

AXIS CAPITAL HOLDINGS LTD  
Form 424B4  
April 16, 2004

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Filed Pursuant to Rule 424(b)(4)  
Registration No. 333-113951

**PROSPECTUS**

**20,000,000 Shares**

**AXIS Capital Holdings Limited**

**Common Shares**

This is a public offering of common shares of AXIS Capital Holdings Limited. All of the common shares are being sold by the selling shareholders in this offering. AXIS Capital Holdings Limited will not receive any of the proceeds from the sale of common shares by the selling shareholders.

Our common shares are listed on the New York Stock Exchange under the symbol "AXS." The last reported sale price of our common shares on the New York Stock Exchange on April 15, 2004 was \$27.91 per share.

**Investing in our common shares involves risks. See "Risk Factors" beginning on page 10.**

**PRICE \$27.91 A SHARE**

	<b><u>Per Share</u></b>	<b><u>Total</u></b>
Price to public	\$ 27.91	\$ 558,200,000
Underwriting discount	\$ 0.91	\$ 18,200,000
Proceeds, before expenses, to the selling shareholders	\$ 27.00	\$ 540,000,000

The selling shareholders have granted the underwriters the right to purchase up to an additional 3,000,000 common shares to cover over-allotments.

Neither the Securities and Exchange Commission, state securities regulators, the Registrar of Companies in Bermuda, the Bermuda Monetary Authority nor any other regulatory body has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about April 21, 2004.

**MORGAN STANLEY**

**CITIGROUP**

CREDIT SUISSE FIRST BOSTON  
COCHRAN, CARONIA & CO.

JPMORGAN  
DEUTSCHE BANK SECURITIES  
FOX-PITT, KELTON

MERRILL LYNCH & CO.  
WACHOVIA SECURITIES

April 15, 2004

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with information that is different from that contained in this prospectus. The selling shareholders are not making, nor will they make, an offer to sell these securities in any jurisdiction where the offer and sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common shares.

Common shares may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda, which regulates the sale of securities in Bermuda. In addition, the Bermuda Monetary Authority (the "BMA") must approve all issuances and transfers of securities of a Bermuda exempted company. The BMA has issued its permission for the free transferability of our common shares, as long as the common shares are listed on the New York Stock Exchange ("NYSE") or other appointed stock exchanges, to and among persons who are non-residents of Bermuda for exchange control purposes and up to 20% of the common shares to and among persons who are residents of Bermuda for exchange control purposes. Any other transfers remain subject to approval by the BMA. The BMA accepts 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.

Neither we nor the selling shareholders have authorized any offer of the common shares being offered pursuant to this prospectus to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulation 1995, as amended (the "Regulations"). Common shares may not lawfully be offered or sold to persons in the United Kingdom except in circumstances that do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations.

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This document is for distribution only to persons who (1) are outside the United Kingdom, (2) have professional experience in matters relating to investments, (3) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") or Article 60 ("participation in employee share schemes") of The Financial Services and Markets Act 2000 (Financial

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Promotion) Order 2001 (as amended) or (4) are persons to whom this document may otherwise lawfully be issued or passed on to (all such persons together being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

This prospectus does not constitute a prospectus for the purposes of the Irish Companies Acts, 1963 to 2003 and has not been registered with the Registrar of Companies in Ireland. Neither we nor the selling shareholders will make (and have not authorised any person to make) any offer or sale of common shares to the public (within the meaning of the above Acts) wherever situated. Common shares may be offered for sale only to a person whose ordinary business is to buy or sell shares or debentures (whether as principal or agent).

The common shares being offered pursuant to this prospectus shall not be offered, transferred or sold in the Netherlands to any person other than to natural or legal persons who trade or invest in securities in the conduct of their profession or trade within the meaning of section 2 of the Exemption Regulation pursuant to The Netherlands Securities Market Supervision Act 1995 ("Vrijstellingsregeling Wet toezicht effectenverkeer 1995"), which includes banks, securities intermediaries (including dealers and brokers), insurance companies, central governments, large international and supranational institutions, pension funds, other institutional investors and commercial enterprises which, as an ancillary activity, regularly invest in securities in the conduct of a business or a profession.

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### PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus. While we have highlighted what we believe is the most important information about us and this offering in this summary, you should read the entire prospectus carefully, including the "Risk Factors" and "Forward-Looking Statements" sections and our consolidated financial statements and the notes to those consolidated financial statements before making an investment decision. In this prospectus, references to the "Company," "we," "us" or "our" refer to the consolidated operations of AXIS Capital Holdings Limited ("AXIS Capital") and its direct and indirect subsidiaries and branches, including AXIS Specialty Limited ("AXIS Specialty"), AXIS Re Limited ("AXIS Re"), AXIS Specialty Europe Limited ("AXIS Specialty Europe"), AXIS Reinsurance Company ("AXIS Reinsurance"), AXIS Specialty Insurance Company ("AXIS Insurance"), AXIS Surplus Insurance Company ("AXIS Surplus"), AXIS Re Europe and AXIS Speciality London, unless the context suggests otherwise. References in this prospectus to "dollars" or "\$" are to the lawful currency of the United States of America, unless the context otherwise requires. Unless otherwise stated, all figures assume no exercise of the underwriters' over-allotment option. For your convenience, we have provided a Glossary, beginning on page G-1, of selected reinsurance, insurance and investment terms and have printed these terms in boldfaced type the first time they are used in this prospectus.*

### THE COMPANY

#### Overview

We provide **specialty lines** insurance and **treaty reinsurance** on a global basis, with headquarters in Bermuda. Through our operating subsidiaries and branches based in Bermuda, Ireland, the United States, the United Kingdom and Switzerland, we focus on writing coverage for specialized classes of risk through our team of highly skilled and experienced underwriters. Since our founding in November 2001, we have successfully assembled a strong management team of proven leaders with significant industry experience, established a global underwriting infrastructure and built a broad product portfolio. In 2002, our first full year of operation, we wrote \$1.1 billion of **gross premiums**, generated \$265.1 million of net income, produced a **combined ratio** of 70.7% and earned a return on average equity of 14.7%. In 2003, we wrote \$2.3 billion of gross premiums, generated \$532.3 million of net income, produced a combined ratio of 73.7% and earned a return on average

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equity of 22.3%. As of December 31, 2003, we had \$2.82 billion of shareholders' equity. We believe that we have established a recognized franchise in the insurance and **reinsurance** industry and are well-positioned to provide our products to our customers.

The insurance and reinsurance industry has experienced severe dislocation as a result of an unprecedented impairment of capital, which has caused a substantial contraction in global **underwriting capacity**. We believe this impairment has been caused primarily by the following factors:

Record loss events in 2001 and 2002;

Continued adverse loss development from industry legacy issues;

An adverse investment environment;

Exit of key players from some markets; and

A significant number of ratings downgrades.

We believe that from the beginning of 2001 through the end of 2002, capital available to write property and **casualty insurance** and reinsurance has been impaired by an estimated \$243 to \$253 billion in potential and realized underwriting and investment losses. This amount is 35% to 36% of the approximately \$700 billion in available capital at the end of 2000. At the same time that capacity has declined, we believe the demand for commercial insurance and reinsurance has increased as insureds have become increasingly aware of their risk exposures. These industry developments have

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provided new companies such as ours with an opportunity to provide much needed underwriting capacity at attractive rates in conjunction with improved terms and conditions. During 2003, many companies operating in our markets were recovering from a prolonged period of excess underwriting capacity, which generally produces favorable pricing, terms and conditions for the risks that we underwrite. We believe we will benefit from continued underwriting discipline in most lines of business and from insureds seeking to move their business from insurers and reinsurers with legacy balance sheet issues and reserving shortfalls to financially stronger insurers and reinsurers.

In forming the Company, our strategy was to establish an entity with a solid capital base, a strong management team, a globally diversified product portfolio and a cost-effective underwriting platform capable of allowing us to react quickly to changing market dynamics. We believe the ability to execute this strategy in the current market without the burden of historical losses relating to the tragic events of September 11, 2001, asbestos, environmental or other legacy exposures differentiates us from many incumbent insurers and reinsurers. We believe we have begun to successfully execute this strategy, and we are committed to capitalizing on the opportunities created by ongoing market dislocations.

We seek to use our management's extensive expertise, experience and long-standing market relationships to identify and underwrite attractively priced risks while delivering innovative insurance and reinsurance solutions to our customers. Our underwriters are focused on constructing a portfolio of risks that utilizes our capital while optimizing the risk-reward characteristics of the portfolio. For our global insurance segment, we have designed our corporate and underwriting structure to create an operating platform that utilizes new procedures and technologies, which we believe provides us with a competitive advantage. We intend to continue to exercise highly disciplined underwriting practices and manage a diverse book of business while seeking to maximize our profitability and generate superior returns on equity.

In 2002, our business consisted of two underwriting segments: specialty lines and treaty reinsurance. With effect from January 1, 2003, we added two new segments following our acquisitions of AXIS Reinsurance and AXIS Surplus. Our business now consists of four segments: global insurance (formerly specialty lines), global reinsurance (formerly treaty reinsurance), U.S. insurance and U.S. reinsurance. During the year ended December 31, 2003, we wrote gross premiums of \$980.7 million in our global insurance segment, \$462.9 million in our global reinsurance segment, \$625.9 million in our U.S. insurance segment and \$204.1 million in our U.S. reinsurance segment. During the year ended December 31, 2003, we established a European reinsurance office in Zurich and hired a team of underwriters. During the first three months of 2004, this office principally wrote European trade credit and bond reinsurance, motor and general liability reinsurance and property catastrophe

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reinsurance. We anticipate that this unit will provide growth within our global reinsurance segment in 2004.

Our global insurance segment principally consists of specialty lines business that is sourced outside of the United States but covers exposures throughout the world, including:

Specialty Risks (including Terrorism, Marine and Aviation War Risk, Political Risk and Professional Lines);

Onshore and Offshore Energy;

Aviation and Aerospace;

Commercial Property; and

Marine.

Our global reinsurance segment principally consists of treaty reinsurance business that is sourced outside of the United States but covers exposures throughout the world, including:

Property (catastrophe-based);

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Workers' Compensation, Personal Accident and Life (catastrophe-based);

Aviation and Crop;

Trade Credit and Bond; and

Motor and General Liability.

Our U.S. insurance segment primarily consists of specialty lines business that is sourced in the United States and covers exposures in the United States, including:

Commercial Property;

Professional Lines; and

Commercial Liability.

Our U.S. reinsurance segment principally consists of treaty reinsurance business that is sourced in the United States and covers exposures in the United States, including:

Professional Lines;

Liability;

Property; and

Marine and Aviation.

We produce our business almost exclusively through insurance and reinsurance **brokers** worldwide who receive a brokerage commission generally equal to a percentage of gross premiums. Our management and underwriting team have longstanding relationships with key insurance and reinsurance brokers, such as Marsh Inc. ("Marsh"), including its subsidiary, Guy Carpenter & Company, Inc. ("Guy Carpenter"), Aon Corporation ("Aon"), Willis Group Holdings Ltd. ("Willis") and Benfield Group ("Benfield"), and with many **ceding companies**.

### Competitive Strengths

We believe our competitive strengths have enabled, and will continue to enable, us to capitalize on the significant dislocation in the insurance and reinsurance marketplace. These strengths include:

*Experienced Management and Underwriting Team with Proven Track Record.* The extensive depth and knowledge of our management and underwriting teams provide us with the ability to successfully select and price complex risks.

*Long-Standing Market Relationships.* Our underwriters have well-established personal relationships with our insureds, cedents and brokers.

*Demonstrated Ability to Attract High Quality Talent.* From inception, we have successfully targeted and hired high quality management and underwriting talent.

*Disciplined Approach to Underwriting and Risk Management.* Our disciplined, conservative approach to underwriting utilizing peer review processes, combined with our strict management of global aggregate exposures across products and sophisticated modeling capabilities, allow us to realize attractive prices, favorable terms and risk diversification.

*Low-Cost International Infrastructure and Versatile Underwriting Platform.* Our international presence, centralized coordination and proprietary technologies provide us with the flexibility to adapt to market conditions in real time and practice a highly opportunistic underwriting approach.

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*Superior Financial Strength.* Our insurance subsidiaries are rated "A" (Strong) by Standard & Poor's and "A" (Excellent) by A.M. Best. These ratings are intended to assist policyholders and reflect opinions of our financial strength and our ability to pay policyholder claims and are not applicable to the securities offered in this prospectus.

### Strategy

Our corporate objective is to generate superior returns on capital that appropriately reward us for risks we assume and to increase our revenue only when we deem it profitable, while establishing ourselves as a global leader in providing specialty lines insurance and treaty reinsurance products to our customers. We intend to achieve this objective by executing the following strategies:

*Establish Global Leadership in Key Business Lines by Leveraging Management's Significant Experience and Relationships.* We rely on our senior management team's extensive customer relationships to take advantage of the current dislocation in the insurance market, generate new business and establish ourselves as a leading writer of specialty lines and

treaty reinsurance.

*Opportunistically Manage a Diverse Portfolio of Specialty Risks.* We are opportunistic and selective participants in business lines that have been or may be most affected by the significant contraction in global underwriting capacity.

*Continue Commitment to Highly Disciplined Underwriting Practices.* We utilize our disciplined underwriting approach to minimize risk and reduce the volatility of our operating results.

*Maintain a Conservative Balance Sheet and Superior Financial Ratings.* We are committed to maintaining our excellent capitalization, financial strength and ratings over the long-term.

*Realize Increased Profitability by Maintaining Our Efficient, Low-Cost Infrastructure.* We maintain the flexibility provided by our low-cost infrastructure to selectively participate in new business opportunities, or retrench from existing business lines, without incurring significant additional costs.

*Manage Capital Prudently.* We manage our capital prudently relative to our risk exposure to maximize profitability and long-term growth in shareholder value.

## **Risks Relating to Our Company**

As part of your evaluation of the Company, you should take into account the risks we face in our business. These risks include:

*Limited Operating History.* We began our business in November 2001 and, as a result, there is limited historical financial and operating information available to help you evaluate our performance or an investment in our common shares.

*Exposure to Natural and Man-Made Disasters.* We have substantial exposure to unexpected losses resulting from natural and man-made disasters and other catastrophic events, the incidence and severity of which are inherently unpredictable.

*Uncertainty of Loss Reserves.* To the extent actual claims exceed our expectations, this could cause a material increase in our liabilities and a reduction in our profitability, including an operating loss and reduction of capital.

*Failure of Loss Limitation Methods.* We cannot be sure that the loss limitation methods we employ will be effective to mitigate the effect on our financial condition or results of operations from one or more catastrophic or other events.

*Emerging Claims and Coverage Issues.* Unexpected and unintended issues related to claims and coverage may emerge as practices and conditions change both inside and outside of the insurance and reinsurance industry.

*Risk Associated with Reinsurance Underwriting.* In our reinsurance business, we do not separately evaluate each of the individual risks assumed under reinsurance treaties and are subject to the risk that the ceding companies may not have adequately evaluated the risks to be reinsured and that the premiums ceded may not adequately compensate us for the risks we assume.

*Loss of Key Employees.* If we were to lose the services of members of our management team, our business could be adversely affected.

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For more information about these and other risks, see "Risk Factors" beginning on page 10. You should carefully consider these risk factors together with all the other information included in this prospectus.

### **Corporate History and Organization**

We were founded with \$1.7 billion of capital and began operations in November 2001 as AXIS Specialty. AXIS Specialty and its subsidiaries became wholly owned subsidiaries of AXIS Capital pursuant to an exchange offer consummated on December 31, 2002 (the "Exchange Offer"). On July 7, 2003, we completed an initial public offering of 15.4 million newly issued common shares and 9.3 million common shares offered by selling shareholders.

Set forth below is our corporate organization chart that shows our operating insurance companies and branches:

Our principal executive offices are located at 106 Pitts Bay Road, Pembroke HM 08, Bermuda, and our telephone number at that location is (441) 296-2600.

### **Recent Developments**

On March 25, 2004, we renewed our existing credit facility by entering into a three-year \$750 million credit facility with a syndicate of commercial banks led by JPMorgan Chase Bank, as administrative agent and lender. Under the terms of this new credit facility, up to \$750 million may be used by AXIS Capital, AXIS Specialty, AXIS Re and AXIS Specialty Europe to issue letters of credit and up to \$300 million may be used for general corporate purposes, with total borrowings not to exceed \$750 million. In addition, we anticipate that AXIS Reinsurance, AXIS Insurance and AXIS Surplus will become parties to this credit facility upon receipt of regulatory approvals from each of their respective state insurance authorities. The new credit facility also contains various loan covenants with which we must comply, including limitations on the incurrence of future indebtedness, future liens, fundamental changes, investments and certain transactions with affiliates.



**THE OFFERING**

Common shares offered by selling shareholders	20,000,000 common shares
Common shares to be outstanding after the offering	154,892,341 common shares
Over-allotment shares offered by selling shareholders	3,000,000 common shares
Use of proceeds	We will not receive any of the proceeds from the sale of common shares by the selling shareholders.
Dividend policy	We paid dividends of \$0.07 per common share to all common shareholders of record on September 30, 2003 and December 31, 2003. We paid a dividend of \$0.125 per common share to all common shareholders of record on March 31, 2004. Any determination to pay dividends will be at the discretion of our board of directors and will be dependent upon our results of operations and cash flows, our financial position and capital requirements, general business conditions, legal, tax, regulatory and any contractual restrictions on the payment of dividends and any other factors our board of directors deems relevant.

NYSE symbol "AXS"

The number of shares shown to be outstanding after the offering excludes:

19,584,904 common shares that may be issued pursuant to warrants outstanding as of March 31, 2004 at an exercise price of \$12.50 per share;

5,758,012 common shares that may be issued pursuant to options that had been granted as of March 31, 2004 at a weighted average exercise price of \$16.46 per share; and

7,287,850 additional common shares available for future issuance under our stock option and incentive plans as of March 31, 2004.

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**SUMMARY CONSOLIDATED FINANCIAL INFORMATION**

The following table sets forth our summary consolidated financial information for the periods ended and as of the dates indicated. AXIS Specialty was incorporated on November 8, 2001 and commenced operations on November 20, 2001. AXIS Capital was incorporated on December 9, 2002. On December 31, 2002, AXIS Specialty and its subsidiaries became wholly owned subsidiaries of AXIS Capital pursuant to the Exchange Offer. In the Exchange Offer, the shareholders of AXIS Specialty exchanged their shares for identical shareholdings in AXIS Capital. Following the Exchange Offer, AXIS Specialty distributed all of its wholly-owned subsidiaries to AXIS Capital. The Exchange Offer represents a business combination of companies under common control and has been accounted for at historical cost. As a result, the summary consolidated financial information presented gives effect to the exchange of equity interests as though it occurred as of the inception date of AXIS Specialty on November 8, 2001.

The summary statement of operations data for the years ended December 31, 2003 and 2002 and for the period from inception (November 8, 2001) through December 31, 2001 and the summary balance sheet data as of December 31, 2003 and December 31, 2002 are derived from our audited consolidated financial statements included within the consolidated financial statements and notes included elsewhere in this prospectus, which have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and have been

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audited by Deloitte & Touche, our independent auditors.

The following summary consolidated financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31, 2003	Year Ended December 31, 2002	Period Ended December 31, 2001 <sup>(1)</sup>
(\$ in thousands, except share and per share amounts)			
<b>Summary Statement of Operations</b>			
<b>Data:</b>			
Gross premiums written	\$ 2,273,645	\$ 1,108,003	\$ 26,746
Net premiums written	1,908,387	1,018,277	26,746
Net premiums earned	1,436,230	536,850	1,884
Net investment income	73,961	71,287	4,763
Net realized gains	22,567	26,070	394
Net losses and loss expenses	734,019	229,265	963
Acquisition costs	229,712	103,703	832
General and administrative expenses	94,589	46,521	2,566
Income tax recovery	678	1,430	
Net income	532,350	265,119	2,680
<b>Per Share Data:</b>			
Basic earnings per share	\$ 3.69	\$ 1.96	\$ 0.03
Diluted earnings per share	\$ 3.42	\$ 1.91	\$ 0.03
Basic weighted average shares outstanding	144,262,881	135,442,240	105,103,400
Diluted weighted average shares outstanding	155,690,763	138,480,623	105,103,400
<b>Summary U.S. GAAP Ratios:</b>			
Net loss and loss expense ratio <sup>(2)</sup>	51.1%	42.7%	51.1%
Acquisition cost ratio <sup>(3)</sup>	16.0	19.3	44.2
General and administrative expense ratio <sup>(4)</sup>	6.6	8.7	136.2
Combined ratio <sup>(5)</sup>	73.7%	70.7%	231.5%

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	As of December 31, 2003	As of December 31, 2002	As of December 31, 2001
(\$ in thousands, except share and per share amounts)			
<b>Summary Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 605,175	\$ 729,296	\$ 761,670
Investments at fair market value	3,385,576	1,702,990	1,079,686
Total assets	5,172,273	2,948,321	1,877,773
Reserve for losses and loss expenses	992,846	215,934	963
Unearned premiums	1,143,447	555,962	24,862
Total shareholders' equity	2,817,148	1,961,033	1,649,552
<b>Per Share Data:</b>			
Book value per share <sup>(6)</sup>	\$ 18.48	\$ 14.19	\$ 12.21

- (1) The financial information for this period reflects our results from November 8, 2001, the date of incorporation of AXIS Specialty, to December 31, 2001.
- (2) The **net loss and loss expense ratio** is calculated by dividing **net losses and loss expenses** by **net premiums earned**.
- (3) The **acquisition cost ratio** is calculated by dividing **acquisition costs** by net premiums earned.
- (4) The **general and administrative expense ratio** is calculated by dividing general and administrative expenses by net premiums earned.
- (5) The combined ratio is the sum of the net loss and loss expense ratio, the acquisition cost ratio and the general and administrative expense ratio.
- (6) Book value per share is based on total shareholders' equity divided by basic shares outstanding of 152,474,011 as of December 31, 2003, 138,168,520 as of December 31, 2002 and 135,122,688 as of December 31, 2001.

## RISK FACTORS

*An investment in our common shares involves a number of risks. You should carefully consider the following information about these risks, together with the other information contained in this prospectus, before investing in our common shares. Any of the risks described below could result in a significant or material adverse effect on our results of operations or financial condition and a corresponding decline in the market price of our common shares. You could lose all or part of your investment.*

### Risks Related to the Company

#### **Our future performance is difficult to predict because we have a limited operating history.**

We began our business in November 2001 and have a limited operating and financial history. As a result, there is limited historical financial and operating information available to help you evaluate our performance or an investment in our common shares. Because we are in the initial stages of development, we face substantial business and financial risks and may suffer significant losses. We must successfully develop business relationships, establish operating procedures, hire staff, install management information and other systems and complete other tasks necessary to conduct our intended business activities. It is possible that we will not be successful in implementing our business strategy or accomplishing these necessary tasks. In addition, because we have not experienced any substantial claims to date, our historical financial results may not accurately indicate our future performance.

#### **Our financial condition could be adversely affected by the occurrence of natural and man-made disasters.**

We have substantial exposure to unexpected losses resulting from natural disasters, man-made catastrophes and other catastrophic events. Catastrophes can be caused by various events, including hurricanes, earthquakes, hailstorms, explosions, severe winter weather, fires, war, acts of terrorism, political instability and other natural or man-made disasters. In addition, we have written and will continue to write policies explicitly covering war, acts of terrorism and political risk. The incidence and severity of catastrophes are inherently unpredictable and our losses from catastrophes could be substantial. The occurrence of claims from catastrophic events is likely to result in substantial volatility in our results of operations or financial condition for any fiscal quarter or year. This volatility is compounded by accounting regulations that do not permit reinsurers to reserve for such catastrophic events until they occur. Increases in the values and concentrations of insured property may increase the severity of these occurrences in the future. Although we attempt to manage our exposure to such events, a single catastrophic event could affect multiple geographic zones or the frequency or severity of catastrophic events could exceed our estimates. As a result, the occurrence of one or more catastrophic events could have a material adverse effect on our results of operations or financial condition and our ability to write new business.

**If actual claims exceed our loss reserves, our financial results could be significantly adversely affected.**

Our results of operations and financial condition depend upon our ability to assess accurately the potential losses associated with the risks that we insure and reinsure. To the extent actual claims exceed our expectations, we will be required to immediately recognize the less favorable experience. This could cause a material increase in our liabilities and a reduction in our profitability, including an operating loss and reduction of capital. To date, we have not been required to make any of these adjustments. However, it is early in our history, and the number and size of reported claims has been small. We expect that in the future the number of claims will increase, and their size could exceed our expectations.

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We establish **loss reserves** to cover our estimated liability for the payment of all **losses and loss expenses** incurred with respect to premiums earned on the policies that we write. Our operating history is too limited and our loss history is insufficient to allow us currently to extrapolate **reserves** directly. Instead, our current **loss reserves** are based on estimates involving actuarial and statistical projections of our expectations of the ultimate settlement and administration costs of claims **incurred but not reported** ("IBNR"). We utilize actuarial models and historical insurance industry loss development patterns to establish appropriate loss reserves, as well as estimates of future trends in claims severity, frequency and other factors. Establishing an appropriate level of loss reserves is an inherently uncertain process. Accordingly, actual claims and claim expenses paid will likely deviate, perhaps substantially, from the reserve estimates reflected in our consolidated financial statements.

If our loss reserves are determined to be inadequate, we will be required to increase loss reserves at the time of such determination with a corresponding reduction in our net income in the period in which the deficiency is rectified. It is possible that claims in respect of events that have occurred could exceed our loss reserves and have a material adverse effect on our results of operations or financial condition.

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

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

**The effects of emerging claim and coverage issues on our business are uncertain.**

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after we have issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance or reinsurance contracts may not be known for many years after a contract is issued. One recent example of an emerging claims and coverage issue is larger settlements and jury awards against professionals and corporate directors and officers covered by professional liability and directors' and officers' liability insurance.

**The risk associated with reinsurance underwriting could adversely affect us.**

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

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**We could be adversely affected by the loss of one or more key executives or by an inability to attract and retain qualified personnel.**

Our success depends on our ability to retain the services of our existing key executives and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key executives or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct our business. We do not maintain key man life insurance policies with respect to our employees, except for our Chief Executive Officer and President, John R. Charman. Under Bermuda law, non-Bermudians (other than spouses of Bermudians, holders of a permanent resident's certificate or holders of a working resident's certificate) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government only upon showing that, after proper public advertisement in most cases, no Bermudian (or spouse of a Bermudian, holder of a permanent resident's certificate or holder of a working resident's certificate) is available who meets the minimum standard requirements for the advertised position. In 2001, the Bermuda government announced a new immigration policy limiting the duration of work permits to between six and nine years, with specified exemptions for "key" employees. If work permits are not obtained or renewed for our key executives in Bermuda, we could lose their services, which could adversely affect our ability to conduct our business.

**Our operating subsidiaries are rated by Standard & Poor's and A.M. Best, and a decline in these ratings could affect our standing among brokers and customers and cause our sales and earnings to decrease.**

Ratings have become an increasingly important factor in establishing the competitive position of insurance and reinsurance companies. Standard & Poor's maintains a letter scale rating system ranging from "AAA" (Extremely Strong) to "R" (under regulatory supervision). A.M. Best maintains a letter scale rating system ranging from "A++" (Superior) to "F" (in liquidation). Our insurance subsidiaries have been rated "A" (Strong) by Standard & Poor's, which is the sixth highest of twenty-one rating levels, and "A" (Excellent) by A.M. Best, which is the third highest of fifteen rating levels. The objective of Standard & Poor's and A.M. Best's rating systems is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to its policyholders. Our ratings reflect Standard & Poor's and A.M. Best's opinions of our financial strength, are not evaluations directed to investors in our common shares and are not recommendations to buy, sell or hold our common shares.

Our ratings are subject to periodic review by, and may be revised downward or revoked at the sole discretion of, Standard & Poor's and/or A.M. Best. If our ratings are reduced from their current levels by either Standard & Poor's or A.M. Best, our competitive position in the insurance and reinsurance industry would suffer, and it would be more difficult for us to market our products. A downgrade, therefore, could result in a substantial loss of business as insureds, ceding companies and brokers that place such business move to other insurers and reinsurers with higher ratings. In addition, we will be in default of our credit facility if any of AXIS Specialty, AXIS Re or AXIS Specialty Europe fails to maintain a rating of at least B++ from A.M. Best.

**Since we depend on a few brokers for a large portion of our revenues, loss of business provided by any one of them could adversely affect us.**

We market our insurance and reinsurance worldwide primarily through insurance and reinsurance brokers. Marsh, including its subsidiary Guy Carpenter, Aon, Willis and Benfield provided 33.7%, 19.3%, 11.5% and 4.0% (for a total of 68.5%), respectively, of our gross premiums written in the year ended December 31, 2003. We believe these brokers also have, or may in the future acquire, ownership interests in insurance and reinsurance companies that may compete with us, and these brokers may

favor their own insurers or reinsurers over other companies. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.

**Our reliance on brokers subjects us to their credit risk.**

In accordance with industry practice, we generally pay amounts owed on claims under our insurance and reinsurance contracts to brokers, and these brokers, in turn, pay these amounts over to the clients that have purchased insurance or reinsurance from us. Although the law is unsettled and depends upon the facts and circumstances of the particular case, in some jurisdictions, if a broker fails to make such a payment, we might remain liable to the insured or ceding insurer for the deficiency. Conversely, in certain jurisdictions, when the insured or ceding insurer pays premiums for these policies to brokers for payment over to us, these premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums from the broker. Consequently, we assume a degree of credit risk associated with brokers with whom we transact business. However, due to the unsettled and

fact-specific nature of the law, we are unable to quantify our exposure to this risk. To date, we have not experienced any material losses related to such credit risks.

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

We purchase reinsurance for our own account in order to mitigate the volatility of losses upon our financial condition. A reinsurer's insolvency, or inability or refusal to make payments under the terms of its reinsurance agreement with us, could have a material adverse effect on us because we remain liable to the insured.

From time to time, market conditions have limited, and in some cases have prevented, insurers and reinsurers from obtaining the types and amounts of reinsurance that they consider adequate for their business needs. For example, following the tragic events of September 11, 2001, terms and conditions in the reinsurance and retrocessional markets generally became less attractive. Accordingly, we may not be able to obtain our desired amounts of reinsurance or **retrocessional reinsurance**. In addition, even if we are able to obtain such reinsurance or retrocessional reinsurance, we may not be able to negotiate terms that we deem appropriate or acceptable or obtain such reinsurance or retrocessional reinsurance from entities with satisfactory creditworthiness.

**Our investment performance may affect our financial results and ability to conduct business.**

Our funds are invested by several professional investment advisory management firms under the direction of our management team in accordance with detailed investment guidelines set by us. See "Business Investments." Although our investment policies stress diversification of risks, conservation of principal and liquidity, our investments are subject to market-wide risks and fluctuations, as well as to risks inherent in particular securities. In particular, the volatility of our claims may force us to liquidate securities, which may cause us to incur capital losses. If we do not structure our investment portfolio so that it is appropriately matched with our insurance and reinsurance liabilities, we may be forced to liquidate investments prior to maturity at a significant loss to cover such liabilities. Investment losses could significantly decrease our asset base, thereby affecting our ability to conduct business. For the year ended December 31, 2003, 6.2% or \$96.5 million of our total revenues was derived from our invested assets. This represented 18.1% of our net income.

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**We may be adversely affected by interest rate changes.**

Our operating results are affected, in part, by the performance of our investment portfolio. Our investment portfolio contains interest rate sensitive-instruments, such as bonds, which may be adversely affected by changes in interest rates. Changes in interest rates could also have an adverse effect on our investment income and results of operations. For example, if interest rates decline, funds reinvested will earn less than expected.

In addition, our investment portfolio includes mortgage-backed securities. As of December 31, 2003, mortgage-backed securities constituted approximately 28.2% of our invested assets (assets under management by third party investment managers). As with other fixed income investments, the fair market value of these securities fluctuates depending on market and other general economic conditions and the interest rate environment. Changes in interest rates can expose us to prepayment risks on these investments. In periods of declining interest rates, mortgage prepayments generally increase and mortgage-backed securities are prepaid more quickly, requiring us to reinvest the proceeds at the then current market rates.

Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we take measures to manage the risks of investing in a changing interest rate environment, we may not be able to mitigate interest rate sensitivity effectively. Our mitigation efforts include maintaining a high quality portfolio with a relatively short duration to reduce the effect of interest rate changes on book value. Despite our mitigation efforts, a significant increase in interest rates could have a material adverse effect on our book value.

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

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. We may need to raise additional funds through financings or curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. In the case of equity financings, dilution to our shareholders could result, and in any case such securities may have rights, preferences and privileges that are senior to those of the shares offered hereby. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition could be

adversely affected.

**Our operating results may be adversely affected by currency fluctuations.**

Our functional currency is the U.S. dollar. For the year ended December 31, 2003, 9.4% of our gross premiums were written in currencies other than the U.S. dollar and we generally expect that a similar proportion will be written in currencies other than the U.S. dollar in 2004. A portion of our loss reserves and investments are also in non-U.S. currencies. We may, from time to time, experience losses resulting from fluctuations in the values of these non-U.S. currencies, which could adversely affect our operating results.

We have no currency hedges in place, nor are we currently aware of any material exposures to loss payments that will be paid in non-U.S. currencies. We intend to consider the use of hedges when we are advised of known or probable significant losses that will be paid in non-U.S. currencies. However, it is possible that we will not successfully structure those hedges so as to effectively manage these risks.

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

*General.* Our insurance and reinsurance subsidiaries may not be able to obtain or maintain necessary licenses, permits, authorizations or accreditations in locales where we currently engage in business or in new locales, or may be able to do so only at significant cost. In addition, we may not be able to comply fully with, or obtain appropriate exemptions from, the wide variety of laws and regulations applicable to insurance or reinsurance companies or holding companies. Failure to comply with or to obtain appropriate authorizations and/or exemptions under any applicable laws could result in restrictions on our ability to do business or certain activities that are regulated in one or more of the jurisdictions in which we operate and could subject us to fines and other sanctions, which could have a material adverse effect on our business. In addition, changes in the laws or regulations to which our insurance and reinsurance subsidiaries are subject could have a material adverse effect on our business.

*AXIS Specialty.* AXIS Specialty is a registered Class 4 Bermuda insurance and reinsurance company. Among other matters, Bermuda statutes and regulations and policies of the BMA require AXIS Specialty to maintain minimum levels of statutory capital, surplus and liquidity, meet solvency standards and submit to periodic examinations of its financial condition and restrict payments of dividends and reductions of capital. These statutes, regulations and policies may, in effect, restrict AXIS Specialty's ability to write insurance and reinsurance policies, to make certain investments and to distribute funds.

The offshore insurance and reinsurance regulatory environment has become subject to increased scrutiny in many jurisdictions, including the United States and various states within the United States. Compliance with any new laws or regulations regulating offshore insurers or reinsurers could have a material adverse effect on our business. In addition, although AXIS Specialty does not believe it is or will be in violation of insurance laws or regulations of any jurisdiction outside Bermuda, inquiries into or challenges to AXIS Specialty's insurance or reinsurance activities may still be raised in the future.

*AXIS U.S. Subsidiaries.* AXIS Reinsurance is organized in New York and is licensed to write certain lines of insurance and reinsurance in New York and elsewhere throughout the United States. AXIS Insurance and AXIS Surplus are organized and licensed to write certain lines of insurance in Connecticut and Illinois, respectively, and are eligible to write certain lines of insurance in certain other U.S. jurisdictions on an excess or surplus lines basis (AXIS Reinsurance, AXIS Insurance and AXIS Surplus are collectively referred to as the "AXIS U.S. Subsidiaries"). The AXIS U.S. Subsidiaries are subject to the laws and regulations of their respective states of domicile and other jurisdictions in which they are licensed or otherwise eligible to engage in business. These laws and regulations, among other things, subject some affiliate transactions between such entities and other members of our holding company system to regulatory authority and require them to maintain minimum levels of capital, surplus and liquidity and comply with applicable risk-based capital requirements. In addition, they impose restrictions on the payment of dividends and distributions and in some cases require them to file insurance premium rates and policy forms. These rules and regulations may have the effect of restricting the ability of the AXIS U.S. Subsidiaries to write new business or distribute assets to AXIS Capital. The purpose of the state insurance laws and regulations is to protect U.S. insureds and U.S. ceding insurance companies, not our shareholders.

In recent years, the U.S. insurance regulatory framework has come under increased federal scrutiny, and some state legislators have considered or enacted laws that may alter or increase state regulation of insurance and reinsurance companies and holding companies. Moreover, the National Association of Insurance Commissioners ("NAIC"), which is an association of the insurance commissioners of all 50 states and the District of Columbia, and state insurance regulators regularly

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reexamine existing laws and regulations. Changes in these laws and regulations or the interpretation of these laws and regulations could have a material adverse effect on our business.

*AXIS Specialty Europe.* AXIS Specialty Europe is a non-life insurance company incorporated under the laws of Ireland and as such is subject to the regulation and supervision of the Irish Financial Services Regulatory Authority pursuant to the Irish Insurance Acts 1909 to 2000, Regulations relating to insurance business and the Central Bank and Financial Services Authority of Ireland Act 2003 (together "the Insurance Acts and Regulations"). The Insurance Acts and Regulations establish a single regulatory authority for the financial services industry in Ireland and, with effect from May 1, 2003, responsibility for the regulation and supervision of the insurance and reinsurance industries in Ireland passed to the Irish Financial Services Regulatory Authority (the "Irish Regulatory Authority"). Without the consent of the Irish Regulatory Authority, AXIS Specialty Europe is not permitted to reduce the level of its capital, may not make any dividend payments, may not make intercompany loans and must maintain a minimum solvency margin. Additionally, AXIS Specialty Europe has agreed with the Irish Regulatory Authority to limit the level of any reinsurance business that it writes. These rules and regulations may have the effect of restricting the ability of AXIS Specialty Europe to write new business or distribute assets to AXIS Capital.

*AXIS Re.* AXIS Re is a reinsurance company incorporated under the laws of Ireland. Under Irish law, a reinsurance company such as AXIS Re is required to maintain a minimum level of paid up share capital. As a general matter, AXIS Re is not subject to the same level of regulation in Ireland as AXIS Specialty Europe. However, the Insurance Acts and Regulations provide that the Irish Regulatory Authority may create regulations that cause the general insurance laws and regulations in Ireland to apply to reinsurance companies that carry on the type of business that AXIS Re carries on. If any regulations were adopted, such regulations could require AXIS Re to apply to the Irish Regulatory Authority to be authorized to carry on its business, which authorization would likely contain conditions with which AXIS Re would then have to comply, such as in regard to capitalization, maintenance of reserves, reserving policy, investment policy, solvency requirements and the filing of returns. If such an application for authorization were not successful or if AXIS Re were unable to comply with such conditions as might be attached to such authorization, it would not be lawful for it to continue to carry on its business and it would have to cease operations.

The Irish Regulatory Authority has the power under Section 22 of the Insurance Act, 1989 (as inserted by Section 5 of the Insurance Act, 2000) to direct AXIS Re to cease writing business indefinitely or for a specified period for, among other grounds, inadequate capitalization, unsuitable directors and/or management or insufficient staff based in Ireland.

In addition, the European Commission is currently finalizing a draft directive to establish a harmonized framework for reinsurance supervision in the European Union (the "EU"). Once implemented, the directive will permit a reinsurer licensed in one EU member state to carry on business in any other EU member state without requiring further authorization. In its consultation paper dated September 17, 2003, the European Commission indicated that the supervisory regime for reinsurers would be largely based on existing rules for direct insurers with some modifications. Once the reinsurance supervision directive is implemented in Ireland, AXIS Re will be required to apply to the Irish Regulatory Authority to be authorized to carry on its business. Any such authorization would almost certainly contain conditions with which AXIS Re would have to comply regarding matters such as capitalization, maintenance of reserves, reserving policy, investment policy, solvency requirements and the filing of returns. If such an application for authorization were not successful or if AXIS Re were unable to comply with the conditions that might be attached to the authorization, it would not be lawful for it to continue to carry on its business and it would have to cease operations.

Changes in these laws and regulations or the interpretation of these laws and regulations could have a material adverse effect on our business or results of operations.

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

AXIS Specialty is not licensed or admitted as an insurer in any jurisdiction other than Bermuda. Because many jurisdictions do not permit insurance companies to take credit for reinsurance obtained from unlicensed or non-admitted insurers on their statutory financial statements unless appropriate security mechanisms are in place, our reinsurance clients typically require AXIS Specialty to post letters of credit or other collateral. We expect that our credit facility will be used for this purpose. However, if this facility is not sufficient or if we are unable to renew this facility or are unable to arrange for other types of security on commercially reasonable terms, AXIS Specialty could be limited in its ability to write business for certain of our clients.

**Our ability to pay dividends may be constrained by our holding company structure.**



AXIS Capital is a holding company and has no direct operations of its own. AXIS Capital does not expect to have any significant operations or assets other than its ownership of the shares of its operating insurance and reinsurance subsidiaries, AXIS Specialty, AXIS Re, AXIS Specialty Europe, AXIS Reinsurance, AXIS Insurance and AXIS Surplus (collectively, our "Insurance Subsidiaries"). Dividends and other permitted distributions from our Insurance Subsidiaries are expected to be our primary source of funds to meet ongoing cash requirements, including any future debt service payments and other expenses, and to pay dividends to our shareholders. Our Insurance Subsidiaries (with the exception of AXIS Re) are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. The inability of our Insurance Subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could have a material adverse effect on our operations and our ability to pay dividends to our shareholders. For more information regarding restrictions on the payment of dividends by our Insurance Subsidiaries, see "Dividend Policy" and "Regulation."

**Our ability to pay dividends and make other payments may be constrained by certain regulatory and other constraints.**

AXIS Capital is subject to Bermuda regulatory constraints that will affect its ability to declare and pay dividends on its common shares and make other payments. Under the Bermuda Companies Act 1981, as amended (the "Companies Act"), AXIS Capital and AXIS Specialty may declare or pay a dividend or make a distribution out of contributed surplus only if it has no reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due or that the realizable value of its assets would thereby be less than the aggregate of its liabilities and issued share capital and share premium accounts. Furthermore, our ability to pay dividends is limited under our new credit facility, which provides that we cannot pay cash dividends to our shareholders in excess of \$150 million in the aggregate for any fiscal year during the period that any commitments or obligations are outstanding thereunder. Furthermore, in order to reduce its total statutory capital by 15% or more, Axis Specialty would require the prior approval of the BMA. For more information regarding restrictions on the payment of dividends and the making of other payments by AXIS Capital, see "Dividend Policy" and "Regulation."

**Our founding shareholders and some of our directors may have conflicts of interest with us.**

Our founding shareholders and some of our directors hold positions, engage in commercial activities and enter into transactions or agreements with us or in competition with us, which may give

rise to conflicts of interest. Of our directors, Mr. Charles Davis is Chairman and Chief Executive Officer of MMC Capital, Inc. and the Chairman and a director of Marsh & McLennan Companies, Inc., Mr. Thomas Forrester is the Chief Financial Officer of The Progressive Corporation, Mr. Donald Greene is a director of AXA Financial, Equitable Life Assurance and Associated Electric & Gas Insurance Services Limited, and Mr. Frank Tasco is a director of Travelers Property Casualty Corp. In addition, we derive a significant portion of our business through insurance and reinsurance relationships and other arrangements in which Marsh or its affiliates have acted as a broker or insurance or reinsurance intermediary. Our directors have sponsored, and may in the future sponsor, other entities engaged in or intending to engage in insurance and reinsurance underwriting, some of which may compete with us. They have also entered into or may in the future enter into, agreements with companies that may compete with us. We do not have any agreement or understanding with any of these parties regarding the resolution of potential conflicts of interest. We may not be in a position to influence any party's decision to engage in activities that would give rise to a conflict of interest. These parties may take actions that are not in our shareholders' best interests.

**Risks Related to Our Industry**

**We operate in a highly competitive environment.**

The insurance and reinsurance industry is highly competitive. We compete on an international and regional basis with major U.S., Bermuda, European and other international insurers and reinsurers and with underwriting syndicates, some of which have greater financial, marketing and management resources than we do. We also compete with new companies that continue to be formed to enter the insurance and reinsurance markets. In addition, capital market participants have recently created alternative products that are intended to compete with reinsurance products. Increased competition could result in fewer **submissions**, lower premium rates and less favorable policy terms and conditions, which could have a material adverse effect on our growth and profitability. See "Business Competition."

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

The insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. An increase in premium levels is often offset by an increasing supply of insurance and reinsurance capacity, either by capital provided by new entrants or by the

commitment of additional capital by existing insurers or reinsurers, which may cause prices to decrease. Any of these factors could lead to a significant reduction in premium rates, less favorable policy terms and fewer submissions for our underwriting services. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance and reinsurance business significantly. For a more detailed discussion of the cyclical nature of the insurance and reinsurance industry, please see "Industry Background."

### **Risks Related to Our Common Shares**

#### **Future sales of common shares may affect their market price and the future exercise of options and warrants will result in immediate and substantial dilution.**

We cannot predict what effect, if any, future sales of our common shares, or the availability of common shares for future sale, will have on the market price of our common shares. Sales of substantial amounts of our common shares in the public market following this public offering, or the perception that such sales could occur, could adversely affect the market price of our common shares

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and may make it more difficult for you to sell your common shares at a time and price which you deem appropriate. See "Description of Share Capital Shareholders Agreement" and "Shares Eligible for Future Sale" for further information regarding circumstances under which additional common shares may be sold.

Upon completion of this public offering, there will be 154,892,341 common shares outstanding (whether or not the underwriters exercise their over-allotment option). Moreover, an additional 22,177,779 common shares will be issuable upon the full exercise or conversion of outstanding vested options and warrants. In the event that any outstanding options or warrants to purchase common shares are exercised, you will suffer immediate and substantial dilution of your investment.

We and those shareholders who are a party to our shareholders agreement have agreed, subject to certain exceptions, for a period beginning 14 days prior to the effective date of the registration statement of which this prospectus forms a part and ending 90 days after such date, that we and they will not, without the prior written consent of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. on behalf of the underwriters, directly or indirectly, offer to sell, sell or otherwise dispose of any of our common shares. Following this offering, some of our existing shareholders and their transferees will continue to have the right to require us to register their common shares under the Securities Act of 1933, as amended (the "Securities Act") subject to the lock-up described above. Upon the sale of shares pursuant to any such registration statement, such shares will be freely transferable. In addition, we, our directors, executive officers and the selling shareholders in this offering have also agreed, subject to limited exceptions, to restrictions similar to those included in the shareholders agreement, including restrictions on the exercise of registration rights, until the date that is 90 days after the date of the final prospectus, without the prior written consent of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. on behalf of the underwriters, and the Company.

#### **There are provisions in our charter documents that may reduce or increase the voting rights of our common shares.**

Our bye-laws generally provide that shareholders have one vote for each common share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. However, the voting rights exercisable by a shareholder may be limited so that certain persons or groups are not deemed to hold 9.5% or more of the voting power conferred by our common shares. The votes that could be cast by a shareholder but for these restrictions will be allocated to the other shareholders. In addition, our board of directors may limit a shareholder's exercise of voting rights where it deems it necessary to do so to avoid adverse tax, legal or regulatory consequences.

Under these provisions, some shareholders may have the right to exercise their voting rights limited to less than one vote per share, while other shareholders may have the right to exercise their voting rights increased to more than one vote per share. Moreover, these provisions could have the effect of reducing the voting power of some shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership. Our bye-laws provide that shareholders will be notified of the applicable voting power exercisable with respect to their common shares prior to any vote to be taken by the shareholders. See "Description of Share Capital Voting Rights."

As a result of any reallocation of votes, your voting rights might increase above 5% of the aggregate voting power of the outstanding common shares, thereby possibly resulting in your becoming a reporting person subject to Schedule 13D or 13G filing requirements under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

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 reallocated pursuant to the bye-laws. If a shareholder fails to respond to our request for information or

submits incomplete or

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inaccurate information in response to a request by us, we may, in our sole discretion, eliminate the shareholder's voting rights.

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

Our board of directors may decline to register a transfer of any common shares (1) if it appears to the board of directors, in their 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 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.

Our bye-laws also provide that if our board of directors determines that share ownership by a person may result in non-de minimis adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders, then we have the option, but not the obligation, to require that shareholder to sell to us or to third parties to whom we assign the repurchase right for fair market value the minimum number of common shares held by such person which is necessary to eliminate the non-de minimis adverse tax, legal or regulatory consequences. See "Description of Share Capital Restrictions on Transfer of Common Shares or Warrants" and "Description of Share Capital Acquisition of Common Shares by Us."

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

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

In addition, the Insurance Acts and Regulations in Ireland require that anyone acquiring or disposing of a direct or indirect holding in an insurance company (such as AXIS Specialty Europe) that represents 10% or more of the capital or of the voting rights of such company or that makes it possible to exercise a significant influence over the management of such company, or anyone who proposes to decrease or increase that holding to specified levels, must first notify the Irish Regulatory Authority of their intention to do so. They also require any insurance company that becomes aware of any acquisitions or disposals of its capital involving the specified levels to notify the Irish Regulatory Authority. The specified levels are 20%, 33% and 50% or such other level of ownership that results in the company becoming the acquiror's subsidiary. The Irish Regulatory Authority has three months from the date of submission of a notification within which to oppose the proposed transaction if the Irish Regulatory Authority is not satisfied as to the suitability of the acquiror "in view of the necessity to ensure sound and prudent management of the insurance undertaking." Any person having a

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shareholding of 10% or more of the issued share capital in AXIS Capital would be considered to have an indirect holding in AXIS Specialty Europe over the 10% limit.

While our bye-laws limit the voting power of any shareholder to less than 9.5%, there can be no assurance that the applicable regulatory body would agree that a shareholder who owned 10% or more of our common shares did not, because of the limitation on the voting power of such shares, control the applicable Insurance Subsidiary.

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These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of the Company, including transactions that some or all of our shareholders might consider to be desirable.

### **A few large shareholders may be able to influence shareholder decisions.**

Immediately upon completion of this offering, we expect to have at least five beneficial owners each of whom owns beneficially common shares representing 5.0% or more of the voting power of our common shares. As a result of their ownership position, these shareholders voting together may have the ability to significantly influence matters requiring shareholder approval, including the election of directors and amalgamations, consolidations, changes of control of the Company and sales of all or substantially all of our assets.

### **U.S. persons who own our common shares may have more difficulty in protecting their interests than U.S. persons who are shareholders of a U.S. corporation.**

The Companies Act, which applies to us, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. These differences include the manner in which directors must disclose transactions in which they have an interest, the rights of shareholders to bring class action and derivative lawsuits and the scope of indemnification available to directors and officers. For more information on the difference between Bermuda and Delaware corporate laws, see "Description of Share Capital Differences in Corporate Law."

### **Anti-takeover provisions in our bye-laws could impede an attempt to replace or remove our directors, which could diminish the value of our common shares.**

Our bye-laws contain provisions that may entrench directors and make it more difficult for shareholders to replace directors even if the shareholders consider it beneficial to do so. In addition, these provisions could delay or prevent a change of control that a shareholder might consider favorable. For example, these provisions may prevent a shareholder from receiving the benefit from any premium over the market price of our common shares offered by a bidder in a potential takeover. Even in the absence of an attempt to effect a change in management or a takeover attempt, these provisions may adversely affect the prevailing market price of our common shares if they are viewed as discouraging takeover attempts in the future.

For example, our bye-laws contain the following provisions that could have such an effect:

election of our directors is staggered, meaning that the members of only one of three classes of our directors are selected each year;

shareholders have limited ability to remove directors;

the total voting power of any shareholder owning 9.5% or more of our common shares will be reduced to less than 9.5% of the total voting power of our common shares;

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our directors may decline to record the transfer of any common shares on our share register if it appears to the board of directors, in their sole and reasonable discretion, after taking into account the limitations on voting rights contained in our bye-laws, that any non-deminimis adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders would result from such transfer; and

subject to any applicable requirements of the NYSE, our directors may decline to approve or to register any transfer of any common shares on our share register: (1) if a written opinion from counsel acceptable to us has not been obtained to the effect that registration of such shares under the Securities Act is not required and (2) if the transferee shall not have been approved by applicable governmental authorities if such approval is required.

### **AXIS Capital is a Bermuda company and it may be difficult for you to enforce judgments against it or its directors and executive officers.**

AXIS Capital is incorporated pursuant to the laws of Bermuda and our business is based in Bermuda. In addition, certain of our directors and officers reside outside the United States, and all or a substantial portion of our assets and the assets of such persons are located in jurisdictions outside the United States. As such, it may be difficult or impossible to effect service of process within the United States upon those persons or to recover against us or them on judgments of U.S. courts, including judgments predicated upon civil liability provisions of the U.S. federal securities laws. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial application under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

We have been advised by Conyers Dill & Pearman, our Bermuda counsel, that there is doubt as to whether the courts of Bermuda would enforce judgments of U.S. courts obtained in actions against us or our directors and officers, as well as the experts named herein, predicated upon the civil liability provisions of the U.S. federal securities laws or original actions brought in Bermuda against us or such persons predicated solely upon U.S. federal securities laws. Further, we have been advised by Conyers Dill & Pearman that there is no treaty in effect between the United States and Bermuda providing for the enforcement of judgments of U.S. courts, and there are grounds upon which Bermuda courts may not enforce judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Bermuda courts as contrary to that jurisdiction's public policy. Because judgments of U.S. courts are not automatically enforceable in Bermuda, it may be difficult for you to recover against us based upon such judgments.

### **Risks Related to Taxation**

#### **We may become subject to taxes in Bermuda after March 28, 2016, which may have a material adverse effect on our results of operations and your investment.**

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, has given each of AXIS Capital and AXIS Specialty an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to AXIS Capital, AXIS Specialty or any of their respective operations, shares, debentures or other obligations until March 28, 2016. See "Material Tax Considerations Taxation of AXIS Capital and Subsidiaries Bermuda." Given the limited duration of the Minister of Finance's assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 28, 2016.

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#### **We may be subject to U.S. tax that may have a material adverse effect on our results of operations and your investment.**

If AXIS Capital or any of its non-U.S. subsidiaries were considered to be engaged in a trade or business in the United States, it could be subject to U.S. corporate income and additional branch profits taxes on the portion of its earnings effectively connected to such U.S. business, in which case its results of operations and your investment (irrespective of the number of shares you own) could be materially adversely affected. Further, if AXIS Capital or any of its subsidiaries were considered a personal holding company and subject to U.S. tax on a portion of its U.S. income, its results of operations and your investment (irrespective of the number of shares you own) could be materially adversely affected.

AXIS Capital and AXIS Specialty are Bermuda companies, AXIS Specialty Holdings Ireland Limited ("AXIS Ireland Holdings"), AXIS Re and AXIS Specialty Europe are Irish companies, AXIS Specialty UK Limited ("AXIS UK") and AXIS Specialty UK Holdings Limited ("AXIS UK Holdings") are U.K. companies and AXIS Specialty (Barbados) Limited ("AXIS Barbados") is a Barbados company. See "Business Overview" for a description of these companies. We intend to manage our business so that each of these companies will operate in such a manner that none of these companies will be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on certain U.S. source investment income), because none of these companies should be treated as engaged in a trade or business within the United States. However, because there is considerable uncertainty as to the activities which constitute being engaged in a trade or business within the United States, we cannot be certain that the U.S. Internal Revenue Service ("IRS") will not contend successfully that any of AXIS Capital or its non-U.S. subsidiaries is/are engaged in a trade or business in the United States. See "Material Tax Considerations Taxation of AXIS Capital and Subsidiaries United States."

AXIS Capital or a subsidiary might be subject to U.S. tax on a portion of its income if AXIS Capital or such subsidiary is considered a personal holding company ("PHC"), for U.S. federal income tax purposes. This status will depend on whether 50% or more of our shares could be deemed to be owned (pursuant to certain constructive ownership rules) by five or fewer individuals and whether 60% or more of AXIS Capital's income, or the income of any of its subsidiaries, as determined for U.S. federal income tax purposes, consists of "personal holding company income." We believe based upon information made available to us regarding our existing shareholder base that neither AXIS Capital nor any of its subsidiaries should be considered a PHC for U.S. federal income tax purposes immediately following the offering. Additionally, we intend to manage our business to minimize the possibility that we will meet the 60% income threshold so that neither AXIS Capital nor any of its subsidiaries should be considered a PHC. However, because of legal and factual uncertainties regarding the application of the constructive ownership rules, the makeup of our shareholder base and our gross income and other circumstances, we cannot be certain that AXIS Capital

and/or any of its subsidiaries will not be considered a PHC or that the amount of U.S. tax that would be imposed if it were the case would be immaterial. See "Material Tax Considerations Taxation of AXIS Capital and Subsidiaries United States Personal Holding Companies."

**We may be subject to U.K. tax that may have a material adverse effect on our results of operations.**

None of our companies, except for AXIS UK and AXIS UK Holdings, is incorporated in the United Kingdom. Accordingly, none of our companies, other than AXIS UK and AXIS UK Holdings, should be treated as being resident in the United Kingdom unless our central management and control is exercised in the United Kingdom. The concept of central management and control is indicative of the highest level of control of a company, which is wholly a question of fact. We intend to manage our

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affairs so that none of our companies, other than AXIS UK and AXIS UK Holdings, is resident in the United Kingdom for tax purposes.

A company not resident in the United Kingdom for corporation tax purposes can nevertheless be subject to U.K. corporation tax if it carries on a trade through a permanent establishment in the United Kingdom, but the charge to U.K. corporation tax is limited to profits (including revenue profits and chargeable (i.e., capital gains) connected with such permanent establishment.

We intend to operate in such a manner so that none of our companies, other than AXIS UK and AXIS UK Holdings (which are resident in the United Kingdom by virtue of being incorporated there), AXIS Ireland Holdings (which has a permanent establishment in the United Kingdom) and AXIS Specialty Europe (which also has a permanent establishment in the United Kingdom), carries on a trade through a permanent establishment in the United Kingdom. Nevertheless, because neither case law nor U.K. statute definitively defines the activities that constitute trading in the United Kingdom through a permanent establishment, the U.K. Inland Revenue might contend successfully that any of our companies, other than AXIS UK, AXIS UK Holdings, AXIS Ireland Holdings and AXIS Specialty Europe, are/is trading in the United Kingdom through a permanent establishment in the United Kingdom.

The definition of "permanent establishment" under UK law is consistent with various internationally recognized characteristics commonly used to define a "permanent establishment" for the purposes of the United Kingdom's double tax treaties, if any of the U.S. subsidiaries qualifying for benefits under the tax treaty between the United Kingdom and the United States were trading in the United Kingdom through a permanent establishment, they would be subject to U.K. corporation tax to the extent that any profits were attributable to that permanent establishment in the United Kingdom.

If AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe were trading in the U.K. through a permanent establishment and they were entitled to the benefits of the tax treaty between Ireland and the United Kingdom, they would be subject to U.K. corporation tax on the profits which were attributable to that permanent establishment in the United Kingdom. AXIS Ireland Holdings has a permanent establishment in the United Kingdom and the profits attributable to that permanent establishment (which have been calculated by the company on the basis of cost plus 10%) are subject to U.K. corporation tax. AXIS Specialty Europe also has a permanent establishment in the United Kingdom and the profits attributable to that permanent establishment will be subject to U.K. corporation tax.

The United Kingdom has no income tax treaty with Bermuda.

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

If any of our companies, other than AXIS UK and AXIS UK Holdings, were treated as being resident in the United Kingdom for U.K. corporation tax purposes, or if any of us, other than AXIS Ireland Holdings and AXIS Specialty Europe, were to be treated as carrying on a trade in the United Kingdom through a permanent establishment in the United Kingdom, our results of operations and your investment could be materially adversely affected.

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**We may be subject to Irish tax that may have a material adverse effect on our results of operations.**

Companies resident in Ireland are generally subject to Irish corporation tax on their worldwide income and capital gains. None of us, except for AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, is incorporated in Ireland. As such, none of us, other than AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, should be treated as being resident in Ireland unless our central management and control is exercised in Ireland. The concept of central management and control is indicative of the highest level of control of a company, and is wholly a question of fact. We intend to operate in such a manner so that the central management and control of each of our companies, other than AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, is exercised outside of Ireland. Nevertheless, because central management and control is a question of fact to be determined based on a number of different factors, the Irish Revenue Commissioners might contend successfully that the central management and control of any of our companies, other than AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, is exercised in Ireland. Should this occur, such company will be subject to Irish corporation tax on their worldwide income and capital gains.

The trading income of a company not resident in Ireland for Irish tax purposes can also be subject to Irish corporation tax if it carries on a trade through a branch or agency in Ireland. We intend to operate in such a manner so that none of our companies, other than AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, carry on a trade through a branch or agency in Ireland. Nevertheless, because neither case law nor Irish legislation definitively defines the activities that constitute trading in Ireland through a branch or agency, the Irish Revenue Commissioners might contend successfully that any of our companies, other than AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, is trading through a branch or agency in Ireland. Should this occur, such companies will be subject to Irish corporation tax on profits attributable to that branch or agency.

If any of our companies, other than AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, were treated as resident in Ireland for Irish corporation tax purposes, or as carrying on a trade in Ireland through a branch or agency, our results of operations and your investment could be materially adversely affected.

**If corporate tax rates in Ireland increase, our business and financial results could be adversely affected.**

Trading income derived from the insurance and reinsurance businesses carried on in Ireland by AXIS Specialty Europe and AXIS Re is generally taxed in Ireland at a rate of 12.5%. Over the past number of years, various EU member states have, from time to time, called for harmonization of corporate tax rates within the EU. Ireland, along with other member states, has consistently resisted any movement towards standardized corporate tax rates in the EU. The Government of Ireland has also made clear its commitment to retain the 12.5% rate of corporation tax until at least the year 2025. If, however, tax laws in Ireland change so as to increase the general corporation tax rate in Ireland, our business and financial results could be materially adversely affected.

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

Based on administrative practice, taxable income derived from investments made by AXIS Specialty Europe and AXIS Re is generally taxed in Ireland at the rate of 12.5% on the grounds that such investments either form part of the permanent capital required by regulatory authorities, or are otherwise integral to the insurance and reinsurance businesses carried on by those companies. AXIS Specialty Europe and AXIS Re intend to operate in such a manner so that the level of investments held by such companies does not exceed the amount that is integral to the insurance and reinsurance

businesses carried on by AXIS Specialty Europe and AXIS Re. If, however, investment income earned by AXIS Specialty Europe or AXIS Re exceeds these thresholds, or if the administrative practice of the Irish Revenue Commissioners changes, Irish corporations tax could apply to such investment income at a higher rate (currently 25%) instead of the general 12.5% rate, and our results of operations could be materially adversely affected.

**If you acquire 10% or more of AXIS Capital's shares, you may be subject to taxation under the "controlled foreign corporation" ("CFC") rules.**

If you are a "10% U.S. Shareholder" of a foreign corporation (defined as a U.S. Person (as defined in "Material Tax Considerations Taxation of Shareholders - United States Taxation") who owns (directly, indirectly through foreign entities or "constructively" (as defined below)) at least 10% of the total combined voting power of all classes of stock entitled to vote of a foreign corporation) that is a CFC for an uninterrupted period of 30 days or more during a taxable year, and you own shares in the CFC directly or indirectly through foreign entities on the last day of the CFC's taxable year, you must include in your gross income for U.S. federal income tax purposes your pro rata share of the

CFC's "subpart F income," even if the subpart F income is not distributed, in which case your investment could be materially adversely affected. "Subpart F income" of a foreign insurance corporation typically includes foreign base company sales and services income and foreign personal holding company income (such as interest, dividends and other types of passive income), as well as insurance and reinsurance income (including underwriting and investment income) attributable to the insurance of risks situated outside the CFC's country of incorporation. A foreign corporation is considered a CFC if "10% U.S. Shareholders" own (directly, indirectly through foreign entities or by attribution by application of the constructive ownership rules of section 958(b) of the Internal Revenue Code of 1986, as amended (the "Code") (i.e., "constructively")) more than 50% of the total combined voting power of all classes of voting stock of that foreign corporation, or the total value of all stock of that corporation. For purposes of taking into account insurance income, a CFC also includes a foreign insurance company in which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned by 10% U.S. Shareholders, on any day during the taxable year of such corporation, if the gross amount of premiums or other consideration for the reinsurance or the issuing of insurance or annuity contracts exceeds 75% of the gross amount of all premiums or other consideration in respect of all risks.

We believe that because of the anticipated dispersion of our share ownership, provisions in our organizational documents that limit voting power and other factors, no U.S. Person who acquires shares of AXIS Capital in this offering directly or indirectly through one or more foreign entities should be treated as owning (directly, indirectly through foreign entities or constructively) 10% or more of the total voting power of all classes of shares of AXIS Capital, or any of its non-U.S. subsidiaries (these provisions are described in "Description of Share Capital"). It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge. See "Material Tax Considerations Taxation of Shareholders United States Taxation Classification of AXIS Capital or Its Non-U.S. Subsidiaries as Controlled Foreign Corporations."

**U.S. Persons who hold common shares may be subject to U.S. federal income taxation at ordinary income rates on their proportionate share of our "related party insurance income" ("RPII").**

If the RPII of any of AXIS Specialty, AXIS Re and AXIS Specialty Europe (each a "Non-U.S. Insurance Subsidiary") were to equal or exceed 20% of that company's gross insurance income in any taxable year and direct or indirect insureds (and persons related to those insureds) own directly or indirectly through entities 20% or more of the voting power or value of AXIS Capital then a U.S. Person who owns any shares of AXIS Capital (directly or indirectly through foreign entities) on the last day of the taxable year would be required to include in its income for U.S. federal income tax purposes

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such person's pro rata share of such company's RPII for the entire taxable year, determined as if such RPII were distributed proportionately only to U.S. Persons at that date regardless of whether such income is distributed, in which case your investment could be materially adversely affected. In addition, any RPII that is includible in the income of a U.S. tax-exempt organization may be treated as unrelated business taxable income. The amount of RPII earned by a Non-U.S. Insurance Subsidiary (generally, premium and related investment income from the direct or indirect insurance or reinsurance of any direct or indirect U.S. holder of common shares or any person related to such holder) will depend on a number of factors, including the identity of persons directly or indirectly insured or reinsured by the Non-U.S. Insurance Subsidiary. We believe that the gross RPII of each Non-U.S. Insurance Subsidiary did not in prior years of operation and is not expected in the foreseeable future to equal or exceed 20% of each such company's gross insurance income, and we do not expect the direct or indirect insureds of each Non-U.S. Insurance Subsidiary (and persons related to such insureds) to directly or indirectly own 20% or more of either the voting power or value of our common shares, but we cannot be certain that this will be the case because some of the factors which determine the extent of RPII may be beyond our control.

**U.S. Persons who dispose of our common shares may be subject to U.S. federal income taxation at ordinary income rates on a portion of their gain, if any.**

The RPII rules provide that if a U.S. Person disposes of shares in a foreign insurance corporation in which U.S. Persons own 25% or more of the shares (even if the amount of gross RPII is less than 20% of the corporation's gross insurance income and the ownership of its shares by direct or indirect insureds and related persons is less than the 20% threshold), any gain from the disposition will generally be treated as a dividend to the extent of the holder's share of the corporation's undistributed earnings and profits that were accumulated during the period that the holder owned the shares (whether or not such earnings and profits are attributable to RPII). In addition, such a holder will be required to comply with certain reporting requirements, regardless of the amount of shares owned by the holder. These RPII rules should not apply to dispositions of common shares because AXIS Capital will not itself be directly engaged in the insurance business. The RPII provisions, however, have never been interpreted by the courts or the U.S. Treasury Department in final regulations, and regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form or what changes or clarifications might ultimately be made thereto or whether any such changes, as well as any interpretation or application of RPII by the IRS, the courts, or otherwise, might have retroactive effect. The Treasury Department has authority to impose, among other things, additional reporting requirements with respect to RPII. Accordingly, the meaning of the RPII provisions and the application thereof to us is uncertain. See



**U.S. Persons who hold common shares will be subject to adverse tax consequences if we are considered to be a Passive Foreign Investment Company ("PFIC") for U.S. federal income tax purposes.**

If AXIS Capital is considered a PFIC for U.S. federal income tax purposes, a U.S. Person who owns any shares of AXIS Capital will be subject to adverse tax consequences, including subjecting the investor to a greater tax liability than might otherwise apply and subjecting the investor to tax on amounts in advance of when tax would otherwise be imposed, in which case your investment could be materially adversely affected. In addition, if AXIS Capital were considered a PFIC, upon the death of any U.S. individual owning common shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of the common shares which might otherwise be available under U.S. federal income tax laws. We believe that we are not, have not been, and currently do not expect to become, a PFIC for U.S. federal income tax purposes. We cannot assure you, however, that we will not be deemed a PFIC by the IRS. If we were considered a PFIC, it could have material adverse tax

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consequences for an investor that is subject to U.S. federal income taxation. There are currently no regulations regarding the application of the PFIC provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be forthcoming. We cannot predict what impact, if any, such guidance would have on an investor that is subject to U.S. federal income taxation. See "Material Tax Considerations Taxation of Shareholders United States Taxation Passive Foreign Investment Companies."

**U.S. Persons who hold common shares will be subject to adverse U.S. federal income tax consequences if we or any of our non-U.S. subsidiaries are considered to be a Foreign Personal Holding Company ("FPHC") for U.S. federal income tax purposes.**

If we were considered an FPHC it could have material adverse tax consequences for you if you are subject to U.S. federal income taxation, including subjecting you to a greater tax liability than might otherwise apply and subjecting you to tax on amounts in advance of when tax would otherwise be imposed. In addition, if AXIS Capital were considered an FPHC, upon the death of any U.S. individual owning ordinary shares, such individual's heirs or estate may not be entitled to a "step-up" in the tax basis of the common shares which might otherwise be available under U.S. federal income tax laws. AXIS Capital and/or any of its non-U.S. subsidiaries could be considered to be an FPHC for U.S. federal income tax purposes if more than 50% of our shares could be deemed to be owned by five or fewer individuals who are citizens or residents of the United States, and 60% (or 50% in taxable years subsequent to characterization as an FPHC) or more of AXIS Capital income, or that of any of its non-U.S. subsidiaries, consists of "foreign personal holding company income," as determined for U.S. federal income tax purposes. We believe based upon information made available to us regarding our existing shareholder base that neither AXIS Capital nor any of its non-U.S. subsidiaries should be considered an FPHC for any prior year of operations or immediately following the offering. Additionally, we intend to manage our business to minimize the possibility that we will meet the 60% income threshold so that neither AXIS Capital nor any of its non-U.S. subsidiaries should be considered an FPHC. However, because of the legal and factual uncertainties regarding the application of the constructive ownership rules, the makeup of our shareholder base and our gross income and other circumstances, we cannot be certain that AXIS Capital and/or any of its non-U.S. subsidiaries will not be considered an FPHC. See "Material Tax Considerations Taxation of Shareholders United States Taxation Foreign Personal Holding Companies."

**U.S. tax-exempt organizations who own our common shares may recognize unrelated business taxable income.**

A U.S. tax-exempt organization may recognize unrelated business taxable income if a portion of our insurance income is allocated to the organization, which generally would be the case if either we are a CFC and the tax-exempt shareholder is a U.S. 10% Shareholder or there is RPII, certain exceptions do not apply and the tax-exempt organization owns any shares of AXIS Capital. Although we do not believe that any U.S. Persons should be allocated such insurance income, we cannot be certain that this will be the case. See "Material Tax Considerations Taxation of Shareholders United States Taxation Classification of AXIS Capital or Its Non-U.S. Subsidiaries as Controlled Foreign Corporations" and "Material Tax Considerations Taxation of Shareholders United States Taxation The RPII CFC Provisions." Potential U.S. tax-exempt investors are advised to consult their own tax advisors.

**Changes in U.S. federal income tax law could materially adversely affect an investment in our common shares.**

Legislation has been introduced in the U.S. Congress intended to eliminate some perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United

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States but have certain U.S. connections. In this regard, legislation has been introduced that includes a provision that permits the IRS to reallocate or recharacterize items of income, deduction or certain other items related to a reinsurance agreement between related parties to reflect the proper source, character and amount for each item (in contrast to current law, which only refers to source and character). While there are no currently pending legislative proposals which, if enacted, would have a material adverse effect on us or our shareholders, it is possible that broader-based legislative proposals could emerge in the future that could have an adverse impact on us or our shareholders.

Additionally, the U.S. federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the United States, or is a PFIC, FPHC or PHC or whether U.S. Persons would be required to include in their gross income the "subpart F income" or the RPII of a CFC are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the PFIC rules to insurance companies and the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. We cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect.

**The United States could override or renegotiate the income tax treaty between the United States and Barbados.**

Legislation has been introduced in the U.S. Congress that would override the United States income tax treaty with Barbados (the "Barbados Treaty"). We cannot predict whether this proposed legislation or other similar legislation will be enacted. In addition, the U.S. Treasury Department and Barbados are currently discussing revisions to the Barbados Treaty. Under the current treaty, dividends paid to AXIS Barbados by AXIS U.S. Holdings are subject to a reduced withholding tax rate of 5%. However, possible changes to the treaty may result in the inability of AXIS Barbados to continue to enjoy the reduced rate, in which case dividends paid to AXIS Barbados by AXIS U.S. Holdings would be subject to withholding tax at a rate of 30%. Accordingly, no assurances can be given as to the availability of benefits under the Barbados Treaty in the future.

**The impact of Bermuda's letter of commitment to the Organization for Economic Cooperation and Development to eliminate harmful tax practices is uncertain and could adversely affect our tax status in Bermuda.**

The Organization for Economic Cooperation and Development, which is commonly referred to as the OECD, has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. In the OECD's report dated April 18, 2002 and updated as of December 2003, Bermuda was not listed as an uncooperative tax haven jurisdiction because it had previously committed itself to eliminate harmful tax practices and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether such changes will subject us to additional taxes. Barbados was not included in the list because it has long-standing information exchange arrangements with other countries, which have been found by its treaty partners to operate in an effective manner.

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**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 federal securities laws. In some cases, these statements can be identified by the use of forward looking words such as "may," "will," "should," "could," "anticipate," "estimate," "expect," "plan," "believe," "predict," "potential" and "intend." Forward looking statements contained in this prospectus include, among other things, our business strategy, information regarding the proportion of our premiums written in non-U.S. currencies, the growth of our U.S. reinsurance segment due to renewals on contracts from multi-year deals, the growth of our global reinsurance segment due to our European operations, the expansion of our U.S. insurance segment into the errors and omissions market, improvements in the casualty reinsurance market and its effects on our U.S. insurance segment, the benefits from continued underwriting discipline and from insureds seeking to move their business to financially stronger insurers and reinsurers, the changes in the mix of our business, the growth in gross premiums written in Europe, the increase in net earned premiums in our U.S. reinsurance segment, the reduction in the percentage of allocated personnel expenses for underwriters in our U.S. reinsurance segment, the projected amount of our capital expenditures, managing interest rate and foreign currency risks, valuations of potential interest rate shifts, foreign currency rate changes and measurements of potential losses in fair market values of our investment portfolio. 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. Important factors that could cause actual events or results to be materially different from our expectations include (1) our limited operating history, (2) the occurrence of natural and

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man-made disasters, (3) actual claims exceeding our loss reserves, (4), failure of any of the loss limitation methods we employ, (5) effects of emerging claims and coverage issues, (6) the failure of our cedents to adequately evaluate risks, (7), the loss of one or more key executives, (8) a decline in our ratings with Standard & Poor's and A.M. Best, (9) loss of business provided to us by our major brokers, (10) changes in governmental regulations, (11) increased competition, (12) general economic conditions and (13) the other matters set forth under "Risk Factors." We undertake no obligation to update or revise publicly any forward looking statements, whether as a result of new information, future events or otherwise.

### USE OF PROCEEDS

All of the common shares offered hereby are being sold by the selling shareholders. We will not receive any proceeds from the sale of such shares in this offering.

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### PRICE RANGE OF COMMON SHARES

Our common shares have been traded on the NYSE under the symbol "AXS" since our initial public offering in July 2003. Prior to that time, there was no trading market for our common shares.

On April 15, 2004, the last reported sales price of our common shares was \$27.91 per share, as reported on the NYSE. As of March 31, 2004 there were 250 common shareholders of record. These figures do not include shareholders with shares held in nominee name, which are estimated to be in excess of 3,500.

The following table sets forth the high and low prices of our common shares for each quarter of 2003 and 2004 as reported on the NYSE, for each of the periods listed below:

	<u>High</u>	<u>Low</u>
<b>2003</b>		
Third Quarter	\$ 27.75	\$ 22.50
Fourth Quarter	\$ 29.42	\$ 23.50
<b>2004</b>		
First Quarter	\$ 32.95	\$ 27.75
Second Quarter (through April 15, 2004)	\$ 30.95	\$ 27.40

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### DIVIDEND POLICY

We paid dividends of \$0.07 per common share to all common shareholders of record on September 30, 2003 and December 31, 2003. We paid a dividend of \$0.125 per common share to all common shareholders of record on March 31, 2004. Any determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our results of operations and cash flows, our financial position and capital requirements, general business conditions, legal, tax, regulatory and any contractual restrictions on the payment of dividends and any other factors our board of directors deems relevant.

We are a holding company and have no direct operations. Our ability to pay dividends depends, in part, on the ability of our Insurance Subsidiaries to pay dividends to us. Our Insurance Subsidiaries (with the exception of AXIS Re) are subject to significant regulatory restrictions limiting their ability to declare and pay dividends.

Additionally, we are subject to Bermuda regulatory constraints that will affect our ability to declare and pay dividends on our common shares and make other payments. Under the Companies Act, AXIS Capital and AXIS Specialty may declare or pay a dividend or make a distribution out of contributed surplus only if it has no reasonable grounds for believing that it is, or would after the payment be, unable to pay

its liabilities as they become due or that the realizable value of its assets would thereby be less than the aggregate of its liabilities and issued share capital and share premium accounts.

As of December 31, 2003, the maximum amount of distributions that our subsidiaries could pay to AXIS Capital under applicable laws and regulations without prior regulatory approval was approximately \$727.4 million.

We have entered into a \$750 million credit facility dated as of March 25, 2004 with a syndicate of banks led by JPMorgan Chase Bank, as administrative agent and lender. Pursuant to the terms of our credit facility, we cannot pay cash dividends to our shareholders in excess of \$150 million in the aggregate for any fiscal year during the period that any commitments or obligations are outstanding thereunder.

For more information regarding restrictions on the payment of dividends by us and our Insurance Subsidiaries, see "Regulation."

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### CAPITALIZATION

The following table sets forth our consolidated capitalization as of December 31, 2003.

You should read this table in conjunction with "Selected Consolidated Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>As of December 31, 2003</b>
	<b>(in thousands, except share numbers)</b>
<b>Debt Outstanding:</b>	
Revolving credit facility(1)	\$
<b>Shareholders' Equity:</b>	
Share capital (\$0.0125 par value: 800,000,000 common shares authorized, 152,474,011 common shares issued and outstanding)	1,906
Additional paid-in capital	2,000,731
Accumulated other comprehensive gain	25,164
Retained earnings	789,347
	<hr/>
Total shareholders' equity	2,817,148
	<hr/>
<b>Total Capitalization</b>	<b>\$ 2,817,148</b>
	<hr/>

(1) Consists of a \$550 million credit facility, dated as of March 27, 2003. As of December 31, 2003, \$127.3 million of letters of credit were outstanding under such credit facility. On March 25, 2004, we renewed our existing credit facility by entering into a \$750 million credit facility with a syndicate of commercial banks led by JPMorgan Chase Bank, as administrative agent and lender.

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The following table sets forth our selected consolidated financial information for the periods ended and as of the dates indicated. AXIS Specialty was incorporated on November 8, 2001 and commenced operations on November 20, 2001. AXIS Capital was incorporated on December 9, 2002. On December 31, 2002, AXIS Specialty and its subsidiaries became wholly owned subsidiaries of AXIS Capital pursuant to the Exchange Offer. In the Exchange Offer, the shareholders of AXIS Specialty exchanged their shares for identical shareholdings in AXIS Capital. Following the Exchange Offer, AXIS Specialty distributed all of its wholly-owned subsidiaries to AXIS Capital. The Exchange Offer represents a business combination of companies under common control and has been accounted for at historical cost. As a result, the selected consolidated financial information presented gives effect to the exchange of equity interests as though it occurred as of the inception date of AXIS Specialty on November 8, 2001.

The selected statement of operations data for the years ended December 31, 2003 and 2002 and the period from inception (November 8, 2001) through December 31, 2001 and the selected balance sheet data as of December 31, 2003 and December 31, 2002 are derived from our audited consolidated financial statements included within the consolidated financial statements and notes included elsewhere in this prospectus, which have been prepared in accordance with U.S. GAAP and have been audited by Deloitte & Touche, our independent auditors. These historical results are not necessarily indicative of results to be expected from any future period. Due to our limited operating history, the ratios presented may not be indicative of our future performance.

The following selected consolidated financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>Year Ended December 31, 2003</b>	<b>Year Ended December 31, 2002</b>	<b>Period Ended December 31, 2001<sup>(1)</sup></b>
(\$ in thousands, except share and per share amounts)			
<b>Selected Statement of Operations Data:</b>			
Gross premiums written	\$ 2,273,645	\$ 1,108,003	\$ 26,746
Net premiums written	1,908,387	1,018,277	26,746
Net premiums earned	1,436,230	536,850	1,884
Net investment income	73,961	71,287	4,763
Net realized gains	22,567	26,070	394
Net losses and loss expenses	734,019	229,265	963
Acquisition costs	229,712	103,703	832
General and administrative expenses	94,589	46,521	2,566
Income tax recovery	678	1,430	
Net income	532,350	265,119	2,680
<b>Per Share Data:</b>			
Basic earnings per share	\$ 3.69	\$ 1.96	\$ 0.03
Diluted earnings per share	\$ 3.42	\$ 1.91	\$ 0.03
Basic weighted average shares outstanding	144,262,881	135,442,240	105,103,400
Diluted weighted average shares outstanding	155,690,763	138,480,623	105,103,400
<b>Selected U.S. GAAP Ratios:</b>			
Net loss and loss expense ratio <sup>(2)</sup>	51.1%	42.7%	51.1%
Acquisition cost ratio <sup>(3)</sup>	16.0	19.3	44.2
General and administrative expense ratio <sup>(4)</sup>	6.6	8.7	136.2
Combined ratio <sup>(5)</sup>	73.7%	70.7%	231.5%

*(footnotes appear on following page)*

<b>As of December 31, 2003</b>	<b>As of December 31, 2002</b>	<b>As of December 31, 2001</b>
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(\$ in thousands, except share and per share amounts)

**Selected Balance Sheet Data:**

Cash and cash equivalents	\$ 605,175	\$ 729,296	\$ 761,670
Investments at fair market value	3,385,576	1,702,990	1,079,686
Total assets	5,172,273	2,948,321	1,877,773
Reserve for losses and loss expenses	992,846	215,934	963
Unearned premiums	1,143,447	555,962	24,862
Total shareholders' equity	2,817,148	1,961,033	1,649,552

**Per Share Data:**

Book value per share <sup>(6)</sup>	\$ 18.48	\$ 14.19	\$ 12.21
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- (1) The financial information for this period reflects our results from November 8, 2001, the date of incorporation of AXIS Specialty, to December 31, 2001.
- (2) The net loss and loss expense ratio is calculated by dividing net losses and loss expenses by net premiums earned.
- (3) The acquisition cost ratio is calculated by dividing acquisition costs by net premiums earned.
- (4) The general and administrative expense ratio is calculated by dividing general and administrative expenses by net premiums earned.
- (5) The combined ratio is the sum of the net loss and loss expense ratio, the acquisition cost ratio and the general and administrative expense ratio.
- (6) Book value per share is based on total shareholders' equity divided by basic shares outstanding of 152,474,011 as of December 31, 2003, 138,168,520 as of December 31, 2002 and 135,122,688 as of December 31, 2001.

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

*The following discussion should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus. In addition to historical information, this discussion includes forward-looking information involving risks and assumptions that could cause actual results to differ materially from management's expectations. See "Forward-Looking Information" included elsewhere in this prospectus.*

**Business Overview**

We underwrite insurance and reinsurance on a global basis. In 2002, our business consisted of two underwriting segments: specialty lines and treaty reinsurance. With effect from January 1, 2003, we added two new segments following our acquisitions of AXIS Reinsurance and AXIS Surplus. Our business now consists of four segments: global insurance (formerly specialty lines), global reinsurance (formerly treaty reinsurance), U.S. insurance and U.S. reinsurance. On July 7, 2003, we completed an initial public offering of 15.4 million newly issued common shares and 9.3 million common shares offered by selling shareholders. Net proceeds to us from the offering were \$316.0 million.

The markets in which we operate have historically been cyclical. During periods of excess underwriting capacity, as defined by availability of capital, competition can result in lower pricing and less favorable policy terms and conditions for insurers and reinsurers. During periods of reduced underwriting capacity, pricing and policy terms and conditions are generally more favorable. Historically, underwriting capacity has been impacted by several factors, including industry losses, catastrophes, changes in legal and regulatory guidelines, investment results and the ratings and financial strength of competitors. During 2003, many companies operating in our markets were recovering from a prolonged period of excess underwriting capacity, which generally produced favorable pricing, terms and conditions for the risks we underwrite. We believe that

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we will benefit from continued underwriting discipline in most lines of business and from insureds seeking to move their business from insurers and reinsurers with legacy balance sheet issues and reserving shortfalls to financially stronger insurers and reinsurers.

We derive our revenues primarily from the sale of our insurance policies and reinsurance contracts. Insurance and reinsurance premiums are a function of the number and type of contracts we write, as well as prevailing market prices.

Renewal dates for our business segments depend upon the underlying line of business. For the majority of business in our global insurance and U.S. insurance segments, gross premiums are written throughout the year. An exception to this is the business written in our aviation and aviation war accounts, which is predominantly written in the last quarter of the calendar year. For our global reinsurance segment, a significant portion of our gross premiums is written in the first quarter of the calendar year, with the remainder primarily split between the second and third quarters. For the majority of business written in our U.S. reinsurance segment, gross premiums are written primarily in the first and third quarters of the calendar year.

Our premium income is supplemented by the income we generate from our investment portfolio. Our investment portfolio consists entirely of fixed income investments that are held as available for sale. Under U.S. GAAP, these investments are carried at fair market value and unrealized gains and losses on the investments are not included in our statement of operations. Rather, these unrealized gains and losses are included on our balance sheet in accumulated other comprehensive gain/(loss) as a separate component of shareholders' equity. Our current investment strategy seeks to preserve principal and maintain liquidity while trying to maximize investment return through a high-quality, diversified portfolio. The volatility of claims and the interest rate environment can affect the returns we generate on our investment portfolio.

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Our expenses primarily consist of net losses and loss expenses, acquisition costs and general and administrative expenses. Net losses and loss expenses are management's best estimate of the ultimate cost of claims incurred during a reporting period. Many aspects of our business have loss experience characterized as low frequency and high severity, which may introduce volatility to our results of operations from period to period. Also, we have substantial exposure to unexpected losses resulting from natural disasters, man-made catastrophes and other catastrophic events. The incidence and occurrence of such catastrophes are inherently unpredictable and our losses from catastrophes could be substantial. Although we attempt to manage our exposure to such events across the organization in a variety of ways, including transfer of risk to other reinsurers, a single catastrophic event could affect multiple geographic zones or the frequency or severity of a catastrophic event could exceed our estimates.

Acquisition costs relate to the fees, commissions and taxes paid to obtain business. Typically, these are based on a percentage of the premium written and will vary by each line of business that we underwrite. In addition, we include the personnel expenses of our underwriters in acquisition costs.

General and administrative expenses consist primarily of personnel expenses (except those allocated to acquisition costs) and general operating expenses. With the exception of acquisition costs, we do not allocate general and administrative operating expenses to our segments and instead record these costs at the corporate level.

Our ultimate objective as an insurance and reinsurance company is to generate superior returns on capital that appropriately reward us for the risks we assume and to grow revenue only when we deem it profitable. To achieve this objective, we must be able to accurately assess the potential losses associated with the risks that we insure and reinsure across the organization, to manage our investment portfolio risk appropriately and to control acquisition costs and infrastructure throughout the organization. Two financial measures that are meaningful in analyzing our performance are return on equity and combined ratio. Our return on equity calculation is based on the level of net income generated from the average of the opening and closing shareholders' equity during the period. The combined ratio is a formula used by insurance and reinsurance companies to relate net premiums earned during a period to incurred losses and loss expenses and underwriting expenses, including commissions, during a period. A combined ratio above 100 per cent indicates that a company is incurring more in net losses and loss expenses, acquisition costs and general and administrative expenses than it is earning in net premiums. We consider the combined ratio an appropriate indicator of our underwriting performance, particularly given the shorter tail orientation of our overall portfolio of risks. The following table details our key performance indicators:

<b>Year Ended December 31, 2003</b>	<b>Year Ended December 31, 2002</b>	<b>Period Ended December 31, 2001</b>
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(\$ in thousands, except share and per share amounts)

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	Year Ended December 31, 2003	Year Ended December 31, 2002	Period Ended December 31, 2001
Gross premiums written	\$ 2,273,645	\$ 1,108,003	\$ 26,746
Net premiums earned	1,436,230	536,850	1,884
Net income	532,350	265,119	2,680
Net loss and loss expense ratio	51.1%	42.7%	51.1%
Acquisition cost ratio	16.0	19.3	44.2
General and administrative expense ratio	6.6	8.7	136.2
<b>Combined ratio</b>	<b>73.7%</b>	<b>70.7%</b>	<b>231.5%</b>
Return on average equity	22.3%	14.7%	Not meaningful
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Because we have a limited operating history, period to period comparisons of our results of operations may not be meaningful. This may result in volatility in both our results of operations and financial condition. In addition, the amount of premiums written with respect to any particular segment or line of business may vary from quarter to quarter and year to year as a result of changes in market conditions.

#### Acquisition History

On October 2, 2002, we completed the purchase of the Connecticut Specialty Insurance Company, a surplus lines-eligible carrier in 38 states and the District of Columbia, which was subsequently renamed AXIS Specialty Insurance Company. We paid a purchase price of \$17.4 million. On November 27, 2002, we completed the purchase of Royal & SunAlliance Personal Insurance Company, which is licensed in all 50 states, the District of Columbia and Puerto Rico, and was subsequently renamed AXIS Reinsurance Company. We paid a purchase price of \$23.1 million. See note 4 to the consolidated financial statements included elsewhere in this prospectus for a further discussion regarding contingent liabilities related to our acquisitions.

On February 28, 2003, we completed the acquisition of Sheffield Insurance Corporation for \$34.7 million and subsequently renamed it AXIS Surplus Insurance Company. At the time of purchase, Sheffield Insurance Company was licensed to write insurance in Illinois and Alabama and eligible to write surplus lines insurance in 39 states and the District of Columbia. In addition, we added a team of insurance professionals from Combined Specialty Group, Inc. In the first half of 2003, we acquired the renewal rights to a book of directors' and officers' liability insurance and related lines business written by the Financial Insurance Solutions Group ("FIS") of Kemper Insurance Companies ("Kemper") in exchange for an agreement to make an override payment. The override payment is based on a percentage of gross written premiums of all FIS accounts that are renewed by the Company. We purchased this company and agreed to acquire these rights as the foundation for commencing our U.S. insurance operations.

#### Critical Accounting Policies

There are certain accounting policies that we consider to be critical due to the amount of judgment and uncertainty inherent in the application of those policies. In calculating financial statement estimates, the use of different assumptions could produce materially different estimates. We believe the following critical accounting policies affect significant estimates used in the preparation of our consolidated financial statements.

*Reserve for losses and loss expenses.* For most insurance and reinsurance companies, the most significant judgment made by management is the estimation of the reserve for losses and loss expenses, which we also refer to as loss reserves. Our loss reserves are estimated by management and are reviewed every quarter by our independent actuarial consultants, based on generally accepted actuarial principles. The reserve for unpaid reported losses and loss expenses is established based upon our estimate of the total cost of claims that were reported to us but not yet paid ("case reserves"), the costs of **additional case reserves** on known events but not yet reported to us and claims reported to us but not considered to be adequately reserved ("ACR"), and the anticipated cost of claims IBNR.

For reported losses, we establish case reserves within the parameters of the coverage provided in the insurance or reinsurance contracts. In addition, where there is the possibility of a claim on a particular contract, but no formal advice of reserve has been received, ACR's are sometimes established before official reserve notifications but in the same manner as reported claim reserves.



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Our IBNR is estimated by independent actuaries using actuarial methods. Our estimate of IBNR is initially derived using the Bornhuetter-Ferguson method although the initial expected loss ratio and

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chain ladder ("loss emergence") methods are also utilized for some lines of business. The Bornhuetter-Ferguson method is typically used by companies with limited loss experience. This method takes as a starting point an assumed ultimate loss and loss expense ratio and blends in the loss and loss expense ratio implied by the experience to date. We also include in IBNR claims exposures estimated by the claims team, based on identified events, but from which claims have not yet been notified to us ("specific IBNR").

For our global insurance and U.S. insurance segments, the assumed ultimate loss and loss expense ratios are based on benchmarks derived from the independent actuary's wider market experience together with our limited historical data. These benchmarks are then adjusted for rate increases and changes in terms and conditions in the market and in our business. For our global reinsurance segment, the assumed ultimate loss and loss expense ratios are based on contract-by-contract initial expected loss ratios derived during pricing together with benchmarks derived from the independent actuary's wider market experience. For our U.S. reinsurance segment, the assumed ultimate loss and loss expense ratios are based on a review carried out by the independent actuaries of the pricing loss ratios on a contract-by-contract basis together with benchmarks derived from the independent actuary's wider market experience. Under U.S. GAAP, we are not permitted to establish loss reserves with respect to our catastrophe reinsurance until an event that gives rise to a loss occurs. Within our catastrophe line of business, on some contracts that respond to highly visible, major catastrophes, we are not holding any general IBNR (although in certain cases we are holding specific IBNR where potential exposure has been identified).

By applying these loss and loss expense ratios to our earned premium, we derive the estimated baseline ultimate cost of the losses from which we deduct paid losses and reported case reserves to generate our baseline IBNR. The actuarial methodologies used to derive our baseline estimate can not fully allow for all uncertainties within our business. To account for some of these uncertainties, our independent actuaries perform, in conjunction with management, an analysis of additional factors to be considered when establishing our IBNR. These uncertainties may vary over time, but generally contemplate matters such as the timing and emergence of claims or short term market trends that might alter our consistent baseline approach. A combination of the baseline estimate of IBNR and the reserves for the additional uncertainties constitutes management's and the actuaries' best estimate of IBNR.

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The following table provides a breakdown of loss and loss expense reserves by segment by type of exposure as of December 31, 2003 and December 31, 2002:

	<b>As of December 31, 2003</b>	<b>As of December 31, 2002</b>
(\$ in millions)		
Marine, aviation and aerospace	\$ 148.5	\$ 55.3
Onshore and offshore energy and commercial property	251.5	56.6
Other specialty risks	81.7	20.6
	\$ 481.7	\$ 132.5
<b>Total Global Insurance</b>		
Catastrophe (property and non-property)	\$ 165.6	\$ 44.4
Other	61.7	39.0
	\$ 227.3	\$ 83.4
<b>Total Global Reinsurance</b>		
Commercial property	\$ 49.4	
Professional lines and commercial liability	174.4	

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	As of December 31, 2003	As of December 31, 2002
Total U.S Insurance	\$ 223.8	\$
Professional lines and commercial liability	\$ 48.7	
Property, marine and aviation	11.3	
Total U.S Reinsurance	\$ 60.0	\$
Total loss and loss expense reserves	\$ 992.8	\$ 215.9

As of December 31, 2003, the reserve for IBNR accounted for \$813.0 million, or 82%, of our total loss reserves. The reserve for IBNR losses accounted for \$155.0 million, or 72%, of our total loss reserves at December 31, 2002.

As of December 31, 2003, a 5% change in the reserve for IBNR losses would equate to a \$40.6 million change in loss reserves, which change would represent 7.6% of net income and 1.4% of shareholders' equity. As of December 31, 2002, a 5% change in the reserve for IBNR losses would equate to a \$7.8 million change in loss reserves, which change would represent 2.9% of net income and 0.4% of shareholders' equity.

The methodology of estimating loss reserves is reviewed each quarter to evaluate whether the assumptions made continue to be appropriate. Any adjustments that result from this review are recorded in the quarter in which they are identified.

Our reserving practices and the establishment of any particular reserve reflect management's judgment concerning sound financial practice and do not represent any admission of liability with respect to any claims made against us. No assurance can be given that actual claims made and related payments will not be in excess of the amounts reserved. During the loss settlement period, it often becomes necessary to refine and adjust the estimates of liability on a claim either upward or downward. Even after such adjustments, ultimate liability may exceed or be less than the revised estimates.

In assessing the adequacy of these reserves it must be noted that the actual final costs of settling claims outstanding is uncertain as it depends upon future events. There is necessarily a range of possible outcomes and the eventual outcome will almost certainly differ from the projections currently made. This uncertainty is heightened by the short time in which we have operated, thereby providing limited claims loss emergence patterns specifically for the Company. This has necessitated the use of

benchmarks in deriving IBNR which, despite management's and the independent actuary's care in selecting them, could differ materially from actual experience.

*Premiums.* Our revenue is generated primarily by gross premiums written from our underwriting operations. The basis for the amount of gross premiums recognized varies by the type of contract we write.

For the majority of our insurance business, we receive a flat premium which is identified in the policy and which is recorded as unearned premium on the inception date of the contract. This premium will only adjust if the underlying insured values adjust. We actively monitor underlying insured values and record adjustment premiums in the period in which amounts are reasonably determinable.

We also write business on a **line slip** basis, under which we assume a fixed percentage of the premiums and losses on a particular risk or group of risks along with numerous other unrelated insurers. Statement of Financial Accounting Standard ("FAS") No. 60 "Accounting and Reporting By Insurance Enterprises" requires that if the ultimate premium is reasonably estimable, the estimated ultimate premium should be recognized as revenue over the period of the contract. Although a premium estimate is not contractually stated for business written on a line slip basis, we believe that the premium is reasonably estimable because we receive an initial estimate of the expected premiums written from the broker. This estimate has been derived by reference to one or more of the following: the historical premium volume experienced by the line slip;

historical premium volume of similar line slips; and industry information on the underlying business. We may, if we believe appropriate, adjust the initial estimates provided by the broker to reflect management's best judgments and expectations. This is most likely where the underwriter believes that the estimate is not prudent. Under these circumstances, we will generally recognize as revenue a lower than advised premium written estimate. We actively monitor the development of actual reported premium to the estimates made; where actual reported premium deviates from the estimate, we carry out an analysis to determine the cause and may, if necessary, adjust the estimated premium in the period in which the determination was made. During the years ended December 31, 2003 and December 31, 2002, line slip premiums accounted for 7% and 6%, respectively, of total gross premiums written.

For our reinsurance business, we write contracts on both an excess of loss basis and a proportional basis. For excess of loss contracts, the amount of premium is usually contractually documented at inception and no management judgment is necessary. For most such contracts, a deposit premium is generally contractually specified and is payable during the contract period. After the contract has expired, a premium adjustment is calculated, which is based on the underlying exposure of the ceded business. We record the deposit premium at the inception of the contract and record adjustments in the periods in which they are reasonably determinable.

For business written under a proportional reinsurance contract, similar to our line slip business, we are able to reasonably estimate the premium written by reference to an initial estimate of expected ceded premium received from our clients. In most cases, the treaties are not new and the client can use historical experience to estimate the amount of premium. We may adjust the initial estimate of premium, and any adjustment is usually a result of the underwriter's prior experience with a client. We actively monitor the development of actual premium data and, if an adjustment in the premium estimate is warranted, it will be recorded in the period during which the adjustment is determined. During the year ended December 31, 2003 and December 31, 2002, proportional premiums accounted for 7% and 8%, respectively, of total gross premiums written.

Our premiums are earned over the period during which we are exposed to the insured or reinsured risk. Generally, this period equates to the contract period, except for contracts written on a line slip or proportional basis. For line slip and proportional business, the earning period is generally twice the contract period due to the fact that some of the underlying exposures may attach towards the end of our contracts, and such underlying exposures generally have a one year coverage period.

*Derivative Contracts.* We underwrite some contracts that have been determined to meet the definition of a derivative under FAS 133, and are therefore recorded at their fair value. The fair values of these contracts are modeled on prevailing market conditions and on the terms and the structure of the contract. When data is not readily available from the market, we seek to use data from independent counterparties. These processes can be highly subjective. The change resulting from a movement in fair value of such contracts is included in the statement of operations and comprehensive income in other insurance related income. There is volatility in the fair value change of these contracts given their underlying nature.

## **Results of Operations**

### *Years ended December 31, 2003 and 2002*

*Premiums.* In the year ended December 31, 2003, gross premiums written were \$2.3 billion compared with \$1.1 billion for the year ended December 31, 2002, an increase of \$1.2 billion. Of this increase, 71.2% was generated by our U.S. insurance and reinsurance segments, which began underwriting business at the start of our 2003 calendar year and produced gross premiums written of \$625.9 million and \$204.1 million, respectively. In addition, we experienced an increase in gross premiums written of \$186.9 million from our global insurance segment and \$148.7 million from our global reinsurance segment. We expect the mix of business within and between our segments to change over time based on market conditions and our view of the long term profit potential of individual lines of business.

Premiums ceded for the year ended December 31, 2003 were \$365.3 million compared with \$89.7 million for the year ended December 31, 2002, an increase of \$275.6 million. We purchase reinsurance to reduce our exposure to risk of loss on some lines of business written primarily within our global insurance and U.S. insurance segments. The increase in ceded premiums was primarily generated by our U.S. insurance segment.

Net premiums earned for the year ended December 31, 2003 were \$1.4 billion compared with \$536.9 million for the year ended December 31, 2002, an increase of \$899.4 million. This increase was caused by two factors. Firstly, we increased the volume of premiums written during the year ended December 31, 2003 over 2002. Secondly, as the year ended December 31, 2002 was our first full underwriting year, premiums were earned only on contracts written following the commencement of operations in November of 2001 through the end of December 2002. For the year ended December 31, 2003, we earned premiums on contracts written in both 2003 and 2002.

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*Net Investment Income and Net Realized Gains (Losses).* Net investment income, including realized gains, for the year ended December 31, 2003 was \$96.5 million compared with \$97.4 million for the year ended December 31, 2002, a decrease of \$0.9 million.

Net Investment Income. Net investment income for the year