaries and other – net	(3,958)	) (39,990)	) (14,921)
Proceeds from the sale of equity investees and other assets	—	15	3,090
Proceeds from the sale of real estate	—	2,105	—
Other – net	1,110	4,875	2,893
Cash used by investing activities	(68,791)	) (78,557)	) (78,363)
Financing activities:			
Proceeds from notes payable	52,651	120,273	11,146
Payments on notes payable	(22,494)	) (60,838)	) (12,199)
Purchase of remaining interest of consolidated subsidiaries	(209)	) (20)	) (5,051)
Cash dividends paid	(18,010)	) (2,334)	) (2,159)
Subsidiary dividends paid to noncontrolling interests	(9,706)	) (8,986)	) (9,239)
Repurchases of Common Stock	(27,950)	) (22,048)	) —
Cash payments for settlement of debt	—	—	(742)
Other—net	168	(21)	) 48
Cash (used) provided by financing activities	(25,550)	) 26,026	(18,196)
Effects of changes in foreign currency exchange rates	(7,664)	) (5,189)	) (4,877)

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(Decrease) increase in cash and cash equivalents	(21,491	) 6,269	(14,249	)
Cash and cash equivalents at beginning of year	200,558	194,289	208,538	
Cash and cash equivalents at end of year	179,067	200,558	194,289	

F - 6

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2015	2014	2013
	(\$000 omitted)		
Supplemental information:			
Retirement of Convertible Senior Notes with issuance of Common Stock	—	27,190	37,810
Changes in financial statement amounts due to purchase of subsidiaries:			
Goodwill acquired	7,220	21,440	10,883
Receivables and other assets acquired	38	12,620	6,918
Intangible assets	—	21,110	8,519
Liabilities acquired	(3,300)	(15,180)	(11,399)
Cash paid for acquisitions of subsidiaries and other – net	3,958	39,990	14,921
Assets purchased through capital lease obligations	1,062	2,003	4,769
Income taxes – net paid (refunded)	14,982	(106)	18,032
Interest paid	1,873	2,616	2,202
See notes to consolidated financial statements.			

F - 7

## CONSOLIDATED STATEMENTS OF EQUITY

	Common and Class B Common Stock (\$1 par value) (\$000 omitted)	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained Earnings	Treasury stock	Noncontrolling interests	Total
Balances at January 1, 2013	19,756	133,685	26,584	391,447	(2,666 )	11,566	580,372
Net income attributable to Stewart	—	—	—	63,026	—	—	63,026
Cash dividends on Common Stock (\$0.10 per share)	—	—	—	(2,159 )	—	—	(2,159 )
Stock bonuses and other (including tax effects)	1	900	—	—	—	—	901
Exercise of stock options	2	57	—	—	—	—	59
Conversion of Convertible Senior Notes for Common Stock	3,094	38,715	—	—	—	—	41,809
Purchase of remaining interest of consolidated subsidiary	—	(1,442 )	—	—	—	—	(1,442 )
Net change in unrealized gains and losses on investments (net of tax)	—	—	(7,282 )	—	—	—	(7,282 )
Net realized gain reclassification (net of tax)	—	—	(1,601 )	—	—	—	(1,601 )
Foreign currency translation (net of tax)	—	—	(6,819 )	—	—	—	(6,819 )
Net income attributable to noncontrolling interests	—	—	—	—	—	9,558	9,558
Subsidiary dividends paid to noncontrolling interests	—	—	—	—	—	(9,239 )	(9,239 )
Net effect of changes in ownership and other	—	—	—	—	—	(4,094 )	(4,094 )
Balances at December 31, 2013	22,853	171,915	10,882	452,314	(2,666 )	7,791	663,089
Net income attributable to Stewart	—	—	—	29,753	—	—	29,753
Cash dividends on Common Stock (\$0.10 per share)	—	—	—	(2,334 )	—	—	(2,334 )
Stock bonuses and other (including tax effects)	77	3,839	—	—	—	—	3,916
Exercise of stock options	2	56	—	—	—	—	58
Stock repurchases	(685 ) 2,111	(21,363 ) 25,079	—	—	—	—	(22,048 ) 27,190

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Conversion of Convertible Senior Notes for Common Stock							
Purchase of remaining interest of consolidated subsidiary	—	(321 )	—	—	—	—	(321 )
Net change in unrealized gains and losses on investments (net of tax)	—	—	9,793	—	—	—	9,793
Net realized gain reclassification (net of tax)	—	—	(555 )	—	—	—	(555 )
Foreign currency translation (net of tax)	—	—	(7,565 )	—	—	—	(7,565 )
Net income attributable to noncontrolling interests	—	—	—	—	—	8,556	8,556
Subsidiary dividends paid to noncontrolling interests	—	—	—	—	—	(8,986 )	(8,986 )
Net effect of changes in ownership and other	—	—	—	—	—	(93 )	(93 )
Balances at December 31, 2014	24,358	179,205	12,555	479,733	(2,666 )	7,268	700,453
Net loss attributable to Stewart	—	—	—	(6,204 )	—	—	(6,204 )
Cash dividends on Common Stock (\$0.80 per share)	—	—	—	(18,010 )	—	—	(18,010 )
Stock bonuses and other (including tax effects)	93	4,758	—	—	—	—	4,851
Exercise of stock options	4	126	—	—	—	—	130
Stock repurchases	(762 )	(27,188 )	—	—	—	—	(27,950 )
Purchase of remaining interest of consolidated subsidiary	—	(209 )	—	—	—	—	(209 )
Net change in unrealized gains and losses on investments (net of tax)	—	—	(3,741 )	—	—	—	(3,741 )
Net realized gain reclassification (net of tax)	—	—	(1,626 )	—	—	—	(1,626 )
Foreign currency translation (net of tax)	—	—	(11,145 )	—	—	—	(11,145 )
Net income attributable to noncontrolling interests	—	—	—	—	—	10,247	10,247
Subsidiary dividends paid to noncontrolling interests	—	—	—	—	—	(9,706 )	(9,706 )
Net effect of changes in ownership and other	—	—	—	—	—	38	38
Balances at December 31, 2015	23,693	156,692	(3,957 )	455,519	(2,666 )	7,847	637,128

See notes to consolidated financial statements.





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three Years Ended December 31, 2015

### NOTE 1

General. Stewart Information Services Corporation, through its subsidiaries (collectively, the Company), is primarily engaged in the business of providing title insurance and real estate transaction related services. The Company operates through a network of production facilities, owned policy-issuing offices and independent agencies in the United States and international markets. Stewart Information Services Corporation is a customer-focused, global title insurance and real estate services company offering products and services through its direct operations, network of approved agencies and other businesses within the Company. The Company provides these services to homebuyers and sellers; residential and commercial real estate professionals; mortgage lenders and servicers; title agencies and real estate attorneys; home builders; and United States and foreign governments. The Company also provides loan origination and servicing support; loan review and due diligence services; real estate valuation services; REO asset management; home and personal insurance services; compliance solutions; service performance management and technology to streamline the real estate process. Approximately 51% of consolidated title revenues for the year ended December 31, 2015 were generated in Texas, New York, California, Florida and international markets.

A. Management's responsibility. The accompanying consolidated financial statements were prepared by management, who is responsible for their integrity and objectivity. The financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP), including management's best judgments and estimates. Actual results could differ from those estimates.

B. Reclassifications. Certain prior year amounts in these consolidated financial statements have been reclassified for comparative purposes. Net income (loss) attributable to Stewart and stockholders' equity, as previously reported, were not affected.

C. Consolidation. The consolidated financial statements include all subsidiaries in which the Company owns more than 50% voting rights in electing directors. All significant intercompany amounts and transactions have been eliminated and provisions have been made for noncontrolling interests. Unconsolidated investees, in which the Company typically owns 20% through 50% of the entity, are accounted for by the equity method.

D. Statutory accounting. Stewart Title Guaranty Company (Guaranty) and other title insurance underwriters owned by the Company prepare financial statements in accordance with statutory accounting practices prescribed or permitted by regulatory authorities.

In conforming the statutory financial statements to GAAP, the statutory premium reserve and the reserve for known title losses are eliminated and, in substitution, amounts are established for estimated title losses (Note 1F), for which the net effect, after providing for income taxes, is included in the consolidated statements of operations and comprehensive (loss) income. Additionally, the investments in debt securities available-for-sale, which are carried at amortized cost for statutory accounting, are reported at fair value and the net unrealized gains and losses, net of applicable deferred taxes, on the investments are included as a component of accumulated other comprehensive (loss) income within stockholders' equity.

E. Revenue recognition. Operating revenues from direct title operations are considered earned at the time of the closing of the related real estate transaction. The Company recognizes premium revenues on title insurance policies written by independent agencies (agencies) when the policies are reported to the Company. In addition, where reasonable estimates can be made, the Company accrues for policies issued but not reported until after period end. The Company believes that reasonable estimates can be made when recent and consistent policy issuance information is available. Estimates are based on historical reporting patterns and other information obtained about agencies, as well as current trends in direct operations and in the title industry. In this accrual, future transactions are not being estimated. The Company is estimating revenues on policies that have already been issued by agencies but not yet reported to or received by the Company. The Company has consistently followed the same basic method of estimating unreported policy revenues for more than 10 years.

Revenues generated by the mortgage services segment are generally considered earned at the time the service is performed or the product is delivered to the customer.

F - 9

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F. Title losses and related claims. The Company's method for recording the reserves for title losses on both an interim and annual basis begins with the calculation of its current loss provision rate, which is applied to the Company's current premiums resulting in a title loss expense for the period. This loss provision rate is set to provide for estimated losses on current year policies and is determined using moving average ratios of recent actual policy loss payment experience (net of recoveries) to premium revenues.

At each quarter end, the Company's recorded reserve for title losses begins with the prior period's reserve balance for claim losses, adds the current period provision to that balance and subtracts actual paid claims, resulting in an amount that management compares to its actuarially-based calculation of the ending reserve balance necessary to provide for future reported title losses. The actuarially-based calculation is a paid loss development calculation where loss development factors are selected based on company data and input from the Company's third-party actuaries. The Company also obtains input from third-party actuaries in the form of a reserve analysis utilizing generally accepted actuarial methods. While the Company is responsible for determining its loss reserves, it utilizes this actuarial input to assess the overall reasonableness of its reserve estimation. If the Company's recorded reserve amount is not at the actuarial point estimate, but is within a reasonable range (+5.0%/-4.0%) of its actuarially-based reserve calculation and the actuary's point estimate, the Company's management assesses the major factors contributing to the different reserve estimates in order to determine the overall reasonableness of its recorded reserve, as well as the position of the recorded reserves relative to the point estimate and the estimated range of reserves. The major factors considered can change from period to period and include items such as current trends in the real estate industry (which management can assess although there is a time lag in the development of this data for use by the actuary), the size and types of claims reported and changes in the Company's claims management process. If the recorded amount is not within a reasonable range of the Company's third-party actuary's point estimate, it will adjust the recorded reserves in the current period and reassess the provision rate on a prospective basis. Once the Company's reserve for title losses is recorded, it is reduced in future periods as a result of claims payments and may be increased or reduced by revisions to the Company's estimate of the overall level of required reserves.

Large claims (those exceeding \$1.0 million on a single claim), including large title losses due to independent agency defalcations, are analyzed and reserved for separately due to the higher dollar amount of loss, lower volume of claims reported and sporadic reporting of such claims.

Due to the inherent uncertainty in predicting future title policy losses, significant judgment is required by both the Company's management and its third party actuaries in estimating reserves. As a consequence, the Company's ultimate liability may be materially greater or less than its current reserves and/or its third party actuary's calculated estimate.

G. Cash equivalents. Cash equivalents are highly liquid investments with insignificant interest rate risks and maturities of three months or less at the time of acquisition.

H. Short-term investments. Short-term investments comprise time deposits with banks, federal government obligations and other investments maturing in less than one year.

I. Investments in debt and equity securities. The investment portfolio is classified as available-for-sale. Realized gains and losses on sales of investments are determined using the specific identification method. Net unrealized gains and losses on investments available-for-sale, net of applicable deferred taxes, are included as a component of accumulated other comprehensive (loss) income within stockholders' equity. At the time unrealized gains and losses become realized, they are reclassified from accumulated other comprehensive (loss) income (using the specific identification method. Other-than-temporary declines in fair values of investments available-for-sale are charged to income.

J. Property and equipment. Depreciation is principally computed using the straight-line method over the estimated useful lives of the assets at the following rates: buildings – 30 to 40 years and furniture and equipment – 3 to 10 years. Maintenance and repairs are expensed as incurred while improvements are capitalized. Gains and losses are recognized at disposal.

K. Title plants. Title plants include compilations of a county's official land records, prior examination files, copies of prior title policies, maps and related materials that are geographically indexed to a specific

property. The costs of acquiring existing title plants and creating new ones, prior to the time such plants are placed in operation, are capitalized. Title plants are not amortized since there is no indication of any loss of value over time but are subject to review for impairment. The costs of maintaining and operating title plants are expensed as incurred. Gains and losses on sales of copies of title plants or interests in title plants are recognized at the time of sale.

F - 10

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L. Goodwill. Goodwill is not amortized, but is reviewed annually and normally completed in the third quarter using June 30 balances, or whenever occurrences of events indicate a potential impairment at the reporting unit level. We have an option to assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If we decide not to use a qualitative assessment or if the reporting unit fails the qualitative assessment, then we perform a two-step quantitative analysis.

The step one analysis is performed, using a combination of the income approach (discounted cash flow (DCF) technique) and the market approach (guideline company and precedent transaction analyses), to determine if the carrying value of the goodwill exceeds its fair value, which would indicate a potential impairment. The DCF model utilizes historical and projected operating results and cash flows, initially driven by estimates of changes in future revenue levels, and risk-adjusted discount rates. Our projected operating results are primarily driven by anticipated mortgage originations, which we obtain from projections by industry experts, for our title reporting units and forecasted contractual revenues for our mortgage services reporting unit. Fluctuations in revenues, followed by our ability to appropriately adjust our employee count and other operating expenses, or large and unanticipated adjustments to title loss reserves, are the primary reasons for increases or decreases in our projected operating results. Our market-based valuation methodologies utilize (i) market multiples of earnings and/or other operating metrics of comparable companies and (ii) our market capitalization and a control premium based on market data and factors specific to our ownership and corporate governance structure (such as our Class B Common Stock). If we determine that the carrying value of the reporting unit's goodwill is greater than its fair value, we then perform the step two analysis to determine the implied fair value of the goodwill and calculate the amount of impairment.

In performing the step two analysis, the implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In this method, the estimated fair value of the reporting unit is allocated to all the assets and liabilities of that reporting unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the estimated fair value is the purchase price paid. Any impairment of goodwill is treated as the difference between the implied fair value and the carrying amount of the goodwill and is charged to current operations.

While we are responsible for assessing whether an impairment of goodwill exists, we utilize inputs from third-party appraisers in performing the quantitative analysis for our impairment review. We evaluate goodwill based on four reporting units with goodwill balances (direct operations, agency operations, international operations and mortgage services). Goodwill is assigned to these reporting units at the time the goodwill is initially recorded. Once assigned to a reporting unit, the goodwill is pooled and no longer attributable to a specific acquisition. All activities within a reporting unit are available to support the carrying value of the goodwill.

M. Other intangibles. Other intangible assets are comprised mainly of non-compete, underwriting and customer relationship agreements and acquired software. Intangible assets are amortized over their estimated lives, which are primarily 3 to 10 years. These intangible assets are reviewed for impairment when certain events or changes in circumstances occur that indicate that the carrying amount of an asset may not be recoverable. The Company performs an analysis to determine whether the carrying amount of each intangible asset is recoverable. The carrying amount is not recoverable when it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. For any intangible asset that is not recoverable, the Company calculates the excess of the carrying amount of the intangible asset over its fair value, estimated using the income approach (discounted cash flow technique).

The resulting difference of the carrying amount over the fair value is treated as the impairment on the asset.

N. Other long-lived assets. The Company reviews the carrying values of title plants and other long-lived assets if certain events occur that may indicate impairment. An impairment of these long-lived assets is

indicated when projected undiscounted cash flows over the estimated lives of the assets are less than carrying values. If impairment is indicated, the recorded amounts are written down to fair values. There were no significant impairment charges for long-lived assets during the three years ended December 31, 2015.

O. Fair values. The fair values of financial instruments, including cash and cash equivalents, short-term investments, notes receivable, notes payable and accounts payable, are determined by the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The net fair values of these financial instruments approximate their carrying values. Investments in debt and equity securities and certain financial instruments are carried at their fair values.

F - 11

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P. Leases. The Company recognizes rent expense under noncancelable operating leases, which generally expire over the next 10 years, on the straight-line basis over the terms of the leases, including provisions for any free rent periods or escalating lease payments.

Q. Income taxes. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the tax basis and the book carrying values of certain assets and liabilities. To the extent that the Company does not believe its deferred tax assets meet the more-likely-than-not realization criteria, it establishes a valuation allowance. When it establishes a valuation allowance, or increases (decreases) the allowance during the year, it records a tax expense (benefit) in its consolidated statements of operations and comprehensive (loss) income. Enacted tax rates are used in calculating amounts.

The Company provides for uncertainties in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

R. Recent significant accounting pronouncements. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, Revenue from Contracts with Customers, which eliminated the transaction-specific and industry-specific revenue recognition guidance under current GAAP and replaced it with a principles-based approach for determining revenue recognition. Originally, ASU 2014-09 was effective for annual and interim periods beginning after December 15, 2016. In August 2015, FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 by one year to annual and interim periods beginning after December 15, 2017. Earlier application is permitted only for annual and interim periods after December 15, 2016. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements and related disclosures.

#### NOTE 2

Restrictions on cash and investments. The Company maintains investments in accordance with certain statutory requirements in the states of domicile of our underwriters for the funding of statutory premium reserves. Statutory reserve funds, which approximated \$483.3 million and \$438.5 million at December 31, 2015 and 2014, respectively, are required to be fully funded and invested in high-quality securities and short-term investments. In addition, included within Cash and cash equivalents are statutory reserve funds of approximately \$17.2 million and \$57.4 million at December 31, 2015 and 2014, respectively. These cash statutory reserve funds are not restricted or segregated in depository accounts. If the Company fails to maintain minimum investments or cash and cash equivalents to meet statutory requirements, the Company may be subject to fines or other penalties, including potential revocation of its business license. These funds are not available for any other purpose. In the event that insurance regulators adjust the determination of the statutory premium reserves of the Company's title insurers, these restricted funds as well as statutory surplus would correspondingly increase or decrease.

A substantial majority of consolidated cash and investments at each year end was held by the Company's title insurance subsidiaries. Generally, the types of investments a title insurer can make are subject to legal restrictions. Furthermore, the transfer of funds by a title insurer to its parent or subsidiary operations, as well as other related party transactions, is restricted by law and generally requires the approval of state insurance authorities.

#### NOTE 3

Statutory surplus and dividend restrictions. Substantially all of the consolidated retained earnings at each year end were represented by Guaranty, which owns directly or indirectly all of the subsidiaries included in the consolidation.

Guaranty cannot pay a dividend to its parent in excess of certain limits without the approval of the Texas Insurance Commissioner. The maximum dividend that can be paid after such approval in 2016 is \$100.4 million. Guaranty paid \$15.0 million and \$25.0 million in dividends in 2015 and 2014, respectively, and none in 2013.



Dividends from Guaranty are also voluntarily restricted primarily to maintain statutory surplus and liquidity at competitive levels and to demonstrate significant claims payment ability. The ability of a title insurer to pay claims can significantly affect the decision of lenders and other customers when buying a policy from a particular insurer.

F - 12

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Surplus as regards policyholders (sum of statutory capital plus surplus) for Guaranty was \$501.8 million and \$525.8 million at December 31, 2015 and 2014, respectively. Statutory net income for Guaranty was \$83.2 million, \$53.2 million and \$43.0 million in 2015, 2014 and 2013 respectively.

The amount of statutory capital and surplus necessary to satisfy regulatory requirements for Guaranty was \$2.0 million (and in the aggregate less than \$15.0 million for all of the Company's underwriter entities) at December 31, 2015, and each of its underwriter entities was in compliance with such requirements as of December 31, 2015.

NOTE 4

Investments in debt and equity securities. Amortized costs and fair values at December 31, follow:

	2015		2014	
	Amortized costs	Fair values	Amortized costs	Fair values
	(\$000 omitted)			
Debt securities:				
Municipal	70,300	72,008	60,656	61,689
Corporate	303,870	309,461	296,578	308,691
Foreign	149,914	153,221	163,099	166,685
U.S. Treasury Bonds	13,803	13,906	14,337	14,802
Equity securities	27,497	31,253	22,710	28,236
	565,384	579,849	557,380	580,103

The Company believes its investment portfolio is diversified and expects no material loss to result from the failure to perform by issuers of the debt securities it holds. Investments made by the Company are not collateralized. Foreign debt securities primarily include Canadian government and corporate bonds, which aggregated fair values of \$125.2 million and \$135.8 million as of December 31, 2015 and 2014, respectively, and United Kingdom treasury bonds aggregating fair values of \$23.1 million and \$27.3 million as of December 31, 2015 and 2014, respectively.

Gross unrealized gains and losses at December 31, were:

	2015		2014	
	Gains	Losses	Gains	Losses
	(\$000 omitted)			
Debt securities:				
Municipal	1,720	12	1,125	92
Corporate	7,700	2,109	12,559	446
Foreign	3,789	482	3,690	104
U.S. Treasury Bonds	128	25	492	27
Equity securities	4,842	1,086	5,982	456
	18,179	3,714	23,848	1,125

Debt securities at December 31, 2015 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	Amortized costs	Fair values
	(\$000 omitted)	
In one year or less	27,118	27,256
After one year through five years	226,497	230,842
After five years through ten years	230,161	235,219

After ten years	54,111	55,279
	537,887	548,596

F - 13

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Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015, were:

	Less than 12 months		More than 12 months		Total	
	Losses	Fair values	Losses	Fair values	Losses	Fair values
	(\$000 omitted)					
Debt securities:						
Municipal	9	2,230	3	1,615	12	3,845
Corporate	1,461	83,565	648	32,871	2,109	116,436
Foreign	322	35,008	160	3,155	482	38,163
U.S. Treasury Bonds	6	1,195	19	3,583	25	4,778
Equity securities:	720	4,440	366	3,224	1,086	7,664
	2,518	126,438	1,196	44,448	3,714	170,886

The number of investments in an unrealized loss position as of December 31, 2015 was 155, 30 of which were in unrealized loss positions for more than 12 months. Since the Company does not intend to sell and will more-likely-than-not maintain its investment in equity and debt securities until recovery of the fair value or amortized cost, respectively, these investments are not considered other-than-temporarily impaired. The Company also determined that there is no significant credit risk existing with its debt securities. Further, the Company performed an analysis of certain equity securities with significant unrealized losses and concluded that they were other-than-temporarily impaired as of December 31, 2015. As a result, the Company recognized an other-than-temporary impairment of \$2.7 million, included as part of Investment and other (losses) gains - net in the 2015 consolidated statement of operations and other comprehensive (loss) income. Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2014, were:

	Less than 12 months		More than 12 months		Total	
	Losses	Fair values	Losses	Fair values	Losses	Fair values
	(\$000 omitted)					
Debt securities:						
Municipal	1	2,673	91	12,076	92	14,749
Corporate	107	7,167	339	26,545	446	33,712
Foreign	11	34,236	93	6,446	104	40,682
U.S. Treasury Bonds	—	—	27	3,694	27	3,694
Equity securities:	456	6,540	—	—	456	6,540
	575	50,616	550	48,761	1,125	99,377

F - 14

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## NOTE 5

Fair value measurements. The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification (ASC) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements and Disclosures Topic establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

At December 31, 2015, financial instruments measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3	Fair value measurements
	(\$000 omitted)			
Investments available-for-sale:				
Debt securities:				
Municipal	—	72,008	—	72,008
Corporate	—	309,461	—	309,461
Foreign	—	153,221	—	153,221
U.S. Treasury Bonds	—	13,906	—	13,906
Equity securities:	31,253	—	—	31,253
	31,253	548,596	—	579,849

At December 31, 2014, financial instruments measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3	Fair value measurements
	(\$000 omitted)			
Investments available-for-sale:				
Debt securities:				
Municipal	—	61,689	—	61,689
Corporate	—	308,691	—	308,691
Foreign	—	166,685	—	166,685
U.S. Treasury Bonds	—	14,802	—	14,802
Equity securities:	28,236	—	—	28,236
	28,236	551,867	—	580,103

At December 31, 2015, Level 1 financial instruments consist of equity securities. Level 2 financial instruments consist of municipal, governmental, and corporate bonds, both U.S. and foreign. In accordance with the Company's policies and guidelines which incorporate relevant statutory requirements, the Company's third-party registered investment manager invests only in securities rated as investment grade or higher by the major rating services, where observable valuation inputs are significant. All municipal, foreign, and U.S. Treasury bonds are valued using a third-party pricing service, and the corporate bonds are valued using the market approach, which includes three to ten inputs from relevant market sources, including Financial Industry Regulatory Authority's (FINRA) Trade Reporting and Compliance Engine (TRACE) and independent broker/dealer quotes, bids and offerings, as well as other relevant market data, such as securities with similar characteristics (i.e. sector, rating, maturity, etc.). Broker/dealer quotes, bids and offerings mentioned above are gathered (typically three to ten) and a consensus risk premium spread (credit spread) over risk-free Treasury yields is developed from the inputs obtained, which is then used to calculate the resulting fair value.

There were no transfers of investments between Level 1 and Level 2 during the three years ended December 31, 2015.

As of December 31, 2015 and 2014, assets measured at fair value on a nonrecurring basis are summarized below:

	2015		2014	
	Level 3	Impairment loss recorded	Level 3	Impairment loss recorded
	(\$000 omitted)			
Cost-basis investments	3,127	600	3,938	1,000

The carrying amount of certain cost-basis investments exceeded their fair value and impairment charges of \$0.6 million and \$1.0 million were recorded in Investment and other (losses) gains – net for the years ended December 31, 2015 and 2014, respectively. The valuations were based on the values of the underlying assets of the investee.

#### NOTE 6

Investment income. Income from investments and gross realized investment and other gains and losses follow:

	2015	2014	2013
	(\$000 omitted)		
Investment income:			
Debt securities	15,181	14,593	13,387
Short-term investments, cash equivalents and other	1,669	2,213	2,105
	16,850	16,806	15,492
Investment and other (losses) gains – net:			
Realized gains	5,948	12,018	7,555
Realized losses	(7,317)	(5,274)	(8,621)
	(1,369)	6,744	(1,066)

Proceeds from the sales of investments available-for-sale were \$69.3 million, \$58.1 million and \$82.0 million for the years ended December 31, 2015, 2014 and 2013, respectively. Expenses assignable to investment income were insignificant. There were no significant investments at December 31, 2015 that did not produce income during the year.

In 2015, investment and other (losses) gains – net included realized losses of \$2.7 million relating to other-than-temporary impairment of investment in equity securities available-for-sale, \$1.8 million

impairment of other intangible assets and \$1.4 million relating to office closure costs, partially offset by realized gains of \$2.4 million from the sale of debt and equity investments available-for-sale and \$1.5 million from the sale of office buildings.

F - 16

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In 2014, investment and other gains (losses) – net included realized gains of \$5.6 million from the reduction in the fair value of a contingent consideration liability, \$3.8 million from the sale of a business and \$1.1 million from the sale of debt and equity investments available-for-sale, partially offset by charges of \$1.9 million relating to office closure costs, \$1.7 million impairment of an other intangible asset and \$1.0 million relating to the impairment of a cost-basis investment.

In 2013, investment and other (losses) gains – net included a \$5.4 million non-cash charge relating to the early retirement of \$37.8 million of the Convertible Senior Notes (Notes), a \$1.5 million loss on the sale of an equity investment and \$1.0 million for the impairment of cost-basis investments offset by realized gains of \$2.7 million from the sale of debt and equity investments available-for-sale, \$2.3 million from non-title-related insurance policy proceeds and \$1.9 million from the sale of real estate.

NOTE 7

Income taxes. Income tax expense consists of the following:

	2015	2014	2013
	(\$000 omitted)		
Current:			
Federal	4,774	3,047	2,589
State	709	(224)	) 2,757
Foreign	5,967	7,442	6,753
Deferred:			
Federal	(3,986	) 3,916	18,361
State	(1,375	) (694	) (206
Foreign	(439	) 16	(1,773
Income tax expense	5,650	13,503	28,481

The following reconciles income tax (benefit) expense computed at the federal statutory rate with income tax expense as reported:

	2015	2014	2013	
	(\$000 omitted)			
Expected income tax (benefit) expense at 35% <sup>(1)</sup>	(194	) 15,140	32,027	
Foreign tax rate differential	(329	) (693	) (422	
State income tax (benefit) expense – net of Federal impact	(914	) (840	) 1,586	
Impairment of goodwill	7,099	—	—	
Nondeductible expenses	2,768	4,060	2,321	
Return-to-provision adjustments	(1,329	) 1,133	(2,408	
Valuation allowance	(668	) (5,020	) (6,555	
Intercompany dividends and dividends received deductions	(541	) (319	) 449	
Tax-exempt interest	(404	) (324	) (233	
Noncontrolling interest	251	186	529	
Life insurance proceeds	(175	) —	(797	
Nondeductible bond conversion costs	—	—	1,900	
Other – net	86	180	84	
Income tax expense	5,650	13,503	28,481	
Effective income tax rates <sup>(1)</sup>	(1,019.4	)% 31.2	% 31.1	%

<sup>(1)</sup> Calculated using (loss) income before taxes and after noncontrolling interests.





Deferred income taxes as of December 31 were as follows:

	2015	2014
	(\$000 omitted)	
Deferred tax assets:		
Tax credit carryforwards	20,242	26,792
Accrued expenses	20,190	17,241
Net operating loss (NOL) carryforwards	6,428	4,260
Foreign currency translation adjustments	5,220	411
Allowance for uncollectible amounts	3,524	3,379
Investments	3,369	1,582
Fixed assets	2,094	5,860
Other	1,954	2,127
Deferred tax assets – gross	63,021	61,652
Valuation allowance	(2,217)	(2,564)
Deferred tax assets – net	60,804	59,088
Deferred tax liabilities:		
Amortization – goodwill and other intangibles	(27,991)	(34,740)
Title loss provisions	(18,523)	(23,365)
Unrealized gains on investments	(4,811)	(7,953)
Deferred compensation on life insurance policies	(3,558)	(3,239)
Other	(2,328)	(2,476)
Deferred tax liabilities – gross	(57,211)	(71,773)
Net deferred income tax assets (liabilities)	3,593	(12,685)

At December 31, 2015 and 2014, net deferred tax assets (liabilities) for U.S. federal tax paying components totaled approximately \$3.8 million and \$(12.0) million, respectively, and net deferred tax liabilities for foreign tax paying components totaled approximately \$0.3 million and \$0.7 million, respectively. The net decrease to the valuation allowance during 2015 and 2014 was \$0.3 million and \$4.4 million, respectively. During 2008, the Company recorded a valuation allowance against U.S. deferred tax assets, net of definite-lived deferred tax liabilities, for which realization could not be assured based on a more-likely-than-not standard. The Company retained that valuation allowance for all subsequent periods through December 31, 2011 principally due to the Company's cumulative three-year operating loss history as of the end of each period. The Company routinely evaluates the extent to which the valuation allowance may be reversed. During 2013, the Company utilized the remaining portion of its U.S. federal NOL carryforwards and released a \$6.6 million valuation allowance on foreign tax credit carry forwards that it believed will, on a more-likely-than-not-basis, be utilized prior to expiration. During 2014, the Company released the remaining \$5.0 million valuation allowance on foreign tax credit carryforwards. The Company believes it is more-likely-than-not it will be able to utilize its net deferred tax assets.

The Company's \$20.2 million of foreign tax credit carryforwards at December 31, 2015 expire in varying amounts from 2020 through 2023. The Company's \$6.4 million of deferred tax assets relating to NOL carryforwards include certain state amounts expiring in varying amounts from 2019 through 2035 and foreign amounts expiring in varying amounts from 2020 through 2022 or having unlimited carryforward periods. The future utilization of all NOL and foreign tax credit carryforwards is subject to various limitations. The remaining valuation allowance at December 31, 2015 relates principally to certain state and foreign NOL carryforwards.

The Company's income tax returns are routinely subject to examinations by U.S. federal, foreign, and state and local tax authorities. During 2014, the Internal Revenue Service (IRS) completed its examination of calendar years 2005 through 2008 and the Company received anticipated refunds from previously-filed carryback claims in the amount of \$2.8 million. Also during 2014, the IRS completed its examination of the

calendar year 2012 U.S. federal tax return without any IRS-initiated adjustments. The Company also is involved in routine examinations by state and local tax jurisdictions for calendar years 2008 through 2014. The Company expects no material adjustments from any tax return examinations.

F - 18

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## NOTE 8

Goodwill and other intangibles. A summary of changes in goodwill is as follows:

	Title	Mortgage Services	Total
	(\$000 omitted)		
Balances at January 1, 2014	198,727	33,111	231,838
Acquisitions	3,275	18,165	21,440
Disposals	—	(1,410)	(1,410)
Balances at December 31, 2014	202,002	49,866	251,868
Acquisitions	7,220	—	7,220
Purchase adjustments	—	(5,268)	(5,268)
Impairment	—	(35,749)	(35,749)
Disposals	(349)	—	(349)
Balances at December 31, 2015	208,873	8,849	217,722

The purchase adjustments recorded for 2015 were related to the remeasurement of assumed liabilities related to certain acquisitions from 2014.

The Company evaluates goodwill for impairment annually based on information as of June 30 of the current year or more frequently if circumstances suggest that impairment may exist. During 2015 and 2014, management utilized the qualitative assessment for the title reporting units to determine whether it is more likely than not that the fair value of each reporting unit is less than its carrying amount, including goodwill. Based on that analysis, management concluded that the goodwill related to the reporting units within the title segment was not impaired.

In 2014, the Company performed a quantitative assessment of the mortgage services segment's goodwill and determined that there was no impairment of goodwill. In July 2015, the Company made the decision to exit the delinquent loan servicing activities included in the mortgage services segment. The Company based its decision to exit these operations on rapidly falling revenues, declining profit margins and the likelihood that future market demand for the related services would continue to diminish. This resulted in a review of the recoverability of goodwill related to the mortgage services segment. Accordingly, the Company performed the quantitative assessment for mortgage services' goodwill. Based on its impairment analysis using the two-step method, the Company recorded a \$35.7 million impairment of mortgage services' goodwill for 2015. This impairment is presented as Impairment of goodwill in the 2015 consolidated statement of operations and comprehensive (loss) income.

The Company also performed an impairment analysis of other intangible assets within the mortgage services segment for 2015. Based on the Company's impairment review using the discounted cash flow technique to estimate fair value, the Company recorded an impairment of \$0.9 million on an intangible asset. During 2014, the Company recorded an impairment of \$1.7 million relating to an intangible asset of a separate business under the mortgage services segment. Further, the Company recognized in 2015 a \$0.9 million impairment relating to an intangible asset under the title segment that will not be recoverable in future periods. These impairment losses are included in Investment and other (losses) gains - net in the consolidated statements of operations and comprehensive (loss) income.

The gross carrying amount and accumulated amortization and impairment of other intangibles was \$43.6 million and \$25.5 million, respectively, at December 31, 2015 and \$43.0 million and \$16.7 million, respectively, at December 31, 2014. The amortization expense recorded for these intangibles was \$7.0 million, \$6.2 million and \$1.9 million in 2015, 2014 and 2013, respectively. The annual amortization

expense expected to be recognized in the next five years is approximately \$5.5 million in 2016, \$4.6 million in 2017, \$3.6 million in 2018, \$2.0 million in 2019 and \$1.0 million in 2020.

F - 19

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## NOTE 9

Equity investees. Summarized aggregate financial information for equity investees (in which the Company typically owns 20% through 50% of the equity) is as follows:

	2015	2014	2013
	(\$000 omitted)		
For the year:			
Revenues	28,843	31,562	42,105
Net income	8,830	7,914	8,064
At December 31:			
Total assets	33,555	25,533	25,470
Notes payable	20,200	12,727	12,390
Stockholders' equity	7,213	7,665	5,561

Net premium revenues from policies issued by equity investees were approximately \$2.5 million, \$3.1 million and \$4.4 million in 2015, 2014 and 2013, respectively. Income related to equity investees were \$3.6 million, \$3.4 million and \$4.1 million in 2015, 2014 and 2013, respectively. These amounts are included in Title insurance – direct operations in the consolidated statements of operations and comprehensive (loss) income.

Goodwill related to equity investees was \$7.4 million as of December 31, 2015 and 2014, and is included in Investments in investees in the consolidated balance sheets. Equity investments, including the related goodwill balances, are reviewed for impairment annually and upon the occurrence of an event that may indicate an impairment. No impairment was recorded during the years ended December 31, 2015 and 2014.

## NOTE 10

Notes payable, convertible senior notes and line of credit.

A summary of notes payable follows:

	2015	2014
	(\$000 omitted)	
Banks – varying payments and rates <sup>(1)</sup>	98,000	60,000
Other than banks	4,399	11,180
	102,399	71,180

<sup>(1)</sup> Average interest rates were 1.68% and 2.21% during the year ended December 31, 2015 and 2014, respectively.

Principal payments on the above notes, based upon the contractual maturities, are due in the amounts of \$2.5 million in 2016, \$1.3 million in 2017, \$0.4 million in 2018, and \$98.2 million in 2019. Included within the other notes payable line above are \$3.8 million and \$5.6 million of capital lease obligations at December 31, 2015 and 2014, respectively.

In October 2009, the Company entered into an agreement providing for the sale of \$65.0 million aggregate principal amount of 6.0% Convertible Senior Notes to an initial purchaser for resale to certain qualified institutional buyers in compliance with Rule 144A under the Securities Act of 1933, as amended. In 2013, the Company exchanged an aggregate of \$37.8 million principal amount of Notes for an aggregate of 3,094,440 shares of Common Stock plus cash for the accrued and unpaid interest. In October 2014, the Company exchanged the remaining aggregate of \$27.2 million principal amount of Notes for an aggregate of 2,111,017 shares of Common Stock. The Company incurred \$3.3 million of debt issuance costs related to the Notes which were being amortized over the term of the Notes using the effective interest method. Upon conversion of the remaining Notes in 2014, the debt issuance costs were fully amortized at December 31, 2014. For 2014 and 2013, the amortization of the debt issuance costs was \$0.3 million and \$0.4 million, respectively, and interest expense on the Notes was \$1.3 million and \$2.0 million, respectively.



As of December 31, 2015, the Company had available a \$125.0 million unsecured line of credit commitment (the Credit Agreement), which expires October 2019, under which borrowings of \$98.0 million were outstanding. The unsecured line of credit can be used for general corporate purposes, including acquisitions. Borrowings, at the Company's election, bear interest at either (a) an Alternate Base Rate plus the Applicable Rate (ABR Borrowing) or (b) LIBOR plus the Applicable Rate (Eurodollar Borrowing). The Applicable Rate ranges from 0.50% to 1.00% per annum for ABR Borrowings and 1.50% to 2.00% per annum for Eurodollar Borrowings based on the Company's consolidated Leverage Ratio.

Also, under the terms of the Credit Agreement, the Company may at any time, subject to certain conditions, request an increase in the amount of the line of credit up to \$50.0 million. The Credit Agreement contains customary affirmative and negative covenants. The Credit Agreement also contains certain consolidated financial covenants providing that (a) the ratio of EBITDA (as defined in the Credit Agreement) to fixed charges (as defined in the agreement) not be below 1.25 to 1.00 on a trailing four-quarter basis (Fixed Charge Ratio); (b) the ratio of total Indebtedness to EBITDA for the prior four consecutive quarters must not be greater than 2.25 to 1.00 (Leverage Ratio); and (c) Capital Expenditures in the aggregate for the Company consolidated in any calendar year may not exceed \$20.0 million, with certain allowances for carryover of unused amounts. The Company was in compliance with all covenants as of December 31, 2015 and 2014.

On February 10, 2016, the Company entered into a first amendment (First Amendment) relating to the Credit Agreement. The First Amendment amends the Credit Agreement, effective as of December 31, 2015, to, among other things, (i) establish an exception to the limitation on restricted payments under the Credit Agreement for the cash payment of \$12.0 million to the holders of the Company's Class B Common Stock in respect of the Exchange Agreement, as announced in January 2016 (refer to Note 12), for the exchange of the Company's Class B Common Stock into the Company's Common Stock, (ii) establish an exception to the limitation on restricted payments under the Credit Agreement in respect of the Company's new share repurchase program of up to \$50.0 million, as announced in November 2015, (iii) increase the general permitted restricted payments (dividends) basket in Section 6.07 of the Credit Agreement from \$25.0 million to \$35.0 million annually, (iv) provide for an exclusion from the calculation of EBITDA of the \$35.9 million impairment charge recorded in the quarter ended September 30, 2015, and (v) increase the amount of capital expenditures permitted in any calendar year from \$20 million to \$25 million.

Our qualified intermediary in tax-deferred property exchanges pursuant to Section 1031 of the Internal Revenue Code enters into short-term loan agreements in the ordinary course of its business. The outstanding balances pursuant to these loans are reflected in notes payable - other than banks in the table above and borrowings and repayments on these loans are reflected in our consolidated statements of cash flows.



## NOTE 11

Estimated title losses.

	2015	2014	2013	
	(\$000 omitted)			
Balances at January 1	495,395	506,888	520,375	
Provisions:				
Current year	68,029	64,577	92,043	
Previous policy years	38,236	16,728	14,275	
Total provisions	106,265	81,305	106,318	
Payments, net of recoveries:				
Current year	(19,182 )	(18,775 )	(23,969 )	
Previous policy years	(104,450 )	(67,898 )	(91,715 )	
Total payments, net of recoveries	(123,632 )	(86,673 )	(115,684 )	
Adjustments related to acquired balance	(2,303 )	2,268	—	
Effects of changes in foreign currency exchange rates	(13,103 )	(8,393 )	(4,121 )	
Balances at December 31	462,622	495,395	506,888	
Loss ratios as a percentage of title operating revenues:				
Current year provisions	3.6	% 3.8	% 5.1	%
Total provisions	5.6	% 4.7	% 5.9	%

The loss ratio on the total provision recorded for the year ended December 31, 2015 reflected an ultimate loss rate of 3.6% for policies issued in the current year and a net increase in the loss reserve estimates for prior policy years of \$38.2 million. The increase in the loss reserve estimate for prior policy years included \$6.2 million related to adverse loss development due to continued elevated claims payment experience for certain years and \$29.1 million related to provisions for large title claims. Total provisions for large title claims related to prior policy years were \$31.7 million, \$3.1 million and \$28.8 million in 2015, 2014 and 2013, respectively.

The 2014 and 2013 loss ratios included provisions of 3.8% and 5.1%, respectively, related to the current policy year and net increases in the loss reserves estimate for prior policy years of \$16.7 million and \$14.3 million, respectively. During 2014 and 2013, the Company continued to experience favorable development relative to prior years which allowed the Company to lower the overall loss provision rates during these years. Provisions for prior policy years during 2014 and 2013 included adverse loss development of \$17.9 million and \$7.6 million, respectively, relating to other than large title losses.

## NOTE 12

Common Stock and Class B Common Stock. Holders of Common and Class B Common Stock have the same rights except no cash dividends may be paid on Class B Common Stock. The two classes of stock vote separately when electing directors and on any amendment to the Company's certificate of incorporation that affects the two classes unequally.

A provision of the by-laws requires an affirmative vote of at least two-thirds of the directors to elect officers or to approve any proposal that may come before the directors. This provision cannot be changed without a majority vote of each class of stock.

Holder of Class B Common Stock may, with no cumulative voting rights, elect four of nine directors if 1,050,000 or more shares of Class B Common Stock are outstanding; three directors if between 600,000 and 1,050,000 shares are outstanding; and none if less than 600,000 shares of Class B Common Stock are outstanding. Holders of Common Stock, with cumulative voting rights, elect the balance of the nine directors.



Class B Common Stock may be converted by its stockholders into Common Stock on a share-for-share basis, although the holders of Class B Common Stock have agreed among themselves not to convert their stock. The agreement may be extended or terminated by them at any time. Such conversion is mandatory on any transfer to a person who is not a lineal descendant (or spouse or trustee of such descendant) of William H. Stewart, founder of Stewart Title Guaranty Company.

On January 26, 2016, the Company entered into an Exchange Agreement with the holders of Class B Common Stock relating to the exchange of 1,050,012 Class B Common Stock shares, representing all outstanding Class B Common Stock, for 1,050,012 shares of Common Stock plus \$12.0 million in aggregate cash. The Exchange Agreement is subject to several conditions, which include, among others, the approval by the Company's stockholders of the Exchange Agreement and the Company's by-laws during the 2016 annual meeting of stockholders and the approval of the listing of the Common Stock by the New York Stock Exchange.

At December 31, 2015 and 2014, there were 145,820 shares of Common Stock held by a subsidiary of the Company which are included in the Treasury stock reported in the consolidated balance sheets.

#### NOTE 13

Share-based incentives. During 2015, 2014 and 2013, the Company granted executives and senior management shares of restricted common stock which are time-based and vest at the end of three years. The Company also granted performance-based shares of restricted common stock which vest upon achievement of certain financial objectives over a period of three years. The aggregate grant-date fair values of these awards in 2015, 2014 and 2013 were \$4.4 million (119,000 shares with an average grant price of \$37.16), \$4.0 million (125,000 shares with an average grant price of \$32.24) and \$2.2 million (84,000 shares with an average grant price of \$26.01), respectively. Awards were made pursuant to the Company's employee incentive compensation plans and the compensation expense associated with restricted stock awards is recognized over the corresponding vesting period as part of Employee costs in the statements of operations. Additionally, in May 2015, 2014 and 2013, the Company granted its board of directors, as a component of their annual director retainer compensation, 18,000, 22,000 and 18,000 shares, respectively, of common stock, which immediately vested at grant date. The aggregate fair values of these director awards at grant dates in 2015, 2014 and 2013 were \$0.7 million, \$0.7 million and \$0.5 million, respectively, and the associated expense is recognized in Other operating expenses in the statements of operations.

A summary of the restricted common stock award activity during the year ended December 31, 2015 is presented below:

	Shares	Weighted-Average Grant-Date Fair Value per Share (\$)
Nonvested balance at January 1, 2015	205,119	29.78
Granted	118,506	37.16
Adjustment for performance-based shares	19,610	37.18
Vested	(78,115)	25.78
Forfeited	(12,930)	31.43
Nonvested balance at December 31, 2015	252,190	34.88

The fair value of shares that vested in 2015 and 2014 aggregated to \$2.9 million and \$2.3 million, respectively. For the years ended December 31, 2015, 2014 and 2013, compensation costs recognized in the statements of operations were approximately \$4.4 million, \$4.0 million and \$1.0 million, respectively. The

total tax benefits recognized in the statement of operations from tax deductions relating to vesting of restricted common stock awards in 2015, 2014 and 2013 were \$1.0 million, \$0.3 million and \$0.3 million, respectively. As of December 31, 2015, compensation costs not yet recognized related to nonvested restricted common stock awards was \$4.7 million, which is expected to be recognized over a weighted average period of 1.7 years.

F - 23

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## NOTE 14

Earnings per share. The Company's basic (loss) earnings per share attributable to Stewart is calculated by dividing net (loss) income attributable to Stewart by the weighted-average number of shares of Common Stock and Class B Common Stock outstanding during the reporting periods.

To calculate diluted earnings per share, net income and number of shares are adjusted for the effects of any dilutive shares. Using the if-converted method, net income is adjusted for interest expense, net of any tax effects, applicable to the Convertible Senior Notes, which were fully converted into common stock during October 2014. The number of shares is adjusted by adding the number of dilutive shares, assuming they are issued, during the same reporting period. The treasury stock method is used to calculate the dilutive number of shares related to the Company's long term incentive and stock option plans. In periods of loss, dilutive shares are excluded from the calculation of the diluted loss per share and diluted loss per share is computed in the same manner as basic loss per share.

The calculation of the basic and diluted (loss) earnings per share is as follows:

	For the Years Ended December 31,		
	2015	2014	2013
	(\$000 omitted)		
Numerator:			
Net (loss) income attributable to Stewart	(6,204	) 29,753	63,026
Interest expense, net of tax effects	—	1,006	1,408
If-converted net (loss) income attributable to Stewart	(6,204	) 30,759	64,434
Denominator (000):			
Basic average shares outstanding	23,544	22,778	22,096
Average number of dilutive shares relating to options	—	2	—
Average number of dilutive shares relating to convertible senior notes	—	1,641	2,467
Average number of dilutive shares relating to restricted shares grant	—	289	178
Diluted average shares outstanding	23,544	24,710	24,741
Basic (loss) earnings per share attributable to Stewart	(0.26	) 1.31	2.85
Diluted (loss) earnings per share attributable to Stewart	(0.26	) 1.24	2.60

## NOTE 15

Reinsurance. As is industry practice, the Company cedes risks to other title insurance underwriters and reinsurers on certain transactions. However, the Company remains liable if the reinsurer should fail to meet its obligations. The Company also assumes risks from other underwriters on a transactional basis as well as on certain reinsurance treaties. Payments and recoveries on reinsured losses were insignificant during each of the years ended December 31, 2015, 2014, and 2013. The total amount of premiums for assumed and ceded risks was less than 1.0% of consolidated title revenues in each of the last three years.

## NOTE 16

Leases. Lease expense was \$42.9 million, \$42.6 million and \$39.2 million in 2015, 2014 and 2013, respectively. The future minimum lease payments relating to operating leases are summarized as follows (in thousands of dollars):

2016	45,133
2017	37,585
2018	30,838
2019	22,517
2020	12,585
2021 and after	18,360
	167,018

## NOTE 17

Contingent liabilities and commitments. The Company routinely holds third-party funds in segregated escrow accounts pending the closing of real estate transactions resulting in a contingent liability to the Company of approximately \$1.3 billion at December 31, 2015. In addition, the Company is contingently liable for disbursements of escrow funds held by agencies in those cases where specific insured closing guarantees have been issued.

The Company owns a qualified intermediary in tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code. The Company holds the proceeds from these transactions until a qualifying exchange can occur. This resulted in a contingent liability to the Company of approximately \$1.0 billion at December 31, 2015. As is industry practice, escrow and Section 1031 exchanger fund accounts are not included in the consolidated balance sheets.

In the ordinary course of business, the Company guarantees the third-party indebtedness of certain of its consolidated subsidiaries. As of December 31, 2015, the maximum potential future payments on the guarantees are not more than the related notes payable recorded in the consolidated balance sheets (refer to Note 10). The Company also guarantees the indebtedness related to lease obligations of certain of its consolidated subsidiaries. The maximum future obligations arising from these lease-related guarantees are not more than the Company's future minimum lease payments (refer to Note 16). As of December 31, 2015, the Company also had unused letters of credit aggregating \$5.6 million related to workers' compensation coverage and other insurance. The Company does not expect to make any payments on these guarantees.

## NOTE 18

Regulatory and legal developments. In April 2008, Credit Suisse AG, Cayman Islands Branch (Credit Suisse) asserted a claim under a Stewart Title Guaranty Company (Guaranty) policy of title insurance dated on or about May 19, 2006 based upon the alleged priority of mechanic's and materialmen's liens on a resort development in the State of Idaho known as Tamarack. Guaranty ultimately undertook the defense of the claim under a reservation of rights. For reasons set forth in Guaranty's complaint, on or about May 18, 2011, Guaranty withdrew its defense of Credit Suisse and filed a declaratory judgment action in the United States District Court for the District of Idaho captioned Stewart Title Guaranty Company v. Credit Suisse AG, Cayman Islands Branch seeking a declaratory judgment and other relief. In the lawsuit Guaranty sought, among other things, a determination that it had no duty to indemnify Credit Suisse and sought to have certain provisions of the title insurance policy rescinded. Credit Suisse counterclaimed for, among other things, bad faith for failure to pay the claim.

On August 29, 2013, the United States District Court for the District of Idaho rendered an opinion on Credit Suisse's Motion for Partial Summary Judgment. In its opinion the Court, among other things more fully set forth in said opinion, granted Credit Suisse's motion negating certain policy defenses to coverage asserted by Guaranty. The Court also granted Credit Suisse's Motion to Amend and permitted the assertion of punitive damages against Guaranty.



Guaranty's Motion to Reconsider the Court's August 29, 2013 ruling was denied. Guaranty's Motion for Summary Judgment based on Credit Suisse's lack of standing to pursue its counter claims, and other grounds was denied on February 26, 2015. A jury trial was set to begin on September 3, 2015. That trial date was vacated pending a resolution of the matter through settlement. The matter has now been settled pursuant to a Confidential Settlement Agreement and all amounts have been paid as of December 31, 2015.

\* \* \*

The Company is subject to claims and lawsuits arising in the ordinary course of its business, most of which involve disputed policy claims. In some of these lawsuits, the plaintiff seeks exemplary or treble damages in excess of policy limits. The Company does not expect that any of these proceedings will have a material adverse effect on its consolidated financial condition or results of operations. Along with the other major title insurance companies, the Company is party to a number of class action lawsuits concerning the title insurance industry. The Company believes that it has adequate reserves for the various litigation matters and contingencies discussed above and that the likely resolution of these matters will not materially affect its consolidated financial condition or results of operations.

The Company is subject to administrative actions and litigation relating to the basis on which premium taxes are paid in certain states. Additionally, the Company has received various other inquiries from governmental regulators concerning practices in the insurance industry. Many of these practices do not concern title insurance. The Company believes that it has adequately reserved for these matters and does not anticipate that the outcome of these inquiries will materially affect its consolidated financial condition or results of operations.

The Company is subject to various other administrative actions and inquiries into its business conduct in certain of the states in which it operates. While the Company cannot predict the outcome of the various regulatory and administrative matters, it believes that it has adequately reserved for these matters and does not anticipate that the outcome of any of these matters will materially affect its consolidated financial condition or results of operations.

#### NOTE 19

Segment information. The Company's three reportable operating segments are title insurance and related services (title), mortgage services and corporate. The title segment provides services needed to transfer the title in a real estate transaction. These services include searching, examining, closing and insuring the condition of the title to the property. The title segment also includes home and personal insurance services and Internal Revenue Code Section 1031 tax-deferred exchanges.

The mortgage services segment includes a diverse group of products and services provided to multiple markets. These services include providing origination and servicing support; default and REO services; post-closing outsourcing; portfolio due diligence; mortgage compliance solutions; servicer oversight to residential mortgage lenders, servicers and investors; technology to support the real estate transaction, and centralized title and valuation services to large lenders. The single largest customer of the mortgage services segment accounted for 41.1%, 51.4% and 74.5% of mortgage services revenues in 2015, 2014 and 2013, respectively.

The corporate segment consists of the expenses of the parent holding company, certain other corporate overhead expenses, and the costs of its centralized support operations not otherwise allocated to the operating segments. The revenues for the segment are primarily related to investment income.



Selected statement of operations information related to these segments is as follows:

	Title	Mortgage Services	Corporate	Total
	(\$000 omitted)			
2015:				
Revenues	1,805,267	212,934	15,684	2,033,885
Impairment of goodwill	—	35,749	—	35,749
Depreciation and amortization	8,545	13,074	8,679	30,298
Income (loss) before taxes and noncontrolling interests	225,238	(56,645)	(158,900)	9,693
2014:				
Revenues	1,660,001	194,018	16,811	1,870,830
Depreciation and amortization	7,059	9,540	7,627	24,226
Income (loss) before taxes and noncontrolling interests	184,016	6,364	(138,568)	51,812
2013:				
Revenues	1,792,210	121,945	13,825	1,927,980
Depreciation and amortization	5,957	4,634	7,329	17,920
Income (loss) before taxes and noncontrolling interests	211,240	12,609	(122,784)	101,065

The Company does not provide asset information by reportable operating segment as it does not routinely evaluate the asset position by segment.

Revenues for the years ended December 31 in the United States and all international operations are as follows:

	2015	2014	2013
	(\$000 omitted)		
United States	1,925,865	1,751,458	1,811,714
International	108,020	119,372	116,266
	2,033,885	1,870,830	1,927,980

#### NOTE 20

Acquisitions. During 2014, the Company completed acquisitions of three companies that provide collateral valuation, settlement services, title and closing services, and quality control and due diligence services for an aggregate purchase price of \$40.0 million, net of liabilities assumed. The acquisitions were primarily funded by borrowings on the Company's unsecured line of credit. The Company has recorded fair value estimates for the assets acquired, liabilities assumed and estimated goodwill of \$20.0 million, based on the completion of the Company's purchase price allocation as of December 31, 2014. During 2015, the Company recorded purchase adjustments of \$5.3 million related to the remeasurement of assumed liabilities related to these acquisitions.

## NOTE 21

Other comprehensive (loss) income. Changes in the balances of each component of other comprehensive (loss) income and the related tax effects are as follows:

	For the Year Ended December 31, 2015			For the Year Ended December 31, 2014			For the Year Ended December 31, 2013		
	Before-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount	Before-Tax Amount	Tax Expense (Benefit)	Net-of Tax Amount	Before-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
	(\$000 omitted)			(\$000 omitted)			(\$000 omitted)		
Foreign currency translation adjustments	(16,022)	(4,877 )	(11,145 )	(10,405)	(2,840 )	(7,565 )	(10,349)	(3,530 )	(6,819 )
Unrealized (losses) gains on investments:									
Change in unrealized (losses) gains on investments	(5,757 )	(2,016 )	(3,741 )	15,066	5,273	9,793	(11,203)	(3,921 )	(7,282 )
Less: reclassification adjustment for net gains included in net (loss) income	(2,501 )	(875 )	(1,626 )	(853 )	(298 )	(555 )	(2,463 )	(862 )	(1,601 )
Net unrealized (losses) gains	(8,258 )	(2,891 )	(5,367 )	14,213	4,975	9,238	(13,666)	(4,783 )	(8,883 )
Other comprehensive (losses) income	(24,280)	(7,768 )	(16,512 )	3,808	2,135	1,673	(24,015)	(8,313 )	(15,702 )

## NOTE 22

Exit activities. During the third quarter 2015, management approved the exit plan for the delinquent loan servicing activities included in the mortgage services segment. The decision was based on continued pricing pressures on existing contracts and decreased demand for these services. The Company is operating the delinquent loan servicing business on a phased exit schedule and anticipates the completion of its exit no later than the end of first quarter 2016. The Company has estimated the total charge to be incurred related to exiting these operations to be between \$5.0 million and \$7.0 million. These costs include lease termination costs, additional severance expenses and accelerated amortization expense. For the year ended December 31, 2015, the Company recorded \$3.5 million of costs, comprised of \$1.1 million of employee termination benefits (of which \$0.3 million was paid during 2015), \$1.0 million of early lease termination costs accrued and \$1.4 million of accelerated depreciation of assets. These amounts are included within the Employee costs, Investments and other (losses) gains - net and Depreciation and amortization lines, respectively, in the consolidated statement of operations and comprehensive (loss) income.

## NOTE 23

Quarterly financial information (unaudited).

	Mar 31	June 30	Sept 30	Dec 31	Total	
	(\$000 omitted, except per share)					
Revenues:						
2015	448,872	531,906	555,704	497,403	2,033,885	
2014	393,576	446,838	508,097	522,319	1,870,830	
Net (loss) income attributable to Stewart:						
2015	(12,448	) 17,106	(13,467	) 2,605	(6,204	)
2014	(12,106	) 6,279	23,717	11,863	29,753	
Diluted (loss) earnings per share attributable to Stewart <sup>(1)</sup> :						
2015	(0.52	) 0.72	(0.58	) 0.11	(0.26	)
2014	(0.54	) 0.27	0.97	0.49	1.24	

<sup>(1)</sup> Quarterly per share data may not sum to annual totals due to rounding or effects of dilution in particular quarters but not in annual totals.

F - 29

SCHEDULE I  
 STEWART INFORMATION SERVICES CORPORATION  
 (Parent Company)  
 STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

	For the Years Ended December 31,		
	2015	2014	2013
	(\$000 omitted)		
Revenues			
Investment income	15,000	25,087	—
Other losses	—	(869	) (3,164
Other income	922	90	263
	15,922	24,308	(2,901
Expenses			
Employee costs	156	1,110	(91
Other operating expenses, including \$276 each year to affiliates	7,617	3,806	1,329
Depreciation and amortization	162	421	527
Interest	1,726	2,054	2,494
	9,661	7,391	4,259
Income (loss) before taxes and (loss) income from subsidiaries	6,261	16,917	(7,160
Income tax expense	—	1	24
(Loss) income from subsidiaries	(12,465	) 12,837	70,210
Net (loss) income	(6,204	) 29,753	63,026
Retained earnings at beginning of year	479,733	452,314	391,447
Cash dividends on Common Stock	(18,010	) (2,334	) (2,159
Retained earnings at end of year	455,519	479,733	452,314
See accompanying note to financial statement information.			
See accompanying Report of Independent Registered Public Accounting Firm.			

S - 1

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STEWART INFORMATION SERVICES CORPORATION  
(Parent Company)  
BALANCE SHEETS

	As of December 31,	
	2015	2014
	(\$000 omitted)	
Assets		
Cash and cash equivalents	832	15,210
Receivables:		
Notes - due from subsidiaries	68,382	46,885
Other, including \$120 and \$4, respectively, from affiliates	1,093	497
Allowance for uncollectible amounts	(7	) (10
	69,468	47,372
Property and equipment, at cost:		
Furniture and equipment	2,893	2,893
Accumulated depreciation	(2,625	) (2,463
	268	430
Title plant, at cost	48	48
Investments in subsidiaries, on an equity-method basis	653,519	688,858
Goodwill	8,470	8,470
Other assets	17,457	16,499
	750,062	776,887
Liabilities		
Notes payable	98,000	60,000
Accounts payable and accrued liabilities, including \$4 and \$0, respectively, to affiliates	22,781	23,702
	120,781	83,702
Contingent liabilities and commitments	—	—
Stockholders' equity		
Common Stock – \$1 par, authorized 50,000,000; issued 22,643,255 and 23,307,909; outstanding 22,291,094 and 22,955,748, respectively	22,643	23,308
Class B Common Stock– \$1 par, authorized 1,500,000; issued and outstanding 1,050,012	1,050	1,050
Additional paid-in capital	156,692	179,205
Retained earnings <sup>(1)</sup>	455,519	479,733
Accumulated other comprehensive (loss) income:		
Foreign currency translation adjustments	(13,360	) (2,215
Unrealized investment gains	9,403	14,770
Treasury stock – 352,161 common shares, at cost	(2,666	) (2,666
Total stockholders' equity	629,281	693,185
	750,062	776,887

<sup>(1)</sup> Includes undistributed earnings of subsidiaries of \$514,522 in 2015 and \$544,997 in 2014.  
See accompanying note to financial statement information.  
See accompanying Report of Independent Registered Public Accounting Firm.



STEWART INFORMATION SERVICES CORPORATION  
(Parent Company)  
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2015	2014	2013
	(\$000 omitted)		
Reconciliation of net (loss) income to cash used by operating activities:			
Net (loss) income	(6,204	) 29,753	63,026
Add (deduct):			
Depreciation and amortization	162	421	527
Other losses	—	869	3,164
Increase in receivables – net	(22,096	) (47,232	) (95
(Increase) decrease in other assets – net	(558	) (828	) 2,413
Increase in payables and accrued liabilities – net	21,136	12,395	3,335
Losses (income) from subsidiaries	12,465	(12,837	) (70,210
Other – net	(26,244	) (31,824	) (3,945
Cash used by operating activities	(21,339	) (49,283	) (1,785
Investing activities:			
Dividends from subsidiaries	15,000	25,000	—
Proceeds from the sale of property and equipment –net	—	—	5
Collections on notes receivables	—	—	1
Cash provided by investing activities	15,000	25,000	6
Financing activities:			
Proceeds from notes payable	45,000	60,000	—
Payments on notes payable	(7,000	) —	—
Dividends paid	(18,010	) (2,334	) (2,159
Repurchases of Common Stock	(27,950	) (22,048	) —
Purchase of remaining interest of consolidated subsidiary	(209	) (321	) (1,442
Settlement of convertible debt	—	—	(1,149
Other – net	130	—	—
Cash (used) provided by financing activities	(8,039	) 35,297	(4,750
(Decrease) increase in cash and cash equivalents	(14,378	) 11,014	(6,529
Cash and cash equivalents at beginning of year	15,210	4,196	10,725
Cash and cash equivalents at end of year	832	15,210	4,196
Supplemental information:			
Income taxes paid	1	24	34
Interest paid	1,681	546	4

See accompanying note to financial statement information.

See accompanying Report of Independent Registered Public Accounting Firm.



S - 3

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STEWART INFORMATION SERVICES CORPORATION

(Parent Company)

NOTE TO FINANCIAL STATEMENT INFORMATION

The Parent Company operates as a holding company, transacting substantially all of its business through its subsidiaries. Its consolidated financial statements are included in Part II, Item 8 of Form 10-K. The Parent Company financial statements should be read in conjunction with the aforementioned consolidated financial statements and notes thereto and financial statement schedules.

Certain prior year amounts in the Parent Company financial statements have been reclassified for comparative purposes. Net (loss) income and stockholders' equity, as previously reported, were not affected. Interest of \$1.7 million on the Convertible Senior Notes was paid by a subsidiary in 2014. In October 2014, the remaining outstanding balance of the Convertible Senior Notes was converted into Common Stock as discussed in Note 10 to the consolidated financial statements.

S - 4

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SCHEDULE II  
 STEWART INFORMATION SERVICES CORPORATION AND SUBSIDIARIES  
 VALUATION AND QUALIFYING ACCOUNTS  
 December 31, 2015

Col. A Description	Col. B Balance at beginning of period (\$000 omitted)	Col. C Additions Charged to costs and expenses	Charged to other accounts (describe)	Col. D Deductions (Describe)	Col. E Balance At end of period
Stewart Information Services Corporation and subsidiaries: Year ended December 31, 2015:					
Estimated title losses	495,395	106,265	—	139,038 (A)	462,622
Valuation allowance for deferred tax assets	2,564	(347 )	—	—	2,217
Allowance for uncollectible amounts	9,193	3,396	—	2,756 (B)	9,833
Year ended December 31, 2014:					
Estimated title losses	506,888	81,305	2,268 (C)	95,066 (A)	495,395
Valuation allowance for deferred tax assets	6,971	(4,407 )	—	—	2,564
Allowance for uncollectible amounts	9,871	1,977	—	2,655 (B)	9,193
Year ended December 31, 2013:					
Estimated title losses	520,375	106,318	—	119,805 (A)	506,888
Valuation allowance for deferred tax assets	12,136	(5,165 )	—	—	6,971
Allowance for uncollectible amounts	12,823	2,063	—	5,015 (B)	9,871

(A) Represents primarily payments of policy and escrow losses and loss adjustment expenses.

(B) Represents uncollectible accounts written off.

(C) Represents amounts added through acquisitions.

See accompanying Report of Independent Registered Public Accounting Firm.

INDEX TO EXHIBITS

Exhibit

3.1	—	Amended and Restated Certificate of Incorporation of the Registrant, dated May 1, 2009 (incorporated by reference in this report from Exhibit 3.1 of the Current Report on Form 8-K filed May 5, 2009)
3.2	—	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Registrant, dated April 30, 2010 (incorporated by reference in this report from Exhibit 3.2 of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010)
3.3	—	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Registrant, dated May 7, 2014 (incorporated by reference in this report from Exhibit 3.1 of the Current Report on Form 8-K filed May 7, 2014)
3.4	—	Second Amended and Restated By-Laws of the Registrant, as of April 22, 2015 (incorporated by reference in this report from Exhibit 3.1 of the Current Report on Form 8-K filed April 24, 2015)
4.1	—	Rights of Common and Class B Common Stockholders (incorporated by reference to Exhibits 3.1 through 3.4 hereto)
4.2	—	Indenture related to 6.0% Convertible Senior Notes due 2014, dated as of October 15, 2009, by and between the Registrant, the Guarantors party thereto, and Wells Fargo Bank N.A., as trustee (incorporated by reference in this report from Exhibit 4.1 of the Current Report on Form 8-K filed October 15, 2009)
4.3	—	Form of 6.00% Convertible Senior Note due 2014 (incorporated by reference to Exhibit 4.2 hereto)
4.4	—	Credit Agreement, dated as of October 21, 2014, by and between the Registrant, the Guarantors party thereto, and Compass Bank, as administrative agent and lenders party thereto (incorporated by reference in this report from Exhibit 10.1 of the Current Report on Form 8-K filed October 23, 2014)
4.5	—	First Amendment to Credit Agreement, dated effective as of December 31, 2015, among the Registrant, the guarantors named therein, Compass Bank, as administrative agent, and the lenders party thereto (incorporated by reference in this report from Exhibit 10.1 of the Current Report on Form 8-K filed February 11, 2016)
10.1 †	—	Deferred Compensation Agreements dated March 10, 1986, amended July 24, 1990 and October 30, 1992, between the Registrant and certain executive officers (incorporated by reference in this report from Exhibit 10.2 of the Annual Report on Form 10-K for the year ended December 31, 1997)
10.2 †	—	Stewart Information Services Corporation 1999 Stock Option Plan (incorporated by reference in this report from Exhibit 10.3 of the Annual Report on Form 10-K for the year ended December 31, 1999)

10.3 †	—	Stewart Information Services Corporation 2005 Long-Term Incentive Plan, as amended and restated May 1, 2009 (incorporated by reference in this report from Exhibit 10.1 of the Current Report on Form 8-K filed May 5, 2009)
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Exhibit

- 10.4 † — Stewart Information Services Corporation 2008 Strategic Incentive Pool Plan (incorporated by reference in this report from Exhibit 10.1 of the Current Report on Form 8-K filed May 14, 2008)
- 10.5 — Nomination and Standstill Agreement, dated as of February 12, 2014, by and among the Registrant and Foundation Onshore Fund, L.P., Foundation Offshore Master Fund, Ltd., Foundation Offshore Fund, Ltd., Foundation Asset Management GP, LLC, Foundation Asset Management, LLC, David Charney, Sky Wilber, Engine Capital, L.P., Engine Jet Capital, L.P., Engine Capital Management, LLC, Engine Investments, LLC, Arnaud Ajdler and Glenn Christenson. (incorporated by reference in this report from Exhibit 10.1 of the Current Report on Form 8-K filed February 14, 2014)
- 10.6 † — Addendum, entered into as of April 7, 2014 and effective as of January 1, 2014, to Employment Agreement entered into as of October 1, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Joseph Allen Berryman (§162(m)) (incorporated by reference in this report from Exhibit 10.1 of the Current Report on Form 8-K filed April 8, 2014)
- 10.7 † — Addendum, entered into as of April 7, 2014 and effective as of January 1, 2014, to Employment Agreement entered into as of October 16, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Glenn H. Clements (§162(m)) (incorporated by reference in this report from Exhibit 10.2 of the Current Report on Form 8-K filed April 8, 2014)
- 10.8 † — Addendum, entered into as of April 7, 2014 and effective as of January 1, 2014, to Employment Agreement entered into as of October 1, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Steven M. Lessack (§162(m)) (incorporated by reference in this report from Exhibit 10.3 of the Current Report on Form 8-K filed April 8, 2014)
- 10.9 † — Addendum, entered into as of April 7, 2014 and effective as of January 1, 2014, to Employment Agreement entered into as of October 1, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Matthew W. Morris (§162(m)) (incorporated by reference in this report from Exhibit 10.4 of the Current Report on Form 8-K filed April 8, 2014)
- 10.10 † — Addendum, entered into as of April 4, 2014 and effective as of January 1, 2014, to Employment Agreement entered into as of October 12, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Jason R. Nadeau (§162(m)) (incorporated by reference in this report from Exhibit 10.5 of the Current Report on Form 8-K filed April 8, 2014)
- 10.11 † — Addendum, entered into as of April 7, 2014 and effective as of January 1, 2014, to Employment Agreement entered into as of October 1, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Joseph Allen Berryman (2014 payments) (incorporated by reference in this report from Exhibit 10.6 of the Current Report on Form 8-K filed April 8, 2014)

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- 10.12 † — Addendum, entered into as of April 7, 2014 and effective as of January 1, 2014, to Employment Agreement entered into as of October 16, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Glenn H. Clements (2014 payments) (incorporated by reference in this report from Exhibit 10.7 of the Current Report on Form 8-K filed April 8, 2014)
- 10.13 † — Addendum, entered into as of April 7, 2014 and effective as of January 1, 2014, to Employment Agreement entered into as of October 1, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Steven M. Lessack (2014 payments) (incorporated by reference in this report from Exhibit 10.8 of the Current Report on Form 8-K filed April 8, 2014)
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Exhibit	
10.14 †	— Addendum, entered into as of April 7, 2014 and effective as of January 1, 2014, to Employment Agreement entered into as of October 1, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Matthew W. Morris (2014 payments) (incorporated by reference in this report from Exhibit 10.9 of the Current Report on Form 8-K filed April 8, 2014)
10.15 †	— Addendum, entered into as of April 4, 2014 and effective as of January 1, 2014, to Employment Agreement entered into as of October 12, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Jason R. Nadeau (2014 payments) (incorporated by reference in this report from Exhibit 10.10 of the Current Report on Form 8-K filed April 8, 2014)
10.16 †	— Addendum, entered into as of April 2, 2015 and effective as of January 1, 2015, to Employment Agreement entered into as of October 1, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Joseph Allen Berryman (incorporated by reference in this report from Exhibit 10.1 of the Current Report on Form 8-K filed April 8, 2015)
10.17 †	— Addendum, entered into as of April 6, 2015 and effective as of January 1, 2015, to Employment Agreement entered into as of October 16, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Glenn H. Clements (incorporated by reference in this report from Exhibit 10.2 of the Current Report on Form 8-K filed April 8, 2015)
10.18 †	— Addendum, entered into as of April 6, 2015 and effective as of January 1, 2015, to Employment Agreement entered into as of October 1, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Steven M. Lessack (incorporated by reference in this report from Exhibit 10.3 of the Current Report on Form 8-K filed April 8, 2015)
10.19 †	— Addendum, entered into as of April 6, 2015 and effective as of January 1, 2015, to Employment Agreement entered into as of October 1, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Matthew M. Morris (incorporated by reference in this report from Exhibit 10.4 of the Current Report on Form 8-K filed April 8, 2015)
10.20 †	— Addendum, entered into as of April 6, 2015 and effective as of January 1, 2015, to Employment Agreement entered into as of October 12, 2012 and effective as of January 1, 2012, by and between Stewart Information Services Corporation and Jason R. Nadeau



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(incorporated by reference in this report from Exhibit 10.5 of the Current Report on Form 8-K filed April 8, 2015)

- 10.21 — Agreement, dated as of March 26, 2015, by and among Stewart Information Services Corporation and Bulldog Investors, LLC (incorporated by reference in this report from Exhibit 10.1 of the Current Report on Form 8-K filed on March 27, 2015)
- 10.22 — Exchange Agreement, dated as of January 26, 2016, by and among Stewart Information Services Corporation and the holders of the Class B common stock, par value \$1.00 per share, of the Company (incorporated by reference in this report from Exhibit 10.1 of the Current Report on Form 8-K filed on January 27, 2016)
- 10.23 — Settlement Agreement and General Release dated January 27, 2016, by and between Malcolm S. Morris, Rebecca Ann Morris, Stewart Morris, Jr., as Trustee of The Malcolm S. Morris Investment Trust, and Stewart Information Services Corporation (incorporated by reference in this report from Exhibit 10.1 of the Current Report on Form 8-K filed February 1, 2016)
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Exhibit

10.24	—	Insurance Agreement, effective February 1, 2016, by and between Stewart Morris, Jr., Maco Fowlkes, as Trustee of The 2000 Stewart Morris Jr. and Melissa Joy Birdsong Morris Investment Trust dated September 1, 2000, and Stewart Information Services Corporation (incorporated by reference in this report from Exhibit 10.2 of the Current Report on Form 8-K filed February 1, 2016)
10.25 †	—	Employment Agreement, effective January 1, 2017, by and between Stewart Information Services Corporation and Stewart Morris, Jr. (incorporated by reference in this report from Exhibit 10.3 of the Current Report on Form 8-K filed February 1, 2016)
10.26 †	—	Employment Agreement, effective January 1, 2017, by and between Stewart Information Services Corporation and Malcolm S. Morris (incorporated by reference in this report from Exhibit 10.4 of the Current Report on Form 8-K filed February 1, 2016)
14.1	—	Code of Ethics for Chief Executive Officers, Principal Financial Officer and Principal Accounting Officer (incorporated by reference in this report from Exhibit 14.1 of the Annual Report on Form 10-K for the year ended December 31, 2004)
21.1*	—	Subsidiaries of the Registrant
23.1*	—	Consent of KPMG LLP, including consent to incorporation by reference of their reports into previously filed Securities Act registration statements
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.INS*	—	XBRL Instance Document
101.SCH*	—	XBRL Taxonomy Extension Schema Document
101.CAL*	—	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	—	XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\* — XBRL Taxonomy Extension Label Linkbase Document

101.PRE\* — XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

† Management contract or compensatory plan

A complete copy of this Annual Report on Form 10-K,  
including these exhibits, can be viewed at [www.stewart.com](http://www.stewart.com).