AXIS CAPITAL HOLDINGS LTD
Form 424B5
November 08, 2004

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The information in this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 8, 2004.

PROSPECTUS SUPPLEMENT
(To Prospectus dated November 8, 2004)

$

AXIS Capital Holdings Limited

% Senior Notes due 20

The notes will bear interest at the rate of % per year. Interest on the notes is payable on and of each year, beginning on . The notes will mature on . We may redeem some or all of the notes at any time on or after . The redemption prices are discussed under the caption "Description of Notes Optional Redemption." We may also be able to redeem the notes at our option if certain tax events occur. See "Description of Notes Redemption for Tax Purposes."

The notes will be senior obligations of our company and will rank equally with all of our other unsecured senior indebtedness.

Investing in the notes involves risks. See "Risk Factors" beginning on page S-11.

None of the Securities and Exchange Commission, any state securities commission, the Registrar of Companies in Bermuda, the Bermuda Monetary Authority or any other regulatory body has approved or disapproved of these securities or determined if this prospectus supplement or the related prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Senior Note	Total
Public Offering Price	%	$
Underwriting Discount	%	$
Proceeds to AXIS (before expenses)	%	$

Interest on the notes will accrue from , 2004 to date of delivery.

The underwriters expect to deliver the notes to purchasers on or about November , 2004.

Joint Book-Running Managers

Citigroup **JPMorgan**

Barclays Capital

Deutsche Bank Securities

Wachovia Securities

Calyon Securities (USA)

HSBC

, 2004.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

TABLE OF CONTENTS

Prospectus Supplement

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement contains the terms of this offering of notes. This prospectus supplement may add, update or change information contained or incorporated by reference in the accompanying prospectus. In addition, the information incorporated by reference in the accompanying prospectus may have added, updated or changed information in the accompanying prospectus. If information in this prospectus supplement is inconsistent with any information in the accompanying prospectus (or any information incorporated therein by reference), this prospectus supplement will apply and will supersede such information in the accompanying prospectus. It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the additional information under the caption "Where You Can Find More Information" in this prospectus supplement and the accompanying prospectus.

Securities 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. We have obtained from the BMA their permission for the issue and free transferability of the securities in the Company being offered pursuant to the prospectus and this prospectus supplement. In addition, we will deliver to and file a copy of the prospectus and this prospectus supplement with the Registrar of Companies in Bermuda in accordance with Bermuda law. The BMA and the Registrar of Companies accept no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed in this prospectus or in any prospectus supplement.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere or incorporated by reference within this prospectus supplement and the accompanying 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 supplement and the accompanying prospectus carefully, including the "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" sections and our consolidated financial statements and the notes to those consolidated financial statements, in each case included or incorporated by reference herein, 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 Specialty London, unless the context suggests otherwise. References in this prospectus supplement to "dollars" or "$" are to the lawful currency of the United States of America, unless the context otherwise requires.

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 equity of 22.3%. In the nine months ended September 30, 2004, we wrote $2.4 billion of gross premiums, generated $313.9 million of net income, produced a combined ratio of 86.4% and earned a return on average equity of 14.2%. As of September 30, 2004, we had $3.1 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 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 continued to recover from a prolonged period of excess underwriting capacity, which recovery 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 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. In the nine months ended September 30, 2004, we wrote gross premiums of $730.9 million in our global insurance segment, $722.8 million in our global reinsurance segment, $595.6 million in our U.S. insurance segment and $311.8 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 nine months of 2004, this office principally wrote European trade credit and bond reinsurance, motor and general liability reinsurance and property catastrophe reinsurance.

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;
- 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);
- 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:

- Property;
- Professional Lines; and
- 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.

Effective January 1, 2005, we will realign our organizational and marketing structure by creating two global underwriting platforms. Our global insurance and U.S. insurance segments will be integrated under the brand name "AXIS Insurance." Our global reinsurance and U.S. reinsurance segments will be integrated under the brand name "AXIS Re." Dennis B. Reding, current Chief Executive Officer of AXIS U.S. Insurance, will become Chairman of AXIS Insurance. John R. Charman, our current Chief Executive Officer and President, will assume the additional role of Chairman of AXIS Re. AXIS Insurance and AXIS Re will form underwriting committees that will be responsible for driving the underwriting business plans of the newly integrated businesses. We believe that this structure will permit us to leverage the strengths and size of each of our global insurance and global reinsurance businesses to create a stronger brand, take advantage of economies of scale and enhance the coordination of key executives.

We produce our business almost exclusively through insurance and reinsurance brokers worldwide who receive brokerage fees and commissions for placing our business. 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.

Superior Financial Strength. Our insurance and reinsurance subsidiaries are rated "A" (Strong) by Standard & Poor's and "A" (Excellent) by A.M Best. AXIS Specialty, AXIS Re and AXIS Reinsurance are rated "A2" (Good) by Moody's Investors Service. 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 the returns meet or exceed our requirements, 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 provider 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 notes.

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.

For more information about these and other risks, see "Risk Factors" beginning on page S-11. You should carefully consider these risk factors together with all the other information included and incorporated by reference in this prospectus supplement and the accompanying prospectus before making an investment decision.

The Attorney General of the State of New York is conducting an industry-wide investigation regarding incentive commission agreements, fictitious and inflated quotes and tying arrangements between insurance companies and brokers. We have received subpoenas in connection with this investigation. In addition, many insurance companies, including the Company, have been sued by their shareholders in purported class actions alleging that these practices are illegal. For more information about these matters, see "Business Legal Proceedings."

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. In April 2004, we completed a secondary offering of 23.0 million common shares offered by selling shareholders.

Set forth below is a chart that shows our operating insurance and reinsurance 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.

THE OFFERING

Issuer	AXIS Capital Holdings Limited
Notes Offered	$ million aggregate principal amount of % Senior Notes due .
Maturity Date	, .
Interest Rate and Payment Dates	% per annum, payable semi-annually on and of each year, commencing , 2005.
Ranking	The notes: are senior unsecured obligations; rank equally with all our existing and future unsecured and unsubordinated debt; and are effectively junior to any indebtedness of our subsidiaries.
Optional Redemption	The notes will be redeemable, at our option, in whole or in part, at any time after , at the redemption prices set forth in this prospectus supplement, together with accrued and unpaid interest, if any, to the date of redemption.
Tax Redemption	We may redeem all of the notes at any time certain tax events occur as described in "Description of Notes Redemption for Tax Purposes."
Covenants	The notes will be issued under an indenture with the Bank of New York, as trustee. The indenture contains various covenants, including: limitations on liens on the stock of restricted subsidiaries; restrictions as to the disposition of the stock of restricted subsidiaries; and limitations on consolidations, mergers, amalgamations and sales of assets.
Additional Notes	We may, without notice to or the consent of the then existing holders of the notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the notes offered by this prospectus supplement except for the issue price, issue date and, in some cases, the first interest payment date. Any additional notes having such similar terms will, together with the notes being offered by this prospectus supplement, constitute a single series of notes under the indenture.
Use of Proceeds	We estimate that the net proceeds from this offering will be approximately $ million, after deducting the discount payable to the underwriters and estimated offering expenses payable by us. We intend to use the net proceeds of this offering for general corporate purposes.

Ratings	Our senior unsecured debt ratings are as follows: Moody's Investors Service: Baa1 Standard & Poor's: BBB+ The ratings set forth above are not a recommendation to purchase, hold or sell the notes and are subject to revision or withdrawal at any time by the assigning rating agencies.
No Trading Market	The notes are a new issue of securities for which there is currently no established trading market. Although the underwriters have informed us that they currently intend to make a market in the notes, they are not obligated to do so and any such market may be discontinued at any time without notice.
Form of the Notes	The notes will be represented by one or more global notes registered in the name of The Depository Trust Company or its nominee. This means that holders will not receive a certificate for their notes and the notes will not be registered in their names. Ownership interests in the notes will be shown on, and transfers of the notes will be effected only through, records maintained by participants in The Depository Trust Company. The Depository Trust Company and the paying agent for the notes will be responsible for interest payments to you.

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 income statement 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 in our Annual Report on Form 10-K for the year ended December 31, 2003. The summary consolidated financial information at and for the nine months ended September 30, 2004 and 2003 has been derived from the unaudited interim condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the three months ended September 30, 2004. This summary consolidated financial information should be read in conjunction with and is qualified by reference to these financial statements and the related notes. These historical results are not necessarily indicative of results to be expected from any future period.

	Nine Months Ended		Year Ended December 31,		
	September 30, 2004	September 30, 2003	2003	2002	Period Ended December 31, 2001(1)
	($ in thousands, except share and per share amounts)				
Summary Statement of Operations Data:					
Gross premiums written	$ 2,361,142	$ 1,793,979	$ 2,273,645	$ 1,108,003	$ 26,746
Premiums ceded	(412,063)	(269,636)	(365,258)	(89,726)	
Net premiums earned	1,479,449	1,035,485	1,436,230	536,850	1,884
Net investment income	104,621	46,598	73,961	71,287	4,763
Net realized gains	9,418	21,190	22,567	26,070	394
Net losses and loss expenses	946,025	526,135	734,019	229,265	963
Acquisition costs	201,674	146,770	229,712	103,703	832
General and administrative expenses	132,048	96,451	94,589	46,521	2,566
Income tax (expense) recovery	(3,369)	(1,135)	678	1,430	
Net income	313,923	371,854	532,350	265,119	2,680

Summary Ratios (based on U.S. GAAP income statement data):					
Net loss and loss expense ratio(2)	63.9%	50.8%	51.1%	42.7%	51.1%
Acquisition cost ratio(3)	13.6	14.2	16.0	19.3	44.2
General and administrative expense ratio(4)	8.9	9.3	6.6	8.7	136.2
Combined ratio(5)	86.4%	74.3%	73.7%	70.7%	231.5%
Summary Balance Sheet Data:					
Cash and cash equivalents	$ 935,331	$ 790,604	$ 605,175	$ 729,296	$ 761,670
Investments at fair market value	4,360,522	3,277,783	3,385,576	1,702,990	1,079,686
Total assets	8,203,132	5,253,520	5,172,273	2,948,321	1,877,773
Reserve for losses and loss expenses	2,223,234	785,041	992,846	215,934	963
Unearned premiums	1,682,119	1,153,296	1,143,447	555,962	24,862
Total shareholders' equity	3,084,992	2,680,802	2,817,148	1,961,033	1,649,552

(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.

RISK FACTORS

Before investing in the notes you should carefully consider the following risk factors and all other information set forth and incorporated by reference in this prospectus supplement and the accompanying prospectus. These risks could materially affect our business, results of operations or financial condition. You could lose all or part of your investment.

Risks Relating to the Notes

In the event of our liquidation or reorganization, holders of the notes will generally have a junior position to claims of creditors of our subsidiaries.

The notes are obligations exclusively of AXIS Capital and not of its subsidiaries. We are a holding company and conduct substantially all our operations through our subsidiaries. Our ability to meet our obligations under the notes will be dependent on the earnings and cash flows of our subsidiaries and the ability of our subsidiaries to pay dividends or to advance or repay funds to us. See " Risks Related to the Company Our ability to pay dividends and to make payments on indebtedness may be constrained by our holding company structure" in the accompanying prospectus. Our right to participate as an equity holder in any distribution of assets of any subsidiary (and thus the ability of holders of the notes to benefit as creditors of our company from such distribution) is junior to creditors of that subsidiary. As a result, claims of holders of the notes will be effectively subordinated to the claims of existing and future policyholders and other creditors of our subsidiaries. In the event of our liquidation or reorganization, holders of the notes will generally have a junior position to claims of creditors of our subsidiaries. The notes will not be secured, and thus the notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing that indebtedness.

The notes will not contain some covenants that could protect holders of the notes.

The notes will not contain some covenants that could protect holders of the notes from certain transactions. For example, the notes will not contain covenants that:

- limit our ability or any subsidiary's ability to incur additional indebtedness;
- limit our ability to pay dividends or make distributions on, or redeem or repurchase, our equity securities;
- prevent us from selling or otherwise transferring any shares of, or securities convertible into, or options, warrants or rights to purchase shares of, voting stock of any of our subsidiaries, or prohibit any subsidiary from issuing any shares of, securities convertible into, or options, warrants or rights to purchase shares of, voting stock of such subsidiary (so long as in the case of our restricted subsidiaries it is for fair market value, see " Description of Debt Securities Covenants Applicable to the Debt Securities" in the accompanying prospectus); or
- give holders of the notes the right to require us to repurchase their notes in the event of a change of control of our company due to a takeover, recapitalization or similar restructuring, or for any other reason.

An active trading market for the notes may not develop.

There has been no trading market for the notes prior to this offering, and a trading market for the notes may not develop or continue. The notes will not be listed on any national securities exchange or automated quotation system. Although the underwriters have advised us that they intend to make a market in the notes, they are not obligated to do so and could stop making a market in the notes at any time without notice. The liquidity of any market for the notes will depend on the number of holders of the notes, the interest of securities dealers in making a market in the notes and other factors. The price at which you will be able to sell the notes may be less than the price paid for them due to prevailing interest rates, the market for similar securities, general economic conditions, our performance and business prospects and other factors.

Our option to redeem the notes in some circumstances may adversely affect your return on the notes.

The notes will be redeemable at our option if certain tax events occur. Redemption may occur at a time when prevailing interest rates are relatively low. If this happens, you generally will not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the redeemed notes. See "Description of Notes Redemption for Tax Purposes" for a more detailed discussion of redemption of the notes.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus contain 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," "should," "could," "anticipate," "estimate," "expect," "plan," "believe," "predict," "potential" and "intend." Forward-looking statements contained in this prospectus supplement and the accompanying prospectus include information regarding the benefits from continued underwriting discipline and insureds seeking to move business to financially stronger insurers and reinsurers, our estimates of losses relating to Hurricanes Charley, Frances, Ivan and Jeanne, the changes in the mix of our business, the increase in net earned premiums 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 man-made disasters, (3) actual claims exceeding our loss reserves, (4) failure of any of the loss limitation methods we employ, (5) the 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 internationally recognized rating agencies, (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" in this prospectus supplement and the accompanying prospectus. 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

The estimated net proceeds from this offering will be approximately $ million, after deducting the discount payable to the underwriters and estimated offering expenses payable by us. We intend to use the net proceeds of this offering for general corporate purposes.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2004, on an actual basis and as adjusted to reflect the issuance of the notes and the application of the net proceeds therefrom, as described elsewhere in this prospectus supplement and the accompanying prospectus.

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 that are incorporated by reference in this prospectus supplement and the accompanying prospectus.

	As of September 30, 2004	
	Actual	As Adjusted
	(in thousands, except share numbers)	
Debt Outstanding:		
Revolving credit facility(1)	$	$
Notes offered hereby		
Shareholders' Equity:		
Share capital ($0.0125 par value: 800,000,000 common shares authorized, 152,539,621 common shares issued and outstanding)	1,906	1,906
Additional paid in capital	2,013,325	2,013,325
Accumulated other comprehensive (loss) income, net of tax	22,997	22,997
Retained earnings	1,046,764	1,046,764
Total shareholders' equity	$ 3,084,992	$ 3,084,992
Total Capitalization	$ 3,084,992	$

(1) Consists of a $750 million credit facility, dated as of March 25, 2004. As of September 30, 2004, $133.9 million of letters of credit were outstanding under the credit facility.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

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 for 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 in our Annual Report on Form 10-K for the year ended December 31, 2003. The selected consolidated financial information at and for the nine months ended September 30, 2004 and 2003 has been derived from the unaudited interim condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the three months ended September 30, 2004. This selected consolidated financial information should be read in conjunction with and is qualified by reference to these financial statements and the related notes. These historical results are not necessarily indicative of results to be expected from any future period.

	Nine Months Ended		Year Ended December 31,		Period Ended December 31, 2001(1)
	September 30, 2004	September 30, 2003	2003	2002	
	($ in thousands, except share and per share amounts)				
Selected Statement of Operations Data:					
Gross premiums written	$ 2,361,142	$ 1,793,979	$ 2,273,645	$ 1,108,003	$ 26,746
Premiums ceded	(412,063)	(269,636)	(365,258)	(89,726)	
Net premiums earned	1,479,449	1,035,485	1,436,230	536,850	1,884
Net investment income	104,621	46,598	73,961	71,287	4,763
Net realized gains	9,418	21,190	22,567	26,070	394
Net losses and loss expenses	946,025	526,135	734,019	229,265	963
Acquisition costs	201,674	146,770	229,712	103,703	832
General and administrative expenses	132,048	96,451	94,589	46,521	2,566
Income tax (expense) recovery	(3,369)	(1,135)	678	1,430	
Net income	313,923	371,854	532,350	265,119	2,680
Selected Ratios (based on U.S. GAAP income statement data):					
Net loss and loss expense ratio(2)	63.9%	50.8%	51.1%	42.7%	51.1%
Acquisition cost ratio(3)	13.6	14.2	16.0	19.3	44.2
General and administrative expense ratio(4)	8.9	9.3	6.6	8.7	136.2
Combined ratio(5)	86.4%	74.3%	73.7%	70.7%	231.5%

Selected Balance Sheet Data:					
Cash and cash equivalents	$ 935,331	$ 790,604	$ 605,175	$ 729,296	$ 761,670
Investments at fair market value	4,360,522	3,277,783	3,385,576	1,702,990	1,079,686
Total assets	8,203,132	5,253,520	5,172,273	2,948,321	1,877,773
Reserve for losses and loss expenses	2,223,234	785,041	992,846	215,934	963
Unearned premiums	1,682,119	1,153,296	1,143,447	555,962	24,862
Total shareholders' equity	3,084,992	2,680,802	2,817,148	1,961,033	1,649,552

(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.

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 in our Annual Report on Form 10-K for the year ended December 31, 2003 and our Quarterly Report, on Forms 10-Q for the three months ended March 31, 2004, June 30, 2004 and September 30, 2004, which are incorporated by reference in this prospectus supplement. 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 "Cautionary Statement Regarding Forward-Looking Statements" included elsewhere in this prospectus supplement.

Business Overview

We underwrite insurance and reinsurance on a global basis. Our business consists of four segments: global insurance, global 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 the Company from the offering were $316.0 million and have been credited to shareholders' equity. In April 2004, we completed a secondary offering of 23.0 million common shares offered by selling shareholders. We did not sell any common shares in connection with this offering and did not receive any proceeds.

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 the consequences of a prolonged period of excess underwriting capacity, which recovery generally produced favorable pricing, terms and conditions for the risks we underwrite. We believe that we are currently operating in a marketplace that generally continues to offer favorable pricing, terms and conditions in all of our business segments; however, there are many lines of business that have recently experienced less favorable pricing, terms and conditions. We believe that we will benefit from continued underwriting discipline by the market in most lines of business and from insureds and insurers 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 primarily 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 income 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.

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 and reinsurance recoveries. Many aspects of our business have loss experience characterized as low frequency and high severity, which may cause volatility in 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 business segments and 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. We offset commissions received on ceded premiums against acquisition costs.

General and administrative expenses consist primarily of personnel and general operating expenses. With effect from January 1, 2004, we included the personnel expenses of our underwriters in general and administrative expenses; prior to that date, they were included in acquisition costs. Disclosures relating to prior periods have been restated to reflect this change. In addition, with effect from January 1, 2004, we allocated all of our general and administrative costs, except for corporate expenses, to our underwriting segments. Our corporate costs include holding company costs necessary to support our worldwide insurance and reinsurance operations and costs associated with operating as a publicly-traded company. Prior periods have not been restated to reflect the full allocation of general and administrative costs as our business segments were not fully operational throughout 2003. We do not allocate our assets by segment as we evaluate the underwriting results of each segment separately from the results of its investment portfolio.

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 the returns meet or exceed our requirements. 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 net losses and loss expenses, acquisition costs and general and administrative expenses during a period. A combined ratio above 100% 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 short tail orientation of our overall portfolio of risks. The following table details our key performance indicators:

	Nine Months Ended			Year Ended		
	September 30, 2004	September 30, 2003	Change	2003	2002	Change
	($ in thousands)					
Gross premiums written	$ 2,361,142	$ 1,793,979	567,163	$ 2,273,645	$ 1,108,003	$ 1,165,642
Net premiums earned	1,479,449	1,035,485	443,964	1,436,230	536,850	899,380
Net income	313,923	371,854	(57,931)	532,350	265,119	267,231
Net loss and loss expense ratio	63.9%	50.8%	13.1%	51.1%	42.7%	8.4%
Acquisition cost ratio	13.6	14.2	(0.6)	16.0	19.3	(3.3)
General and administrative expense ratio	8.9	9.3	(0.4)	6.6	8.7	(2.1)
Combined ratio	86.4%	74.3%	12.1%	73.7%	70.7%	3.0%
Return on average equity	14.2%	21.4%	(7.2)%	22.3%	14.7%	7.6%

Because we have a limited operating history, period to period comparisons of our results of operations may not be meaningful and there may be 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 period to period 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 incorporated by reference in this prospectus supplement 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 Corporation 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 ("FIS") group of The 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 incurred but not reported ("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.

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 chain ladder ("loss emergence") methods are also utilised 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 rating changes and changes in terms and conditions that have been observed in the market. 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 otherwise consistent baseline approach. A combination of the baseline estimate of IBNR and the reserves for the additional uncertainties constitutes management's and the independent actuaries' best estimate of IBNR.

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

	As of December 31, 2003
	($ in millions)
Marine, aviation and aerospace	$ 148.5
Onshore and offshore energy and commercial property	251.5
Other specialty risks	$ 81.7
Total Global Insurance	$ 481.7
Catastrophe (property and non property)	$ 165.6
Other	61.7
Total Global Reinsurance	$ 227.3
Property	$ 49.4
Professional lines and commercial liability	174.4
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

As of December 31, 2003, the reserve for IBNR accounted for $813.0 million, or 82%, of our total loss reserves.

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.

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. We write "short tail" business and "medium tail" business. In 2004, we have written more medium tail business than in 2003, although our business is still much more weighted toward short tail business. The length of the "tail" refers to how quickly claims are made after an insured occurrence. The longer the tail, the more difficult it is to accurately estimate loss reserves.

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 insurance 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 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 premium written from the client via 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. For the year ended December 31, 2003, premiums from business written on a line slip basis accounted for 7% 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 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, proportional premiums accounted for 7% 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. Given the underlying nature of these contracts, there will be volatility in their fair value.

Results of Operations

Nine months ended September 30, 2004 and September 30, 2003

Premiums. In the nine months ended September 30, 2004, gross premiums written were $2,361.1 million compared with $1,794.0 million for the nine months ended September 30, 2003, an increase of $567.1 million. Of this increase, 48.8% was generated by our global reinsurance segment, 25.5% by our U.S. insurance segment, 20.4% by our U.S. reinsurance segment and 5.3% by our global insurance segment. The increase in gross premiums written in our global reinsurance segment was primarily driven by our expansion into continental Europe in November 2003. The increases in gross premiums written in our U.S. segments were primarily due to greater market penetration and our ability to participate fully in the first quarter's renewal season. 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 nine months ended September 30, 2004 were $412.1 million compared with $269.6 million for the nine months ended September 30, 2003, an increase of $142.5 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 generated primarily within these segments.

Net premiums earned for the nine months ended September 30, 2004 were $1,479.4 million compared with $1,035.5 million for the nine months ended September 30, 2003, an increase of $443.9 million. Premiums are earned over the term of the policies in proportion to the risks to which they relate. As the level of net premiums written increases, the level of net premiums earned also increases. As we experienced an increase in net premiums written in all of our segments over the rolling twelve-month period ended September 30, 2004 compared to the rolling twelve-month period ended September 30, 2003, our net premiums earned increased.

Net Investment Income and Net Realized Gains. Net investment income, including realized gains, for the nine months ended September 30, 2004 was $114.0 million compared with $67.8 million for the nine months ended September 30, 2003, an increase of $46.2 million.

Net Investment Income. Net investment income for the nine months ended September 30, 2004 was $104.6 million compared with $46.6 million for the nine months ended September 30, 2003, an increase of $58.0 million. This was due to a combination of higher investment balances and higher investment yields. The 2003 amount also included an additional charge to the amortization expense on our mortgage-backed securities portfolio. Net investment income consisted primarily of interest on fixed income securities that was partially offset by net investment expenses of $5.0 million for the nine months ended September 30, 2004 compared with $4.0 million for the nine months ended September 30, 2003. The higher expenses were a result of an increase in our assets managed by external portfolio managers.

The annualized effective yield (calculated by dividing the net investment income generated from invested assets by the average balance of the assets managed by our portfolio managers) for the nine months ended September 30, 2004 was 3.3% compared with 2.4% for the nine months ended September 30, 2003. The increase in the effective yield was primarily due to higher U.S. interest rates. The 2003 yield also was reduced by the additional charge to the amortization expense on our mortgage-backed securities portfolio. The yield may vary significantly from period to period due primarily to the timing of cash flows, changes in interest rates and changes in asset allocation.

Net Realized Gains. Net realized gains for the nine months ended September 30, 2004 were $9.4 million compared with $21.2 million for the nine months ended September 30, 2003, a decrease of $11.8 million. We invest our portfolios to produce a total return. In assessing returns under this approach, we include investment income, realized gains and losses and unrealized gains and losses generated by the investment portfolios. As a result, there can be significant changes in the levels of our net realized gains (losses) from quarter to quarter. Some of our mortgage-backed securities are required to be classified as derivatives; included within net realized gains was $0.2 million in realized gains and a negligible amount in unrealized losses relating to these securities.

The total return for our investment portfolio (calculated using beginning and ending market portfolio values, adjusted for external cash flows) for the nine months ended September 30, 2004 was 2.7% compared with 3.1% for the nine months ended September 30, 2003. The total return for an investment portfolio consists of price and income return. These components are primarily affected by the timing of cash flows, changes in interest rates and changes in asset allocation. Our total return was lower in the nine months ended September 30, 2004 due to an increase in U.S. interest rates, which negatively impacted fixed income security prices; this was partially mitigated by higher investment yields.

Other Insurance Related Income. Other insurance related income for the nine months ended September 30, 2004 was $7.7 million compared with income of $19.8 million for the nine months ended September 30, 2003, a decrease of $12.1 million. This income related to the movement in the fair value of our insurance and reinsurance contracts that meet the definition of a derivative.

Net Losses and Loss Expenses. Net losses and loss expenses for the nine months ended September 30, 2004 were $946.0 million compared to $526.1 million for the nine months ended September 30, 2003, an increase of $419.9 million. The net loss and loss expense ratio for the nine months ended September 30, 2004 was 63.9% compared to 50.8% for the nine months ended September 30, 2003. The increase in net losses and loss expenses and the net loss and loss expense ratio was primarily driven by an active hurricane season. We incurred net losses and loss expenses of $227.4 million from Hurricanes Charley, Frances, Ivan and Jeanne, which swept across the Caribbean and South Eastern United States in August and September 2004. Our estimates for the losses incurred from these hurricanes were derived from formal loss advices, the output of industry models, a review of in-force contracts and preliminary indications from clients. Consequently, actual losses from these hurricanes may vary materially from estimated losses. During the nine months ended September 30, 2003, we did not experience a major loss as a result of hurricane activity. The impact of the hurricane-related losses was partially mitigated by favorable prior period development of $141.4 million, or 9.6 percentage points, compared to $51.8 million, or 5.0 percentage points, for the nine months ended September 30, 2003.

Acquisition Costs. Acquisition costs for the nine months ended September 30, 2004 were $201.7 million compared to $146.8 million for the nine months ended September 30, 2003, an increase of $54.9 million. This increase was primarily a result of the increase in the volume of net premiums earned. The acquisition cost ratio for the nine months ended September 30, 2004 was 13.6% compared to 14.2% for the nine months ended September 30, 2003. This decrease resulted primarily from the effects of a change in business mix; our U.S. insurance segment, which began underwriting in 2003, has a lower acquisition cost ratio than our other segments due to the receipt of ceding commissions on some outward reinsurance contracts that are recorded as an offset to acquisition costs. With effect from January 1, 2004, we included the personnel expenses of our underwriters in general and administrative expenses; prior to that date, they were included in acquisition costs. Our disclosures for prior periods have been restated to reflect this change.

General and Administrative Expenses. General and administrative expenses for the nine months ended September 30, 2004 were $132.0 million compared to $96.5 million for the nine months ended September 30, 2003, an increase of $35.5 million. This increase was primarily driven by the establishment and expansion of operations in the U.S. and Europe. In addition, we incurred $2.9 million of fees in connection with our preparation for compliance with section 404 of the Sarbanes-Oxley Act of 2002. The general and administrative expense ratio for the nine months ended September 30, 2004 was 8.9% compared to 9.3% for the nine months ended September 30, 2003. The reduction in the ratio was caused by an increase in the volume of net premiums earned.

Foreign Exchange. Our functional currency is the U.S. dollar; however, some of our business is written in other currencies. For the nine months ended September 30, 2004, we experienced a loss of $4.1 million compared to a gain of $19.3 million for the nine months ended September 30, 2003, a decrease of $23.4 million. This decrease was principally attributable to asset balances denominated in Euros following an increase in the level of gross premiums written in this currency in our global reinsurance segment.

Income Tax Expense. The income tax expense for the nine months ended September 30, 2004 was $3.4 million compared to $1.1 million for the nine months ended September 30, 2003, an increase of $2.3 million.

Net Income. Net income for the nine months ended September 30, 2004 was $313.9 million compared to $371.9 million, a decrease of $58.0 million. Net income for the nine months ended September 30, 2004 consisted of net underwriting income of $207.4 million, net investment income and net realized gains of $114.0 million, foreign exchange losses of $4.1 million and tax expense of $3.4 million. Net income for the nine months ended September 30, 2003 consisted of net underwriting income of $285.9 million, net investment income and net realized gains of $67.8 million, foreign exchange gains of $19.3 million and an overall tax expense of $1.1 million.

Comprehensive Income. Comprehensive income for the nine months ended September 30, 2004 was $311.8 million compared to $386.0 million for the nine months ended September 30, 2003, a decrease of $74.2 million. Comprehensive income represents net income adjusted for changes in the unrealized position in our investment portfolio. For the nine months ended September 30, 2004, we experienced a decrease of $2.2 million in the unrealized position in our investment portfolio compared to an increase of $14.1 million during the nine months ended September 30, 2003.

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.

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 ended December 31, 2003 was $74.0 million compared with $71.3 million for the year ended December 31, 2002, an increase of $2.7 million. This was primarily due to higher investment balances partially offset by lower interest rates and an increase in the amortization expense on our mortgage backed securities portfolio. Net investment income consisted primarily of interest on fixed income securities that was partially offset by investment management, accounting and custody fees of $5.8 million for the year ended December 31, 2003 compared with $3.7 million for the year ended December 31, 2002. The higher fees were a result of an increase in our assets managed by third party portfolio managers.

The annualized effective yield (calculated by dividing the net investment income generated from invested assets by the average balance of the assets managed by our portfolio managers) for the year ended December 31, 2003 was 2.6% compared with 4.0% for the year ended December 31, 2002. The reduction in the effective yield was primarily due to lower U.S. interest rates and a larger allocation to shorter duration investments during part of the year. The yield may vary significantly from period to period due primarily to the timing of cash flows, changes in interest rates and changes in asset allocation.

Net Realized Gains. Net realized gains for the year ended December 31, 2003 were $22.6 million compared with $26.1 million for the year ended December 31, 2002, a decrease of $3.5 million. We invest our portfolios to produce a total return. In assessing returns under this approach, we include investment income, realized gains and losses and unrealized gains and losses generated by the investment portfolios. As a result, there can be significant changes in the levels of our net realized gains (losses) from year to year.

With effect from July 1, 2003, we adopted FAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". As a result, some of our mortgage backed securities are required to be classified as derivatives and the unrealized gains (losses) associated with these securities that were previously recorded in accumulated other comprehensive income are now recorded in net realized gains (losses). At December 31, 2003, there were no mortgage backed securities classified as derivatives held in the investment portfolio. For the year ended December 31, 2003, included within net realized gains are $5.0 million in realized losses, and no unrealized gains or losses relating to these securities.

The total return for our investment portfolio (calculated using beginning and ending market portfolio values, adjusted for external cash flows) for the year ended December 31, 2003 was 3.5% compared with 7.5% for the year ended December 31, 2002. The total return for an investment portfolio consists of price and income return. These components are primarily affected by the timing of cash flows, changes in interest rates and changes in asset allocation. Our total return was lower in 2003 due to a combination of lower absolute yields achieved resulting in lower income return and a lower price return achieved due to the volatile interest rate environment in 2003.

Other Insurance Related Income (Loss). Other insurance related income for the year ended December 31, 2003 was $25.0 million compared with a loss of $0.6 million for the year ended December 31, 2002, an increase of $25.6 million. This income related to the movement in the fair value of our insurance and reinsurance contracts that meet the definition of a derivative. We did not record any other insurance related income in the year ended December 31, 2002.

Net Losses and Loss Expenses. Net losses and loss expenses for the year ended December 31, 2003 were $734.0 million compared to $229.3 million for the year ended December 31, 2002, an increase of $504.7 million. This increase was a result of the increase in the volume of net premiums earned and a change in the mix of business with the launch of our U.S. operations. The net loss and loss expense ratio for the year ended December 31, 2003 was 51.1% compared to 42.7% for the year ended December 31, 2002.

Acquisition Costs. Acquisition costs for the year ended December 31, 2003 were $229.7 million compared to $103.7 million for the year ended December 31, 2002, an increase of $126.0 million. This increase was a result of the increase in the volume of net premiums earned. The acquisition cost ratio for the year ended December 31, 2003 was 16.0% compared to 19.3% for the year ended December 31, 2002. This decrease resulted primarily from the effects of a change in business mix; our U.S. insurance segment, which began underwriting in 2003, has a lower acquisition cost ratio than our other segments due to the receipt of ceding commissions on some ceded contracts that are recorded as an offset to acquisition costs.

We also allocate the personnel expenses of our underwriters to acquisition costs. Included within the acquisition cost ratio was 3.1% for the year ended December 31, 2003 and 2.3% for the year ended December 31, 2002 relating to the allocation of personnel expenses of our underwriters.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2003 were $94.6 million, compared to $46.5 million for the year ended December 31, 2002, an increase of $48.1 million. This increase was primarily driven by the addition of operations and employees in the U.S. and Europe. The general and administrative expense ratio for the year ended December 31, 2003 was 6.6% compared to 8.7% for the year ended December 31, 2002. The reduction in the ratio was caused by an increase in the volume of net premiums earned.

Foreign Exchange Gains. Our functional currency is the U.S. dollar; however, some of our business is written in other currencies. For the year ended December 31, 2003, we experienced a gain of $32.2 million compared to a gain of $9.6 million for the year ended December 31, 2002, an increase of $22.6 million. This increase was principally made on asset balances denominated in Euros and Sterling. The Euro and Sterling appreciated by 20.2% and 10.9%, respectively, against the U.S. dollar from January 1, 2003 to December 31, 2003.

Income Tax Recovery. The income tax recovery for the year ended December 31, 2003 was $0.7 million and for the year ended December 31, 2002 was $1.4 million.

Net Income. Net income for the year ended December 31, 2003 was $532.3 million compared to $265.1 million, an increase of $267.2 million. Net income for the year ended December 31, 2003 consisted of net underwriting income of $402.9 million, net investment income and net realized gains of $96.5 million, foreign exchange gains of $32.2 million and tax recovery of $0.7 million. Net income for the year ended December 31, 2002 consisted of net underwriting income of $156.7 million, net investment income and net realized gains of $97.4 million, foreign exchange gains of $9.6 million and an overall tax benefit of $1.4 million.

Comprehensive Income. Comprehensive income for the year ended December 31, 2003 was $532.3 million compared to $291.1 million for the year ended December 31, 2002, an increase of $241.2 million. Comprehensive income represents net income adjusted for changes in the unrealized position in our investment portfolio. For the year ended December 31, 2003, we experienced a negligible net decrease in the unrealized position in our investment portfolio compared to an increase of $25.9 million during the year ended December 31, 2002.

Period ended December 31, 2001

We commenced operations as AXIS Specialty on November 20, 2001. During the period ended December 31, 2001, we wrote $26.7 million of gross premiums, which was primarily derived from the aviation and aviation war lines of business within our global insurance segment. Due to the short duration of the period, gross and net premiums earned were $1.9 million. Net investment income was $4.8 million for the period and net realized gains were $0.4 million.

Net losses and loss expenses were $1.0 million, and acquisition costs were $0.8 million. General and administrative expenses were $2.6 million for the period ended December 31, 2001, which includes start up costs of $1.1 million. Net income for the period ended December 31, 2001 was $2.7 million, and comprehensive income was $2.2 million.

Underwriting Results by Segment

Our business consists of four underwriting segments: global insurance, global reinsurance, U.S. insurance and U.S. reinsurance.

We evaluate the performance of each underwriting segment based on underwriting results. With effect from January 1, 2004, we included the personnel expenses of our underwriters in general and administrative expenses; prior to that date, they were included in acquisition costs. Disclosure relating to the prior periods ended have been restated to reflect this change. In addition, with effect from January 1, 2004, we allocated all of our general and administrative costs, except for corporate expenses, to our underwriting segments. Our corporate costs include holding company costs necessary to support our worldwide insurance and reinsurance operations and costs associated with operating as a publicly-traded company. We have not restated prior periods to reflect the full allocation of general and administrative costs as our business segments were not fully operational throughout 2003. We do not allocate our assets by segment as we evaluate the underwriting results of each segment separately from the results of our investment portfolio.

Global Insurance

Our global insurance segment principally consists of specialty lines business sourced outside of the U.S. but covering exposures throughout the world. In this segment, we offer clients tailored solutions in order to respond to their distinctive risk characteristics. Since most of the lines in this segment are for physical damage and related perils and not for liability coverage, the segment is principally short to medium tail business. This means that claims are generally made and settled earlier than in long tail business, which facilitates our reserving process for this segment.

Nine months ended September 30, 2004 and September 30, 2003

The following table summarizes the underwriting results and ratios for the nine months ended September 30, 2004 and September 30, 2003:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Change
	($ in thousands)		
Revenues:			
Gross premiums written	$ 730,878	$ 700,612	$ 30,266
Net premiums written	619,248	675,248	(56,000)
Net premiums earned	595,761	567,947	27,814
Other insurance related income	6,887	19,332	(12,445)
Expenses:			
Net losses and loss expenses	368,476	285,958	82,518
Acquisition costs	89,530	81,053	8,477
General and administrative expenses(1)	24,047	10,074	13,973
Underwriting profit	$ 120,595	$ 210,194	$ (89,599)
Ratios:			
Net loss and loss expense ratio	61.8%	50.3%	11.5%
Acquisition cost ratio	15.0	14.3	0.7
General and administrative expense ratio(1)	4.0	1.7	2.3
Combined ratio	80.8%	66.3%	14.5%

(1) For the nine months ended September 30, 2003, we did not allocate any of our general and administrative expenses, except for the personnel expenses of our underwriters; therefore, the general and administrative amounts and expense ratios for the two periods are not comparable.

Premiums. In the nine months ended September 30, 2004, gross premiums written were $730.9 million compared to $700.6 million for the nine months ended September 30, 2003, an increase of $30.3 million. The table below shows gross premiums written by line of business:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	($ in thousands)	
Marine	$ 78,029	$ 75,225
Onshore and Offshore Energy	156,326	173,624
Aviation and Aerospace	93,217	85,012
Property	115,650	135,436
Specialty Risks	287,656	231,315
Total	$ 730,878	$ 700,612

During the nine months ended September 30, 2004, gross premiums written increased by 4.3% compared to the nine months ended September 30, 2003. The increase in gross premiums written was primarily driven by our specialty risks line of business, which generated an increase of $56.3 million in gross premiums written. This was partly due to an increase in the level of political risk gross premiums written of $24.1 million following a rise in the level of direct foreign investment in the first quarter of 2004 and increased targeting of this business. Our aviation war gross premiums written increased $8.7 million due primarily to increased participations on renewed business and new business. In addition, we generated gross premiums written of $27.0 million on our directors' and officers' line of business, which we began to write in the second half of 2003. Gross premiums written in our property line of business decreased $19.8 million during the nine months ended September 30, 2004 compared with the nine months ended September 30, 2003. The reduction was partially due to a refinement in the method of estimating gross written premiums that occurred in the quarter ended December 31, 2003. This refinement more closely aligned the Company's estimation and recording of gross premiums written with activity reported by ceding companies and increased gross premiums written for the nine months ended September 30, 2003. The reduction in the level of gross premiums written of $17.3 million in our onshore and offshore energy book was due to some rate reductions and a movement in renewal dates on some large accounts.

Premiums ceded for the nine months ended September 30, 2004 were $111.6 million compared to $25.4 million for the nine months ended September 30, 2003, an increase of $86.2 million. The increase was primarily due to the timing of the renewal of a contract that originally had a sixteen month coverage period. In addition, we have increased the level of reinsurance purchased in order to mitigate volatility in losses as our portfolio grows.

The following table shows the derivation of net premiums earned for the nine months ended September 30, 2004 and September 30, 2003:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	($ in thousands)	
Gross premiums earned	$ 672,182	$ 618,231
Ceded premiums amortized	(76,421)	(50,284)
Net premiums earned	$ 595,761	$ 567,947

Gross premiums are earned over the period of the insured risk. Consequently, the level of gross premiums earned has increased as the level of gross premiums written has increased.

Ceded premiums are amortized over the contract term. Consequently, the level of amortized ceded premium has increased in 2004 as premiums ceded in 2003 continue to be amortized in 2004.

Other Insurance Related Income. Other insurance related income was $6.9 million compared to $19.3 million for the nine months ended September 30, 2003, a decrease of $12.4 million. Other insurance related income related to the movement in the fair value of our insurance contracts that meet the definition of a derivative. These contracts typically insure a portfolio of sovereign debt securities against the risk of default.

Net Losses and Loss Expenses. Net losses and loss expenses were $368.5 million for the nine months ended September 30, 2004 compared to $286.0 million for the nine months ended September 30, 2003, an increase of $82.5 million. The following table shows the components of net losses and loss expenses incurred:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	($ in thousands)	
Losses paid	$ 67,891	$ 39,457
Change in reported case reserves	46,521	65,960
Change in IBNR	277,710	195,362
Reinsurance recoveries	(23,646)	(14,821)
Net losses and loss expenses	$ 368,476	$ 285,958

The net loss and loss expense ratio for the nine months ended September 30, 2004 was 61.8% compared to 50.3% for the nine months ended September 30, 2003. During the nine months ended September 30, 2004, we incurred $61.1 million of net losses and loss expenses from Hurricanes Charley, Frances, Ivan and Jeanne. These losses occurred in our property, energy and marine books of business. Our estimates for the losses incurred from these hurricanes were derived from formal loss advices, the output of industry models, a review of in-force contracts and preliminary indications from clients. Consequently, actual losses from these hurricanes may vary materially from estimated losses. During the nine months ended September 30, 2003, we incurred a significant loss on our property book of business of $45.5 million, net of reinsurance recoveries. The losses relating to the hurricanes added 10.3 percentage points to our net loss ratio, compared to 8.0 percentage points relating to the property loss. During the nine months ended September 30, 2004, we experienced favorable development on our prior accident years of $68.6 million, which effected a reduction in the net loss ratio of 11.5 percentage points. This reduction was largely generated by our property, terrorism, energy and aviation lines of business. We primarily use the Bornhuetter-Ferguson method to estimate the ultimate cost of losses; it 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. During the nine months ended September 30, 2004, actual claims were less than expected for our 2003 accident year resulting in favorable loss development. During the nine months ended September 30, 2003, we experienced favorable development of $23.6 million on our 2002 accident year, which generated a 4.2 percentage point reduction in the net loss ratio.

Acquisition Costs. Acquisition costs for the nine months ended September 30, 2004 were $89.5 million compared to $81.1 million for the nine months ended September 30, 2003, an increase of $8.4 million. The acquisition cost ratio for the nine months ended September 30, 2004 was 15.0% compared with 14.3% for the nine months ended September 30, 2003. The increase in the acquisition cost ratio was a result of higher amortized reinsurance costs, which reduced the level of net premiums earned. As a percentage of gross premiums earned, the level of acquisition costs was 13.3% for the nine months ended September 30, 2004 compared to 13.1% for the nine months ended September 30, 2003.

General and Administrative Expenses. General and administrative expenses for the nine months ended September 30, 2004 were $24.0 million compared to $10.1 million for the nine months ended September 30, 2003, an increase of 13.9 million. The general and administrative expenses ratio for the nine months ended September 30, 2004 was 4.0% compared with 1.7% for the nine months ended September 30, 2003. As we did not allocate any of our general and administrative expenses, except for the personnel expenses of our underwriters, prior to January 1, 2004, these amounts and ratios are not comparable.

Year ended December 31, 2003 and December 31, 2002

The following table summarizes the underwriting results and ratios for the years ended December 31, 2003 and December 31, 2002:

	Year Ended December 31, 2003	Year Ended December 31, 2002	Change
	($ in thousands)		
Revenues:			
Gross premiums written	$ 980,661	$ 793,759	$ 186,902
Net premiums written	939,909	704,033	235,876
Net premiums earned	763,339	314,613	448,726
Other insurance related income	24,467	(639)	25,106
Expenses:			
Net losses and loss expenses	387,953	137,848	250,105
Acquisition costs	115,359	56,683	58,676
Underwriting profit (loss) (before general and administrative expenses)	$ 284,494	$ 119,443	$ 165,051
Ratios:			
Net loss and loss expense ratio	50.8%	43.8%	7.0%
Acquisition cost ratio	15.1%	18.0%	(2.9)%

Premiums. In the year ended December 31, 2003, gross premiums written were $980.7 million compared to $793.8 million for the year ended December 31, 2002, an increase of $186.9 million. The table below shows gross premiums written by line of business:

	Year Ended December 31, 2003	Year Ended December 31, 2002
	($ in thousands)	
Marine	$ 81,362	$ 50,551
Onshore and Offshore Energy	219,386	168,432
Aviation and Aerospace	178,442	114,708
Property	124,135	104,927
Specialty Risks	377,336	355,141
Total	$ 980,661	$ 793,759

During the year ended December 31, 2003, gross premiums written increased in all lines of business. These increases were partially the result of the addition of underwriting staff in the second quarter of 2002, which enabled us to improve our market penetration at key renewal dates in 2003. In addition, insureds seeking to move their business from insurers with legacy balance sheet issues and reserving shortfalls to financially stronger insurers led to improved market penetration.

Our marine book generated an increase in gross premiums written of $30.8 million. This was primarily derived from the marine liability business where we experienced an increase in the number of contracts and improvements in rates. Gross premiums written in our onshore and offshore energy book increased by $51.0 million. This was partially generated by the expiration of multi-year deals with other carriers, which allowed us to participate on new contracts in 2003. Our aviation and aerospace book experienced an increase in gross premiums written of $63.7 million. This was generated from our core aviation risks, which include hull and liability risks for passenger and cargo airlines and privately owned aircraft, and two large product liability accounts. Premium rates within the airline market stabilized at a good level in the last quarter of 2003 driven by a withdrawal of capacity from the market. Gross premium written within our property line of business increased by $19.2 million partially due to greater penetration, which resulted in the addition of several new property accounts. Our specialty risks book generated an increase of $22.2 million in gross premiums written primarily due to an increase in the level of political risk business following a rise in the level of direct foreign investment and an increase in the level of aviation war business due to greater penetration on our aviation hull and liability books. This increase offset the reduction in our terrorism book caused by the effects of the United States Terrorism Risk Insurance Act of 2002 ("TRIA") and heightened competition for the business outside of TRIA.

Premiums ceded for the year ended December 31, 2003 were $40.8 million compared to $89.7 million for the year ended December 31, 2002, a decrease of $48.9 million. The decrease was due to timing, with a significant reinsurance policy that incepted in the third quarter of 2002 having a sixteen month coverage period and, therefore, potentially renewing in the first quarter of 2004.

The following table shows the derivation of net premiums earned for the years ended December 31, 2003 and December 31, 2002:

	Year Ended December 31, 2003	Year Ended December 31, 2002
	($ in thousands)	
Gross premiums earned	$ 832,023	$ 354,667
Ceded premiums amortized	(68,684)	(40,054)
Net premiums earned	$ 763,339	$ 314,613

Gross premiums are earned over the period of the insured risk. Consequently, the level of earned premium increased in 2003 as premiums written throughout 2002 continue to be earned in 2003.

Ceded premiums are amortized over the contract term. Consequently, the level of amortized ceded premium increased in 2003 as premiums ceded in 2002 continue to be amortized in 2003.

Other Insurance Related Income (Loss). Other insurance related income was $24.5 million compared to a loss of $(0.6) million for the year ended December 31, 2002, an increase of $25.1 million. Other insurance related income (loss) related to the movement in the fair value of our insurance contracts that meet the definition of a derivative. These contracts typically insure a portfolio of sovereign debt securities against the risk of default. During the year ended December 31, 2003, other insurance related income resulted from an improvement in some of the insured sovereigns' credit ratings.

Net Losses and Loss Expenses. Net losses and loss expenses were $388.0 million for the year ended December 31, 2003 compared to $137.8 million for the year ended December 31, 2002, an increase of $250.2 million. The following table shows the breakdown of net losses and loss expenses incurred:

	Year Ended December 31, 2003	Year Ended December 31, 2002
	($ in thousands)	
Losses paid	$ 50,530	$ 8,398
Change in reported case reserves	75,032	38,143
Change in IBNR	272,165	93,010
Reinsurance recoveries	(9,774)	(1,703)
Net losses and loss expenses	$ 387,953	$ 137,848

The net loss and loss expense ratio for the year ended December 31, 2003 was 50.8% compared to 43.8% for the year ended December 31, 2002. During the year ended December 31, 2003, we experienced positive development on our 2002 underwriting year of $27.7 million, which effected a reduction in the net loss ratio of 3.6 percentage points. This reduction was primarily generated by our marine, aviation war, energy and property lines of business. We use the Bornhuetter-Ferguson method to estimate the ultimate cost of losses; it 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. During the year ended December 31, 2003, the lack of reported claims on our marine, aviation war, energy and property lines of business produced a favorable impact on our experience to date, which caused a reduction in the ultimate losses for these lines of business. A comparison of the net loss ratios for the year ended December 31, 2003 and December 31, 2002 is distorted by the significant change in the mix of business written within our global insurance segment. In addition, our loss experience benefited from the lack of major catastrophes during the years ended December 31, 2003 and December 31, 2002.

Acquisition Costs. Acquisition costs for the year ended December 31, 2003 were $115.4 million compared to $56.7 million for the year ended December 31, 2002, an increase of $58.7 million. The acquisition cost ratio for the year ended December 31, 2003 was 15.1% compared with 18.0% for the year ended December 31, 2002. The reduction in the acquisition cost ratio was due to a change in the mix of the business written within our global insurance book. Included within our acquisition costs are allocated personnel expenses for underwriters, which accounted for 2.1 percentage points of the acquisition cost ratio for the year ended December 31, 2003 and 1.9 percentage points for the year ended December 31, 2002.

Period ended December 31, 2001

During the period ended December 31, 2001, we wrote $24.5 million of gross premiums. Due to the short duration of the period, net premiums earned were $1.7 million for the period. Net losses and loss expenses were $0.9 million, and acquisition costs were $0.3 million.

Global Reinsurance

Our global reinsurance segment consists of treaty reinsurance business sourced outside of the U.S. and underwritten in our Bermuda and Zurich offices. Our Bermuda office primarily sources business from clients based outside continental Europe whereas our Zurich office sources business from clients based in continental Europe. Our Bermuda based portfolio consists of short tail severity driven products that principally cover property exposures. Our Zurich-based portfolio consists not only of short tail property exposures but also more medium tail exposures such as motor excess of loss and trade credit lines of business. As the majority of this business is short tail in nature, it typically allows us to determine the ultimate loss experience within a relatively short period of time after a contract has expired.

Nine months ended September 30, 2004 and September 30, 2003

The following table summarizes the underwriting results and ratios for the nine months ended September 30, 2004 and September 30, 2003:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Change
	($ in thousands)		
Revenues:			
Gross premiums written	$ 722,796	$ 446,228	$ 276,568
Net premiums written	698,112	436,858	261,254
Net premiums earned	465,000	308,158	156,842
Other insurance related income	763	424	339
Expenses:			
Net losses and loss expenses	246,542	132,672	113,870
Acquisition costs	69,651	52,579	17,072
General and administrative expenses(1)	20,986	4,146	16,840
Underwriting profit	$ 128,584	$ 119,185	$ 9,399
Ratios:			
Net loss and loss expense ratio	53.0%	43.1%	9.9%
Acquisition cost ratio	15.0	17.1	(2.1)
General and administrative expenses ratio(1)	4.5	1.3	3.2
Combined ratio	72.5%	61.5%	11.0%

(1) For the nine months ended September 30, 2003, we did not allocate any of our general and administrative expenses, except for the personnel expenses of our underwriters; therefore, the general and administrative amounts and expense ratios for the two periods are not comparable.

Premiums. In the nine months ended September 30, 2004, gross premiums written were $722.8 million compared to $446.2 million for the nine months ended September 30, 2003, an increase of $276.6 million. The table below shows gross premiums written by line of business:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	($ in thousands)	
Catastrophe	$ 388,759	$ 321,532
Property Pro Rata	119,145	66,564
Property Per Risk	78,385	45,999
Credit and Bond	72,660	
Motor and General Liability	48,937	
Other	14,910	12,133
Total	$ 722,796	$ 446,228

During the nine months ended September 30, 2004, our gross premiums written increased by 62.0% compared to the nine months ended September 30, 2003. This was primarily due to our expansion into continental Europe and an increase in catastrophe business. During the nine months ended September 30, 2004, our Zurich office generated $195.9 million of gross premiums written, writing catastrophe, property pro rata and property per risk and three new lines of business: credit and bond; motor; and general liability. The majority of the credit and bond business was whole-turnover trade credit, which effectively provides protection for receivable balances. Losses are generally triggered by the insolvency of the debtor. Our motor portfolio consists of excess of loss coverage for third party liability and property damage. The increase in our catastrophe gross premiums written was driven by a trend toward counterparty diversification in our target markets, thereby enabling us to participate on a greater number of programs than in the prior year; this offset some moderate rate reductions and instances where we declined to renew contracts because terms and conditions became unacceptable. This was most prevalent in our workers' compensation catastrophe business. The increase in our property pro rata and property per risk gross premiums written was primarily due to an increase in the number of contracts written. In addition, property pro rata premiums increased due to adjustments on pre-existing contracts following a review of estimated premiums and the development of actual premium data.

Premiums ceded for the nine months ended September 30, 2004 were $24.7 million compared to $9.4 million for the nine months ended September 30, 2003, an increase of $15.3 million. For the nine months ended September 30, 2004, $6.1 million or 24.7% related to reinstatement premiums on coverages exhausted by losses from Hurricanes Charley, Frances, Ivan and Jeanne. Our global reinsurance segment purchases coverages to provide reinsurance protection against a large industry loss or series of losses.

The following table shows the derivation of net premiums earned for the nine months ended September 30, 2004 and September 30, 2003:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	($ in thousands)	
Gross premiums earned	$ 483,772	$ 314,711
Ceded premiums amortized	(18,772)	(6,553)
Net premiums earned	$ 465,000	$ 308,158

Gross premiums are earned over the period of the reinsured risk. Consequently, the level of gross premiums earned has increased as the level of gross premiums written has increased.

Ceded premiums are amortized over the contract term. Consequently, the level of amortized ceded premium has increased in 2004 as premiums ceded in 2003 continue to be amortized in 2004.

Other Insurance Related Income. Other insurance related income was $0.8 million for the nine months ended September 30, 2004 compared to $0.4 million for the nine months ended September 30, 2003, an increase of $0.4 million. The income related to the movement in the fair value of a reinsurance contract that meets the definition of a derivative.

Net Losses and Loss Expenses. Net losses and loss expenses were $246.5 million for the nine months ended September 30, 2004 compared to $132.7 million for the nine months ended September 30, 2003, an increase of $113.8 million. The following table shows the components of net losses and loss expenses incurred:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	($ in thousands)	
Losses paid	$ 47,111	$ 22,013
Change in reported case reserves	54,581	7,378
Change in IBNR	217,350	103,281
Reinsurance recoveries	(72,500)	
Net losses and loss expenses	$ 246,542	$ 132,672

The net loss and loss expense ratio for the nine months ended September 30, 2004 was 53.0% compared to 43.1% for the nine months ended September 30, 2003. The increase in the net loss and loss expense ratio was primarily due to the impact of Hurricanes Charley, Frances, Ivan and Jeanne from which we incurred net losses and loss expenses of $91.6 million or 19.7 percentage points. During the nine months ended September 30, 2003, our loss experience benefited from the lack of major catastrophes. Our estimates for the losses incurred for these hurricanes were derived from formal loss advices, the output of industry models, a review of in-force contracts and preliminary indications from clients. Consequently, actual losses from these hurricanes may vary materially from estimated losses. Our gross losses were reduced by $72.5 million of reinsurance recoveries that were triggered by the occurrence of a series of large industry loss events. This reinsurance has predetermined industry loss triggers, based on the size of industry losses calculated by independent third parties. Our assessment, based on a combination of public information, our own assessment of each loss and historical development factors, is that these trigger points have been exceeded. However, not all of the industry loss numbers have been reported and actual reinsurance recoveries could be materially reduced. During the nine months ended September 30, 2004, we experienced positive prior period development of $60.2 million or 12.9 percentage points on our 2003 accident year. We primarily use the Bornhuetter-Ferguson method to estimate the ultimate cost of losses; it 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. During the nine months ended September 30, 2004, actual claims were less than expected for our 2003 accident year resulting in favorable loss development. During the nine months ended September 30, 2003, we experienced favorable development of $28.2 million on our 2002 underwriting year, which generated a 9.2 percentage point reduction in the net loss ratio. Our global reinsurance segment has loss experience categorized as low frequency but high severity in nature and, therefore, our loss experience can be volatile.

Acquisition Costs. Acquisition costs for the nine months ended September 30, 2004 were $69.7 million compared to $52.6 million for the nine months ended September 30, 2003, an increase of $17.1 million. The acquisition cost ratio for the nine months ended September 30, 2004 was 15.0% compared with 17.1% for the nine months ended September 30, 2003. This decrease was primarily due to a reduction in the level of commissions incurred.

General and Administrative Expenses. General and administrative expenses for the nine months ended September 30, 2004 were $21.0 million compared to $4.1 million for the nine months ended September 30, 2003, an increase of $16.9 million. The general and administrative expenses ratio for the nine months ended September 30, 2004 was 4.5% compared with 1.3% for the nine months ended September 30, 2003. As we did not allocate any of our general and administrative expenses, except for the personnel expenses of our underwriters, prior to January 1, 2004, these amounts and ratios are not comparable.

Year ended December 31, 2003 and 2002

The following table summarizes the underwriting results and ratios for the years ended December 31, 2003 and December 31, 2002:

	Year Ended December 31, 2003	Year Ended December 31, 2002	Change
		($ in thousands)	
Revenues:			
Gross premiums written	$ 462,938	$ 314,244	$ 148,694
Net premiums written	453,568	314,244	139,324
Net premiums earned	418,235	222,237	195,998
Other insurance related (loss) income	552		552
Expenses:			
Net losses and loss expenses	174,391	91,417	82,974
Acquisition costs	71,090	47,020	24,071
Underwriting profit (loss) (before general and administrative expenses)	$ 173,306	$ 83,800	$ 89,506
Ratios:			
Net loss and loss expense ratio	41.7%	41.1%	0.6%
Acquisition cost ratio	17.0%	21.2%	(4.2)%

Premiums. In the year ended December 31, 2003, gross premiums written were $462.9 million compared to $314.2 million for the year ended December 31, 2002, an increase of $148.7 million. The table below shows gross premiums written by line of business:

	Year Ended December 31, 2003	Year Ended December 31, 2002
	($ in thousands)	
Catastrophe	$ 339,137	$ 230,741
Property Pro Rata	61,003	53,916
Property Per Risk	50,681	16,721
Other	12,117	12,866
Total	$ 462,938	$ 314,244

During the year ended December 31, 2003, the increase in gross premiums written was primarily a result of better penetration of our existing client base and the addition of new customer relationships. We diversified our catastrophe book of business by substantially increasing our underwriting of other catastrophe related products, such as excess workers' compensation, life and health covers. In addition, we diversified our property mix of business by taking selected positions on property per risk treaties.

Premiums ceded for the year ended December 31, 2003 were $9.4 million. Prior to 2003, we had not purchased reinsurance for this segment. Due to the increase in our catastrophe exposures, we have bought some coverages aimed at providing reinsurance protection in the event of a large industry loss.

The following table shows the derivation of net premiums earned for the years ended December 31, 2003 and December 31, 2002:

	Year Ended December 31, 2003	Year Ended December 31, 2002
	($ in thousands)	
Gross premiums earned	$ 426,252	$ 222,237
Ceded premiums amortized	(8,017)	
Net premiums earned	$ 418,235	$ 222,237

Gross premiums are earned over the period of the insured risk. Consequently, the level of earned premiums has increased in 2003 as premiums written throughout 2002 continue to be earned in 2003.

Ceded premiums are amortized over the contract term.

Other Insurance Related Income. Other insurance related income of $0.6 million related to the movement in the fair value of a reinsurance contract that meets the definition of a derivative. We did not record any other insurance related income in the year ended December 31, 2002.

Net Losses and Loss Expenses. Net losses and loss expenses were $174.4 million for the year ended December 31, 2003 compared to $91.4 million for the year ended December 31, 2002, an increase of $83.0 million. The following table shows the breakdown of net losses and loss expenses incurred:

	Year Ended December 31, 2003	Year Ended December 31, 2002
	($ in thousands)	
Losses paid	$ 32,308	$ 8,560
Change in reported case reserves	16,437	21,852
Change in IBNR	125,646	61,005
Reinsurance recoveries		
Net losses and loss expenses	$ 174,391	$ 91,417

The net loss and loss expense ratio for the year ended December 31, 2003 was 41.7% compared to 41.1% for the year ended December 31, 2002. We incurred claims from several catastrophe events during the year, most notably the California fires in October and tornadoes that affected Oklahoma in May. During the year ended December 31, 2003, we experienced positive development of $28.1 million on our 2002 underwriting year, which generated a 6.7 percentage point reduction in the net loss ratio. This reduction was primarily experienced in our catastrophe and other books of business. We use the Bornhuetter Ferguson method to estimate the ultimate cost of losses; it 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. During the year ended December 31, 2003, the lack of reported claims produced a favorable impact on our experience to date, which caused a reduction in the ultimate losses for these lines of business. Our global reinsurance segment has loss experience categorized as low frequency but high severity in nature and, therefore, our loss experience can be volatile. During the year ended December 31, 2003 and December 31, 2002, our loss experience benefited from the lack of major catastrophes.

Acquisition Costs. Acquisition costs for the year ended December 31, 2003 were $71.1 million compared to $47.0 million for the year ended December 31, 2002, an increase of $24.1 million. The acquisition cost ratio for the year ended December 31, 2003 was 17.0% compared with 21.2% for the year ended December 31, 2002. This decrease was primarily due to a change in the mix of business, with a lower proportion of property pro rata business written and a reduction in the level of allocated personnel expenses. Included within the ratio was 1.3 percentage points relating to allocated personnel expenses for underwriters for the year ended December 31, 2003 compared to 2.9 percentage points for the year ended December 31, 2002. The reduction in the ratio was caused by an increase in the volume of net premiums earned.

Period ended December 31, 2001

During the period ended December 31, 2001, we wrote $2.3 million of gross premiums in our global reinsurance segment. Due to the short duration of the period, net premiums earned were $0.2 million, net losses and loss expenses were $0.1 million and acquisition costs were $0.5 million.

U.S. Insurance

Our U.S. insurance segment principally consists of specialty lines business sourced in the U.S. and includes the following risk classifications: property, liability and professional lines. There are no comparative results for the period ended December 31, 2002, as we began writing business in this segment in 2003.

Nine months ended September 30, 2004 and September 30, 2003

The following table summarizes the underwriting results and ratios for the nine months ended September 30, 2004 and September 30, 2003:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Change
	($ in thousands)		
Revenues:			
Gross premiums written	$ 595,637	$ 451,087	$ 144,550
Net premiums written	323,241	218,409	104,832
Net premiums earned	247,837	103,503	144,334
Expenses:			
Net losses and loss expenses	182,271	66,743	115,528
Acquisition costs	7,477	638	6,839
General and administrative expenses(1)	49,927	11,713	38,214
Underwriting profit	$ 8,162	$ 24,409	$ (16,247)
Ratios:			
Net loss and loss expense ratio	73.5%	64.5%	9.0%
Acquisition cost ratio	3.0	0.6	2.4
General and administrative expense ratio(1)	20.1	11.3	8.8
Combined ratio	96.6%	76.4%	20.2%

(1) For the nine months ended September 30, 2003, we did not allocate any of our general and administrative expenses, except for the personnel expenses of our underwriters; therefore, the general and administrative amounts and expense ratios for the two periods are not comparable.

Premiums. In the nine months ended September 30, 2004, gross premiums written were $595.6 million compared to $451.1 million for the nine months ended September 30, 2003, an increase of $144.5 million. The table below shows gross premiums written by line of business:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	($ in thousands)	
Property	$ 234,782	$ 156,933
Liability	171,706	113,106
Professional Lines	189,149	181,048
Total	$ 595,637	$ 451,087

Gross premiums written for the nine months ended September 30, 2004 increased by 32.0%. This was primarily driven by an increase in the level of underwriting staff and increased marketing efforts.

Our property book generated gross premiums written of $234.8 million during the nine months ended September 30, 2004, an increase of 49.6% over the nine months ended September 30, 2003. This was primarily due to four reasons: firstly, we introduced a new product line in mid-2003; secondly, we increased our maximum line sizes, which enabled our underwriters to access more business; thirdly, we increased the number of States in which we were able to write business on an admitted basis; and fourthly, we increased our market penetration.

Our liability book generated gross premiums written of $171.7 million during the nine months ended September 30, 2004, an increase of 51.8% over the nine months ended September 30, 2003. This was primarily driven by an increase in our maximum line size for our umbrella and excess coverages, which enabled our underwriters to access more business and increase market penetration.

Our professional lines book generated gross premiums written of $189.1 million during the nine months ended September 30, 2004, an increase of 4.5% over the nine months ended September 30, 2003. This was primarily driven by the fact that we did not acquire the renewal rights of a book of directors' and officers' liability insurance and related lines of business written by the FIS group of Kemper until February 17, 2003. Included within the gross premiums written for the nine months ended September 30, 2003 was $55.3 million relating to the cancel/rewrite process that followed the acquisition of the renewal rights. As the rates for directors' and officers' liability insurance have decreased, we have declined to renew some contracts where rates did not meet our targeted levels.

Premiums ceded for the nine months ended September 30, 2004 were $272.4 million compared to $232.7 million for the nine months ended September 30, 2003, an increase of $39.7 million. Our U.S. insurance segment purchases significant proportional and excess of loss reinsurance on both a treaty and facultative basis that is designed to reduce the volatility in our severity driven classes of business. As a result, as the total of our gross premiums written increases so does the total of premiums ceded.

The following table shows the derivation of net premiums earned:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	($ in thousands)	
Gross premiums earned	$ 491,226	$ 221,836
Ceded premiums amortized	(243,389)	(118,333)
Net premiums earned	$ 247,837	$ 103,503

Gross premiums are earned over the period of the insured risk. Consequently, the level of gross premiums earned has increased as the level of gross premiums written has increased.

Ceded premiums are amortized over the contract term. Consequently, the level of ceded premiums amortized has increased in 2004 as premiums ceded in 2003 continued to be amortized in 2004.

Net Losses and Loss Expenses. Net losses and loss expenses were $182.3 million for the nine months ended September 30, 2004 compared to $66.7 million for the nine months ended September 30, 2003, an increase of $115.6 million. This segment purchases significant reinsurance coverage, therefore, we have recorded reinsurance recoveries in our incurred but not reported loss reserves. The following table shows the components of net losses and loss expenses incurred:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	($ in thousands)	
Losses paid	$ 22,678	$ 11,416
Change in reported case reserves	125,203	2,877
Change in IBNR	362,238	130,298
Reinsurance recoveries	(327,848)	(77,848)
Net losses and loss expenses	$ 182,271	$ 66,743

The net loss and loss expense ratio for the nine months ended September 30, 2004 was 73.5% compared to 64.5% for the nine months ended September 30, 2003. The increase in the net loss and loss expense ratio was primarily due to the impact of Hurricanes Charley, Frances, Ivan and Jeanne from which we incurred net losses and loss expenses of $47.6 million or 19.2 percentage points. Our estimates for the losses incurred for these hurricanes were derived from formal loss advices, the output of industry models, a review of in-force contracts and preliminary indications from clients. Consequently, actual losses from these hurricanes may vary materially from estimated losses. During the nine months ended September 30, 2004, we experienced positive prior period development of $10.9 million or 4.4 percentage points on our 2003 accident year property account. We primarily use the Bornhuetter-Ferguson method to estimate the ultimate cost of losses; it takes as a starting point an assumed loss and loss expense ratio and blends in the loss and loss expense ratio implied by our experience to date. During the nine months ended September 30, 2004, actual claims were less than expected for our 2003 accident year property account resulting in favorable loss development.

Acquisition Costs. Acquisition costs for the nine months ended September 30, 2004 were $7.5 million compared to $0.6 million for the nine months ended September 30, 2003, an increase of $6.9 million. The acquisition cost ratio for the nine months ended September 30, 2004 was 3.0% compared to 0.6% for the nine months ended September 30, 2003. The increase in acquisition costs was primarily due to a reduction in the level of commissions received on ceded premiums, which are offset against acquisition costs. During the nine months ended September 30, 2004, these commissions were $61.6 million, which had a positive impact on the acquisition cost ratio of 24.8 percentage points compared to $30.9 million and 29.9 percentage points for the nine months ended September 30, 2003.

General and Administrative Expenses. General and administrative expenses for the nine months ended September 30, 2004 were $49.9 million compared to $11.7 million for the nine months ended September 30, 2003, an increase of $38.2 million. The general and administrative expenses ratio for the nine months ended September 30, 2004 was 20.1% compared with 11.3% for the nine months ended September 30, 2003. As we did not allocate any of our general and administrative expenses, except for the personnel expenses of our underwriters, prior to January 1, 2004, these amounts and ratios are not comparable.

Year ended December 31, 2003

The following table summarizes the underwriting results and ratios for the year ended December 31, 2003:

		Year Ended December 31, 2003 ($ in thousands)
Revenues:		
Gross premiums written	$	625,898
Net premiums written		314,100
Net premiums earned		168,252
Expenses:		
Net losses and loss expenses		108,497
Acquisition costs		21,130
Underwriting profit (loss) (before general and administrative expenses)	$	38,625
Ratios:		
Net loss and loss expense ratio		64.5%
Acquisition cost ratio		12.6%

Premiums. For the year ended December 31, 2003, gross premiums written were $625.9 million. The table below shows gross premiums written by line of business:

		Year Ended December 31, 2003 ($ in thousands)
Property	$	225,508
Liability		157,808
Professional Lines		242,582
Total	$	625,898

Total gross premiums written for the year ended December 31, 2003 were derived 36% from commercial property insurance, 25.2% from commercial liability insurance and 38.8% from professional lines insurance. Following the acquisition of renewal rights in February 2003, there was a cancel/rewrite process for our professional lines book, which increased our gross premium written for this line by approximately $65.2 million. Without the cancel/rewrite process that increased the level of gross premiums written, the distribution of premium written amongst the three lines of business was more even.

Our property book provides coverage for physical damage and business interruption primarily with respect to properties. Our liability book targets casualty risks in the U.S. excess and surplus lines market. Our professional lines book includes the business we obtained through the acquisition of renewal rights in February 2003. The majority of the professional lines gross premiums written have been derived from directors' and officers' liability coverage.

Premiums ceded for the year ended December 31, 2003 were $311.8 million. Our U.S. insurance segment purchases significant proportional and excess of loss reinsurance on both a treaty and facultative basis. These reinsurance arrangements are generally designed to reduce the volatility in our severity driven classes of business.

The following table shows the derivation of net premiums earned:

	Year Ended December 31, 2003
	($ in thousands)
Gross premiums earned	$ 354,649
Ceded premiums amortized	(186,397)
Net premiums earned	$ 168,252

Gross premiums are earned over the period of the insured risk. Consequently, the level of earned premiums generally increases during the year as premiums written throughout the year are earned.

Ceded premiums are amortized over the contract term. Consequently, the level of ceded premiums amortized generally increases during the year as ceded premiums throughout the year are amortized.

Net Losses and Loss Expenses. Net losses and loss expenses were $108.5 million for the year ended December 31, 2003. The following table shows the breakdown of net losses and loss expenses incurred:

	Year Ended December 31, 2003
	($ in thousands)
Losses paid	$ 13,281
Change in reported case reserves	10,675
Change in IBNR	192,815
Reinsurance recoveries	(108,274)
Net losses and loss expenses	$ 108,497

The net loss and loss expense ratio for the year ended December 31, 2003 was 64.5%. This segment purchases significant reinsurance coverage; therefore, we have recorded reinsurance recoveries in our incurred but not reported loss reserves. This resulted in a significant level of reinsurance recoveries within net loss and loss expenses. During the year ended December 31, 2003, our loss experience on our property book benefited from the lack of major catastrophes.

Acquisition Costs. Acquisition costs for the year ended December 31, 2003 were $21.1 million. The acquisition cost ratio for the year ended December 31, 2003 was 12.6%. Commissions received on ceded premiums offset other acquisition costs. During the year ended December 31, 2003, override commissions were $50.0 million, which had a positive impact on the acquisition cost ratio of 29.6 percentage points. Included within the acquisition cost ratio was 11.0 percentage points relating to allocated personnel expenses for underwriters for the year ended December 31, 2003.

U.S. Reinsurance

Our U.S. reinsurance segment principally consists of treaty reinsurance business sourced in the U.S. and focuses almost exclusively on exposures in the U.S. The underlying property and casualty business classes covered by the treaties we write in our U.S. reinsurance segment include: professional lines, liability, property, marine and aviation. There are no comparative results for the period ended December 31, 2002 as we began writing business in this segment in 2003.

Nine months ended September 30, 2004 and September 30, 2003

The following summarizes the underwriting results and ratios for the nine months ended September 30, 2004 and September 30, 2003:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Change
	($ in thousands)		
Revenues:			
Gross premiums written	$ 311,831	$ 196,052	$ 115,779
Net premiums written	308,478	193,828	114,650
Net premiums earned	170,851	55,877	114,974
Expenses:			
Net losses and loss expenses	148,736	40,762	107,974
Acquisition costs	35,016	12,500	22,516
General and administrative expenses(1)	8,072	2,047	6,025
Underwriting profit	$ (20,973)	$ 568	$ (21,541)
Ratios:			
Net loss and loss expense ratio	87.1%	72.9%	14.2%
Acquisition cost ratio	20.5	22.4	(1.9)
General and administrative expense ratio(1)	4.7	3.6	1.1
Combined ratio	112.3%	98.9%	13.4%

(1) For the nine months ended September 30, 2003, we did not allocate any of our general and administrative expenses, except for the personnel expenses of our underwriters; therefore, the general and administrative amounts and expense ratios for the two periods are not comparable.

Premiums. In the nine months ended September 30, 2004, gross premiums written were $311.8 million compared to $196.1 million for the nine months ended September 30, 2003, an increase of $115.7 million. The table below shows gross premiums written by line of business:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	($ in thousands)	
Professional Lines	$ 188,412	$ 127,256
Liability	75,139	43,808
Property	42,549	19,535
Marine and Aviation	5,731	5,453
Total	$ 311,831	$ 196,052

Our professional lines book generated gross premiums written of $188.4 million during the nine months ended September 30, 2004, an increase of 48.1% over the nine months ended September 30, 2003. Our liability book generated gross premiums written of $75.1 million during the nine months ended September 30, 2004, an increase of 71.5% over the nine months ended September 30, 2003. These increases were primarily generated by our ability to quote and write the contracts that came up for renewal on January 1, 2004. In 2003, we were unable to take part in the January 1, 2003 renewal season because we did not receive regulatory approvals until mid-December 2002. In addition, we increased the statutory capital of AXIS Reinsurance in excess of $500 million, which enabled us to participate on more business. We wrote $42.5 million of gross premiums relating to property reinsurance during the nine months ended September 30, 2004, an increase of 117.8% over the nine

S-46

months ended September 30, 2003. This was driven by the recruitment of a property underwriter in the second half of 2003.

Premiums ceded for the nine months ended September 30, 2004 were $3.4 million compared to $2.2 million for the nine months ended September 30, 2003, an increase of $1.2 million.

The following table shows the derivation of net premiums earned:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	($ in thousands)	
Gross premiums earned	$ 173,919	$ 56,805
Ceded premiums amortized	(3,068)	(928)
Net premiums earned	$ 170,851	$ 55,877

Gross premiums are earned over the period of the insured risk. Consequently, the level of earned premiums generally has increased as premiums written throughout 2003 continued to be earned in 2004.

In addition, a large portion of premiums written in 2003 were on a risk-attaching basis, for which the earning period is twice the underlying contract period. Consequently, a significant proportion of the gross premiums has been and will continue to be earned on these contracts in 2004.

Net Losses and Loss Expenses. Net losses and loss expenses were $148.7 million for the nine months ended September 30, 2004 compared to $40.8 million for the nine months ended September 30, 2003, an increase of $107.9 million. The following table shows the components of net losses and loss expenses incurred:

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	($ in thousands)	
Losses paid	$ 4,243	$
Change in reported case reserves	11,094	663
Change in IBNR	135,633	40,738
Reinsurance recoveries	(2,234)	(639)
Net losses and loss expenses	$ 148,736	$ 40,762

The net loss and loss expense ratio for the nine months ended September 30, 2004 was 87.1% compared to 72.9% for the nine months ended September 30, 2003. The increase in the net loss and loss expense ratio was primarily due to the impact of to Hurricanes Charley, Frances, Ivan and Jeanne from which we incurred net losses and loss expenses of $27.1 million or 15.8 percentage points. Our estimates for the losses incurred from these hurricanes were derived from formal loss advices, the output of industry models, a review of in-force contracts and preliminary indications from clients. Consequently, actual losses from these hurricanes may vary materially from estimated losses. We experienced positive prior period development of $1.7 million or 1.0 percentage points generated on our 2003 accident year property account. We primarily use the Bornhuetter-Ferguson method to estimate the ultimate cost of losses; it takes as a starting point an assumed loss and loss expense ratio and blends in the loss and loss expense ratio implied by our experience to date. During the nine months ended September 30, 2004, there was a lack of claims in our 2003 accident year property account that caused the reduction in expected losses.

Acquisition Costs. Acquisition costs for the nine months ended September 30, 2004 were $35.0 million compared to $12.5 million for the nine months ended September 30, 2003, an increase of $22.5 million. The acquisition cost ratio for the nine months ended September 30, 2004 was 20.5%

compared to 22.4% for the nine months ended September 30, 2003. The decrease was due to a reduction in the level of commissions.

General and Administrative Expenses. General and administrative expenses for the nine months ended September 30, 2004 were $8.1 million compared to $2.0 million for the nine months ended September 30, 2003, an increase of $6.1 million. The general and administrative expenses ratio for the nine months ended September 30, 2004 was 4.7% compared with 3.6% for the nine months ended September 30, 2003. As we did not allocate any of our general and administrative expenses, except for the personnel expenses of our underwriters, prior to January 1, 2004, these amounts and ratios are not comparable.

Year Ended December 31, 2003

The following table summarizes the underwriting results and ratios for the year ended December 31, 2003:

	Year Ended December 31, 2003 ($ in thousands)
Revenues:	
Gross premiums written	$ 204,148
Net premiums written	200,811
Net premiums earned	86,404
Expenses:	
Net losses and loss expenses	63,178
Acquisition costs	22,133
Underwriting profit (loss) (before general and administrative expenses)	$ 1,093
Ratios:	
Net loss and loss expense ratio	73.1%
Acquisition cost ratio	25.6%

Premiums. In the year ended December 31, 2003, gross and net premiums written were $204.1 million. The table below shows gross premiums written by line of business:

	Year Ended December 31, 2003 ($ in thousands)
Professional Lines	$ 132,148
Liability	46,035
Property	19,535
Marine & Aviation	6,430
Total	$ 204,148

Of the total gross premiums written for the year ended December 31, 2003, approximately 65% was derived from professional lines reinsurance. Professional lines reinsurance provides reinsurance coverage for directors and officers, employment practices liability, medical malpractice and miscellaneous errors and omissions exposures located primarily in the United States.

Premiums ceded for the year ended December 31, 2003 were $3.3 million related to our professional lines business.

The following table shows the derivation of net premiums earned:

	Year Ended December 31, 2003
	($ in thousands)
Gross premiums earned	$ 88,091
Ceded premiums amortized	(1,687)
Net premiums earned	$ 86,404

Net premiums are earned over the period of the insured risk. A large portion of premiums are written on a risk-attaching basis; for this business the earning period is twice the underlying contract period. Consequently, we expect the level of net earned premiums to increase over time.

Net Losses and Loss Expenses. Net losses and loss expenses were $63.2 million for the year ended December 31, 2003. The following table shows the breakdown of net losses and loss expenses incurred:

	Year Ended December 31, 2003
	($ in thousands)
Losses paid	$ 4,338
Change in reported case reserves	3,520
Change in IBNR	56,481
Reinsurance recoveries	(1,161)
Total	$ 63,178

The net loss and loss expense ratio for the year ended December 31, 2003 was 73.1%.

Acquisition Costs. Acquisition costs for the year ended December 31, 2003 were $22.1 million. The acquisition cost ratio for the year ended December 31, 2003 was 25.6%. Included within the ratio was 4.3 percentage points relating to allocated personnel expenses for underwriters for the year ended December 31, 2003.

Financial Condition and Liquidity

We are a holding company and have no substantial operations of our own. Our assets consist primarily of our investments in subsidiaries. At September 30, 2004, we had operating subsidiaries in Bermuda, Ireland and the United States, a branch and representative office in the United Kingdom and a branch in Switzerland. Accordingly, our future cash flows depend upon the availability of dividends or other statutorily permissible payments from our subsidiaries. The ability to pay dividends is limited by the applicable laws and regulations of Bermuda, the United States and Ireland, which subject our insurance and reinsurance subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, some of our insurance and reinsurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends that these subsidiaries can pay to us, which in turn may limit our ability to pay dividends and make interest and other payments.

Additionally, we are subject to Bermuda regulatory constraints that affect our ability to pay dividends on our common shares and make interest and other payments. Under the Bermuda Companies Act 1981, as amended (the "Companies Act"), AXIS Capital 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 our liabilities and issued share capital and share premium accounts. In addition, pursuant to the terms of our credit agreement, we

cannot pay cash dividends to our shareholders in excess of $150 million in the aggregate during any fiscal year.

At September 30, 2004, the maximum amount of distributions that our subsidiaries could pay to AXIS Capital under applicable laws and regulations without prior regulatory approval was approximately $941.5 million.

Financial Condition

At September 30, 2004, total investments at fair market value, accrued interest receivable and cash net of unsettled investment trades were $5.2 billion, compared to $4.0 billion at December 31, 2003. Our investment portfolio consisted primarily of fixed income securities at September 30, 2004 and was managed by several external investment management firms. At September 30, 2004, all of these fixed income securities were investment grade, with 82.7% rated Aa3 or AA- or better by an internationally recognized rating agency. The weighted-average rating of our fixed income portfolio was AA+ based on ratings assigned by Standard & Poor's. The net payable for investments purchased at September 30, 2004 was $197.3 million compared to a net receivable of $3.4 million at December 31, 2003. Net receivables/payables are a result of timing differences only, as investments are accounted for on a trade date basis.

At September 30, 2004, we had $924.6 million of insurance and reinsurance premium balances receivable compared to $660.5 million at December 31, 2003. This increase was due to the level of gross premium written during the nine months ended September 30, 2004. At September 30, 2004, we had prepaid reinsurance of $234.2 million, an increase of $69.2 million since December 31, 2003, following an increase in the level of reinsurance purchased by our global insurance and U.S. insurance segments. At September 30, 2004, we had reinsurance recoverables of $551.2 million, an increase of $426.3 million since December 31, 2003, following loss recoveries of $247.3 million from Hurricanes Charley, Frances, Ivan and Jeanne. Loss recoveries relating to the hurricanes were from reinsurers, of which 98.4% were rated the equivalent of A- or better by internationally recognized rating agencies.

At September 30, 2004, we had $2.2 billion of reserves for loss and loss expenses compared to $992.8 million at December 31, 2003, an increase of $1,230.4 million. Of this balance, $1.8 billion, or 81.2%, was incurred but not reported reserves.

At September 30, 2004, our shareholders' equity was $3.1 billion compared to $2.8 billion at December 31, 2003, an increase of 10.7%. This increase was primarily due to net income of $313.9 million for the nine months ended September 30, 2004, offset by a $2.2 million decrease in the unrealized appreciation on our investment portfolio during the same period.

Liquidity

In the nine months ended September 30, 2004, we generated a net operating cash inflow of $1,262.8 million, primarily relating to premiums received and investment income. During the same period, we paid losses of $142.0 million. We invested a net cash amount of $875.3 million during the period, and at September 30, 2004 had a cash balance of $935.3 million. For the nine months ended September 30, 2004, our cash flows from operations provided us with sufficient liquidity to meet our operating requirements.

In the nine months ended September 30, 2003, we generated a net operating cash inflow of $985.0 million, primarily relating to premiums received and investment income. During the same period we paid losses of $63.0 million. We invested a net cash amount of $1,255.4 million, and at September 30, 2003 had a cash balance of $790.6 million.

On an ongoing basis, our sources of funds primarily consist of premiums written, reinsurance recoveries, investment income and proceeds from sales and redemptions of investments. Cash is used primarily to pay losses and loss expenses, reinsurance, acquisition costs and general and administrative expenses and to purchase new investments and fund dividend payments.

Our cash flows from operations generally represent the difference between: (1) premiums collected, reinsurance recoveries and investment earnings realized; and (2) losses and loss expenses paid, reinsurance purchased, underwriting and other expenses paid, investment losses realized and dividends paid. Cash flows from operations may differ substantially, however, from net income. The potential for a large claim under one of our insurance or reinsurance contracts means that substantial and unpredictable payments may need to be made within relatively short periods of time.

On March 12, 2004, we declared a quarterly dividend of $0.125 per common share to shareholders of record at March 31, 2004; the dividend was paid on April 14, 2004. On June 16, 2004, we declared a quarterly dividend of $0.125 per common share to shareholders of record at June 30, 2004; the dividend was paid on July 14, 2004. On September 13, 2004, we declared a quarterly dividend of $0.125 per common share to shareholders of record at September 30, 2004; the dividend was paid on October 14, 2004.

On April 21, 2004, we completed a secondary offering of 20,000,000 common shares held by some of our founding shareholders at a price of $27.91 per share. On April 27, 2004, we completed a secondary offering of an additional 3,000,000 common shares to cover over-allotments. We did not sell any common shares in connection with the registration and did not receive any proceeds from the offering.

Capital Resources

On March 25, 2004, the Company renewed its 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 the new credit facility, up to $750 million may be used by the Company and its subsidiaries, AXIS Specialty Limited, AXIS Re Limited, AXIS Specialty Europe Limited, AXIS Reinsurance Company, AXIS Specialty Insurance Company and AXIS Surplus Insurance Company, to issue letters of credit and up to $300 million may be used by these entities for general corporate purposes, with total borrowings not to exceed $750 million. The credit facility contains various loan covenants with which the Company must comply, including limitations on the incurrence of future indebtedness, future liens, fundamental changes, investments and certain transactions with affiliates. The credit facility also requires that the Company maintain (1) a minimum amount of consolidated shareholders' equity equal to or greater than the sum of $1.975 billion plus (A) 50% of consolidated net income for each fiscal quarter beginning with the fiscal quarter ending March 31, 2005 and (B) 100% of the net cash proceeds received after March 25, 2004 from any issuance of our capital stock, and (2) a debt to total capitalization ratio not greater than 0.35:1.00. The credit facility contains restrictions on the Company's ability to make acquisitions, except that it may, among other things, acquire assets and entities in the insurance and reinsurance business for consideration in an aggregate amount not in excess of $250 million. The Company's ability to pay dividends or make other restricted payments is also limited, except that it may, among other things, pay cash dividends to shareholders in an amount not exceeding $150 million for any fiscal year and it may repurchase shares of its capital stock for consideration in an aggregate amount not exceeding $500 million. There was no debt outstanding under the credit facility at September 30, 2004 or December 31, 2003. At September 30, 2004, the Company had letters of credit of $133.9 million outstanding under the credit facility. At December 31, 2003, the Company had letters of credit of $127.3 million outstanding under its then existing credit facility. At September 30, 2004, we were in compliance with all covenants.

Commitments

We did not make any significant capital expenditures during the quarter ended September 30, 2004. We currently expect capital expenditures for 2004 to be less than $50 million.

The following table provides an analysis of our contractual obligations at September 30, 2004:

		Payment due by period Expressed in thousands of U.S. dollars			
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating Lease Obligations	$ 61,448	$ 7,521	$ 14,709	$ 11,832	$ 27,386

We invested in the senior preferred shares of a collateral loan obligation with a carrying value of $15.7 million. In connection with this investment, we have committments that may require additional funding of up to $9.3 million through February 2006.

Quantitative and Qualitative Disclosure about Market Risk

We are exposed to potential loss on our investment portfolio from various market risks, including changes in interest rates and foreign currency exchange rates, and from credit risk. Our investment portfolio primarily consists of fixed income securities denominated in both U.S. and foreign currencies. External investment professionals manage our portfolio under the direction of our management in accordance with detailed investment guidelines provided by us. Our guidelines do not currently permit the use of derivatives other than foreign currency forward contracts. In the future, we may change our guidelines to permit the use of derivatives. We do not enter into risk sensitive instruments for trading purposes.

Interest Rate Risk. Fluctuations in interest rates have a direct impact on the market valuation of fixed income securities included in our investment portfolio. As interest rates rise, the market value of our fixed income portfolio falls, and the converse is also true. We manage interest rate risk by selecting investments with characteristics such as duration, yield, currency and liquidity tailored to the anticipated cash outflow characteristics of our insurance and reinsurance liabilities.

Our current duration target for our investments is two to four years. The duration of an investment is based on the maturity of the security and also reflects the payment of interest and the possibility of early principal payment of such security. We seek to utilize investment benchmarks that reflect this duration target. Management periodically revises our investment benchmarks based on business and economic conditions, including the average duration of our potential liabilities. At September 30, 2004, our invested assets (assets under management by external investment managers) had an approximate duration of 3.1 years.

At September 30, 2004, we held $1,470.7 million at fair market value, or 32.5% of our total invested assets, in mortgage-backed securities compared to $1,012.9 million, or 28.2%, at December 31, 2003. When interest rates decline, these assets are exposed to prepayment risk, which occurs when holders of underlying mortgages increase the frequency with which they prepay the outstanding principal before the maturity date and refinance at a lower interest rate cost. When interest rates increase, these assets are exposed to extension risk, which occurs when holders of underlying mortgages reduce the frequency on which they prepay the outstanding principal before the maturity date and delay any refinancing of the outstanding principal.

We have calculated the effect that an immediate parallel shift in the U.S. interest rate yield curve would have on our assets under management by third party investment managers at September 30, 2004. The modeling of this effect was performed on each security individually using the security's effective duration and changes in prepayment expectations for mortgage-backed and asset-backed securities. The results of this analysis are summarized in the table below.

Interest Rate Movement Analysis on Market Value of Assets under Management by Third Party Investment Managers

	Interest Rate Shift in Basis Points (Expressed in thousands of U.S. dollars)					
	-100	-50	0	+50	+100	+200
Total Market Value	$ 4,691,921	$ 4,627,924	$ 4,559,191	$ 4,486,697	$ 4,411,938	$ 4,261,021
Market Value Change from Base	2.91%	1.51%	0.00%	(1.59)%	(3.23)%	(6.54)%
Change in Unrealized Value	$ 132,730	$ 68,733	$	$ (72,494)	$ (147,253)	$ (298,170)

Foreign Currency Risk. Fluctuations in foreign currency exchange rates have a direct impact on the market valuation of fixed income securities included in our investment portfolio that are denominated in those currencies. Therefore, we attempt to manage our foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with investments that are denominated in such currencies. Furthermore, we may use foreign currency forward contracts in an effort to hedge against movements in the value of foreign currencies relative to the U.S. dollar and to gain exposure to interest rate differentials between differing market rates. A foreign currency forward contract involves an obligation to purchase or sell a specified currency at a future date at a price set at the time of the contract. Foreign currency forward contracts will not eliminate fluctuations in the value of our assets and liabilities denominated in foreign currencies but rather allow us to establish a rate of exchange for a future point in time. We do not expect to enter into such contracts with respect to a material amount of our assets. Foreign currency forward contracts purchased are not specifically identifiable against cash, any single security or any groups of securities and, therefore, do not qualify and are not designated as a hedge for financial reporting purposes. All realized gains and losses and unrealized gains and losses on foreign currency forward contracts are recognized in our statements of operations and comprehensive income. At September 30, 2004, the net contractual amount of foreign currency forward contracts was $23.6 million with an unrealized loss of $0.6 million. At December 31, 2003, the net contractual amount of foreign currency forward contracts was $3.8 million with a negligible fair market value.

At September 30, 2004, we had insurance and reinsurance premium balances receivable of $924.6 million compared to $660.5 million at December 31, 2003. Of this balance, 81.3% was denominated in U.S. dollars. Of the remaining balance, 10.9% was denominated in Euro and 4.4% in Sterling. At September 30, 2004, a 5% increase or decrease in the value of the Euro and Sterling currencies against the U.S. dollar would produce a gain or loss of approximately $7.1 million, compared to $1.0 million at December 31, 2003.

Credit Risk. We have exposure to credit risk primarily as a holder of fixed income securities. Our risk management strategy and investment policy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to particular ratings categories and any one issuer. We attempt to limit our credit exposure by purchasing fixed income investments rated BBB-/Baa3 or higher. In addition, we have limited our exposure to any single corporate issuer to 5% or less of our portfolio for securities rated A-/A3 or above and 2% or less of our portfolio for securities rated between BBB-/Baa3 and BBB+/Baa1. At September 30, 2004, we did not have an aggregate exposure to any single issuer of more than 2% of our portfolio, other than with respect to U.S. government and agency securities. In addition, we have credit risk under some contracts where we receive premiums in return for assuming the risk of default on pre-determined portfolios of sovereign and corporate obligations. See note 9(a) to the consolidated financial statements incorporated by reference to this prospectus supplement for a further discussion regarding those contracts that meet the definition of a derivative contract under FAS 133.

Value-at-Risk. Our management uses Value-at-Risk ("VaR") as one of its tools to measure potential losses in fair market values of our investment portfolio. The VaR calculation is calculated by a third party provider and reviewed by management. VaR uses a Monte Carlo simulation to project many different prices of fixed income securities, derivatives and currencies taking into account, among other things, the volatility and the correlation between security price changes over various forecast horizons. The VaR of our investment portfolio at September 30, 2004 was approximately $190.6 million compared to $174.1 million at December 31, 2003, which represents the potential loss in fair market value of our investment portfolio over a one year time horizon within a 95% confidence level. This increase was primarily due to a higher overall investment balance. The VaR computation is a risk analysis tool and does not purport to represent actual losses in fair market value. We cannot predict actual future movements in market rates and do not present these results to be indicative of future movements in such market rates or to be representative of any actual impact that future changes in market rates may have on our future results of operations or financial position.

Effects of Inflation

We do not believe that inflation has had a material effect on our results of operations, except insofar as inflation may affect interest rates. The potential exists, after a catastrophe loss, for the development of inflationary pressures in a local economy. The anticipated effects on us are considered in our catastrophe loss models. The effects of inflation are also considered in pricing and in estimating reserves for unpaid claims and claim expenses. The actual effects of inflation on our results of operations cannot be accurately known until claims are ultimately settled.

BUSINESS

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 equity of 22.3%. In the nine months ended September 30, 2004, we wrote $2.4 billion of gross premiums, generated $313.9 million of net income, produced a combined ratio of 86.4% and earned a return on average equity of 14.2%. 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.

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. For the nine months ended September 30, 2004, we wrote gross premiums of $730.9 million in our global insurance segment, $722.8 million in our global reinsurance segment, $595.6 million in our U.S. insurance segment and $311.8 million in our U.S. reinsurance segment.

AXIS Capital is a holding company organized under the laws of Bermuda. AXIS Capital was incorporated on December 9, 2002. AXIS Specialty commenced operations on November 20, 2001. 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 its wholly owned subsidiaries to AXIS Capital. The Exchange Offer represented a business combination of companies under common control and has been accounted for at historical cost. As a result, the consolidated financial information presented in this prospectus supplement gives effect to the exchange of equity interests as though it occurred as of the inception date of AXIS Specialty on November 8, 2001.

AXIS Specialty Holdings Ireland Limited ("AXIS Ireland Holdings"), a wholly owned subsidiary of AXIS Capital, was incorporated in Ireland on January 28, 2002 and acts as a holding company for AXIS Specialty Europe and AXIS Re. AXIS Specialty Europe became licensed as an Irish insurer in May 2002. AXIS Re also became entitled to carry on reinsurance business from Ireland in May 2002. AXIS Specialty London was established in June 2003 as a U.K. branch of AXIS Specialty Europe. The branch commenced underwriting facultative business in September 2003. AXIS Re Europe was established in August 2003 as a Swiss branch of AXIS Re. The branch commenced underwriting reinsurance business in Zurich during November 2003.

AXIS Specialty U.S. Holdings Inc. ("AXIS U.S. Holdings"), a wholly owned subsidiary of AXIS Capital, was incorporated in Delaware on March 11, 2002. It acts as a holding company for AXIS Reinsurance, which is domiciled in New York. AXIS Reinsurance is licensed to write insurance and reinsurance in all 50 states in the United States, the District of Columbia and Puerto Rico. AXIS Insurance, a wholly owned subsidiary of AXIS Reinsurance, is domiciled in Connecticut. AXIS

Insurance is a surplus lines eligible insurer in 37 states in the United States and the District of Columbia.

On February 28, 2003, AXIS U.S. Holdings completed the acquisition of Sheffield Insurance Corporation for $34.7 million and subsequently renamed it AXIS Surplus. AXIS Surplus is licensed to write insurance in Illinois, Alabama and Georgia and eligible to write surplus lines insurance in 44 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 professional liability insurance and related lines business written by FIS in exchange for an agreement to make an override payment. We purchased this company and agreed to acquire these rights as the foundation for commencing our U.S. insurance operations.

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 the Company from the offering were $316.0 million. In April, 2004, we completed a secondary offering of 23,000,000 common shares held by some of our founding shareholders. We did not receive any net proceeds from the offering.

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. Our management team is led by our Chief Executive Officer and President, John R. Charman, who has over 30 years of industry experience. Mr. Charman has served as Chief Executive Officer of Charman Underwriting Agencies and Tarquin plc, President of ACE International and Deputy Chairman of Lloyd's. Our Chairman, Michael A. Butt, has over 40 years of industry experience, having served as Chief Executive Officer of Mid Ocean Ltd., Chairman and Chief Executive Officer of Eagle Star Holdings and Eagle Star Insurance Company, Chairman of Sedgwick Limited and as a Director of XL Capital Ltd. We have also assembled a team of senior underwriters with an average industry experience in excess of 20 years at successful insurers and reinsurers in a variety of markets. 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. We were founded by an affiliate of Marsh, the largest insurance broker worldwide, and believe that we have broad support among all major insurance and reinsurance brokers. Almost all of our business is sourced from our underwriters' existing relationships with brokers and insureds. In addition, several of our senior underwriters have worked together previously, which we believe facilitates internal communication resulting in broad internal knowledge of a client's needs, strengthens our peer review processes and, therefore, facilitates the fulfillment of these needs with a service orientation. We use our market relationships to identify business opportunities and establish ourselves as leaders in lines of business that have been severely affected by the dislocation in insurance markets.

Demonstrated Ability to Attract High Quality Talent. From inception, we have successfully targeted and hired high quality management and underwriting talent. In addition, we have capitalized on the significant dislocation in the insurance industry by selectively recruiting entire underwriting teams, which has enabled us to expand our product lines. For example, following our acquisition of AXIS Surplus, we recruited a team of experienced underwriters that provided us with a high quality, U.S.-based specialty lines platform. In addition, in connection with our acquisition of the renewal rights from Kemper for the FIS professional liability and related lines business, we hired a team of senior underwriters from Kemper to facilitate this expansion of our capabilities.

Disciplined Approach to Underwriting and Risk Management. We believe in generating underwriting profitability through a disciplined, conservative approach utilizing peer review processes involving seasoned underwriters for each of our segments. We believe these 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. We manage our exposures on a product and geographic basis through comprehensive, daily review by senior management. For our property and casualty business, we use commercially available software, such as "RMS" and "CATRADER," to model, price and monitor exposures on complex risks.

Low-Cost International Infrastructure and Versatile Underwriting Platform. Since our founding in November 2001, we have established 14 offices and built a staff of over 300 employees. With teams of underwriters based in Bermuda, Ireland, the United States, the United Kingdom and Switzerland, we have the ability to identify, source and underwrite a diverse portfolio of risks quickly and efficiently. We believe we have created an efficient, scaleable, low-cost infrastructure that complements the global, specialized nature of our business. For our global insurance segment, we have built a unique Internet policy submission system called "Submit.Axis" that allows brokers to submit detailed underwriting requests. Upon submission, we identify the appropriate licensed entity to underwrite the risk while feeding all submission data to our senior underwriting team. We believe 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. In addition, we believe our innovative technological platform and streamlined underwriting processes help lower our costs.

Superior Financial Strength. As of September 30, 2004, we had $3.1 billion of shareholders' equity without any outstanding debt. Our insurance and reinsurance subsidiaries are rated "A" (Strong) by Standard & Poor's, which is the sixth highest of 21 ratings, and "A" (Excellent) by A.M. Best, which is the third highest of 15 ratings. AXIS Specialty, AXIS Re and AXIS Reinsurance are rated "A2" (Good) by Moody's Investors Service, which is the sixth highest of 21 ratings. These ratings are intended to assist policyholders and reflect the rating agencies' opinions of our financial strength and our ability to pay policyholder claims and are not applicable to the securities offered in this prospectus supplement. Additionally, we have enhanced our financial flexibility by entering into a new credit facility. Under the facility, we can use up to $750 million for letters of credit and up to $300 million for general corporate purposes. Our financial strength allows us to offer large per risk coverage limits. We believe that our ability to offer specialty lines in excess of $100 million in coverage on a per risk basis allows us to maintain consistent pricing power and superior risk selection capability. Our capital is unencumbered by historical losses relating to the tragic events of September 11, 2001, asbestos, environmental or other legacy exposures that have led to capital charges for others in our industry. We believe our financial strength has quickly allowed us to be recognized as one of a select group of highly rated specialty insurers and bolstered our credibility among brokers and insureds. Our conservative approach to managing our balance sheet reflects our commitment to maintaining our financial strength.

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 the returns meet or exceed our requirements, 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. Our senior management team has extensive customer relationships with leading insurers, cedents and brokers around the world, including Marsh and its subsidiary Guy Carpenter, Aon, Willis and Benfield. As a result, we have been able to take advantage of the current dislocation in the insurance market to rapidly establish our market presence. In our first full year, we wrote gross premiums of $1.1 billion with approximately 2,000 clients and expanded this base in 2003 by writing gross premiums of $2.3 billion with over 5,000 clients. We intend to continue to rely on the strength and depth of these relationships to generate new business in the future. We will continue to capitalize on our management's industry experience and relationships as we establish ourselves as a leading provider 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. In 2002, we constructed a diverse portfolio of business lines consistent with our long-term targets. We use our underwriting expertise to emphasize particular business lines in response to changing market conditions. For example, in 2002 we wrote $155.2 million of terrorism related business at highly attractive terms and average attachment points above $65.0 million. In 2003, we wrote $109.9 million of terrorism related business. Our average attachment points for this business increased to $122 million and the geographic distribution of this portfolio of risks moved away from the United States where the terrorism market has become increasingly competitive. Also, in 2003 we acquired the renewal rights to a book of business written by FIS. We believe this acquisition came at a time when there was a capacity shortage in this line, the pricing for this business was strengthening and underwriting terms and conditions were improving. With our depth of experience, underwriting knowledge and centralized exposure management, we are able to quickly and efficiently underwrite diverse classes of risk around the world and will continue to underwrite classes of risk consistent with our underwriting expertise while monitoring evolving market conditions.

Continue Commitment to Highly Disciplined Underwriting Practices. We utilize our disciplined underwriting approach to minimize risk and reduce the volatility of our operating results. We believe that the use of peer review processes throughout our organization, 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. We also strive to control our risk by insuring higher layers of loss.

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. Our assets are conservatively invested in high-grade fixed income securities. Our investment strategy is to preserve capital and proactively avoid problem credits by applying stringent watch-list criteria and following formalized investment guidelines. We will continue to maintain a high quality, short duration asset portfolio consistent with our ratings. We believe we are prudent buyers of reinsurance and utilize the retrocessional market when capacity is available at attractive terms. In addition, we will seek to maintain our current ratings, as we believe they are important for attracting business.

Realize Increased Profitability by Maintaining Our Efficient, Low-Cost Infrastructure. We maintain and capitalize on our low-cost infrastructure to realize increased profitability as our business matures. This low-cost infrastructure, largely characterized by outsourcing of non-core functions, allows us the flexibility to adjust our administrative infrastructure and costs to changing market conditions and to selectively participate in new business opportunities, or retrench from existing business lines, without incurring significant additional costs. Having obtained requisite licenses, technology and underwriting expertise within our first year of operation and having built out our U.S. insurance and reinsurance segments in 2003, we believe we are well-positioned to continue to grow our business without incurring significant additional capital expenditures.

Manage Capital Prudently. We manage our capital prudently relative to our risk exposure to maximize profitability and long-term growth in shareholder value. Our capital management strategy is to deploy capital efficiently to underwriting opportunities and to establish adequate loss reserves to protect against future adverse developments. We target an optimal level of overall leverage to support our underwriting, we have instituted a dividend payment policy and, if appropriate, we may return excess capital to shareholders in the form of share repurchases.

Business Segments

Our business consists of four segments: global insurance (formerly specialty lines), global reinsurance (formerly treaty reinsurance), U.S. insurance and U.S. reinsurance. Our business segments and the related gross premiums written, set forth by business segment, are as follows:

Gross Premiums Written by Business Segment

	Nine Months Ended September 30, 2004	Year Ended December 31, 2003
	($ in thousands)	
Global insurance	$ 730,878	$ 980,661
Global reinsurance	722,796	462,938
U.S. insurance	595,637	625,898
U.S. reinsurance	311,831	204,148
Total	$ 2,361,142	$ 2,273,645

Global Insurance

Our global insurance segment principally consists of specialty lines business that is sourced outside of the United States but covers exposures throughout the world. In this segment, we offer tailored solutions in order to respond to distinctive risk characteristics. Competition in the lines of business written in this segment tends to focus less on price and more on availability, service and other value based considerations, although when the market softens brokers and weaker markets generally attempt to commoditize the products based on price. To reach our financial and operational goals, we must have extensive knowledge and expertise in our chosen markets and must consider risks on an individual basis. We have chosen to write business in only those lines where we believe we have specialized underwriting expertise.

The principal specialty lines in our global insurance segment are: specialty risks, onshore and offshore energy, aviation and aerospace, commercial property and marine. Since most of these lines are for physical damage and related perils and not casualty coverage, the segment is principally short to medium tail business. This means that claims are generally made and settled earlier than in long tail business, which facilitates our reserving process for this segment.

Gross premiums written, by line, for our global insurance segment are as follows:

Global Insurance Gross Premiums Written by Line

	Nine Months Ended September 30, 2004		Year Ended December 31, 2003	
	($ in thousands)			
Specialty risks	$ 287,656	39.4%	$ 377,336	38.5%
Onshore and offshore energy	156,326	21.4	219,386	22.3
Aviation and aerospace	93,217	12.8	178,442	18.2
Commercial property	115,650	15.7	124,135	12.7
Marine	78,029	10.7	81,362	8.3
Total	$ 730,878	100.0%	$ 980,661	100.0%

	Nine Months Ended September 30, 2004		Year Ended December 31, 2003	

Specialty risks. Specialty risks includes terrorism, marine and aviation war risk, political risk and professional lines. Terrorism coverage insures against physical damage and associated business interruption of an insured following an act of terrorism. Marine and aviation war insurance provides specific war coverage for the interests otherwise covered in our aviation and marine, hull and liability books of business. We believe our ability to offer coverage for war, terrorism, hull and liability risks in the aviation market distinguishes us from most of our competitors. Our political risks book generally provides protection against sovereign default or other sovereign actions resulting in impairment of cross border investments, most often investments in infrastructure development, for banks and major corporations in industries such as energy and mining. Professional lines provides high layer directors' and officers' liability insurance, which generally covers directors and officers of public companies against claims alleging mismanagement or other breaches of corporate duties.

Onshore and offshore energy. The energy book concentrates on providing physical damage, business interruption and liability coverage for the onshore and offshore oil and gas industry. Since the beginning of 2003, we have benefited from an increase in the number of insurable risks due to the high activity in energy construction and many insureds emerging from multi-year deals, which enabled us to participate on renewals that we were unable to access in prior years.

Aviation and aerospace. The aviation and aerospace book provides insurance for aviation risks such as hull and liability coverage for passenger and cargo airlines and privately owned aircraft and selectively written product liability coverage. The aerospace book provides property damage coverage on satellites for pre-launch, launch and in-orbit phases. In addition, the aerospace book provides coverage for damage to the launch sites and launch and in-orbit liability.

Commercial property. The commercial property book primarily provides coverage for physical damage and business interruption with respect to industrial properties. Coverage provided includes catastrophic and non-catastrophic events.

Marine. The marine book provides coverage for hull, liability, cargo and specie and recreational marine risks. These risks include property damage to ships, pollution damage caused by vessels on a sudden and accidental basis and protection for general cargo and the contents of armored cars, vaults, exhibitions and museums.

In our global insurance segment, business is primarily transacted through insurance brokers and intermediaries. Customers in this segment include major companies in the airline, banking, multimedia, natural resources and oil and gas industries. No customer accounted for more than 2.0% of the gross premiums written in this segment in 2003 or 2002.

Global Reinsurance

Our global reinsurance segment principally consists of treaty reinsurance business that is sourced outside of the United States but covers exposures throughout the world. Treaty reinsurance contracts are contractual arrangements that provide for automatic reinsuring of a type or category of risk underwritten by our clients. When we write treaty reinsurance contracts, we do not separately evaluate each of the risks assumed under the contracts and are largely dependent on the underwriting decisions made by the cedent. Accordingly, we carefully review and analyze the cedent's risk management and underwriting practices in deciding whether to provide treaty reinsurance and in appropriately pricing the treaty to meet, or exceed, predetermined requirements. This business is short to medium tail in nature, which typically allows us to determine the ultimate loss experience within a relatively short time period after a contract has expired.

Our contracts can be written on either a pro rata basis, also known as proportional, or on an excess of loss basis. In pro rata contracts, the reinsurer and the reinsured participate in the premiums and losses on every risk that comes within the scope of the agreement in a fixed proportion. The reinsurer reimburses the ceding company for the cost of producing the business in the form of a ceding commission. The ceding commission may include an additional commission above the actual costs of the ceding company, and these contracts often have profit oriented additional commissions as well. In excess of loss contracts, the reinsurer pays all or a specified percentage of a loss caused by a particular occurrence or event in excess of the retention and up to a stipulated limit.

This business generally operates as a subscription market, with the reinsurance intermediaries seeking participation for specific treaties among a number of reinsurers. We offer a price at which we are willing to participate, and only participate if we believe available pricing is favorable. Those reinsurers that ultimately subscribe to any given treaty participate at substantially the same pricing and terms and conditions. See " Underwriting and Risk Management."

Gross premiums written, by line, for our global reinsurance business segment are as follows:

Global Reinsurance Gross Premiums Written by Line

	Nine Months Ended September 30, 2004		Year Ended December 31, 2003	
	($ in thousands)			
Catastrophe	$ 388,759	53.8%	$ 339,137	73.3%
Property pro rata	119,145	16.5	61,003	13.2
Property per risk	78,385	10.8	50,681	10.9
Credit and Bond	72,660	10.0		
Motor and General Liability	48,937	6.8		
Other	14,910	2.1	12,117	2.6
Total	$ 722,796	100.0%	$ 462,938	100.0%

Catastrophe Reinsurance. Most of our catastrophe reinsurance is for property risks. Our property catastrophe reinsurance business reinsures catastrophic perils for ceding companies on a treaty basis. Our property catastrophe reinsurance contracts provide protection for most catastrophic losses that are covered in the underlying insurance policies written by our ceding company clients. The principal perils in our portfolio include hurricane and windstorm, earthquake, flood, tornado, hail and fire. In some instances (including personal lines), terrorism may be a covered peril or the only peril. Coverage for other perils may be negotiated on a case-by-case basis. Catastrophe reinsurance contracts incur losses only when events occur that impact more than one risk or insured. Protection under property catastrophe treaties is provided on an occurrence basis, allowing our ceding company clients to combine losses that have been incurred in any single event from multiple underlying policies. The multiple claimant nature of property catastrophe reinsurance requires careful monitoring and control of cumulative aggregate exposure.

We also reinsure workers' compensation, personal accident and life products. This business is focused on exposures in the United States and is virtually all written on an excess of loss basis. We focus on business that is exposed to severity losses and not expected to produce high levels of claims frequency. This business is written only at levels that would require multiple deaths or injuries to result in a loss. The treaties include limitations on the maximum amount of coverage for any one person and our attachment points are multiples of these stipulated maximum coverage limits. There is a potential for events that trigger property catastrophe claims, such as catastrophic earthquakes, to also result in injuries and deaths. We closely monitor the potential for accumulation within our businesses. We price and accumulate exposures in this portfolio with tools that are either the same or are very similar to the tools we use for the property catastrophe account.

Property Pro Rata Treaty Reinsurance. Property pro rata treaty reinsurance is treaty reinsurance that covers a cedent's aggregate losses from all events in the covered period. For example, we could provide reinsurance to cover a portfolio of individual residential properties. This business is written on a proportional basis. Most of our pro rata treaty reinsurance contracts have occurrence limits. Property pro rata treaty reinsurance may contain significant risk of accumulation of exposures, both to natural and other perils. Our underwriting process explicitly recognizes these exposures. Natural perils, such as hurricane and windstorm, earthquake and flood, are analyzed through our catastrophe modeling systems. Other perils, such as fire and terrorism events, are considered based on historic loss and loss expense ratios experienced by cedents and monitored for cumulative aggregate exposure.

Property Per Risk Treaty Reinsurance. Our property per risk treaty reinsurance business reinsures a portfolio of particular property risks of ceding companies on a treaty basis. For example, we could provide reinsurance to cover a cedent's losses for damage to commercial property under individual policies. This business consists of a highly diversified portfolio of reinsurance contracts covering claims from individual insurance policies issued by our ceding company clients and including both personal lines and commercial property risks (principally covering buildings, structures, equipment and contents). Loss exposure in this business includes the perils of fire, explosion, collapse, riot, vandalism, hurricane and windstorm, tornado, flood and earthquake. This business is written on an excess of loss basis. Our property per risk treaty reinsurance agreements generally have occurrence limits.

Credit and Bond. Our credit and bond account consists principally of reinsurance of trade credit insurance products. The reinsurance is structured on both a proportional and an excess of loss basis. The underlying insurance indemnifies sellers of goods and services against a payment default by the buyer of those goods and services. The excess of loss writings protect the ceding insurers against large losses arising from the failure of a single enterprise (the buyer of goods and services) and the aggregation of losses arising on policies issued to insureds (the sellers of goods and services) protecting against such a failure. In addition, we reinsure ceding insurers against losses arising from a broad array of surety bonds that have been issued by bond insurers principally to satisfy regulatory demands in a variety of jurisdictions around the world but predominantly in Europe.

Motor and General Liability. We provide excess of loss protection to insurers to protect their portfolio of third party motor or general liability insurance. The majority of the business that we currently write is motor liability business where we participate in syndicated placements of tranches of liability exposure that cover losses arising out of any one occurrence. The occurrence can involve one or many claimants where the ceding insurer aggregates the claims from the occurrences. In several jurisdictions in Europe, motor liability products have no stated limits. Consequently, we participate in some unlimited layers of motor liability reinsurance.

Other. This book of business is treaty reinsurance primarily written on an excess of loss basis and currently covers claims arising from aviation and crop reinsurance.

In our global reinsurance segment, business is transacted primarily through reinsurance brokers and intermediaries, except for our trade credit and bond reinsurance, which is generally written on a direct basis. Customers in this segment are mostly small to mid-sized North American and European insurers. Except for XL Capital Ltd, which accounted for 5.8% of our global reinsurance gross premiums written in 2003, no other client accounted for more than 5.0% of our gross premiums written within this segment in 2003 or 2002.

The following is a breakdown of treaty reinsurance premiums in our global reinsurance segment by geographic area:

Global Reinsurance Gross Premiums Written by Geographic Area

	In Force as of September 30, 2004	In Force as of December 31, 2003
U.S.	30.3%	41.9%
Europe	26.5	17.9
North America (excluding U.S.)	8.8	12.7
Worldwide(1)	28.3	19.0
Caribbean	2.2	3.6
Japan	1.7	2.6
Australia/New Zealand	1.0	1.3
Asia	0.3	0.6
Middle East	0.8	0.3
Africa	0.1	0.1
Total	100.0%	100.0%

(1) "Worldwide" risks comprise individual policies that insure risks on a worldwide basis.

U.S. Insurance

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. The U.S. specialty insurance market differs from the standard insurance market. In the standard market, insurance rates and forms are highly regulated and products and coverages are largely uniform with relatively predictable exposures. In contrast, the specialty market provides coverage for risks that are complex and require specific expertise and that do not generally fit the underwriting criteria of the standard carriers. Competition tends to focus on availability, service and other value based considerations. To reach our financial and operational goals, we must have extensive knowledge and expertise in our chosen markets. Most of our risks are considered on an individual basis, and we employ tailored solutions in order to respond to distinctive risk characteristics. We have chosen to write business in only those lines where we believe we have specialized underwriting expertise. In our U.S. insurance segment, we can currently write business in all 50 states in the United States and the District of Columbia and Puerto Rico as an admitted insurer and in 48 states and the District of Columbia on an excess and surplus basis.

Gross premiums written, by line, for our U.S. insurance business segment are as follows:

U.S. Insurance Gross Premiums Written by Line

	Nine Months Ended September 30, 2004		Year Ended December 31, 2003	
	($ in thousands)			
Property	$ 234,782	39.4%	$ 225,508	36.0%
Professional lines	189,149	31.8	242,582	38.8
Liability	171,706	28.8	157,808	25.2
Total	$ 595,637	100.0%	$ 625,898	100.0%

Property. Our commercial property book provides coverage for physical damage and business interruption primarily with respect to commercial properties. The book consists of both primary and excess risks, some of which are catastrophe exposed. Customary types of accounts include medium to large residential, public entity and manufacturing risks.

Professional Lines. Our professional lines book includes the renewal rights to a book of business we acquired from Kemper in exchange for a payment that is based upon the gross written premiums for renewals retained. The majority of the business in our professional lines book is directors' and officers' liability coverage. Directors' and officers' liability insurance generally covers directors and officers of public and private companies against claims alleging mismanagement or other breaches of corporate duties. The professional lines market has seen significant improvements in terms and conditions as well as pricing within the last two years. Following the recruitment of an experienced team of underwriters in late 2003, in 2004 we expanded into selective classes within the errors and omissions market.

Liability. Our commercial liability book primarily targets casualty risks in the United States excess and surplus markets. Our target classes include mercantile, manufacturing and building/premises, with particular emphasis on commercial and consumer products, commercial construction and miscellaneous general liability. We primarily target accounts with severity exposures rather than frequency and use reinsurance to mitigate some of the volatility inherent in this business.

In our U.S. insurance segment, business is transacted primarily through insurance brokers and intermediaries. No customer accounted for more than 2.0% of the gross premiums written in this segment in 2003.

U.S. Reinsurance

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. Treaty reinsurance lines in this book include: professional lines; liability; property; auto; and marine and aviation.

Gross premiums written, set forth by line, are as follows for our U.S. reinsurance business segment:

U.S. Reinsurance Gross Premiums Written by Line

	Nine Months Ended September 30, 2004		Year Ended December 31, 2003	
	($ in thousands)			
Professional lines	$ 188,412	60.4%	$ 132,148	64.7%
Liability	75,139	24.2	46,035	22.6
Property	42,549	13.6	19,535	9.6
Marine and aviation	5,731	1.8	6,430	3.1
Total	$ 311,831	100.0%	$ 204,148	100.0%

Professional Lines. Our professional lines book of business consists of a portfolio of medical malpractice, directors' and officers', employment practices liability and miscellaneous errors and omissions insurance risks and is written on both an excess of loss and a proportional basis. The majority of risks written are on an excess of loss basis and have severity driven characteristics. In a market characterized by historically high losses resulting in diminished capacity, we have been able to capitalize on increased opportunities presented by a complete re-underwriting of the underlying product.

Liability. Our liability book of business consists of a portfolio of standard casualty lines, including auto liability, general liability, umbrella (personal and commercial) and workers compensation. We predominantly write excess of loss treaties with an emphasis on severity driven layers. Due to significant competition and capacity that slowed positive trends in terms and conditions, we did not write significant premium volumes in this line of business in 2003. Due to improvements in the general casualty reinsurance market during 2003 and 2004, we have written more business in this class during 2004.

Property. Our property book is a portfolio of North American risks. We currently reinsure specialty companies and specialty divisions of mid to large sized regional and national carriers on a proportional and per risk basis. We also provide facultative reinsurance through semi-automatic binding agreements.

Marine and aviation. Our marine and general aviation (non-airline) portfolio is primarily written on an excess of loss basis with an emphasis on severity driven layers. Lines of business covered under the marine segment include hull, cargo and marine liability. Our general aviation treaty products include aircraft hull and liability coverages.

In our U.S. reinsurance segment, business is transacted primarily through reinsurance brokers and intermediaries. Customers in this segment are mostly small to mid-sized North American insurers. Five clients, Attorneys' Liabilities Assurance Services, Chubb Corporation, Gulf Insurance Company, St. Paul Companies Inc. and XL Capital Ltd., accounted for 59.5% of the gross premiums written in this segment in 2003. No other client accounted for more than 5.0% of our gross written premiums in 2003.

Technology

We have developed a sophisticated technology platform to support our underwriting activities worldwide. We believe our use of technology allows us to maintain a low-cost infrastructure and efficient underwriting operations. In addition, we believe our technologies provide us with competitive advantages as we seek to improve our relationships with our customers and provide enhanced levels of customer service.

"Submit.Axis" is a unique, web-based policy submission capability that we have developed for our global insurance segment. Initially developed for brokers in the London market, Submit.Axis allows brokers to provide details of a policy submission "online" so that our underwriters may review the submissions online. Upon submission, our underwriters can access submission details online and review relevant policy documentation. In addition, the underwriters in the applicable licensed entity interact "offline" with the broker to prepare offers and final slip information for broker review with the submission accepted or declined offline. Also, the system allows all global specialty lines underwriters to view all business activity and assist with market intelligence and our peer review process. We intend to roll out this system for internal use to all of our segments during 2004.

In reviewing submissions, our underwriters utilize our proprietary licensing database to determine the appropriate licensed entity that can underwrite the risk. Our licensing database contains detailed legal and regulatory information regarding each jurisdiction in which we are permitted to write business and permits us to respond rapidly to opportunities in a cost-efficient manner. In addition, our underwriting system is linked into our accounting system, which allows us to generate consistency in financial reporting, disclosure requirements and forecasting procedures across our organization. We are committed to continuing to identify and deploy technologies which enhance our processing and underwriting capabilities and which enable us to realize additional operating efficiencies.

Underwriting and Risk Management

For our global insurance segment, internal underwriting controls are exercised through a group of senior underwriters. Each proposal for each risk we consider underwriting is attached to Submit.Axis and can be reviewed by all underwriting staff. Each risk that is ultimately bound must be reviewed by underwriters in the applicable licensed entity prior to the commitment of a line and contractual commitment.

Global reinsurance ensures that pricing methodology is consistent and appropriate by the use of proprietary rating and accumulation tools, underwriting authority limits and frequent communication. All business is rated using the same basic risk measurement standards to ensure consistency within the segment. Each underwriter is delegated a limit up to which he or she has the authority to write business. If an underwriter wishes to exceed these limits on any contract, the Chief Executive Officer of the segment must review and approve the contract. All offers, quotes and bound lines are circulated daily to the senior reinsurance underwriters within the segment to allow for feedback and commentary. This process ensures that the knowledge base and experience of the segment is available to all underwriters to supplement the state of the art technology that we use to technically price our business.

For our U.S. insurance segment, we utilize a similar review process. However, due to the large number of submissions received and the generally smaller net retentions on this business, we use a modified peer review process whereby every account is reviewed by two or more underwriters before a risk is bound and only risks that have the approval of a senior officer are bound. Depending upon the risk's characteristics and our underwriting guidelines, the risk may also be reviewed by a senior underwriting panel. In all cases, one of our senior officers reviews all new business weekly.

For our U.S. reinsurance segment, all risks are reviewed by a senior underwriter. If the risk meets our internal guidelines for exposure and profitability, it is referred to the Chief Executive Officer of the segment for additional analysis. After the approval of the Chief Executive Officer of the segment, the risk is circulated to a peer review panel, currently consisting of the Chief Executive Officer and Chief Executive Officer of global reinsurance, for final comments. In every case, the review process is completed before we commit contractually.

We utilize a variety of proprietary and commercially available tools to quantify and monitor the various risks we accept as a company. Our proprietary systems include those for modeling risks associated with property catastrophe, workers' compensation and various casualty and specialty pricing models as well as our proprietary portfolio risk model.

For the analysis of our catastrophe exposed business in our global insurance, global reinsurance and U.S. reinsurance segments, we utilize three natural catastrophe modeling tools (Risklink version 4.3 licensed by RMS and Classic/2 and CATRADER licensed by AIR). In addition, we have developed an internal proprietary application, known as the AXIS Catastrophe Accumulation and Pricing System or "ACAPS," which allows us to track the results from each of these models for both pricing and accumulation purposes. Our state-of-the-art modeling system (including an aggregate exposure management tool) allows the underwriting team, in conjunction with the actuarial team, to analyze risk exposure on a per peril (e.g., fire, flood, earthquake, etc.) and a geographic basis. If a program meets our underwriting criteria, the proposal is evaluated in terms of its risk/reward profile to assess the adequacy of the proposed pricing and its potential impact on our overall return on capital. For the analysis of our terrorism and offshore energy business in our global insurance segment, we utilize a modeling tool licensed by RMS.

For our property pro rata business in our global reinsurance segment, we utilize a combination of actuarial techniques and catastrophe modeling. We use actuarial techniques to examine our ceding companies' underwriting results as well as the underwriting results from the companies with comparable books of business and pertinent industry results. In our property per risk business, we rely almost exclusively on actuarial techniques. Although per risk treaties may include exposure to natural perils, catastrophe modeling systems are generally not used largely because the cedents do not generally provide location level information that will allow accurate measurement of exposure to per risk treaty structures. To minimize this impact, we generally participate in middle to upper layers where the natural catastrophe element of exposure is minimized.

With respect to the catastrophe exposed business in our U.S. insurance segment, we utilize Risklink version 3 licensed by RMS to price and to accumulate individual risks for our commercial property and onshore energy books. This analysis is then combined with the analyses of our other three segments to monitor aggregate exposures. For terrorism perils, we have developed a proprietary system for monitoring accumulations.

With respect to the non-catastrophe exposed business in our U.S. insurance segment, we generally analyze specialty insurance contracts via a variety of rating models. Where applicable, our models draw upon industry information, including historical trend and development information licensed from Insurance Services Office, Inc. and AMS Services, Inc.

In addition to the above technical and analytical practices, our underwriters use a variety of means, including specific contract terms and diversification of risk by geography and type of risk, to manage our exposure to loss. Substantially all business written is subject to aggregate limits in addition to event limits.

Marketing

We produce our business almost exclusively through insurance and reinsurance brokers worldwide, who receive brokerage fees and commissions for placing our business. Our management and underwriting team have longstanding relationships with key insurance and reinsurance brokers, such as Marsh (including its subsidiary, Guy Carpenter), Aon, Willis and Benfield, and with many ceding companies. Senior management also has direct relationships with customers.

The following table shows our gross premiums written by broker for the year ended December 31, 2003 and the nine months ended September 30, 2004.

Gross Premiums Written by Broker

	Nine Months Ended September 30, 2004		Year Ended December 31, 2003	
	($ in thousands)			
Marsh (including Guy Carpenter)	$ 732,228	31.0%	$ 765,265	33.7%
Aon	483,793	20.5	438,690	19.3
Willis	172,162	7.3	261,609	11.5
Benfield	148,940	6.3	92,034	4.0
Others	824,019	34.9	716,047	31.5
Total	$ 2,361,142	100.0%	$ 2,273,645	100.0%

Ceded Reinsurance

Some of our underwriting segments purchase reinsurance to reduce the risk of exposure to loss. Our global insurance and reinsurance segments purchase reinsurance to reduce exposure to large losses. Our U.S. insurance segment purchases significant reinsurance to reduce the volatility in severity driven classes of business. The segments purchase three types of reinsurance cover: facultative; excess of loss; and quota share. Facultative covers are typically assumed with the original business. Excess of loss covers provide a contractually set amount of cover after an excess point has been reached. These covers generally are purchased on a package policy basis, as they provide cover for a number of lines of business within one contract. Quota share covers provide a proportional amount of coverage from the first dollar of loss. All of these reinsurance covers provide for recovery of a portion of losses and loss expenses from reinsurers. We remain liable to the extent that reinsurers do not meet their obligations under these agreements and, therefore, we evaluate the financial condition of our reinsurers and monitor concentrations of credit risk. All of our reinsurance is placed with reinsurers rated at least "A-" or better by Standard & Poor's or A.M. Best. During 2003, one reinsurer was downgraded below "A-". In such circumstances, we re-evaluate the collectiblity of any reinsurance balances due from the reinsurer and, where necessary, we post an allowance for uncollectible reinsurance recoverables. See note 7 to the consolidated financial statements incorporated by reference in this prospectus supplement and the accompanying prospectus.

Gross, ceded and net premiums written and earned for the year ended December 31, 2003 and the nine months ended September 30, 2004 were as follows:

Gross, Ceded and Net Premiums Written and Earned

	Nine Months Ended September 30, 2004		Year Ended December 31, 2003	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
	($ in thousands)			
Gross	$ 2,361,142	$ 1,821,099	$ 2,273,645	$ 1,701,016
Ceded	(412,063)	(341,650)	(365,258)	(264,786)
Net	$ 1,949,079	$ 1,479,449	$ 1,908,387	$ 1,436,230

Claims Management

We have claims teams located in Bermuda, Ireland, the United States and the United Kingdom. Our claims teams provide global coverage and claims support for the business we write with a focus on either our U.S. or global business. The role of our claims units is to investigate, evaluate and pay claims efficiently. We have implemented claims handling guidelines and claims reporting and control procedures in all claims units. To ensure that claims are handled and reported in accordance with these guidelines, all claims matters are reviewed weekly during a formal claims meeting. The minutes from each meeting are also circulated to our underwriters, senior management and our independent actuaries. To maintain communication between underwriting and claims teams, claims personnel regularly report at underwriting meetings and frequently attend client meetings.

When we receive notice of a claim, regardless of size, it is recorded within our underwriting and claims system, and reserves and payments are checked weekly. To assist with the reporting of significant claims, we have also developed a large claims information database, or LCID. The database is primarily used to "flash report" significant events and potential insurance or reinsurance losses, regardless of whether we have exposure. Where we have exposure, the system allows a direct notification to be instantly communicated to underwriters and senior management worldwide. The database is also used as an electronic workflow management tool for larger cases that may involve adjustment and coverage issues or litigation.

Reserves

An insurer establishes reserves for losses and loss expenses that arise from its insurance and reinsurance products. These reserves are balance sheet liabilities representing estimates of future amounts required to pay losses and loss expenses for insured or reinsured claims that have occurred at or before the balance sheet date, whether already known or not yet reported. It is our policy to establish these losses and loss expense reserves prudently after reflecting all information known to us as of the date they are recorded. Our loss reserves are estimated every quarter by Ernst & Young, who acts as our reserving actuary, and are based on generally accepted actuarial principles. These reserves are then discussed with and reviewed by management prior to establishing the ultimate loss reserves. Ernst & Young receives all LCID flash reports and has access to our claims information and individual contracts as part of their quarterly review.

Our loss reserves are established based upon our estimate of the total cost of claims that were reported to us but not yet paid, or case reserves, the cost of additional case reserves on known events not yet reported to us and claims reported to us but not considered to be adequately reserved, or ACR, and the anticipated cost of claims incurred but not yet reported to us, or IBNR. Under U.S. GAAP, we are not permitted to establish loss reserves with respect to our catastrophe reinsurance until an event occurs that gives rise to a loss. As a result, only losses incurred up to the reporting date may be set aside with respect to our property catastrophe reinsurance, with no allowance for the provision of a contingency reserve to account for expected future losses.

For reported losses, we establish case reserves within the parameters of the coverage provided in the insurance or reinsurance contracts. Additional case reserves are often estimated by our claims function ahead of official notifications but in the same manner as reported case reserves. Where there is a possibility of a claim, we may book an additional case reserve, which is only revised upon final determination that no claim will arise or is adjusted as claims notifications are received.

We estimate IBNR reserves using actuarial methods. We also utilize historical insurance industry loss development patterns, as well as estimates of future trends in claims severity, frequency and other factors, to aid us in establishing our losses and loss expense reserves.

Loss reserves represent estimates, including actuarial and statistical projections at a given point in time, of an insurer's or reinsurer's expectations of the ultimate settlement and administration costs of claims incurred. As a result, it is likely that the ultimate liability will differ from such estimates, perhaps significantly. Such estimates are not precise in that, among other things, they are based on predictions of future developments and estimates of future trends in loss severity and frequency and other variable factors such as inflation. This uncertainty is heightened by the short time in which our company has operated, thereby providing limited claims loss emergence patterns specifically for our company. This has necessitated the use of benchmarks in deriving IBNR, which despite management's and the independent actuary's care in selecting them, have the risk of differing from actual experience. 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.

Investments

The finance committee of our board of directors establishes our investment policies and creates guidelines for external investment managers. Management implements our investment strategy with the assistance of those external managers. These guidelines specify minimum criteria on the overall credit quality and liquidity characteristics of the portfolio and include limitations on the size of some holdings as well as restrictions on purchasing some types of securities.

Our current investment strategy seeks to preserve principal and maintain liquidity while trying to maximize investment return through a high quality, diversified portfolio. In this regard, at September 30, 2004, our investment portfolio consisted primarily of fixed income securities and cash and cash equivalents. At September 30, 2004, all of these fixed income securities were investment grade, with 82.7% rated Aa3 or AA- or better by an internationally recognized rating agency. The weighted-average rating of our fixed income portfolio was AA+ based on ratings assigned by Standard & Poor's. The net payable for investments purchased at September 30, 2004, was $197.3 million. Our risk management strategy and investment policy is to invest primarily in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to particular ratings categories and any one issuer. Within this fixed income portfolio, we attempt to limit our credit exposure by purchasing fixed income investments rated BBB-/Baa3 or higher. In addition, we have limited our exposure to any single corporate issuer to 5% or less of our portfolio for securities rated A-/A3 or above and 2% or less of our portfolio for securities rated between BBB-/Baa3 and BBB+/Baa1. At September 30, 2004, we did not have an aggregate exposure to any single issuer of more than 2% of our portfolio, other than with respect to U.S. government and agency securities.

Our current duration target for our investments is two to four years. The duration of an investment is based on the maturity of the security and also reflects the payment of interest and the possibility of early principal payment of such security. We seek to utilize investment benchmarks that reflect this duration target. Management periodically revises our investment benchmarks based on business and economic factors, including the average duration of our potential liabilities. At September 30, 2004, our invested assets (assets under management by external investment managers) had an approximate duration of 3.1 years.

The types of securities in our fixed income portfolio and their fair market values and amortized costs were as follows as of September 30, 2004:

Types of Securities in Our Fixed Income Portfolio and Their Fair Market Values and Amortized Costs

	September 30, 2004			
Type of Investment	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Loss**	**Fair Market Value**
	($ in thousands)			
U.S. government and agency securities	$ 1,452,752	$ 7,838	$ (5,711)	$ 1,454,879
Non U.S. government securities	78,997	1,239		$ 80,236
Corporate debt securities	863,011	12,894	(3,265)	$ 872,640
Mortgage backed securities	1,461,901	13,160	(4,320)	$ 1,470,741
Asset backed securities	232,798	1,145	(343)	$ 233,600
States, municipalities and political subdivisions	246,248	2,805	(627)	$ 248,426
Total fixed income maturities	$ 4,335,707	$ 39,081	$ (14,266)	$ 4,360,522

As of September 30, 2004, mortgage backed securities constituted approximately 32.5% of our invested assets. 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 or extension 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. In periods of increasing interest rates, these investments are exposed to extension risk, which occurs when holders of underlying mortgages reduce the frequency on which they prepay the outstanding principal before the maturity date and delay any refinancing of the outstanding principal.

The principal risk associated with corporate debt securities is the potential loss of income and potential realized and unrealized principal losses due to insolvencies and deteriorating credit. Asset backed securities are subject to structural, credit and capital markets risks. Structural risks include the security's priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from the collateral and the potential for prepayments. Credit risks include consumer or corporate credits such as credit card holders and corporate obligors. Capital markets risks include the general level of interest rates and the liquidity for these securities in the market place.

The Standard & Poor's credit ratings for fixed income securities held and the percentage of our invested assets they represented as of September 30, 2004 were as follows:

Credit Ratings for Our Fixed Income Portfolio

Rating	As of September 30, 2004 Amortized Cost	Fair Market Value	Percentage of Total Fair Market Value
AAA	$ 3,402,218	$ 3,416,974	78.4%
AA	187,558	188,873	4.3
A	482,289	485,512	11.1
BBB	263,642	269,163	6.2
Total	$ 4,335,707	$ 4,360,522	100.0%

The contractual maturities of our fixed maturity securities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The maturity distribution for fixed income securities held as of September 30, 2004 was as follows:

Maturity Distribution for Our Fixed Income Portfolio

Rating	As of September 30, 2004 Amortized Cost	Fair Market Value	Percentage of Total Fair Market Value
		($ in thousands)	
Due in one year or less	$ 110,388	$ 110,193	2.5%
Due after one year through five years	1,645,967	1,645,289	37.7
Due after five years through ten years	714,959	727,673	16.7
Due after ten years	169,694	173,027	4.0
Subtotal	2,641,008	2,656,182	60.9
Mortgage and asset backed securities	1,694,699	1,704,340	39.1
Total	$ 4,335,707	$ 4,360,522	100.0%

The following table illustrates net investment income, net realized gains on investments, net realized and unrealized gains on investment derivative instruments, annualized effective yield, total return on investments and the performance results of the various classes of fixed income investments in

S-71

our portfolio as compared to appropriate indices for the nine months ended September 30, 2004 and the year ended December 31, 2003:

Net Investment Income and Returns on Investments

	Nine months ended September 30, 2004	Year Ended December 31, 2003
	($ in thousands)	
Net investment income	$ 104,621	$ 73,961
Net realized gains on investments	9,949	27,556
Net realized and unrealized gains (losses) on investment derivative instruments	(531)	(4,989)
Net realized gains	$ 9,418	$ 22,567
Annualized effective yield(1)	3.33%	2.62%
Total return(2)	2.67%	3.50%
Total return liquidity portfolio(2)	1.23%	1.98%
Total return Merrill Lynch 1-3 year Treasury Index	0.89%	1.90%
Relative Performance	0.35%	0.07%
Total return intermediate duration portfolios(2)	3.06%	4.21%
Total return customized benchmark	2.95%	3.80%
Relative Performance	0.11%	0.41%
Total return long duration portfolios(2)	3.34%	3.79%
Total return customized benchmark	3.35%	4.11%
Relative Performance	(0.01)%	(0.32)%
Total return U.S. portfolios(3)	2.57%	2.26%
Total return customized benchmark(3)	2.81%	2.63%
Relative Performance	(0.24)%	(0.37)%

(1) Annualized effective yield is calculated by dividing the investment income generated from assets under management by third party investment managers by the average balance of the assets managed by the Company's portfolio managers.

(2) Total return for our investment portfolio is calculated using beginning and ending market portfolio values, adjusted for external cash flows.

(3) Management of our U.S. portfolio by third party investment managers commenced in March 2003 and, consequently, results represent the 10 month period ended December 31, 2003.

We recently expanded our investment strategy to other asset sectors. At September 30, 2004, we had invested $15.7 million in the senior preferred shares of a collateralized loan obligation, $42.4 million in combination notes of collateralized loan obligations and $25.0 million in a medium term note representing an interest in a pool of European fixed income securities. The Company carries these investments at fair value, which currently approximates cost. In addition, we may invest in U.S. dollar high yield fixed income securities; however, as of September 30, 2004, we had not made any investments in this sector.

We routinely assess whether declines in fair value of our investments represent impairments that are other than temporary. There are several factors that are considered in that assessment of a security, which include (1) the time period during which there has been a significant decline below cost, (2) the extent of the decline below cost, (3) our intent to hold the security, (4) the potential for the security to recover in value, (5) an analysis of the financial condition of the issuer and (6) an analysis of the collateral structure and credit support of the security, if applicable.

The gross unrealized losses of securities in our portfolio were as follows as of September 30, 2004:

	September 30, 2004
Six months or less	$ 9,078
Greater than six months but less than 12 months	3,044
Greater than or equal to 12 months	2,144
	$ 14,266

As of September 30, 2004 there were approximately 1,042 securities in an unrealized loss position with a fair market value of $1,886.3 million. Of these securities, there are 137 securities that have been in an unrealized loss position for 12 months or greater with a fair market value of $89.4 million. As of September 30, 2004, none of these securities were considered to be impaired. The unrealized losses from these securities were a result of movements in interest rates rather than credit, collateral or structural issues.

Our investment portfolio consists of fixed income securities denominated in both U.S. and foreign currencies. Accordingly, earnings will be affected by many factors, including changes in interest rates and foreign currency exchange rates. Effective July 1, 2003, the Company adopted FAS No. 149 "Amendment and Hedging Activities." As a result, some of our mortgage backed securities are required to be classified as derivatives. Other than these securities and foreign currency forward contracts, our investment guidelines do not currently permit the use of derivatives. At September 30, 2004, we held mortgage backed securities classified as derivatives with a fair value of $105.8 million. In the future, we may change our guidelines to permit the use of additional types of derivatives.

As of September 30, 2004, we had engaged several investment management firms to provide us with investment management and advisory services. We have agreed to pay investment management fees based on the respective funds under management after each calendar quarter. These fees are taken into account in the calculation of net investment income. There are no performance based fees. The agreements with these firms may be terminated by either party at periods varying from immediately to 30 days upon written notice. In the nine months ended September 30, 2004, we incurred $5.6 million of fees in respect of investment management and advisory services.

We have entered into investment management agreements with several investment managers, including J.P. Morgan Investment Management Inc. and The Putnam Advisory Company, L.L.C., both of which are considered related parties. These agreements were entered into on an arms length basis on terms generally available in the market.

Competition

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 markets participants offer alternative products that are intended to compete with reinsurance products.

In our global and U.S. insurance segments, where competition tends to be focused more on availability, service and other considerations than on price, we compete with insurers that provide property and casualty based lines of insurance such as: ACE Limited, Allianz Group, Allied World Assurance Company, Ltd., American International Group, Inc., Berkshire Hathaway, Inc., Chubb Corporation, Converium Group, Endurance Specialty Holdings Ltd., Factory Mutual Insurance Company, Lloyd's of London, Munich Re Group, Swiss Reinsurance Company and XL Capital Ltd.

In our global and U.S. reinsurance segments, we compete with reinsurers that provide property and casualty based lines of reinsurance such as: ACE Limited, Arch Capital Group Ltd., Converium Group, Endurance Specialty Holdings Ltd., Everest Re Group, Ltd., IPCRe Limited, Lloyd's of London, Montpelier Re Holdings Ltd., Munich Re Group, PartnerRe Ltd., Platinum Underwriters Holdings, Ltd., Renaissance Re Holdings Ltd., Swiss Reinsurance Company, Transatlantic Holdings Inc. and XL Capital Ltd.

Competition in the types of business that we underwrite is based on many factors, including:

- reputation;
- strength of client relationships;
- perceived financial strength;
- management's experience in the line of insurance or reinsurance to be written;
- premiums charged and other terms and conditions offered;
- services provided, products offered and scope of business (both by size and geographic location);
- financial ratings assigned by independent rating agencies; and
- speed of claims payment.

Increased competition could result in fewer submissions, lower premium rates and less favorable policy terms, which could have a material adverse impact on our growth and profitability.

Ratings

Ratings by independent agencies are an important factor in establishing the competitive position of insurance and reinsurance companies and are important to our ability to market and sell our products. Rating organizations continually review the financial positions of insurers, including us. 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 ratings systems is to assist policyholders and to provide an opinion of an insurer's or reinsurer's financial strength and ability to meet ongoing obligations to its policyholders. These ratings reflect Standard & Poor's and A.M. Best's opinions of our ability to pay policyholder claims, are not applicable to the securities offered in this prospectus supplement and are not a recommendation to buy, sell or hold our securities. These ratings are subject to periodic review by, and may be revised downward or revoked at the sole discretion of, Standard & Poor's and A.M. Best.

Administration

We outsource many administrative functions to third parties that can provide levels of expertise in a cost-efficient manner that we cannot replicate internally. Functions that we outsource include:

- bulk contract processing;
- actuarial services;

- investment accounting services; and
- claims processing and back office services.

Our outsourcing of these functions assisted us in quickly establishing our international underwriting platform, and provides us with the flexibility to adjust our administrative infrastructure and costs to changing market conditions.

Properties

We own the property in which our offices are located in Dublin, Ireland. We lease office space in the other countries in which we operate under operating leases that expire at various dates. We renew and enter into new leases in the ordinary course of business as required. See the notes to the consolidated financial statements incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of our lease commitments for real property. We believe that for the foreseeable future this office space is sufficient for us to conduct our operations.

Employees

As of September 30, 2004, we had 372 employees. We believe that our employee relations are excellent. None of our employees is subject to collective bargaining agreements.

Legal Proceedings

Except as set forth below, we are not currently a party to any material legal proceedings. From time to time, we are subject to routine legal proceedings, including arbitrations, arising in the ordinary course of business. Those legal proceedings generally relate to claims asserted by or against us in the ordinary course of our insurance or reinsurance operations.

On August 26, 2004, AXIS U.S. Holdings received a subpoena from the Attorney General of the State of New York seeking information regarding incentive commission agreements between its insurance companies and insurance brokers. On September 20, 2004, AXIS U.S. Holdings received two additional subpoenas from the Attorney General of the State of New York seeking information regarding fictitious and inflated quotes submitted by insurance companies to insurance brokers. On October 21, 2004, AXIS U.S. Holdings received a further subpoena from the Attorney General of the State of New York seeking information regarding tying, or conditioning direct insurance on the placement of reinsurance. These inquiries are part of an industry-wide investigation and we are cooperating fully in the investigation.

Consistent with long-standing and wide-spread industry practice, we have entered into incentive commission agreements with brokers. As a result of this investigation, we have ceased entering into, and have suspended making payments under, incentive commission agreements. See "Certain Relationships and Related Transactions."

We do not believe that we have engaged in the improper business practices that are the focus of the Attorney General of the State of New York's investigation. To confirm that our employees have not engaged in any of these improper business practices, we are conducting an internal investigation led by outside counsel to examine the subjects raised by the Attorney General of the State of New York. We believe that this is in the best interests of the Company, our shareholders and our employees.

We understand that some purported shareholders class action lawsuits have been filed against us and certain of our executive officers relating to certain of the practices being investigated by the Attorney General of the State of New York. We believe that these lawsuits are without merit and intend to vigorously defend against them.

We cannot predict the effect that the investigation or the lawsuits will have on the industry or our business, although negative publicity, fines and penalties or rating agency actions could have a material adverse effect on our business, results of operations and financial condition. In addition, to the extent that the fines or penalties are assessed against brokers, our results of operations could be adversely affected because we bear the credit risk of brokers. See "Risk Factors Our reliance on brokers subjects us to their credit risk."

MANAGEMENT

Directors and Executive Officers

The table below sets forth the names, ages and positions of our directors and executive officers.

Name	Age	Positions
Michael A. Butt	62	Chairman of the Board
John R. Charman	52	Chief Executive Officer, President and Director
Robert J. Newhouse, Jr.	79	Director, Chairman of the Executive Committee
Andrew Cook	42	Chief Financial Officer
Richard H. Blum	65	Chairman of the Board, Chief Executive Officer and President, AXIS Specialty U.S. Holdings, Inc.
William A. Fischer	43	Chief Executive Officer and President, AXIS Global Reinsurance
John Gressier	36	Chief Executive Officer and President, AXIS Global Insurance
Karl Mayr	54	Chief Executive Officer and President, AXIS European Reinsurance
Michael E. Morrill	45	Chief Executive Officer and President, AXIS U.S. Reinsurance
Dennis B. Reding	56	Chief Executive Officer, AXIS U.S. Insurance
Lorraine S. Mariano	41	Chief Human Resources Officer
John Murray	43	Chief Operations Officer
Carol S. Rivers	40	General Counsel and Secretary
Richard Strachan	37	Chief Claims Officer
Charles A. Davis	55	Director
W. Thomas Forrester	53	Director
Robert L. Friedman	61	Director
Donald J. Greene	71	Director
Jurgen Grupe	67	Director
Maurice A. Keane	63	Director
Edward J. Kelly, III	51	Director
Scott A. Schoen	46	Director
Henry B. Smith	55	Director
Frank J. Tasco	77	Director
Jeffrey C. Walker	49	Director

Michael A. Butt has been Chairman of the Board since September 2002. Mr. Butt is also Chairman of the Board of Directors of AXIS Specialty. Mr. Butt has over 40 years of insurance industry experience. From 1982 to 1986, Mr. Butt was the Chairman of Sedgwick Limited and Vice Chairman of the Sedgwick Group plc. From 1987 to 1992, Mr. Butt served as Chairman and Chief Executive Officer of Eagle Star Holdings plc and Eagle Star Insurance Company. From 1993 to 1998, Mr. Butt was Chief Executive Officer and President of Mid Ocean Limited. From 1998 to August 2002, Mr. Butt was a director of XL Capital Ltd. Mr. Butt is also a former director of the Farmers Insurance Group, BAT Industries and Instituto Nazionale delle Assicuranzioni.

John R. Charman has been Chief Executive Officer and President since our inception. Mr. Charman is also Chief Executive Officer and President of AXIS Specialty, Chairman of AXIS Specialty U.K. Holdings Limited ("AXIS U.K. Holdings") and a director of AXIS Ireland Holdings, AXIS Re, AXIS Specialty Europe and AXIS Specialty (Barbados) Limited ("AXIS Barbados"). Mr. Charman has over 30 years of experience in the insurance industry and has been in a senior underwriting position since 1975, serving most recently as deputy chairman of ACE INA Holdings and President of ACE International. Mr. Charman was also Chief Executive Officer at ACE Global Markets from 1998 to 2001. Prior to that, Mr. Charman was the Chief Executive Officer of Tarquin plc (a joint venture company among Insurance Partners, Harvard University and the Charman Group), the parent company of the Charman Underwriting Agencies at Lloyd's. He was also a deputy chairman of the Council of Lloyd's and a member of the Lloyd's Core Management Group and Lloyd's Market Board between 1995 and 1997.

Robert J. Newhouse, Jr. has served as a director and as Chairman of the Executive Committee since our inception. He was also the Chairman of the Board for the first year of our operations. He was the Chairman of the Board of Directors of Mid Ocean Limited from 1992 until it was sold to XL Capital Ltd in 1998. From 1998 to November 2001, Mr. Newhouse was a director of, and consultant to, XL Capital Ltd. Prior to that, Mr. Newhouse held various executive positions with Marsh & McLennan Companies, Inc. from 1954 through 1990 and served as President from 1976 to 1988 and Vice Chairman and Member of the Office of the Chairman from 1988 through 1990. During that time, he played a major role in the formation of ACE Limited and XL Capital Ltd and served as a director of both companies.

Andrew Cook has been Chief Financial Officer since our inception. Mr. Cook is also a director of AXIS Specialty, AXIS U.S. Holdings, AXIS Specialty U.S. Services, Inc. ("AXIS U.S. Services"), AXIS Insurance, AXIS Reinsurance, AXIS Surplus, AXIS Ireland Holdings, AXIS Re, AXIS Specialty Europe, AXIS UK Holdings, AXIS UK and AXIS Barbados and Chief Financial Officer and Executive Vice President of AXIS Specialty. Mr. Cook, a chartered accountant, has 16 years of industry experience. From 1993 to 1999, he served as Senior Vice President and Chief Financial Officer of LaSalle Re Holdings Limited. Mr. Cook worked as an independent consultant assisting clients in raising private equity capital from 1999 to 2000. He then served as Senior Vice President and Chief Financial Officer of Mutual Risk Management Limited from 2001 until joining us in late 2001.

Richard H. Blum has been Chairman of the Board, Chief Executive Officer and President of AXIS U.S. Holdings since February 2002. Mr. Blum is also a director of AXIS U.S. Services, AXIS Insurance, AXIS Reinsurance and AXIS Surplus. Mr. Blum has over 44 years of industry experience. From 1958 to 1996, Mr. Blum worked at Guy Carpenter, Inc., most recently serving as Chairman and Chief Executive officer. He then worked at J&H Marsh & McLennan Companies, Inc., serving as Vice-Chairman from 1997 to 1999 and Senior Advisor from 1999 until joining us in 2002. Mr. Blum is a director of RLI Corp.

William A. Fischer has been Chief Executive Officer and President of AXIS Global Reinsurance since our inception. Mr. Fischer is also an Executive Vice President of AXIS Specialty. Mr. Fischer has 14 years of industry experience. Mr. Fischer began his career at Skandia America Reinsurance in 1987 as a treaty underwriter, where he served until November 1991. From November 1991 to October 1994, he served as Vice President of Treaty Property Underwriting at Transatlantic Reinsurance Company. Mr. Fischer then served as Executive Vice President with responsibilities for property, accident and health, and financial products at Everest Re Group, Ltd. from October 1994 to May 2001. Most recently, Mr. Fischer was a Senior Vice President of the Brokered Group of American Re, where he was responsible for all property business, from May 2001 until joining us in late 2001.

John Gressier has been Chief Executive Officer and President of AXIS Global Insurance since April 2002. Mr. Gressier is also a director of AXIS Ireland Holdings and AXIS Re, the Chief Executive Officer, President and a director of AXIS Specialty Europe and an Executive Vice President of AXIS Specialty. Mr. Gressier has over 17 years of experience in the insurance industry. Mr. Gressier served as an underwriter at Charman Underwriting Agencies from 1989 until ACE Limited acquired Charman in 1998. Mr. Gressier then served as Deputy Underwriter of Syndicates 488/2488, Director of ACE Global Markets Underwriting Limited, and Director of Marine and Specialty Lines for Syndicate 2488.

He was also a member of ACE Global Markets Executive Underwriting Committee. In February 2001, Mr. Gressier was appointed Joint Active Underwriter of Syndicate 2488 and director of the ACE Agency Board, where he served until joining us in 2002.

Karl Mayr has been Chief Executive Officer and President of AXIS European Reinsurance since August 2003. He is also President and a director of AXIS Re and a director of AXIS Ireland Holdings and AXIS Specialty Europe. Mr. Mayr has 24 years of reinsurance experience. He joined Frankona Ruckversicherungs-AG in 1980, where he was appointed a member of the Board of Management in 1992. From 1988 to 1992, he held senior officer positions at the U.S. branch of Frankona in Kansas City, Missouri, which he headed up from 1990. After the acquisition of Frankona by ERC, he served on various boards of management in the German companies as well as a Director on the boards of several European affiliates. From 2002 until July 2003, Mr. Mayr was Chief Executive Officer of GE Frankona Re.

Michael E. Morrill has been Chief Executive Officer and President of AXIS U.S. Reinsurance since August 2002. He is also an Executive Vice President of AXIS U.S. Holdings and AXIS U.S. Services and Chief Executive Officer and President of AXIS Reinsurance. Mr. Morrill has over 20 years of experience in the insurance and reinsurance industry. From 2001 to 2002, Mr. Morrill was the President and Chief Executive Officer of Gerling Global Reinsurance Corporation of America. From 1996 to 2001, he served as Chief Underwriting Officer for North America and Senior Vice President at Transatlantic Reinsurance Company. He has also held senior management and underwriting positions at Munich American Reinsurance Company, Cologne Reinsurance Company of America and Christiania General Insurance Company.

Dennis B. Reding has been Chief Executive Officer of AXIS U.S. Insurance since January 2003. He is also an Executive Vice President of AXIS U.S. Holdings, AXIS U.S. Services, AXIS Reinsurance and AXIS Surplus and is Chief Executive Officer and President of AXIS Insurance. Mr. Reding has 34 years of industry experience. Mr. Reding was President and Chief Executive Officer of Westchester Specialty Group from 1992 to 1998. He then served as President and Chief Executive Officer of ACE USA, Inc. from 1998 to 2001 and President of ACE INA Holdings, Inc. from 2001 to 2002. Mr. Reding was Chairman and Chief Executive Officer of Combined Specialty Group, Inc., an Aon subsidiary, in 2002.

Lorraine S. Mariano began consulting for the Company in January 2003 and joined as Chief Human Resources Officer in April 2003. She is also a Senior Vice President of AXIS U.S. Services Ms. Mariano has 17 years of professional human resources experience, primarily with global financial services companies. From 1993 to 2002, she held various human resources positions with Franklin Templeton Investments, most recently as Vice President, Human Resources. From 1989 to 1993, she worked at KeyCorp, where she rose to the position of Vice President of Corporate Employee Relations.

John Murray has been Chief Operations Officer since May 2003. He is also an Executive Vice President of AXIS Specialty, Chairman and a director of AXIS U.K. and a director of AXIS Ireland Holdings, AXIS Re, AXIS Specialty Europe and AXIS U.K. Holdings. Mr. Murray, a chartered accountant, has 14 years of industry experience. From 1995 to 2000, he was the Head of Operations for ACE Global Markets Limited. He then served as a Finance Director of Newmarket Underwriting Limited during 2000 and 2001.

Carol S. Rivers has been General Counsel since August 2003. She has also served as the Secretary of AXIS Capital since March 2004 and is the Assistant Secretary of AXIS Specialty U.S. Holdings, Inc. and AXIS Specialty U.S. Services, Inc. From January 1997 until July 2003, Ms. Rivers was a Counsel at Mayer, Brown, Rowe & Maw, LLP, an international law firm based in Chicago, Illinois, where she specialized in corporate and securities law. From April 1993 until December 1996, she was an Associate at Mayer, Brown, Rowe & Maw, LLP. From May 1987 until April 1993, Ms. Rivers was an Associate at Kirkland & Ellis, Chicago, Illinois.

Richard Strachan has been Chief Claims Officer since April 2002. He is also a director of AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe. Mr. Strachan has 18 years of experience in the insurance and reinsurance industry. From 1985 to 1997, he managed claims for Syndicates 488 and 2488 at both Charman Underwriting Agencies and Tarquin plc. From 1997 to 1999, Mr. Strachan served as a claims adjuster at ACE Global Markets. From 1999 to 2001, he served as claims team leader for ACE Global Markets.

Charles A. Davis has served as a director since our inception. Mr. Davis is Chairman and Chief Executive Officer of MMC Capital, Inc. and a Vice Chairman and director of Marsh & McLennan Companies, Inc. Mr. Davis became Chief Executive Officer of MMC Capital, Inc. in 1999 and Chairman in 2002. Mr. Davis joined MMC Capital, Inc. in 1998 as President, a position he held until 2002. Prior to joining MMC Capital, Inc. in 1998, Mr. Davis spent 23 years at Goldman, Sachs & Co., where, among other positions, he served as head of Investment Banking Services worldwide, head of the Financial Services Industry Group, a General Partner, a Senior Director, and a Limited Partner. Mr. Davis is also a director of Media General, Inc., The Progressive Corporation and Merchants Bancshares, Inc.

W. Thomas Forrester has served as a director since December 2003. Since 1999, Mr. Forrester has been the Chief Financial Officer of The Progressive Corporation, one of the largest automotive insurers in the United States, and has been a Vice President of Progressive since June 2001. From January 1999 until June 1999, he served as the Treasurer of Progressive. From 1984 until 1999, he serves in various other positions with Progressive, including Policy Team Member, Central Division President, Commercial Lines President and CAIP Division President.

Robert L. Friedman has served as a director since our inception. Since 1999, Mr. Friedman has been a Senior Managing Director of The Blackstone Group, L.P., and since February 2003 he has also been that firm's Chief Administrative Officer and Chief Legal Officer. Prior to joining Blackstone, Mr. Friedman was a partner at Simpson Thacher & Bartlett for 25 years, where he served as a senior member of that law firm's mergers and acquisitions practice. Mr. Friedman currently serves as a director of Corp Group, Houghton Mifflin Holdings Inc., Northwest Airlines, Inc., Premcor Inc. and TRW Automotive Holdings Corp.

Donald J. Greene has served as a director since our inception. Mr. Greene was a name partner of LeBoeuf, Lamb, Greene & MacRae, L.L.P., where he practiced from 1964 until his retirement in 2001. Mr. Greene is also a director of AXA Financial, Equitable Life Assurance and Associated Electric & Gas Insurance Services Limited. He was a founding director and former Chairman of the International Insurance Foundation and a former director of the International Insurance Council. He is a member of the board of overseers of the School of Risk Management of St. John's University (which school was formerly the College of Insurance) and a director of the Risk Foundation. In addition, he is an invested Commander of the Most Excellent Order of the British Empire by order of Her Majesty's Government for service to Lloyd's, the British insurance industry and the community of international insurance and law.

Jurgen Grupe has served on our board of directors since May 2004. From 1998 until 2002, Mr. Grupe was a director of Aon Reinsurance Worldwide and Chairman of the Board of Aon Reinsurance Europe. Prior to Aon's acquisition of Jauch & Hubener Gmbh in 1997, he was a partner at Jauch & Hubener and Chairman of its reinsurance company.

Maurice A. Keane has served as a director since September 2002. Mr. Keane is also Chairman of the Board of AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe. Mr. Keane is the former Group Chief Executive Officer of the Bank of Ireland, a position he held from 1998 until his retirement in 2002. He was Deputy Group Chief Executive Officer from 1991 through 1997, having been a Managing Director since 1983. He is currently a director of the Bank of Ireland, DCC plc and University College Dublin Foundation Limited and Chairman of BUPA Ireland Limited, Bank of Ireland UK Holdings Limited and Bristol and West plc.

Edward J. Kelly, III has served as a director since September 2002. Since March 1, 2001, Mr. Kelly has been President, Chief Executive Officer and Director of Mercantile Bankshares Corporation and assumed the additional role of Chairman in March 2003. Mr. Kelly served as Managing Director, Head of Global Financial Institutions, and as Co-Head of Investment Banking Client Management of J.P. Morgan Chase & Co. during January 2001. From February 1996 until 2001, he was a Managing Director of J.P. Morgan & Co. Incorporated and held additional positions with that company. Mr. Kelly is a director of CSX Corporation, CIT Group, Constellation Energy Group, Inc. and Hartford Financial Services Group.

Scott A. Schoen has served as a director since our inception. Since 1992, Mr. Schoen has been a Senior Managing Director of Thomas H. Lee Advisors, L.L.C., which is the general partner of Thomas H. Lee Partners, L.P. Prior to joining the firm in 1986, Mr. Schoen was in the Private Finance Department of Goldman, Sachs & Co. Mr. Schoen is a director of Affordable Residential Communities, Inc., Simmons Company, Syratech Corporation, TransWestern Publishing, United Industries and Wyndham International.

Henry B. Smith has served on our board of directors since May 2004. Mr. Smith is the former Chief Executive Officer of the Bank of Bermuda Limited, a position he held from March 1997 until March 2004. He joined the Bank of Bermuda in 1973 as a management trainee and has held various senior positions within the Bank of Bermuda, including Executive Vice President and Chief Operation Officer, Executive Vice President, Europe and Senior Vice President and General Manager, Retail Banking. He is an Executive Director of the Bank of Bermuda and a director of W.P. Stewart & Co., Ltd.

Frank J. Tasco has served as a director since our inception. Mr. Tasco retired in 1992 as Chairman of the Board and Chief Executive Officer of Marsh & McLennan Companies, Inc., a position he held since 1986. From December 1992 to December 1994, Mr. Tasco served as Chairman of Borden, Inc. Mr. Tasco is a director of Travelers Property Casualty Corp.

Jeffrey C. Walker has served as a director since our inception. Since November 2001, Mr. Walker has been the Managing Partner of J.P. Morgan Partners, J.P. Morgan Chase & Co.'s global private equity group, and a member of the Executive Committee and Vice Chairman of J.P. Morgan Chase & Co. Mr. Walker co-founded J.P. Morgan Partners in 1984. Mr. Walker is a director of 1-800-Flowers.com, Inc. and Doane Pet Care Enterprises, Inc. and numerous private corporations.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Davis, one of our directors, is Chairman and Chief Executive Officer of MMC Capital, Inc. and a director of Marsh & McLennan Companies, Inc. AXIS Specialty entered into an advisory agreement in November 2001 with MMC Capital, Inc. Under this agreement, MMC Capital from time to time provides advice and assistance to the Company in connection with transactions and other matters as may be agreed by MMC Capital and the Company for a period of five years. During the term of this agreement, AXIS Specialty pays an annual fee of $1.0 million. During the year ended December 31, 2003, we incurred $1.0 million of fees and expenses to MMC Capital pursuant to this agreement. Mr. Davis receives approximately 4.5% of the payments made to MMC Capital pursuant to the MMC Capital Long Term Incentive Plan.

AXIS Specialty entered into an agreement in November 2001 with The Putnam Advisory Company, L.L.C., an affiliate of Marsh and McLennan Companies, Inc., under which Putnam was appointed as an investment manager of part of our investment portfolio. This agreement was entered into on an arms length basis on terms generally available in the market. During the year ended December 31, 2003, we incurred $704,000 of fees pursuant to this agreement.

We use Marsh and its affiliates for accounting and human resource consulting services. During the year ended December 31, 2003, we incurred $619,285 in fees in connection with these transactions. In addition, we pay brokerage fees and commissions to Marsh and its affiliates, which vary based on the amount of business produced. During the year ended December 31, 2003, we incurred $86.1 million in brokerage fees and commissions in connection with these transactions.

Mr. Walker, one of our directors, is the Managing Partner of J.P. Morgan Partners and a member of the Executive Committee and Vice Chairman of J.P. Morgan Chase & Co., both of which are affiliates of J.P. Morgan Securities Inc. During the year ended December 31, 2003, J.P. Morgan Securities Inc. acted as a representative of the underwriters in our initial public offering and was paid $1.9 million in underwriting discounts and commissions. J.P. Morgan Securities Inc. was also an underwriter in our secondary offering and was paid $1.8 million in underwriting discounts and commissions.

During the year ended December 31, 2003, JPMorgan Chase Bank acted as administrative agent and/or lender for our syndicated $750 million credit facility. Some subsidiaries of the Company also hold several bank accounts with JPMorgan Chase Bank. During the year ended December 31, 2003, we incurred $678,000 of fees in connection with these transactions.

AXIS Specialty entered into agreements in November 2001 and December 2002 with J.P. Morgan Investment Management Inc. and its affiliates under which JPMorgan was appointed as an investment manager of part of our investment portfolio. These agreements were entered into on an arms length basis on terms generally available in the market. During the year ended December 31, 2003, we incurred $530,000 of fees pursuant to these agreements.

Mr. Friedman, one of our directors, is a Senior Managing Director, Chief Administrative Officer and Chief Legal Officer of The Blackstone Group, L.P. The collateral manager for our senior preferred shares investment is Blackstone Debt Advisors L.P., which is an affiliate of The Blackstone Group and Blackstone Management Associates (Cayman) III L.P. The collateral manager is entitled to management fees payable by the collateralized loan obligation in the ordinary course of business. The Company does not have significant influence and does not participate in the management of this investment.

The underwriter for several of our collateralized loan obligations was Credit Suisse First Boston LLC. The underwriter was entitled to organization and closing fees payable by the collateralized loan obligations in the ordinary course of business. The collateralized loan obligations are managed by third parties. The Company does not have significant influence and does not participate in the management of these investments.

Certain relationships and related transactions with respect to the underwriters are set forth in "Underwriting."

DESCRIPTION OF NOTES

The following summary of the particular terms of the notes we are offering supplements the description of the general terms and provisions of the debt securities set forth under "Description of Debt Securities" beginning on page 45 in the accompanying prospectus. The accompanying prospectus contains a detailed summary of additional provisions of the notes. The following description replaces the description of the debt securities in the accompanying prospectus, to the extent of any inconsistency. Terms used in this prospectus supplement that are otherwise not defined will have the meanings given to them in the accompanying prospectus. As used in this "Description of Notes" section, "we," "our," and "the Company" mean AXIS Capital Holdings Limited and do not include its subsidiaries. This summary is not complete and we encourage you to read the accompanying prospectus and the indenture referred to below.

General

The % senior notes due are a series of debt securities described in the accompanying prospectus, and are senior debt securities. We will issue the notes under the indenture dated as of , 2004, between us and The Bank of New York, as trustee, which is more fully described in the accompanying prospectus, as supplemented by the first supplemental indenture to be dated as of the date the notes are first delivered. The indenture does not limit the aggregate principal amount of notes of this series that we may issue.

Interest on the notes will accrue at the rate of % per year. Interest on the notes will be payable semi-annually in arrears on and of each year, commencing on , 2005, to holders of record on the immediately preceding and , respectively. Interest on the notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from , 2004. Interest on the notes will be computed on the basis of a 360-day year comprised of twelve 30-day months.

If any interest payment date falls on a day that is not a business day, the interest payment will be postponed until the next succeeding business day, and no interest on such payment will accrue for the period from and after such interest payment date. Similarly, if the maturity date of the notes falls on a day that is not a business day, the payment of interest and principal may be made on the next succeeding business day, and no interest on such payment will accrue for the period from and after the maturity date. As used in this prospectus supplement, "business day" means any day other than a day on which banking institutions in The City of New York or any place of payment are authorized or required by law, executive order or regulation to close.

We will pay principal of, and any premium, interest and additional amounts on, the notes at our office or agency maintained for such purpose within the Borough of Manhattan, The City of New York. The indenture provides that we may pay interest on the notes, at our option, by wire transfer or by check mailed to the holders of the notes at their respective addresses set forth in the register of holders of notes.

Unless the notes are redeemed prior to maturity, the notes will mature, and the principal amount of the notes will become payable, on .

Further Issuances

We will issue the notes in an initial principal amount of $. We may, without notice to or the consent of the holders of the then existing notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the notes offered by this prospectus supplement, except for the issue price and issue date and, in some cases, the first interest payment date. Any additional notes having such similar terms will, together with the notes offered by this prospectus supplement, constitute a single series of notes under the indenture. No additional notes may be issued if an Event of Default has occurred and is continuing with respect to the notes offered by this prospectus supplement. We will not issue any additional notes intended to form a single series with the notes offered by this prospectus supplement unless the additional notes will be fungible with the notes for U.S. federal income tax purposes.

Ranking

The notes will be unsecured senior obligations of the Company and will rank equally in right of payment with all our other unsecured senior debt securities from time to time outstanding. As of September 30, 2004, after giving effect to this offering of notes and the application of proceeds therefrom, we would have no outstanding indebtedness that would have ranked equally in right of payment with the notes. The notes will rank senior to any subordinated indebtedness.

We conduct our operations through subsidiaries, which generate substantially all our operating income and cash flow. As a result, distributions or advances from our subsidiaries are a major source of funds necessary to meet our debt service and other obligations. Contractual provisions and regulatory limitations governing our subsidiaries' insurance business, as well as our subsidiaries' financial condition and operating requirements, may limit our ability to obtain the cash required to pay our obligations, including payments on the notes. The notes will be effectively subordinated to the obligations of our subsidiaries, meaning that holders of the notes will have a junior position to the claims of creditors of our subsidiaries (including policy holders, trade creditors, debt holders, taxing authorities, guarantee holders and preference shareholders) on their assets and earnings. As of September 30, 2004, our subsidiaries had $133.9 million of letters of credit outstanding under the credit facility.

Certain Covenants

Reference is made to the section entitled "Covenants Applicable to the Debt Securities" in the accompanying prospectus for a description of covenants as set forth under the caption " Limitation on Liens," " Consolidation, Merger, Amalgamation and Sale of Assets" and " Restrictions on Dispositions" that will apply to the notes in addition to the covenants contained in the indenture. Compliance with the covenants and any additional covenants with respect to the notes may not be waived by the trustee in most instances unless the holders of at least a majority in principal amount of all outstanding notes consent to such waiver.

Events of Default

The following events will constitute an event of default under the indenture with respect to the notes:

- a default in payment of principal or any premium or any additional amounts when due;
- a default for 30 days in payment of any interest;
- a failure to observe or perform any other covenant or agreement in the debt securities or indenture, other than a covenant or agreement included solely for the benefit of a different series of debt securities, after 90 days written notice of the failure;
- certain events of bankruptcy, insolvency or reorganization; or
- a continuing default, for more than 30 days after we receive notice of the default, under any other indenture, mortgage, bond, debenture, note or other instrument, under which we or our restricted subsidiaries may incur recourse indebtedness for borrowed money in an aggregate principal amount exceeding $100,000,000, if the default resulted in the acceleration of that indebtedness, and such acceleration has not been waived or cured.

Section 5.1 of the indenture provides that, under limited conditions specified in the indenture, where an event of default occurs and is continuing, either the indenture trustee or the holders of not less than 33% in principal amount of the notes under the indenture may declare the principal and accrued interest of the notes to be due and payable immediately. If an event of default occurs involving certain events of bankruptcy, insolvency or reorganization, all unpaid principal of all the securities then outstanding, and interest accrued thereon, if any, shall be due and payable immediately, without any declaration or other act on the part of the indenture trustee or any holder.

Upon conditions specified in the indenture, however, the holders of a majority in principal amount of the notes may waive past defaults under the indenture. Such a waiver may not occur where there is a continuing default in payment of principal, any premium or interest on the affected debt securities.

Section 6.2 of the indenture entitles the trustee to obtain assurances of indemnity or security reasonably satisfactory to it by the debt security holders for any actions taken by the trustee at the request of the security holders. The right of the indenture trustee to indemnity or security is subject to the indenture trustee carrying out its duties with a level of care or standard of care that is generally acceptable and reasonable under the circumstances. An indemnity or indemnification is an undertaking by one party to reimburse another upon the occurrence of an anticipated loss.

Subject to the right of the indenture trustee to indemnification as described above and except as otherwise described in the indenture, Section 5.9 of the indenture provides that the holders of a majority of the aggregate principal amount of the notes may direct the time, method and place of any proceeding to exercise any right or power conferred in the indenture or for any remedy available to the trustee.

Section 5.6 of the indenture provides that no holders of debt securities may institute any action against us, except for actions for payment of overdue principal, any premium or interest or any additional amounts, unless:

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

- the holders of at least 33% in principal amount of the outstanding notes asked the trustee to institute the action and offered indemnity to the trustee for doing so;

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

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

Under section 3.4 of the indenture, we will file annually with the trustee a certificate either stating that no default exists or specifying any default that does exist.

Optional Redemption

The notes will be redeemable prior to maturity, at our option, in whole or in part, at any time after (a "Redemption Date"), at a redemption price equal to the greater of:

- 100% of the aggregate principal amount of the notes to be redeemed; and

- an amount equal to the sum of the present values of the remaining scheduled payments for principal and interest on such notes, not including any portion of the payments of interest accrued as of such Redemption Date, discounted to such Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, plus basis points;

plus, in each case, accrued and unpaid interest on such notes to, but excluding, such Redemption Date.

"Treasury Rate" means (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the remaining life, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue will be determined and the Treasury Rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date. The Treasury Rate shall be calculated on the third business day preceding the Redemption Date.

"Comparable Treasury Issue" means the United States Treasury security selected by the Independent Investment Banker as having a maturity comparable to the remaining term of the notes to be redeemed.

"Independent Investment Banker" means either Citigroup Global Markets Inc. and its successors or J.P. Morgan Securities Inc. and its successors or, if either of such firms is unwilling or unable to select the Comparable Treasury Issue, an independent investment banking institution of national standing appointed by the trustee after consultation with us.

"Comparable Treasury Price" means (1) the average of five Reference Treasury Dealer Quotations for such Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (2) if the trustee obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

"Reference Treasury Dealer" means each of Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. and their respective successors and three other primary U.S. government securities dealers (each a "Primary Treasury Dealer"), as specified by us; provided, that (1) if any of Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. and their respective successors or any Primary Treasury Dealer as specified by us shall cease to be a Primary Treasury Dealer, we will substitute therefor another Primary Treasury Dealer and (2) if we fail to select a substitute within a reasonable period of time, then the substitute will be a Primary Treasury Dealer selected by the Independent Investment Banker after consultation with us.

"Reference Treasury Dealer Quotations" mean, with respect to the Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed, in each case, as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such Redemption Date.

If less than all of the notes are to be redeemed, the trustee shall determine, in such manner as it deems appropriate and fair, the principal amount of such notes held by each beneficial owner of such notes to be redeemed. The trustee may select notes and portions of notes in amounts of $1,000 and whole multiples of $1,000 in excess of $2,000.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the Redemption Date. We will not be responsible for giving notice to anyone other than the depositary. Unless we default in payment of the redemption price, on or after the Redemption Date, interest will cease to accrue on the notes called for redemption.

Payment of Additional Amounts

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

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

(1) any tax, fee, duty, assessment or governmental charge of whatever nature which would not have been imposed but for the fact that such holder (a) was a resident, domiciliary or national of, or engaged in business or maintained a permanent establishment or was physically present in, the relevant taxing jurisdiction or any political subdivision thereof or otherwise had some connection with the relevant taxing jurisdiction other than by reason of the mere ownership of, or receipt of payment under, such note, (b) presented, where presentation is required, such note for payment in the relevant taxing jurisdiction or any political subdivision thereof, unless such note could not have been presented for payment elsewhere, or (c) presented, where presentation is required, such note for payment more than 30 days after the date on which the payment in respect of such note became due and payable or provided for, whichever is later, except to the extent that the holder would have been entitled to such additional amounts if it had presented such note for payment on any day within that 30-day period;

(2) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(3) any tax, assessment or other governmental charge that is imposed or withheld by reason of the failure by the holder of such note to comply with any reasonable request by us addressed to the holder within 90 days of such request (a) to provide information concerning the nationality, residence or identity of the holder or (b) to make any declaration or other similar claim or satisfy any information or reporting requirement, which is required or imposed by statute, treaty, regulation or administrative practice of the relevant taxing jurisdiction or any political subdivision thereof as a precondition to exemption from all or part of such tax, assessment or other governmental charge;

(4) any withholding or deduction required to be made pursuant to EU Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments (the "EU Directive"), or any law implementing or complying with, or introduced in order to conform to such EU Directive; or

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

In addition, we will not pay additional amounts with respect to any payment of principal of, or premium, if any, interest or any other amounts on, any such note to any holder who is a fiduciary or partnership or other than the sole beneficial owner of such note if such payment would be required by the laws of the relevant taxing jurisdiction (or any political subdivision or relevant taxing authority thereof or therein) to be included in the income for tax purposes of a beneficiary or partner or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner to the extent such beneficiary, partner, settler, member or beneficial owner would not have been entitled to such additional amounts had it been the holder of the note.

Redemption for Tax Purposes

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

Sinking Fund

The notes are not subject to a sinking fund.

Defeasance

The discharge, defeasance and covenant defeasance provisions of the indenture described under the caption "Description of Debt Securities Discharge, Defeasance and Covenant Defeasance" on page 52 of the accompanying prospectus will apply to the notes.

Global Notes

The notes will be registered in denominations of $1,000 and integral multiples of $1,000. The notes will be issued in the form of one or more permanent global notes in fully registered, book-entry form, which we refer to as "global notes." Each global note will be deposited with, or on behalf of, The Depository Trust Company, or DTC, or any successor thereto, as depositary, and registered in the name of Cede & Co., a nominee of DTC.

The deposit of global notes with DTC and their registration in the name of DTC's nominee effect no change in beneficial ownership. Ownership of beneficial interests in a global note will be limited to DTC participants or persons who hold interests through DTC participants. We understand that DTC has no knowledge of the actual beneficial owners of the notes; DTC's records reflect only the identity of the direct participants in DTC to whose accounts such notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

So long as DTC or its nominee or a common depositary is the registered holder of a global note, DTC or that nominee or common depositary will be considered the sole owner and holder of the global notes, and of the notes represented thereby, for all purposes under the indenture and the notes. Except as provided below, owners of beneficial interests in a global note will not be entitled to have notes represented by a global note registered in their names, will not receive or be entitled to receive physical delivery of notes in certificated form and will not be considered the registered holders of notes under the indenture or the notes. Unless and until it is exchanged in whole or in part for notes in definitive form, no global note may be transferred except as a whole by DTC to its nominee.

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such laws may impair the ability to own, transfer or pledge beneficial interests in the global notes.

Initial settlement for the notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's same-day funds settlement system.

We will make all payments of principal of and interest on the notes to DTC. We will send all required reports and notices solely to DTC as long as DTC is the registered holder of the global notes. We expect that upon the issuance of a global note DTC or its custodian will credit on its internal system the respective principal amount of the individual beneficial interest represented by such global note to the accounts of its participants. Such accounts initially will be designated by or on behalf of the underwriters. Ownership of beneficial interests in a global note will be shown on, and the transfer of those ownership interests will be effected through, records maintained by DTC or its nominee (with respect to interests of participants) or by any such participant (with respect to interests of persons held by such participants on their behalf).

Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the global notes will be effected only through entries made on the books of participants acting on behalf of beneficial owners. Accordingly, each beneficial owner must rely on the procedures of DTC and, if the person is not a participant in DTC, on the procedures of the participants through which such person owns its interest, to exercise any rights of a holder under the indenture.

We understand that under existing industry practices, in the event that we request any action of holders of notes or that an owner of a beneficial interest in the notes desires to give or take any action that a holder is entitled to give or take under the indenture, DTC would authorize the participants holding the relevant beneficial interests to give or take the action, and the participants would authorize beneficial owners owning through participants to give or to take the action or would otherwise act upon the instructions of beneficial owners.

Payments, transfers, exchanges and other matters relating to beneficial interests in a global note may be subject to various policies and procedures adopted by DTC from time to time, and DTC may discontinue its operations entirely at any time. We also expect that payments, conveyance of notices and other communications by DTC to participants, by participants to indirect participants, and by participants and indirect participants to beneficial owners, will be governed by standing instructions and customary practices as is now the case with securities held for accounts of customers registered in the names of nominees for those customers, subject to any statutory or regulatory requirements as may be in effect from time to time, and will be the responsibility of the participants. None of we, the trustee, any of our respective agents or the underwriters will have any responsibility or liability for any aspect of DTC's or any DTC participant's records relating to, or for payments made on account of, beneficial interests in any global note, or for maintaining, supervising or reviewing any records relating to such beneficial interests, or for the performance by DTC or the participants of their respective obligations under the rules and procedures governing their operations.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants' accounts, thereby eliminating the need for the physical movement of securities certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct participants and by The New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the Securities and Exchange Commission.

Interests in a global note will be exchanged for notes in certificated form only if:

- DTC notifies us that it is unwilling or unable to continue as a depositary for such global note and we have not appointed a successor depositary within 90 days after we receive such notice;

- at any time, DTC ceases to be a clearing agency registered under the Securities Exchange Act of 1934 (the "Exchange Act") and we have not appointed a successor depositary within 90 days after we learn that DTC has ceased to be so registered; or

- we, in our sole discretion, determine at any time that the notes will no longer be represented by a global note.

Upon the occurrence of such an event, owners of beneficial interests in such global note will receive physical delivery of notes in certificated form. All certificated notes issued in exchange for an interest in a global note or any portion thereof will be registered in such names as DTC directs. Such notes will be issued in minimum denominations of $1,000 and integral multiples of $1,000 and will be in registered form only, without coupons.

Settlement Procedures

Settlement for the notes will be made by the underwriters in immediately available funds. So long as DTC continues to make its settlement system available to us, all payments of principal of and interest on the global notes will be made by us in immediately available funds.

The Trustee

The Bank of New York is the trustee under the indenture relating to the notes. Subject to the provisions of the Trust Indenture Act of 1939, as amended, the trustee is under no obligation to exercise any of the powers vested in it by the indenture at the request of any holder of the notes unless the holder offers the trustee reasonable indemnity against the costs, expenses and liabilities which might result. The trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in performing its duties if the trustee reasonably believes that it is not reasonably assured of repayment or adequate indemnity.

The Bank of New York acts as the transfer agent for our common shares and is a lender under our $750 million credit facility. As of September 30, 2004, we had no indebtedness and $133.9 million of letters of credit outstanding under the credit facility.

Applicable Law

The notes and the indenture will be governed by and construed in accordance with the laws of the State of New York.

Payment and Paying Agents

We will pay interest on any notes to the person in whose name the notes are registered on the regular record date for interest.

We will pay principal of, and any premium, interest and additional amounts on the notes at the office of the paying agents designated by us, except that we may pay interest by wire transfer or check mailed to the holder.

All moneys we pay to a paying agent or the trustee for the payment of principal of, or any premium, interest or additional amounts on, a note which remains unclaimed at the end of two years will be repaid to us, and the holder of the note may then look only to us for payment.

The Bank of New York will act as paying agent for the notes.

MATERIAL TAX CONSIDERATIONS

The following summary of the taxation of an investment in notes is for general information only. This summary is based upon current law. Legislative, judicial or administrative changes, interpretations, clarifications or pronouncements may be forthcoming, and may apply on a retroactive basis, that could affect this summary. We cannot be certain, if, when or in what form such guidance may be provided and whether such guidance will have a retroactive effect. This summary does not address the taxation of an investment in any securities other than the notes. The tax treatment of a holder of the notes, or of a person treated as a holder of the notes for U.S. federal income, state, local or non-U.S. tax purposes, may vary depending on the holder's particular tax situation. Prospective investors should carefully examine this prospectus supplement and the accompanying prospectus and should consult their professional advisors concerning the possible tax consequences of an investment in the notes under the laws of their countries of citizenship, residence or domicile.

Taxation of Holders of Notes

Bermuda Taxation

Currently, there is no Bermuda withholding tax on interest paid by AXIS Capital.

United States Taxation

The following summary sets forth the material United States federal income tax considerations related to the purchase, ownership and disposition of the notes. Unless otherwise stated, this summary deals only with holders of notes who acquire the notes at their original issue price and who hold their notes as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code") and as beneficial owners. The following discussion is only a discussion of the material United States federal income tax matters as described herein and does not purport to address all of the U.S. federal income tax consequences that may be relevant to a particular note holder in light of such note holder's specific circumstances. In addition, the following summary does not describe the U.S. federal income tax consequences that may be relevant to some holders of notes, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, financial asset securitization investment trusts, dealers in securities or traders that adopt a mark-to-market method of tax accounting, tax exempt organizations, expatriates, investors in pass through entities, U.S. holders (as defined below) whose functional currency is not the U.S. dollar, persons subject to the alternative minimum tax or persons who hold the notes as part of a hedging or conversion transaction or as part of a short-sale or straddle, who may be subject to special rules or treatment under the Code. This discussion is based upon the Code, the regulations promulgated thereunder and any relevant administrative rulings or pronouncements or judicial decisions, all as in effect on the date hereof and as currently interpreted, and does not take into account possible changes in such tax laws or interpretations thereof, which may apply retroactively. This discussion does not include any description of the tax laws of any state or local governments within the United States or of any foreign government that may be applicable to the notes or the holders of notes and does not address any aspect of U.S. federal taxation other than income taxation. Persons considering making an investment in the notes should consult their own tax advisors concerning the application of the U.S. federal tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction prior to making such investment.

If a partnership holds the notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the notes, you should consult your tax advisor.

For purposes of this discussion, the term "U.S. holder" means a beneficial owner of the notes that is, for U.S. federal income tax purposes, (1) an individual citizen or resident of the United States, (2) a corporation or entity treated as a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, or any political subdivision thereof, (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (4) a trust if either (a) a court within the United States is able to exercise primary supervision over the administration of such trust and one or more United States persons have the authority to control all substantial decisions of such trust or (b) the trust has a valid election in effect to be treated as a United States Person for U.S. federal income tax purposes or (5) any other person or entity that is treated for U.S. federal income tax purposes as if it were one of the foregoing.

U.S. Holders of Notes

Interest Payments. Interest paid to a U.S. holder on a note will be includible in such holder's gross income as ordinary interest income in accordance with the holder's regular method of tax accounting. In addition, interest on the notes will be treated as foreign source income for U.S. federal income tax purposes. For foreign tax credit limitation purposes, interest on the notes generally will constitute passive income, or, in the case of some U.S. holders, financial services income.

Sale, Exchange, Redemption and Other Disposition of Notes. Upon the sale, exchange, redemption or other disposition of a note, a U.S. holder will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange, redemption or other disposition (other than accrued but unpaid interest not previously included in income, which will be taxable as interest) and the holder's adjusted tax basis in such note. A U.S. holder's adjusted tax basis in a note generally will equal the cost of such note and any such gain or loss generally will be capital gain or loss and will be long term capital gain or loss if the U.S. holder's holding period in the note exceeds one year at the time of disposition of the note. For U.S. holders other than corporations, preferential tax rates may apply to such long term capital gain compared to rates that may apply to ordinary income. The deductibility of capital losses is subject to limitations. Any gain or loss realized by a U.S. holder on the sale, exchange, redemption or other disposition of a note generally will be treated as U.S. source gain or loss, as the case may be.

Information Reporting and Backup Withholding. Information returns may be filed with the Internal Revenue Service ("IRS") in connection with payments of interest on the notes and the proceeds from a sale or other disposition of the notes unless the holder of the notes establishes an exemption from the information reporting rules. A holder of notes that does not establish such an exemption may be subject to U.S. backup withholding tax on these payments if the holder fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is furnished to the IRS.

Non-U.S. Holders of Notes

The following discussion is limited to the United States federal income tax consequences relevant to a beneficial owner of a note that is a "non-U.S. holder." For purposes of this discussion, a "non-U.S. holder" is a holder of notes that is a nonresident alien individual or a corporation, estate or trust that is not a U.S. holder.

Interest and Disposition. In general (and subject to the discussion below under "Information Reporting and Backup Withholding"), a non-U.S. holder will not be subject to U.S. federal income tax with respect to payments of interest on, or gain upon the disposition of, notes, unless: (1) the interest or gain is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States; or (2) in the case of gain upon the disposition of notes, the non-U.S. holder is an individual who is present in the U.S. for 183 days or more in the taxable year and other conditions are met.

Interest or gain that is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States will generally be subject to regular U.S. federal income tax in the same manner as if it were realized by a U.S. holder. In addition, if such non-U.S. holder is a corporation, such interest or gain may be subject to a branch profits tax at a rate of 30% (or such lower rate as is provided by an applicable income tax treaty).

Information Reporting and Backup Withholding. If the notes are held by a non-U.S. holder through a non-U.S. (and non-U.S. related) broker or financial institution, information reporting and backup withholding generally would not be required. Information reporting, and possibly backup withholding, may apply if the notes are held by a non-U.S. holder through a U.S. (or U.S. related) broker or financial institution and the non-U.S. holder fails to provide appropriate information. Non-U.S. holders should consult their tax advisors concerning the application of the information reporting and backup withholding rules.

UNDERWRITING

Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. are acting as joint book-running managers of the offering and as representatives of the underwriters named below.

Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the principal amount of notes set forth opposite the underwriter's name.

Underwriter	**Principal Amount of notes**
Citigroup Global Markets Inc.	$
J.P. Morgan Securities Inc.	
Barclays Capital Inc.	
Deutsche Bank Securities Inc.	
Wachovia Capital Markets, LLC	
Calyon Securities (USA) Inc.	
HSBC Securities (USA) Inc.	
Total	$

The underwriting agreement provides that the obligations of the underwriters to purchase the notes included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the notes if they purchase any of the notes.

The underwriters propose to offer some of the notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the notes to dealers at the public offering price less a concession not to exceed % of the principal amount of the notes. The underwriters may allow, and dealers may reallow, a concession not to exceed % of the principal amount of the notes on sales to other dealers. After the initial offering of the notes to the public, the representatives may change the public offering price and concessions.

The notes are a new issue of securities with no established trading market. The notes will not be listed on any securities exchange. We have been advised by the underwriters that they intend to make a market in the notes, but the underwriters are not obligated to do so and may discontinue market making at any time without notice. We can give no assurance as to the liquidity of, or the trading market for, the notes.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the notes).

	Paid by the Company
Per note	%

In connection with the offering, Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., on behalf of the underwriters, may purchase and sell notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of notes in excess of the principal amount of notes to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of notes made for the purpose of preventing or retarding a decline in the market price of the notes while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Citigroup Global Markets Inc. or J.P. Morgan Securities Inc., in covering syndicate short positions or making stabilizing purchases, repurchases notes originally sold by that syndicate member.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the notes. They may also cause the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our total expenses for this offering will be $1,000,000. Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. have agreed to reimburse us for a portion of these expenses.

Certain of the underwriters and their respective affiliates have performed investment banking and advisory services for us and our subsidiaries from time to time for which they have received customary fees and expenses. We have also entered into investment management agreements with affiliates of Citigroup Global Markets Inc., J.P. Morgan Securities Inc., Deutsche Bank Securities Inc. and Wachovia Capital Markets, LLC. JPMorgan Chase Bank, an affiliate of J.P. Morgan Securities Inc., is administrative agent and a lender for our $750 million credit facility. In addition, affiliates of Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Wachovia Capital Markets, LLC, Barclays Capital Inc., Calyon Securities (USA) Inc. and HSBC Securities (USA) Inc. are lenders under our credit facility. The underwriters may, from time to time, engage in transactions with and perform services for us and our subsidiaries in the ordinary course of their business.

Some of the underwriters will make the notes available for distribution on the Internet through a proprietary Web site and/or a third-party system operated by MarketAxess Corporation, an Internet-based communications technology provider. MarketAxess Corporation is providing the system as a conduit for communications between certain underwriters and their customers and is not a party to any transactions. MarketAxess Corporation, a registered broker-dealer, will receive compensation from certain underwriters based on transactions conducted through the system. Certain underwriters will make the notes available to their customers through the Internet distributions, whether made through a proprietary or third-party system, on the same terms as distributions made through other channels.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

LEGAL MATTERS

Certain legal matters in connection with the offering will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York with respect to U.S. federal and New York State law and by Conyers Dill & Pearman, Hamilton, Bermuda with respect to matters of Bermuda law. Certain legal matters in connection with this offering will be passed upon for the underwriters by Simpson Thacher & Bartlett LLP, New York, New York. LeBoeuf, Lamb, Greene & MacRae, L.L.P. has acted as special counsel to us in connection with United States tax and regulatory matters. William Fry, special Irish counsel, has advised us on all matters of Ireland law in connection with this offering. Clyde & Co., special United Kingdom counsel, has advised us on all matters of United Kingdom law in connection with this offering. Bär & Karrer, special Switzerland counsel, has advised us on all matters of Switzerland law in connection with this offering. David King & Co., special Barbados legal counsel, has advised us on all matters of Barbados law in connection with this offering.

EXPERTS

The financial statements and the related financial statement schedules incorporated by reference in this prospectus supplement and the accompanying prospectus from our Annual Report on Form 10-K for the year ended December 31, 2003 have been audited by Deloitte & Touche, independent registered public accounting firm, as stated in their reports, which are incorporated by reference in this prospectus supplement and the accompanying prospectus, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the United States Securities and Exchange Commission (the "SEC") under the Exchange Act. You may read and copy any of this information at the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet world wide web site that contains reports, proxy statements and other information about issuers who file electronically with the SEC. The address of that site is http://www.sec.gov. These reports, proxy statements and other information may also be inspected at the offices of the NYSE at 20 Broad Street, New York, New York 10005. General information about us, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments and exhibits to those reports, are available free of charge through our website at www.axiscapital.com as soon as reasonably practicable after we file them with, or furnish them to, the SEC. Information on our website is not incorporated into this prospectus supplement or the accompanying prospectus or our other securities filings and is not a part of these filings.

This prospectus supplement is part of a registration statement that we have filed with the SEC relating to the securities to be offered. This prospectus supplement does not contain all of the information we have included in the registration statement and the accompanying exhibits and schedules in accordance with the rules and regulations of the SEC. The statements this prospectus supplement makes pertaining to the content of any contract, agreement or other document that is an exhibit to the registration statement necessarily are summaries of their material provisions and does not describe all exceptions and qualifications contained in those contracts, agreements or documents. You should read those contracts, agreements or documents for information that may be important to you. The registration statement, exhibits and schedules are available at the SEC's public reference room or through its web site.

We "incorporate by reference" into this prospectus supplement information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is deemed to be part of this prospectus supplement and later information that we file with the SEC will automatically update and supercede that information. This prospectus supplement incorporates by reference the documents set forth below that we have previously filed with the SEC. These documents contain important information about us and our financial condition.

The following documents listed below, which we have previously filed with the SEC, are incorporated by reference:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2003;

- our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2004, June 30, 2004 and September 30, 2004; and

- our Current Reports on Form 8-K, dated February 11, 2004, May 3, 2004, July 13, 2004, August 5, 2004, August 25, 2004, September 1, 2004, October 12, 2004, October 18, 2004 and November 3, 2004.

All documents filed by us under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this prospectus supplement and prior to the termination of the offering of the notes shall also be deemed to be incorporated in this prospectus by reference.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address or telephone number:

AXIS Capital Holdings Limited
Attention: Corporate Secretary
106 Pitts Bay Road
Pembroke HM 08, Bermuda
(441) 296-2600

Exhibits to the filings will not be sent, unless those exhibits have been specifically incorporated by reference in this prospectus supplement.

PROSPECTUS

$2,413,788,655

AXIS Capital Holdings Limited

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

AXIS Capital Trust I
AXIS Capital Trust II
AXIS Capital Trust III

Trust Preferred Securities Fully and Unconditionally Guaranteed by AXIS Capital Holdings Limited

We may offer, from time to time, common shares, preference shares, depositary shares, debt securities, warrants, contracts to purchase shares of our common shares or stock purchase units consisting of (a) a stock purchase contract; (b) warrants and/or (c) debt securities, trust preferred securities or debt obligations of third parties (including United States treasury securities, other stock purchase contracts or common shares), that would secure the holders' obligations to purchase or to sell, as the case may be, common shares, preference shares or depository shares under the stock purchase contract.

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

AXIS Capital Trust I, AXIS Capital Trust II and AXIS Capital Trust III are Delaware statutory trusts. Each AXIS Capital Trust may offer, from time to time, trust preferred securities. We will guarantee the payments of dividends and payments on liquidation or redemption of the trust preferred securities, as described in this prospectus and in an applicable prospectus supplement. We will own the trust interests represented by the common securities to be issued by each AXIS Capital Trust.

In addition, selling shareholders named in this prospectus may sell up to 68,216,017 of our common shares. We will not receive any of the proceeds from the sale of our common shares by selling shareholders.

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

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

The date of this prospectus is November 8, 2004.

TABLE OF CONTENTS

This prospectus is part of a joint registration statement filed by AXIS Capital Holdings Limited and the AXIS Capital Trusts with the Securities and Exchange Commission (the "SEC") using a "shelf" registration process. Under this shelf process (i) we, and in the case of an offering of trust preferred securities, the AXIS Capital Trusts, may sell any combination of the securities described in this prospectus in one or more offerings up to an aggregate offering price of $750,000,000, and (ii) the selling shareholders may sell in one or more offerings up to an aggregate of 68,216,017 common shares. This prospectus provides you with a general description of the securities we, the AXIS Capital Trusts or the selling shareholders may offer. Each time we or the AXIS Capital Trusts sell securities, we or the AXIS Capital Trusts, as the case may be, will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and any applicable prospectus supplement, you should rely on the information in the applicable prospectus supplement. You should read both this prospectus and any applicable prospectus supplement, together with additional information described under the heading "Where You Can Find More Information." Sales by the selling shareholders may not require the provision of a prospectus supplement.

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

Securities 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 issuance and transferability of our securities, as long as any of our shares are listed on the NYSE or other appointed stock exchanges, to and among persons who are non-residents of Bermuda for exchange control purposes. The issue and transfer of in excess of 20% of the common shares to and among persons who are residents of Bermuda for exchange control purposes requires prior authorization from the BMA. Any other transfers remain subject to approval by the BMA. In addition, at the time of issue of each prospectus supplement, we will deliver to and file a copy of this prospectus and the prospectus supplement with the Registrar of Companies in Bermuda in accordance with Bermuda law. The BMA and the Registrar of Companies accept no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed in this prospectus or in any prospectus supplement.

As used in this prospectus, references to the "Company," "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 Specialty 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. All share amounts, per share data and strike prices contained in this prospectus have been adjusted to reflect an 8 for 1 share split that was effected on June 30, 2003. As used in this prospectus, references to the "AXIS Capital Trusts" refer to AXIS Capital Trust I, AXIS Capital Trust II and AXIS Capital Trust III.

RISK FACTORS

Investing in our securities involves risks. You should carefully consider the following information about these risks, together with the other information contained in this prospectus, before making an investment decision. 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 securities. Additional risk factors may be included in a prospectus supplement relating to a particular series or offering of securities. These risks could materially affect our business, results of operations or financial condition and cause the value of our securities to decline. 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. Because we are in the early stages of development, we face substantial business and financial risks and may suffer significant losses. We must successfully develop and maintain 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. 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 and our net income will be reduced. In addition, we could incur an operating loss and a reduction of our capital.

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. Excess of loss insurance and reinsurance indemnifies the insured against losses in excess of a specified amount. 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. In proportional reinsurance, the reinsurer shares a proportional part of the premiums and losses of the reinsured. 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 insurers that reinsure their liabilities, or ceding companies. We are subject to the risk that the ceding companies may not have adequately evaluated the risks to be reinsured and that the premiums ceded may not adequately compensate us for the risks we assume.

We could be 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). Moody's Investors Services maintains a letter scale rating system ranging from "Aaa" (Exceptional) to "NP" (not prime). 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. AXIS Specialty, AXIS Re and AXIS Reinsurance are rated "A2" (Good) by Moody's Investors Service, which is the sixth highest of 21 ratings. The objective of these 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 the rating agencies' opinions of our financial strength, are not evaluations directed to investors in our securities and are not recommendations to buy, sell or hold our securities.

Our ratings are subject to periodic review by, and may be revised downward or revoked at the sole discretion of, the rating agency. If our ratings are reduced from their current levels by any rating agency, 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 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, AXIS Specialty Europe, AXIS Reinsurance, AXIS Insurance or AXIS Surplus 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, Inc., including its subsidiary Guy Carpenter & Company, Inc., Aon Corporation, Willis Group Holdings Ltd. and Benfield Group 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 these 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. In retrocessional reinsurance, a reinsurer cedes to another reinsurer all or part of the reinsurance that was originally assumed. 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. 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 the 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.

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 June 30, 2004, mortgage-backed securities constituted approximately 29.9% 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. In periods of increasing interest rates, these investments are exposed to extention risk, which occurs when the holders of underlying mortgages reduce the frequency on which they prepay the outstanding principal before the maturity date and delay any refinancing of the outstanding principal.

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 our other securities we may offer. 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. As a result of the introduction of our operations in Switzerland, we expect that additional premiums will be written in currencies other than the U.S. dollar and that this percentage will increase. 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.

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 undertake activities that are regulated in one or more of the jurisdictions in which we operate and could subject us to fines and other sanctions. 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, 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 some 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 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 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 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. 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.

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. The European Commission has indicated in various communications on the subject 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 (or it may be entitled to rely on "grandfather" provisions which will deem it to be so authorized). In either event, AXIS Re will be subject to more stringent regulatory requirements 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.

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 and to make payments on indebtedness may be constrained by our holding company structure.

AXIS Capital is a holding company and has no direct operations of its own. AXIS Capital 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.

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 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 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.

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 a Vice 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.

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 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.

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.

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.

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 any public offering, or the perception that such sales could occur, could adversely affect the market price of our common shares 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" for further information regarding circumstances under which additional common shares may be sold.

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. Under these provisions, some shareholders may have the right to exercise their voting rights limited to less than one vote per share. Moreover, these provisions could have the effect of reducing the voting power of some shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership. In addition, our board of directors may limit a shareholder's exercise of voting rights where it deems it necessary to do so to avoid adverse tax, legal or regulatory consequences. See "Description of Share Capital Voting Rights."

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

There are provisions in our bye-laws 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 under some circumstances, including if they have reason to believe that any non-de minimis adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders may occur as a result of such transfer. Our bye-laws also provide that if our board of directors determines that share ownership by a person may result in non-de minimis adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders, then we have the option, but not the obligation, to require that shareholder to sell to us or to third parties to whom we assign the repurchase right for fair 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" 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 owning 10% or more of the capital or voting rights or an amount that makes it possible to exercise a significant influence over the management of AXIS Capital would be considered to have a "qualifying holding" in AXIS Specialty Europe.

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

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

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

We have five shareholders each of whom owns beneficially common shares representing 5.0% or more of the voting power of our common shares prior to giving effect to any reduction in voting rights under our bye-laws. 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 our directors or to effect a change in control, which could diminish the value of our common shares.

Our bye-laws contain provisions that may make it more difficult for shareholders to replace directors and could delay or prevent a change of control that a shareholder might consider favorable. These provisions include a staggered board of directors, limitations on the ability of shareholders to remove directors other than for cause, limitations on voting rights and restrictions on transfer of our common shares. These provisions may prevent a shareholder from receiving the benefit from any premium over the market price of our 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.

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.

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

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. 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 some types of U.S. source investment income), because none of these companies should be treated as engaged in a trade or business within the United States. However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, we cannot be certain that the U.S. Internal Revenue Service ("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. 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 could be materially adversely affected. See "Material Tax Considerations Taxation of AXIS Capital and Subsidiaries United States."

For taxable years beginning before December 31, 2004, 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. However, for taxable years beginning after December 31, 2004, the PHC provisions will not be applicable to AXIS Capital and its non-U.S. subsidiaries pursuant to recently enacted legislation. PHC status depends 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 currently neither AXIS Capital nor any of its subsidiaries should be considered a PHC for U.S. federal income tax purposes. 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. 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 could be materially adversely affected. See "Material Tax Considerations Taxation of AXIS Capital and Subsidiaries United States Personal Holding Companies."

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

We intend to operate in such a manner so that none of our companies, other than AXIS UK and AXIS UK Holdings, should be resident in the United Kingdom for tax purposes and that none of our companies, other than AXIS Ireland Holdings and AXIS Specialty Europe, should have a permanent establishment in the United Kingdom. Accordingly, we expect that none of our companies other than AXIS UK, AXIS UK Holdings, AXIS Ireland Holdings and AXIS Specialty Europe should be subject to U.K. tax. Nevertheless, because neither case law nor U.K. statutes conclusively define the activities that constitute trading in the United Kingdom through a permanent establishment, the U.K. Inland Revenue might contend successfully that any of our companies, in addition to AXIS UK, AXIS UK Holdings, AXIS Ireland Holdings and AXIS Specialty Europe, is/are trading in the United Kingdom through a permanent establishment in the United Kingdom and therefore subject to U.K. tax. If this were the case, our results of operations and your investment could be materially adversely affected. See "Material Tax Considerations Taxation of AXIS Capital and Subsidiaries United Kingdom."

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

We intend to operate in such a manner so that none of our companies, other than AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, should be resident in Ireland for tax purposes and that none of our companies, other than AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, should be treated as carrying on a trade through a branch or agency in Ireland. Accordingly, we expect that none of our companies other than AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe should be subject to Irish corporation tax. Nevertheless, since the determination as to whether a company is resident in Ireland is a question of fact to be determined based on a number of different factors and since neither case law nor Irish legislation conclusively defines the activities that constitute trading in Ireland through a branch or agency, the Irish Revenue Commissioners might contend successfully that any of our companies, in addition to AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, is resident in or otherwise trading through a branch or agency in Ireland and therefore subject to Irish corporation tax. If this were the case, our results of operations and your investment could be materially adversely affected. See "Material Tax Considerations Taxation of AXIS Capital and Subsidiaries Ireland."

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 corporation tax could apply to such investment income at a higher rate (currently 25%) instead of the general 12.5% rate, and our results of operations could be materially adversely affected.

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

Under certain circumstances, a "10% U.S. Shareholder" (as defined in "Material Tax Considerations Taxation of Shareholders United States Taxation") of a foreign corporation that is a CFC (as defined in "Material Tax Considerations Taxation of Shareholders United States Taxation") for an uninterrupted period of 30 days or more during a taxable year must include in gross income for U.S. federal income tax purposes such "10% U.S. Shareholder's" pro rata share of the CFC's "subpart F income," even if the subpart F income is not distributed to such 10% U.S. Shareholder. "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.

We believe that because of the dispersion of our share ownership, provisions in our organizational documents that limit voting power and other factors, no U.S. Person (as defined in "Material Tax Consideration Taxation of Shareholders United States Taxation") who acquires shares of AXIS Capital directly or indirectly through one or more foreign entities should be required to include our "subpart F income" in income under the CFC rules of the Internal Revenue Code of 1986, as amended (the "Code"). See "Description of Share Capital" which describes these provisions. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge, in which case your investment could be materially adversely affected. 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 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 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 addition, any RPII that is includible in the income of a U.S. tax-exempt organization may be treated as unrelated business taxable income. 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 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. If these thresholds are met or exceeded, and if you are an affected U.S. Person, your investment could be materially adversely affected. See "Material Tax Considerations Taxation of Shareholders United States Taxation The RPII CFC Provisions."

U.S. Persons who dispose of our shares may be subject to U.S. federal income taxation at the rates applicable to dividends 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 our 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 "Material Tax Considerations Taxation of Shareholders United States Taxation The RPII CFC Provisions."

U.S. Persons who hold 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 shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of the 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 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 shares will be subject to adverse U.S. federal income tax consequences if AXIS Capital or any of its non-U.S. subsidiaries is considered to be a Foreign Personal Holding Company ("FPHC") for U.S. federal income tax purposes.

For taxable years beginning after December 31, 2004, the FPHC provisions will not be applicable to AXIS Capital and its subsidiaries pursuant to recently enacted legislation. With respect to the 2004 taxable year, if AXIS Capital or any of its non-U.S. subsidiaries is 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 shares, such individual's heirs or estate may not be entitled to a "step-up" in the tax basis of the 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 currently neither AXIS Capital nor any of its non-U.S. subsidiaries should be considered an FPHC. 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 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 10% U.S. 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 tax advisors.

Changes in U.S. federal income tax law could materially adversely affect an investment in our 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 States but have certain U.S. connections. 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 legislative proposals could emerge in the future that could have an adverse impact on us or our shareholders.

The United States has renegotiated the income tax treaty between the United States and Barbados.

On July 14, 2004, the United States and Barbados signed a Protocol amending the United States income tax treaty with Barbados (the "Barbados Treaty"). On October 10, 2004 the U.S. Senate ratified the Protocol that will be effective with respect to withholding taxes paid or credited on or after the first day of the second month next following the exchange of instruments of ratification with Barbados. Under the current Barbados treaty, dividends paid to AXIS Barbados by AXIS Specialty U.S. Holdings Inc., ("AXIS U.S. Holdings") should be subject to a reduced withholding tax rate of 5%. The Protocol amending the treaty, once effective, will 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 will be subject to withholding tax at a rate of 30%.

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 and Barbados.

The Organization for Economic Cooperation and Development (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 June 2004, Bermuda was not listed as an uncooperative tax haven jurisdiction because it had previously committed 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. In the June 2004 update, Barbados was identified as a country that should be included in the review process of significant financial centers. We are not able to predict what changes will arise from the commitment or whether such changes will subject us to additional taxes.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the federal securities laws. In some cases, these statements can be identified by the use of forward-looking words such as "may," "should," "could," "anticipate," "estimate," "expect," "plan," "believe," "predict," "potential" and "intend." Forward-looking statements contained in this prospectus include information regarding 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 flight to quality, 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 man-made disasters, (3) actual claims exceeding our loss reserves, (4) failure of any of the loss limitation methods we employ, (5) the 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." The Company undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

AXIS CAPITAL HOLDINGS LIMITED

AXIS Capital is a holding company domiciled in Bermuda. Through our operating subsidiaries and branches based in Bermuda, Ireland, the United Kingdom, the United States and Switzerland, we provide specialty lines insurance and treaty reinsurance on a global basis. We focus on writing coverage for specialized classes of risk through our team of highly skilled and experienced underwriters. Our business consists of four segments: global insurance, global reinsurance, U.S. insurance and U.S. reinsurance.

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 sourced outside of the United States but covers exposures throughout the world, including:

- Property (catastrophe-based);
- Workers' Compensation, Personal Accident and Life (catastrophe-based);
- Aviation;
- Crop;
- Trade Credit and Bond; and
- Motor and General Liability.

Our U.S. insurance segment principally 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 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 an operating platform that utilizes new procedures and technologies, which we believe provides us with a competitive advantage, and continue to develop these structural advantages for application to our other business segments. 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.

We began operations in November 2001. Our principal executive offices are located at 106 Pitts Bay Road, Pembroke HM 08, Bermuda, and our telephone number is (441) 296-2600.

THE AXIS CAPITAL TRUSTS

We created three Delaware statutory trusts, each pursuant to a declaration of trust executed by us as sponsor for each AXIS Capital Trust and its trustees. The AXIS Capital Trusts are named AXIS Capital Trust I, AXIS Capital Trust II and AXIS Capital Trust III.

An Amended and Restated Declaration of Trust for each of the AXIS Capital Trusts will contain the terms and conditions under which the AXIS Capital Trusts will issue and sell their preferred securities and common securities. We refer to each Amended and Restated Declaration of Trust as a declaration with respect to that AXIS Capital Trust. Copies of the declarations are included as exhibits to the registration statement of which this prospectus is a part.

Unless an applicable prospectus supplement provides otherwise, each AXIS Capital Trust exists solely to:

- issue and sell preferred securities, which we refer to as trust preferred securities. The proceeds of the trust preferred securities will be invested in a specified series of our debt securities;

- issue and sell common securities, which we refer to as trust common securities. The trust common securities will be issued and sold to us in exchange for cash. The proceeds from the sale will be invested in additional series of our debt securities; and

- engage in other activities only as are necessary, convenient or incidental to the above two purposes.

The AXIS Capital Trusts will not borrow money, issue debt, reinvest proceeds derived from investments, pledge any of their assets, or otherwise undertake or permit to be undertaken any activity that would cause them to not be classified as grantor trusts for United States federal income tax purposes.

We will own all of the trust common securities. The holder of the trust common securities will receive payments that will be made on a ratable basis with the trust preferred securities. However, the right of the holder of the trust common securities to payment in respect of distributions and payments upon liquidation, redemption or otherwise will be subordinated to the right of the trust preferred securities holders if there is a continuing event of default under the declaration.

We will acquire trust common securities having an aggregate liquidation amount equal to the percentage set forth in the applicable prospectus supplement of the total capital of the AXIS Capital Trusts.

Each AXIS Capital Trust will have a term of 30 years, but may end earlier if its declaration so provides.

We will pay all fees and expenses related to each AXIS Capital Trust and the offering of the trust preferred securities by each AXIS Capital Trust.

The principal place of business of each AXIS Capital Trust is c/o AXIS Capital Holdings Limited, 106 Pitts Bay Road, Pembroke HM 08, Bermuda. The telephone number is (441) 296-2600.

The trustees of each AXIS Capital Trust will conduct the business and affairs of their respective AXIS Capital Trust. The trustees' duties and obligations will be governed by the declaration of their respective AXIS Capital Trust. Each AXIS Capital Trust's trust common securities holders will be entitled to appoint, remove, replace or change the number of trustees for their respective AXIS Capital Trust.

Each AXIS Capital Trust will include the following trustees:

- at least one administrative trustee, who is a person employed by or an officer of us or our subsidiaries;

- at least one institutional trustee, which is a financial institution that is not affiliated with us and which will act as institutional trustee and indenture trustee for the purposes of the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), pursuant to the terms described in an applicable prospectus supplement; and

- at least one Delaware trustee, which is an individual resident of, or a legal entity with a principal place of business in, the State of Delaware, unless the AXIS Capital Trust's institutional trustee maintains a principal place of business in the State of Delaware and otherwise meets the requirements of applicable law.

The trustees of each AXIS Capital Trust are collectively referred to as the trustees. Unless otherwise indicated in an applicable prospectus supplement, the institutional trustee will be The Bank of New York and the Delaware trustee will be The Bank of New York (Delaware), with its Delaware office located at 502 White Clay Center, Route 273, Newark, Delaware 19711.

USE OF PROCEEDS

Unless otherwise indicated in an applicable prospectus supplement, the net proceeds from the sale of the securities offered by us or the AXIS Capital Trusts will be used for general corporate purposes. The AXIS Capital Trusts will use all proceeds from the sale of trust preferred securities to purchase our debt securities. We may provide additional information on the use of the net proceeds from the sale of the offered securities in an applicable prospectus supplement relating to the offered securities. We will not receive any of the proceeds from the sale of our common shares by selling shareholders.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges on a historical basis for each of the periods indicated.

	Six Months Ended June 30,		Years Ended December 31,		
	2004	**2003**	**2003**	**2002**	**2001**
Ratio of Earnings to Fixed Charges	(1)	(1)	(1)	(1)	(1)

(1) The current level of fixed charges, being credit facility fees and the interest portion on operating leases, is not sufficient enough to produce a ratio.

DESCRIPTION OF SHARE CAPITAL

The following is a summary of material provisions of our memorandum of association and bye-laws, the shareholders agreement among substantially all of our founding shareholders and the warrants outstanding on our common shares. In this section, "we," "us" and "our" refer to AXIS Capital and not any of our subsidiaries.

General

We are authorized to issue up to an aggregate of 800,000,000 common shares, par value U.S. $0.0125 per share. Except as described below, our common shares have no preemptive rights or other rights to subscribe for additional common shares, no rights of redemption, conversion or exchange and no sinking fund rights. In the event of liquidation, dissolution or winding-up, the holders of our common shares are entitled to share equally in our assets, if any remain after the payment of all our debts and liabilities and the liquidation preference of any outstanding preference shares. Holders of our common shares are entitled to receive dividends as may be lawfully declared from time to time by our board of directors.

Voting Rights

In general, and except as provided below, 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, pursuant to a mechanism specified in our bye-laws, the voting rights exercisable by a shareholder may be limited. In any situation in which the "controlled shares" (as defined below) of a U.S. Person or the common shares held by a Direct Foreign Shareholder Group (as defined below) would constitute 9.5% or more of the votes conferred by the issued common shares, the voting rights exercisable by a shareholder with respect to such shares shall be limited so that no U.S. Person or Direct Foreign Shareholder Group is deemed to hold 9.5% or more of the voting power conferred by our common shares. In addition, our board of directors may limit a shareholder's voting rights where it deems it necessary to do so to avoid adverse tax, legal or regulatory consequences. "Controlled shares" includes, among other things, all common shares that a U.S. Person owns directly, indirectly or constructively (within the meaning of Section 958 of the Code). A "Direct Foreign Shareholder Group" includes a shareholder or group of commonly controlled shareholders that are not U.S. Persons.

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

Restrictions on Transfer of 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.

The restrictions on transfer and voting restrictions described above may have the effect of delaying, deferring or preventing a change in control of AXIS Capital.

Acquisition of Common Shares by Us

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

Issuance of Shares

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

Shareholders Agreement

General. We have entered into a shareholders agreement with substantially all of our founding shareholders. The shareholders agreement may be amended only with our consent and the consent of the holders of 75% of the aggregate number of shares outstanding held by the parties to the shareholders agreement at the time. Amendments and modifications that adversely affect a shareholder party to the agreement in a manner different than any other shareholder party to the agreement may only be effected with the consent of such shareholder.

Tag-Along Rights. Pursuant to the terms of the shareholders agreement, generally if any shareholder party to such agreement (or a group of such shareholders) proposes to transfer 20% or more of our outstanding shares (in value or in voting power), then the other shareholders party to the shareholders agreement have a right (1) to notice of the terms and conditions of the transfer, and (2) to participate proportionally in the transfer.

Registration Rights. Any shareholder party to the agreement who beneficially owned more than 8,000,000 shares on December 31, 2002 has the right to request registration for a public offering of all or a portion of its shares so long as such shares are "registrable securities" as defined in the shareholders agreement. Registrable securities include common shares or warrants and any securities issuable in respect of such shares or warrants, but exclude shares that may be sold pursuant to Rule 144(k) under the Securities Act. We will use commercially reasonable efforts to effect the registration of such shares, but will not be required to file a registration statement if (1) the aggregate proceeds expected to be received from such offering are less than $25,000,000 or (2) we have already effected one such requested registration in the previous four-month period. If the shares are to be sold in an underwritten offering and the managing underwriters notify us that, in their view, the number of shares proposed to be included in the offering exceeds the largest number of shares that can be sold without an adverse effect on the offering, then the number of shares requested to be registered will be allocated pro rata among the requesting shareholders. The holders of registration rights are limited in the total number of registration requests they can make, other than registrations made pursuant to a Form S-3.

Moreover, if we propose to register any common shares or any options, warrants or other rights to acquire, or securities convertible into or exchangeable for, our common shares under the Securities Act (other than shares to be issued pursuant to an employee benefits plan or similar plan or in connection with a merger, acquisition or similar transaction) for our own account or otherwise, we will offer those shareholders who are party to the shareholders agreement the opportunity, subject to certain conditions, to include their registrable securities in such registration statement. We must use all reasonable efforts to effect the sale of any such shares. If the shares are to be sold in an underwritten offering and the managing underwriters notify us that, in their view, the number of shares proposed to be included in the offering exceeds the largest number of shares that can be sold without an adverse effect on such offering, then the number of shares requested to be registered will be allocated pro rata among the requesting shareholders, provided that if we initiate a registration to sell our own shares, these shares will have priority in registration.

Indemnification. Pursuant to the shareholders agreement, we have agreed to hold harmless each shareholder selling shares in a registered offering from damages relating to a material omission or misstatement in the registration statement or prospectus for such offering, provided such omission or misstatement was not made based on information furnished to us by the shareholder. We also agreed to hold the underwriters for any such offering harmless on substantially the same basis. Each participating shareholder in a registered offering agrees to hold harmless us, our officers, directors, agents and the underwriters for such offering with respect to omissions or misstatements made based on information furnished by such shareholder.

Bye-laws

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

Our Board of Directors. Our bye-laws provide that our board of directors shall consist of between 9 and 16 members, or such number as determined by the shareholders. The current board of directors consists of 14 persons and is divided into three classes. In addition, each director will serve a three year term, with termination staggered according to class. Shareholders may only remove a director for cause at an annual general meeting, provided that the notice of any such meeting convened for the purpose of removing a director shall contain a statement of the intention to do so and shall be provided to that director at least two weeks before that meeting. Vacancies on the board of directors can be filled by the board of directors if the vacancy occurs as a result of death, disability, disqualification or resignation of a director, or from an increase in the size of the board of directors.

Shareholder Action. At the commencement of any general meeting, two or more persons present in person and representing, in person or by proxy, more than 50% of the aggregate voting power of our shares shall constitute a quorum for the transaction of business. In general, any questions proposed for the consideration of the shareholders at any general meeting shall be decided by the affirmative votes of a majority of the votes cast in accordance with the bye-laws. In addition, most actions that may be approved by resolution of our shareholders in a general meeting may, without a meeting, be approved by a resolution in writing signed by all of the shareholders entitled to attend such meeting and vote on the resolution.

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

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

Warrants

In connection with our formation, we issued warrants to purchase common shares to some of our founding shareholders. The terms of the warrants provide that they are exercisable at any time prior to November 20, 2011. The exercise price and number of common shares issuable upon exercise of each warrant are subject to adjustment in respect of events that may have a dilutive effect on its underlying share ownership interest. Warrant holders may elect to receive cash at the time of exercise in lieu of an adjustment.

The following table shows the number of warrants to purchase common shares outstanding and the exercise price thereof as of September 30, 2004:

Holder	Warrants to Acquire Common Shares	Exercise Price
Trident II, L.P.	16,918,312	$ 12.50
Marsh & McLennan Capital Professionals Fund, L.P.	473,264	12.50
Marsh & McLennan Employees' Securities Company, L.P.	476,528	12.50
Dragon Holdings Trust	1,087,356	12.33
JR Charman Children's Settlement	362,449	12.33
Robert J. Newhouse, Jr.	71,808	12.50
Robert J. Newhouse, III	53,856	12.50
Stephan F. Newhouse	125,656	12.50
Paul B. Newhouse	35,904	12.50
Total	19,605,133	

Anti-Takeover Provisions and Insurance Regulations Concerning Change of Control

Some of the provisions of our bye-laws as well as some insurance regulations concerning change of control could delay or prevent a change of control of the Company that a shareholder might consider favorable. See "Risk Factors Risks Related to Our Common Shares."

Differences in Corporate Law

The Companies Act, which applies to us, differs in some material respects from laws generally applicable to U.S. corporations and their shareholders. In order to highlight these differences, set forth below is a summary of some significant provisions of the Companies Act (including modifications adopted pursuant to our bye-laws) applicable to us that differ from provisions of the State of Delaware corporate law, which is the law that governs many U.S. public companies. The following statements are summaries and do not purport to deal with all aspects of Bermuda law that may be relevant to us and our shareholders.

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

- a duty to act in good faith in the best interests of the company;
- a duty not to make a personal profit from opportunities that arise from the office of director;
- a duty to avoid conflicts of interest; and
- a duty to exercise powers for the purpose for which such powers were intended.

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

- to act honestly and in good faith with a view to the best interests of the company; and
- to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

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

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

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

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

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

Interested Directors. Under Bermuda law and our bye-laws, a transaction entered into by us, in which a director has an interest, will not be voidable by us, and such director will not be liable to us for any profit realized pursuant to such transaction, provided the nature of the interest is disclosed at the first opportunity at a meeting of directors, or in writing to the directors. In addition, our bye-laws allow a director to be taken into account in determining whether a quorum is present and to vote on a transaction in which the director has an interest following a declaration of the interest pursuant to the Companies Act, provided that the director is not disqualified from doing so by the chairman of the meeting. Under Delaware law, such transaction would not be voidable if (1) the material facts as to such interested director's relationship or interests are disclosed or are known to the board of directors and the board of directors in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, (2) such material facts are disclosed or are known to the shareholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the majority of shares entitled to vote thereon or (3) the transaction is fair as to the corporation as of the time it is authorized, approved or ratified. Under Delaware law, such interested director could be held liable for a transaction in which such director derived an improper personal benefit.

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

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

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

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

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

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

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

Indemnification of Directors and Officers. Under Bermuda law and our bye-laws, we may indemnify our directors, officers or any other person appointed to a committee of the board of directors (and their respective heirs, executors or administrators) to the full extent permitted by law against all actions, costs, charges, liabilities, loss, damage or expense incurred or suffered by such person by reason of any act done, concurred in or omitted in the conduct of our business or in the discharge of his/her duties; provided that such indemnification shall not extend to any matter involving any fraud or dishonesty (as determined in a final judgment or decree not subject to appeal) on the part of such director, officer or other person. Under Delaware law, a corporation may indemnify a director or officer of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if (1) such director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and (2) with respect to any criminal action or proceeding, such director or officer had no reasonable cause to believe his conduct was unlawful.

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

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

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

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

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

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

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

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

Preference Shares

From time to time, pursuant to the authority granted by our bye-laws to issue shares up to the amount of our authorized share capital, our board of directors may create and issue one or more series of preference shares having such preferred, deferred or other special rights or such restrictions, whether in regard to dividends, voting, return of capital or otherwise, as our board of directors may determine. When we issue preference shares, we will provide specific information about the preference shares being offered in a prospectus supplement. Such preference shares, upon issuance against full consideration (not less than the par value of such shares), will be fully paid and nonassessable. The particular rights and preferences of such preference shares offered by any prospectus supplement and the extent, if any, to which the general provisions described below may apply to the offered preference shares, will be described in the prospectus supplement.

Because the following summary of the terms of preference shares is not complete, you should refer to our memorandum of association and bye-laws and any applicable resolution of our board of directors for complete information regarding the terms of the class or series of preference shares described in a prospectus supplement. Whenever we refer to particular sections or defined terms of our memorandum of association and bye-laws and an applicable resolution of our board of directors, such sections or defined terms are incorporated herein by reference.

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

- the number of shares to be issued and sold and the distinctive designation thereof;
- the dividend rights of the preference shares, whether dividends will be cumulative and, if so, from which date or dates and the relative rights or priority, if any, of payment of dividends on preference shares and any limitations, restrictions or conditions on the payment of such dividends;
- the voting powers, if any, of the preference shares, equal to or greater than one vote per share, which may include the right to vote, as a class or with other classes of capital stock, to elect one or more of our directors;
- the terms and conditions (including the price or prices, which may vary under different conditions and at different redemption dates), if any, upon which all or any part of the preference shares may be redeemed, at whose option such a redemption may occur, and any limitations, restrictions or conditions on such redemption;
- the terms, if any, upon which the preference shares will be convertible into or exchangeable for our shares of any other class, classes or series;
- the relative amounts, and the relative rights or priority, if any, of payment in respect of preference shares, which the holders of the preference shares will be entitled to receive upon our liquidation, dissolution, winding up, amalgamation, merger or sale of assets;
- the terms, if any, of any purchase, retirement or sinking fund to be provided for the preference shares;
- the restrictions, limitations and conditions, if any, upon the issuance of our indebtedness so long as any preference shares are outstanding;

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

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

Subject to the specification of the above terms of preference shares and as otherwise provided with respect to a particular class or series of preference shares, in each case as described in a supplement to this prospectus, the following general provisions will apply to each class or series of preference shares.

Dividends

The holders of preference shares will be entitled to receive dividends, if any, at the rate established in accordance with the bye-laws, payable on specified dates each year for the respective dividend periods ending on such dates ("dividend periods"), when and as declared by our board of directors and subject to Bermuda law and regulations. The dividends will accrue on each preference share from the first day of the dividend period in which such share is issued or from such other date as our board of directors may fix for such purpose. All dividends on preference shares will be cumulative. If we do not pay or set apart for payment the dividend, or any part thereof, on the issued and outstanding preference shares for any dividend period, the deficiency in the dividend on the preference shares must thereafter be fully paid or declared and set apart for payment (without interest) before any dividend may be paid or declared and set apart for payment on our common shares. The holders of preference shares will not be entitled to participate in any other or additional earnings or profits of ours, except for such premiums, if any, as may be payable in case of our liquidation, dissolution or winding up.

Any dividend paid upon the preference shares at a time when any accrued dividends for any prior dividend period are delinquent will be expressly declared to be in whole or partial payment of the accrued dividends to the extent thereof, beginning with the earliest dividend period for which dividends are then wholly or partly delinquent, and will be so designated to each shareholder to whom payment is made.

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

AXIS Capital is a holding company and has no direct operations. The ability of AXIS Capital to pay dividends or distributions depends almost exclusively on the ability of its subsidiaries to pay dividends to AXIS Capital. Under Bermuda law, AXIS Capital may not declare or pay a dividend if there are reasonable grounds for believing that AXIS Capital is, or would after the payment be, unable to pay its liabilities as they become due, or the realizable value of AXIS Capital's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Further, our Insurance Subsidiaries (with the exception of AXIS Re) are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. In addition, our credit facility prohibits us from declaring or paying any dividend in excess of $150 million in the aggregate for any fiscal year during the period that any commitments or obligations are outstanding thereunder.

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

Liquidation, Dissolution or Winding Up

In case of our voluntary or involuntary liquidation, dissolution or winding up, the holders of each class or series of preference shares will be entitled to receive out of our assets the liquidation preference with respect to that class or series of preference shares. These holders will also receive an amount equal to all accrued but unpaid dividends thereon (whether or not earned or declared) before any of our assets will be paid or distributed to holders of our common shares.

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

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

Redemption

Except as otherwise provided with respect to a particular class or series of preference shares and as described in a supplement to this prospectus, the following general redemption provisions will apply to each class or series of preference shares. Any redemption of the preference shares may only be made in compliance with Bermuda law.

On or prior to the date fixed for redemption of a particular class or series of preference shares or any part thereof as specified in the notice of redemption for such class or series, we will deposit adequate funds for such redemption, in trust for the account of holders of such class or series, with a bank or trust company that has an office in the United States, and that has, or is an affiliate of a bank or trust company that has, capital and surplus of at least $50,000,000. If the name and address of such bank or trust company and the deposit of or intent to deposit the redemption funds in such trust account have been stated in the redemption notice, then from and after the mailing of the notice and the making of such deposit the shares of the class or series called for redemption will no longer be deemed to be outstanding for any purpose whatsoever, and all rights of the holders of such shares in or with respect to us will cease and terminate except for the right of the holders of the shares:

(1) to transfer the shares prior to the date fixed for redemption;

(2) to receive the redemption price of the shares, including accrued but unpaid dividends to the date fixed for redemption, without interest, upon surrender of the certificate or certificates representing the shares to be redeemed; and

(3) on or before the close of business on the fifth business day preceding the date fixed for redemption to exercise privileges of conversion, if any, not previously expired.

Any moneys so deposited by us which remain unclaimed by the holders of the shares called for redemption and not converted will, at the end of six years after the redemption date, be paid to us upon our request, after which repayment the holders of the shares called for redemption can no longer look to such bank or trust company for the payment of the redemption price but must look only to us for the payment of any lawful claim for such moneys which holders of such shares may still have. After such six-year period, the right of any shareholder or other person to receive such payment may lapse through limitations imposed in the manner and with the effect provided under the laws of Bermuda. Any portion of the moneys so deposited by us, in respect of preference shares called for redemption that are converted into common shares, will be repaid to us upon our request.

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

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

Under Section 42 of the Companies Act, no redemption of shares may be made by a company if, on the date of the redemption, there are reasonable grounds for believing that the company is, or after the redemption would be, unable to pay its liabilities as they become due. In addition, if the redemption price is to be paid out of funds otherwise available for dividends or distributions, no redemption may be made if the realizable value of its assets would thereby be less than the aggregate of its liabilities and issued share capital and share premium accounts. A minimum issued share capital of $12,000 must always be maintained.

Our ability to effect a redemption of our preference shares may be subject to the performance of our subsidiaries. Distribution to us from our insurance subsidiaries will also be subject to insurance laws, regulatory constraints and certain provisions under our credit facility.

Conversion Rights

Except as otherwise provided with respect to a particular class or series of preference shares and as described in a supplement to this prospectus, and subject in each case to applicable Bermuda law, the following general conversion provisions will apply to each class or series of preference shares that is convertible into common shares.

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

The number of common shares issuable upon conversion of a particular class or series of preference shares at any time will be the quotient obtained by dividing the aggregate conversion value of the shares of such class or series surrendered for conversion, by the conversion price per share of common shares then in effect for such class or series. We will not be required, however, upon any such conversion, to issue any fractional share of common shares, but instead we will pay to the holder who would otherwise be entitled to receive such fractional share if issued, a sum in cash equal to the value of such fractional share based on the last reported sale price per common share on the New York Stock Exchange at the date of determination. Preference shares will be deemed to have been converted as of the close of business on the date of receipt at the office of the transfer agent of the certificates, duly endorsed, together with written notice by the holder of his election to convert the shares.

Except as otherwise provided with respect to a particular class or series of preference shares and subject in each case to applicable Bermuda law, our memorandum of association and bye-laws, the basic conversion price per common share for a class or series of preference shares, as fixed by our board of directors, will be subject to adjustment from time to time as follows:

In case we (1) pay a dividend or make a distribution to all holders of outstanding common shares as a class in common shares, (2) subdivide or split the outstanding common shares into a larger number of shares or (3) combine the outstanding common shares into a smaller number of shares, the basic conversion price per common share in effect immediately prior to that event will be adjusted retroactively so that the holder of each outstanding share of each class or series of preference shares which by its terms is convertible into common shares will thereafter be entitled to receive upon the conversion of such share the number of common shares which that holder would have owned and been entitled to receive after the happening of any of the events described above had such share of such class or series been converted immediately prior to the happening of that event. An adjustment made pursuant to this clause will become effective retroactively immediately after such record date in the case of a dividend or distribution and immediately after the effective date in the case of a subdivision, split or combination. Such adjustments will be made successively whenever any event described in this clause occurs.

In case we issue to all holders of common shares as a class any rights enabling them to subscribe for or purchase common shares at a price per share less than the current market price per common share at the record date for determination of shareholders entitled to receive such rights, the basic conversion price per common share in effect immediately prior thereto for each class or series of preference shares which by its terms is convertible into common shares will be adjusted retroactively by multiplying such basic conversion price by a fraction, of which the numerator will be the sum of the number of common shares outstanding at such record date and the number of common shares which the aggregate exercise price (before deduction of underwriting discounts or commissions and other expenses of the Company in connection with the issue) of the total number of shares so offered for subscription or purchase would purchase at such current market price per share and of which the denominator will be the sum of the number of common shares outstanding at such record date and the number of additional common shares so offered for subscription or purchase. An adjustment made pursuant to this clause will become effective retroactively immediately after the record date for determination of shareholders entitled to receive such rights. Such adjustments will be made successively whenever any event described in this clause occurs.

In case we distribute to all holders of common shares as a class evidences of indebtedness or assets (other than cash dividends), the basic conversion price per common share in effect immediately prior thereto for each class or series of preference shares which by its terms is convertible into common shares will be adjusted retroactively by multiplying such basic conversion price by a fraction, of which the numerator will be the difference between the current market price per common share at the record date for determination of shareholders entitled to receive such distribution and the fair value (as determined by our board of directors) of the portion of the evidences of indebtedness or assets (other than cash dividends) so distributed applicable to one common share and of which the denominator will be the current market price per common share. An adjustment made pursuant to this clause will become effective retroactively immediately after such record date. Such adjustments will be made successively whenever any event described in this clause occurs.

For the purpose of any computation under the last clause above, the current market price per common share on any date will be deemed to be the average of the high and low sales prices of the common shares, as reported in the NYSE Composite Transactions (or such other principal market quotation as may then be applicable to the common shares) for each of the 30 consecutive trading days commencing 45 trading days before such date.

No adjustment will be made in the basic conversion price for any class or series of preference shares in effect immediately prior to such computation if the amount of such adjustment would be less than fifty cents. However, any adjustments which by reason of the preceding sentence are not required to be made will be carried forward and taken into account in any subsequent adjustment. Notwithstanding anything to the contrary, any adjustment required for purposes of making the computations described above will be made not later than the earlier of (1) three years after the effective date described above for such adjustment or (2) the date as of which such adjustment would result in an increase or decrease of at least 3% in the aggregate number of common shares issued and outstanding on the first date on which an event occurred which required the making of a computation described above. All calculations will be made to the nearest cent or to the nearest 1/100th of a share, as the case may be.

In the case of any capital reorganization or reclassification of common shares, or if we amalgamate or consolidate with or merge into, or sell or dispose of all or substantially all of our property and assets to, any other company or corporation, proper provisions will be made as part of the terms of such capital reorganization, reclassification, amalgamation, consolidation, merger or sale that any shares of a particular class or series of preference shares at the time outstanding will thereafter be convertible into the number of shares of stock or other securities or property to which a holder of the number of common shares deliverable upon conversion of such preference shares would have been entitled upon such capital reorganization, reclassification, consolidation, amalgamation or merger.

Whenever there is an issue of additional common shares requiring a change in the conversion price as provided above, and whenever there occurs any other event which results in a change in the existing conversion rights of the holders of shares of a class or series of preference shares, we will file with our transfer agent or agents, a statement signed by one of our executive officers, describing specifically such issue of additional common shares or such other event (and, in the case of a capital reorganization, reclassification, amalgamation, consolidation or merger, the terms thereof) and the actual conversion prices or basis of conversion as changed by such issue or event and the change, if any, in the securities issuable upon conversion. Whenever we issue to all holders of common shares as a class any rights enabling them to subscribe for or purchase common shares, we will also file in like manner a statement describing the same and the consideration they will receive. The statement so filed will be open to inspection by any holder of record of shares of any class or series of preference shares.

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

Reissuance of Shares

Any preference shares retired by purchase, redemption, or through the operation of any sinking fund or redemption or purchase account, will have the status of authorized but unissued preference shares, and may be reissued as part of the same class or series or may be reclassified and reissued by our board of directors in the same manner as any other authorized and unissued shares.

Voting Rights

Except as indicated below or as otherwise required by applicable law, the holders of preference shares will have no voting rights.

The applicable prospectus supplement for a series may provide that, whenever dividends payable on any class or series of preference shares are in arrears in an aggregate amount equivalent to six full quarterly dividends on all of the preference shares of that class or series then outstanding, the holders of preference shares of that class or series, together with the holders of each other class or series of preference shares ranking on a parity with respect to the payment of dividends and amounts upon our liquidation, dissolution or winding up, will have the right, voting together as a single class regardless of class or series, to elect two directors of our board of directors. We will use our best efforts to increase the number of directors constituting our board of directors to the extent necessary to effectuate such right.

The applicable prospectus supplement for a series may provide that, whenever such special voting power of such holders of the preference shares has vested, such right may be exercised initially either at a special meeting of the holders of preference shares, or at any annual general meeting of shareholders, and thereafter at annual general meetings of shareholders. The right of such holders of preference shares to elect members of our board of directors will continue until such time as all dividends accumulated on such preference shares have been paid in full, at which time that special right will terminate, subject to revesting in the event of each and every subsequent default in an aggregate amount equivalent to six full quarterly dividends, and any member of our board of directors appointed as described above shall vacate office.

At any time when such special voting power has vested in the holders of any such preference shares as described in the preceding paragraph, our president will, upon the written request of the holders of record of at least 10% of such preference shares then outstanding addressed to our secretary, call a special general meeting of the holders of such preference shares for the purpose of electing directors. Such meeting will be held at the earliest practicable date in such place as may be designated pursuant to the bye-laws (or if there be no designation, at our principal office in Bermuda). If such meeting shall not be called by our proper officers within 20 days after our secretary has been personally served with such request, or within 60 days after mailing the same by registered or certified mail addressed to our secretary at our principal office, then the holders of record of at least 10% of such preference shares then outstanding may designate in writing one of their number to call such meeting at our expense, and such meeting may be called by such person so designated upon the notice required for annual general meetings of shareholders and will be held in Bermuda, unless we otherwise designate.

Any holder of such preference shares so designated will have access to our register of members for the purpose of causing meetings of shareholders to be called pursuant to these provisions. Notwithstanding the foregoing, no such special meeting will be called during the period within 90 days immediately preceding the date fixed for the next annual general meeting of common shareholders.

At any annual or special general meeting at which the holders of such preference shares have the special right, voting separately as a class, to elect directors as described above, the presence, in person or by proxy, of the holders of 50% of such preference shares will be required to constitute a quorum of such preference shares for the election of any director by the holders of such preference shares, voting as a class. At any such meeting or adjournment thereof the absence of a quorum of such preference shares will not prevent the election of directors other than those to be elected by such preference shares, voting as a class, and the absence of a quorum for the election of such other directors will not prevent the election of the directors to be elected by such preference shares, voting as a class.

During any period in which the holders of such preference shares have the right to vote as a class for directors as described above, any vacancies in our board of directors will be filled by vote of a majority of our board of directors pursuant to the bye-laws. During such period, the directors so elected by the holders of such preference shares will continue in office (1) until the next succeeding annual general meeting or until their successors, if any, are elected by such holders and qualify or (2) unless required by applicable law to continue in office for a longer period, until termination of the right of the holders of such preference shares to vote as a class for directors, if earlier. Immediately upon any termination of the right of the holders of such preference shares to vote as a class for directors as provided herein, the term of office of the directors then in office so elected by the holders of such preference shares will terminate.

The rights attached to any class of preference shares (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not we are being wound-up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a resolution passed by a majority of the votes cast at a separate general meeting of the holders of the shares of the class held in accordance with Section 47(7) of the Companies Act. The rights conferred upon the holders of the shares of any class issued with preference or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith or having different restrictions. Further, the rights attaching to any shares shall be deemed not to be altered by the creation or issue of any share ranking in priority for payment of a dividend or in respect of capital or which confer on the holder thereof voting rights more favorable than those conferred by our common shares. In the event we were to merge into or amalgamate with another company, the approval of the holders of a majority of the preference shares would be required (voting as a separate class, if affected in a manner that would constitute a variation of the rights of such preference shares) in addition to approval of our common shareholders pursuant to the Companies Act. In addition, holders of preference shares would be entitled to vote at a court-ordered meeting in respect of a compromise or arrangement pursuant to section 99 of the Companies Act and their consent would be required with respect to the waiver of the requirement to appoint an auditor and to lay audited financial statements before a general meeting pursuant to section 88 of the Companies Act.

On any item on which the holders of the preference shares are entitled to vote, such holders will be entitled to one vote for each preference share held.

Restrictions in Event of Default in Dividends on Preference Shares

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

(1) we may not redeem less than all of the preference shares outstanding at such time unless we obtain the affirmative vote or consent of the holders of at least $66^2/_3\%$ of the outstanding preference shares given in person or by proxy, either in writing or by resolution adopted at a special general meeting called for the purpose, at which the holders of the preference shares shall vote separately as a class, regardless of class or series;

(2) we may not purchase any preference shares except in accordance with a purchase offer made in writing to all holders of preference shares of all classes or series upon such terms as our board of directors in its sole discretion after consideration of the respective annual dividend rate and other relative rights and preferences of the respective classes or series, will determine (which determination will be final and conclusive) will result in fair and equitable treatment among the respective classes or series; provided that (a) nothing will prevent us from completing the purchase or redemption of preference shares for which a purchase contract was entered into for any purchase, retirement or sinking fund purposes, or the notice of redemption of which was initially mailed, prior to such failure; and

(3) we may not redeem, purchase or otherwise acquire, or permit any subsidiary to purchase or acquire any shares of any other class of our stock ranking junior to the preference shares as to dividends and upon liquidation.

Preemptive Rights

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

Listing

Our common shares are listed on the NYSE under the trading symbol "AXS."

Transfer Agent and Registrar

The transfer agent and registrar for the common shares is The Bank of New York, whose principal executive office is located at One Wall Street, New York, NY 10286.

DESCRIPTION OF DEPOSITARY SHARES

The following summarizes the material provisions of the deposit agreement and the depositary shares and depositary receipts. You should read the particular terms of any depositary shares and any depositary receipts that are offered by us, and any deposit agreement relating to our common shares or a particular series of preference shares, which will be described in more detail in an applicable prospectus supplement, which will also include a discussion of material U.S. federal income tax considerations. A copy of the form of deposit agreement, including the form of depositary receipt, is filed as an exhibit to the registration statement of which this prospectus is a part.

General

The common shares or preference shares represented by depositary shares will be deposited under a deposit agreement between us and a bank or trust company selected by us and having its principal office in the United States and having a combined capital and surplus of at least $50,000,000. Subject to the terms of the deposit agreement, each owner of a depositary share will be entitled, in proportion to the applicable common shares or preference shares or fraction thereof represented by the depositary share, to all of the rights and preferences of the common shares or preference shares represented thereby (including any dividend, voting, redemption, conversion and liquidation rights).

The depositary shares will be evidenced by depositary receipts issued pursuant to the deposit agreement. Depositary receipts will be distributed to those persons purchasing the common shares or preference shares in accordance with the terms of the offering.

We may, at our option, elect to offer fractional shares of common shares or preference shares, rather than full common shares or preference shares. In the event we exercise this option, we will issue receipts for depositary shares, each of which will represent a fraction, to be described in an applicable prospectus supplement, of a common share or share of a particular series of preference shares.

Pending the preparation of definitive depositary receipts, the depositary may, upon our written order or the written order of any holder of deposited common shares or preference shares, execute and deliver temporary depositary receipts that are substantially identical to, and that entitle the holders to all the rights pertaining to, the definitive depositary receipts. Depositary receipts will be prepared thereafter without unreasonable delay, and temporary depositary receipts will be exchangeable for definitive depositary receipts at our expense.

Dividends and Other Distributions

The depositary will distribute all cash dividends and other cash distributions received in respect of the deposited common shares or preference shares to the record holders of depositary shares relating to such common shares or preference shares, in proportion to the numbers of the depositary shares owned by such holders.

In the event of a non-cash distribution, the depositary will distribute property it receives to the appropriate record holders of depositary shares. If the depositary determines that it is not feasible to make a distribution, it may, with our approval, sell the property and distribute the net proceeds from the sale to the holders.

Redemption of Depositary Shares

Subject to Bermuda law, if common shares or preference shares represented by depositary shares are to be redeemed, the depositary shares will be redeemed from the proceeds received by the depositary resulting from the redemption, in whole or in part, of common shares or of preference shares held by the depositary. The depositary shares will be redeemed by the depositary at a price per depositary share equal to the applicable redemption price per share payable in respect of the common shares or preference shares so redeemed. Whenever we redeem common shares or preference shares held by the depositary, the depositary will redeem, as of the same date, the number of depositary shares representing the common shares or preference shares redeemed. If fewer than all the depositary shares are to be redeemed, the depositary shares to be redeemed will be selected by the depositary by lot or pro rata or by any other equitable method as may be determined by the depositary.

Withdrawal of Shares

Any holder of depositary shares may, upon surrender of the depositary receipts at the corporate trust office of the depositary, unless the related depositary shares have previously been called for redemption, receive the number of whole shares of the related common shares or preference shares and any money or other property represented by the depositary receipts. Holders of depositary shares making withdrawals will be entitled to receive whole shares of the related common shares or preference shares on the basis set forth in the prospectus supplement for such depositary shares, but holders of such whole common shares or preference shares will not thereafter be entitled to deposit the common shares or preference shares under the deposit agreement or to receive depositary receipts therefor. If the depositary shares surrendered by the holder in connection with a withdrawal exceed the number of depositary shares that represent the number of whole common shares or preference shares to be withdrawn, the depositary will deliver to the holder at the same time a new depositary receipt evidencing the excess number of depositary shares.

Voting Deposited Common Shares or Preference Shares

Upon receipt of notice of any meeting at which the holders of any deposited common shares or preference shares are entitled to vote, the depositary will mail the information contained in the notice of meeting to the record holders of the depositary shares relating to such common shares or preference shares. Each record holder of the depositary shares on the record date, which will be the same date as the record date for the common shares or preference shares, will be entitled to instruct the depositary as to the exercise of the voting rights pertaining to the amount of the common shares or preference shares represented by the holder's depositary shares.

The depositary will attempt, insofar as practicable, to vote the amount of such common shares or preference shares represented by the depositary shares in accordance with the instructions, and we will agree to take all reasonable actions that may be deemed necessary by the depositary to enable the depositary to do so. The depositary will refrain from voting the common shares or preference shares to the extent it does not receive specific instructions from the holder of depositary shares representing the common shares or preference shares.

Amendment and Termination of the Deposit Agreement

The form of depositary receipt evidencing the depositary shares and any provision of the deposit agreement may at any time be amended by agreement between us and the depositary. However, any amendment which materially and adversely alters the rights of the holders of the depositary shares representing the common shares or preference shares of any series will not be effective unless the amendment has been approved by the holders of at least the amount of the depositary shares then outstanding representing the minimum amount of the common shares or preference shares of such series necessary to approve any amendment that would materially and adversely affect the rights of the holders of the common shares or preference shares of such series. Every holder of an outstanding depositary receipt at the time any amendment becomes effective, or any transferee of the holder, will be deemed, by continuing to hold the depositary receipt, or by reason of the acquisition thereof, to consent and agree to the amendment and to be bound by the deposit agreement as amended thereby. The deposit agreement automatically terminates if:

- all outstanding depositary shares have been redeemed;

- each preference share has been converted into other preference shares or has been exchanged for debt securities; or

- a final distribution in respect of the common shares or preference shares has been made to the holders of depositary shares in connection with any liquidation, dissolution or winding up of AXIS Capital.

Charges of Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay all charges of the depositary in connection with the initial deposit of the common shares or preference shares and any redemption of such common shares or preference shares. Holders of depositary receipts will pay other transfer and other taxes and governmental charges and other charges or expenses as are expressly provided in the deposit agreement.

Resignation and Removal of Depositary

The depositary may resign at any time by delivering to us notice of its election to do so, and we may at any time remove the depositary, any resignation or removal to take effect upon the appointment of a successor depositary and its acceptance of the appointment. The successor depositary must be appointed within 60 days after delivery of the notice of resignation or removal and must be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least $50,000,000.

Miscellaneous

The depositary will forward all reports and communications from us which are delivered to the depositary and which we are required to furnish to the holders of the deposited common shares or preference shares.

Neither we nor the depositary will be liable if we are or it is prevented or delayed by law or any circumstances beyond our or its control in performing any obligations under the deposit agreement. Our and their obligations under the deposit agreement will be limited to performance in good faith of our and their duties under the deposit agreement and neither we nor they will be obligated to prosecute or defend any legal proceeding in respect of any depositary shares, depositary receipts or common shares or preference shares unless satisfactory indemnity is furnished. They may rely upon written advice of counsel or accountants, or upon information provided by holders of depositary receipts or other persons believed to be competent and on documents believed to be genuine.

DESCRIPTION OF DEBT SECURITIES

Senior Debt Indenture and Subordinated Debt Indenture

We may issue our debt securities, consisting of notes, debentures or other indebtedness, from time to time in one or more series. We will issue any senior debt securities pursuant to a senior debt indenture entered into between AXIS Capital and The Bank of New York, as trustee. We will issue any subordinated debt securities pursuant to a subordinated debt indenture entered into between AXIS Capital and The Bank of New York, as trustee. In addition, we will issue any junior subordinated debt securities to an AXIS Capital Trust in connection with the issuance of trust preferred securities and common securities by such AXIS Capital Trust. Such junior subordinated debt securities will be issued and governed under a separate junior subordinated indenture between us and The Bank of New York, as trustee. The subordinated debt indenture and the junior subordinated debt indenture are collectively referred to in this prospectus as the subordinated debt indentures.

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

Copies of the senior debt indenture, the subordinated debt indenture and the junior subordinated indenture are included as exhibits to the registration statement of which this prospectus is a part. The following description provides a general summary of the material terms and conditions of each of these indentures and the debt securities issued pursuant to these indentures.

The following discussion is only a summary. The indentures may contain language that expands upon or limits the statements made in this prospectus. Accordingly, we strongly encourage you to refer to the indentures for a complete understanding of the terms and conditions applicable to the indentures and the debt securities.

Senior and Subordinated Debt Securities

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

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

AXIS Capital is a holding company with no direct operations. Our ability to meet any obligations with respect to the debt securities will be dependent on the earnings and cash flows of our subsidiaries and the ability of our subsidiaries to pay us dividends.

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

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

The debt securities issued under the subordinated debt indentures will be subordinate in right of payment in respect of principal, any premium, interest and additional amounts owing under the subordinated debt securities to all our senior indebtedness of AXIS Capital in the manner described below under the caption "Subordination under the Subordinated Debt Indentures."

Prospectus Supplements

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

- whether the securities are senior or subordinated, the specific designation of the series of debt securities being offered, the aggregate principal amount of debt securities of such series, the purchase price for the debt securities and the denominations of the debt securities;

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

- the date or dates upon which the debt securities are payable;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Global Debt Securities

We may issue registered debt securities in global form. This means that one "global" debt security would be issued to represent a number of registered debt securities. The denomination of the global debt security would equal the aggregate principal amount of all registered debt securities represented by that global debt security.

We will deposit any registered debt securities issued in global form with a depositary, or with a nominee of the depositary, that we will name in the applicable prospectus supplement. Any person holding an interest in the global debt security through the depositary will be considered the "beneficial" owner of that interest. A "beneficial" owner of a security is able to enjoy rights associated with ownership of the security, even though the beneficial owner is not recognized as the legal owner of the security. The interest of the beneficial owner in the security is considered the "beneficial interest." We will register the debt securities in the name of the depositary or the nominee of the depositary, as appropriate.

The depositary or its nominee may only transfer a global debt security in its entirety and only in the following circumstances:

- by the depositary for the registered global security to a nominee of the depositary;
- by a nominee of the depositary to the depositary or to another nominee of the depositary; or
- by the depositary or the nominee of the depositary to a successor of the depositary or to a nominee of the successor.

These restrictions on transfer would not apply to a global debt security after the depositary or its nominee, as applicable, exchanged the global debt security for registered debt securities issued in definitive form.

We will describe the specific terms of the depositary arrangement with respect to any series of debt securities represented by a registered global security in the prospectus supplement relating to that series. We anticipate that the following provisions will apply to all depositary arrangements for debt securities represented by a registered global security.

Ownership of beneficial interests in a registered global security will be limited to (1) participants that have accounts with the depositary for the registered global security and (2) persons that may hold interests through those participants. Upon the issuance of a registered global security, the depositary will credit each participant's account on the depositary's book-entry registration and transfer system with the principal amount of debt securities represented by the registered global security beneficially owned by that participant. Initially, the dealers, underwriters or agents participating in the distribution of the debt securities will designate the accounts that the depositary should credit.

Ownership of beneficial interests in the registered global security will be shown on, and the transfer of ownership interests will be effected only through, records maintained by the depositary for the registered global security, with respect to interests of participants, and on the records of participants, with respect to interests of persons holding through participants. The laws of some states may require that purchasers of securities regulated by the laws of those states take physical delivery of the securities in definitive form. Those laws may impair the ability to own, transfer or pledge beneficial interests in registered global securities.

As long as the depositary for a registered global security, or its nominee, is the registered owner of the registered global security, that depositary or its nominee will be considered the sole owner or holder of the debt securities represented by the registered global security for all purposes under the applicable indenture. Owners of beneficial interests in a registered global security generally will not:

- be entitled to have the debt securities represented by the registered global security registered in their own names;
- receive or be entitled to receive physical delivery of the debt securities in definitive form; and
- be considered the owners or holders of the debt securities under the applicable indenture.

Accordingly, each person owning a beneficial interest in a registered global security must rely on the procedures of the depositary for the registered global security and, if that person owns through a participant, on the procedures of the participant through which that person owns its interest, to exercise any rights of a holder under the applicable indenture.

We understand that under existing industry practices, if we request any action of holders of debt securities or if an owner of a beneficial interest in a registered global security desires to give or take any action which a holder of debt securities is entitled to give or take under the applicable indenture, the depositary for the registered global security would authorize the participants holding the relevant beneficial interests to give or take the action, and the participants would authorize beneficial owners owning through the participants to give or take the action or would otherwise act upon the instructions of beneficial owners owning through them.

We will make payments of principal, any premium or interest on or additional amounts with respect to a registered global security to the depositary or its nominee. None of AXIS Capital, the indenture trustee or any other agent of AXIS Capital or of the indenture trustee will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the registered global security or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

We expect that the depositary for any registered global security, upon receipt of any payment of principal, premium, interest or additional amounts with respect to the registered global security, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the registered global security as shown on the records of the depositary.

We also expect that standing customer instructions and customary practices will govern payments by participants to owners of beneficial interests in the registered global security owned through the participants.

We will issue our debt securities in definitive form in exchange for a registered global security if the depositary for such registered global security is at any time unwilling or unable to continue as depositary or ceases to be a clearing agency registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and if a successor depositary registered as a clearing agency under the Exchange Act is not appointed within 90 days. In addition, we may at any time and in our sole discretion determine not to have any of the debt securities of a series represented by a registered global security and, in such event, will issue debt securities of the series in definitive form in exchange for the registered global security.

We will register any debt securities issued in definitive form in exchange for a registered global security in such name or names as the depositary shall instruct the indenture trustee. We expect that the depositary will base these instructions upon directions received by the depositary from participants with beneficial interests in the registered global security.

We also may issue bearer debt securities of a series in global form. We will deposit these global bearer securities with a common depositary or with a nominee for the depositary identified in the prospectus supplement relating to the series. We will describe the specific terms and procedures of the depositary arrangement for the bearer debt securities in the prospectus supplement relating to the series. We also will describe in the applicable prospectus supplement any specific procedures for the issuance of debt securities in definitive form in exchange for a bearer global security.

Covenants Applicable to the Debt Securities

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

The senior debt indenture defines "restricted subsidiaries" as (1) AXIS Specialty, AXIS Reinsurance, AXIS Barbados and AXIS Ireland Holdings, so long as they remain our subsidiaries; (2) any other present or future subsidiary of AXIS Capital, the consolidated total assets of which constitute at least 20% of our total consolidated assets; and (3) any successor to any such subsidiary.

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

- we are the continuing entity in the transaction or, if not, the successor entity expressly assumes our obligations on the securities and under the indentures;

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

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

In the context of a consolidation, merger or amalgamation or sale or purchase of assets, the successor entity is the entity that assumes or otherwise becomes obligated for the rights and obligations of the other party or parties to the transaction. In addition, in a consolidation, merger, amalgamation or sale of assets where we are not the surviving entity, the successor entity shall be a corporation or limited liability company organized and existing under the laws of the United States of America, any state thereof, the District of Columbia, Bermuda, the Cayman Islands, Barbados or any country or state that is a member of the Organization for Economic Cooperation and Development.

The limitations on the transactions described above do not apply to a recapitalization, change of control or highly leveraged transaction unless the transaction involves a consolidation, merger or amalgamation into a third party, or a sale, other than for cash to a third party of all or substantially all of our assets, or a purchase by us of all or substantially all of the assets of a third party. In addition, the indentures do not include any provisions that would increase interest, provide an option to dispose of securities at a fixed price or otherwise protect debt security holders in the event of any recapitalization, change of control or highly leveraged transaction.

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

- the action must be taken to comply with the order of a court or regulatory authority, unless the order was requested by us or one of our restricted subsidiaries;
- we dispose of all of the voting stock of a restricted subsidiary owned by us or by a restricted subsidiary for cash or other property having a fair market value that is at least equal to the fair market value of the disposed stock, as determined in good faith by our board of directors;
- the issuance, sale, assignment, transfer or other disposition is made to us or another restricted subsidiary;
- any issuance, sale, assignment, transfer or other disposition made in compliance with an order of a court or regulatory authority of competent jurisdiction; or
- after completion of a sale or other disposition of the stock of a restricted subsidiary, we and our restricted subsidiaries would own 80% or more of the voting stock of the restricted subsidiary and the consideration received for the disposed stock is at least equal to the fair market value of the disposed stock, as determined in good faith by our board of directors.

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

Events Of Default

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

- a default in payment of principal or any premium or any additional amounts when due; provided, however, that if we are permitted by the terms of the debt securities to defer the payment in question, the date on which such payment is due and payable shall be the date on which we must make payment following such deferral, if the deferral has been made pursuant to the terms of the securities of that series;
- a default for 30 days in payment of any interest; provided, however, that if we are permitted by the terms of the debt securities to defer the payment in question, the date on which such payment is due and payable shall be the date on which we must make payment following such deferral, if the deferral has been made pursuant to the terms of the securities of that series;
- a default in payment of any sinking fund installment when due;
- a failure to observe or perform any other covenant or agreement in the debt securities or indenture, other than a covenant or agreement included solely for the benefit of a different series of debt securities, after 90 days written notice of the failure;
- events of bankruptcy, insolvency or reorganization; or
- a continuing default, for more than 30 days after we receive notice of the default, under any other indenture, mortgage, bond, debenture, note or other instrument, under which we or our restricted subsidiaries may incur recourse indebtedness for borrowed money in an aggregate principal amount exceeding $100,000,000, if the default has resulted in the acceleration of that indebtedness, and such acceleration has not been waived or cured.

51

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

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

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

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

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

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

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

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

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

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

Discharge, Defeasance and Covenant Defeasance

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

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

If provided for in the prospectus supplement, we may elect to defease and be discharged from all of our obligations contained in the indentures or from specific obligations under the covenants contained in the indentures with respect to any debt securities of or within a series. We may make this defeasance election by irrevocably depositing cash or U.S. government obligations with the trustee in an amount certified to be sufficient to pay in full the principal, any premium, interest and additional amounts on the relevant debt securities when due.

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

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

Modification of the Indentures

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

- secure any debt securities;
- evidence a successor person's assumption of our obligations under the indentures and the debt securities;
- add covenants that protect holders of debt securities;
- cure any ambiguity, mistake or inconsistency in the indenture, provided that such correction does not materially adversely affect the holders of the affected debt securities;
- establish forms or terms for debt securities of any series;
- evidence a successor trustee's acceptance of appointment; and
- make any other changes that do not materially adversely affect the holders of the affected debt securities.

The indentures also permit us and the trustee, with the consent of the holders of at least a majority in aggregate principal amount of outstanding affected debt securities of all series issued under the relevant indenture, voting as one class, to change, in any manner, the relevant indenture and the

53

rights of the holders of debt securities issued under that indenture. However, the consent of each holder of an affected debt security is required for changes that:

- extend the stated maturity of, or reduce the principal of, any debt security;
- reduce the rate or extend the time of payment of interest;
- reduce any amount payable upon redemption;
- change the currency in which the principal, any premium, interest or any additional amount is payable;
- reduce the amount of any original issue discount debt security that is payable upon acceleration or provable in bankruptcy;
- impair the right to institute suit for the enforcement of any payment on any debt security when due; or
- reduce the percentage of the outstanding debt securities of any series required to approve changes to the indenture.

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

Payment of Additional Amounts

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

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

(1) any tax, fee, duty, assessment or governmental charge of whatever nature which would not have been imposed but for the fact that such holder (a) was a resident, domiciliary or national of, or engaged in business or maintained a permanent establishment or was physically present in, the relevant taxing jurisdiction or any political subdivision thereof or otherwise had some connection with the relevant taxing jurisdiction other than by reason of the mere ownership of, or receipt of payment under, such debt security, (b) presented, where presentation is required, such debt security for payment in the relevant taxing jurisdiction or any political subdivision thereof, unless such debt security could not have been presented for payment elsewhere, or (c) presented, where presentation is required, such debt security for payment more than 30 days after the date on which the payment in respect of such debt security became due and payable or provided for, whichever is

later, except to the extent that the holder would have been entitled to such additional amounts if it had presented such debt security for payment on any day within that 30-day period;

(2) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(3) any tax, assessment or other governmental charge that is imposed or withheld by reason of the failure by the holder of such debt security to comply with any reasonable request by us addressed to the holder within 90 days of such request (a) to provide information concerning the nationality, residence or identity of the holder or (b) to make any declaration or other similar claim or satisfy any information or reporting requirement, which is required or imposed by statute, treaty, regulation or administrative practice of the relevant taxing jurisdiction or any political subdivision thereof as a precondition to exemption from all or part of such tax, assessment or other governmental charge;

(4) any withholding or deduction required to be made pursuant to EU Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments (the "EU Directive"), or any law implementing or complying with, or introduced in order to conform to such EU Directive; or

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

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

Redemption for Tax Purposes

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

Subordination Under the Subordinated Debt Indentures

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

- for money borrowed by us;
- for obligations of others that we directly or indirectly either assume or guarantee;
- in respect of letters of credit and acceptances issued or made by banks in favor of us; or
- issued or assumed as all or part of the consideration for the acquisition of property, however acquired, or indebtedness secured by property included in our property, plant and equipment accounts at the time of acquisition, if we are directly liable for the payment of such debt.

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

Senior indebtedness does not include:

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

The subordinated debt indentures do not limit the amount of senior indebtedness that we can incur.

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

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

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

Conversion Rights

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

Governing Law

The indentures and the debt securities will be governed by, and construed in accordance with, the laws of the State of New York, except to the extent that the Trust Indenture Act is applicable, in which case the Trust Indenture Act will govern.

The Indenture Trustees

The Bank of New York will act as trustee under the senior debt indenture and the subordinated debt indentures and as administrative and Delaware trustee under the declarations. The Bank of New York acts as the transfer agent for our common shares and is a lender under our credit facility.

DESCRIPTION OF WARRANTS

We may issue warrants to purchase common shares, preference shares and debt securities. Warrants may be issued independently or together with any securities and may be attached to or separate from the securities. The warrants are to be issued under warrant agreements to be entered into between us and a bank or trust company, as warrant agent. You should read the particular terms of the warrants, which will be described in more detail in the applicable prospectus supplement. The applicable prospectus supplement will also state whether any of the general provisions summarized below do not apply to the warrants being offered.

Debt Warrants

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

- the title of the warrants;
- the aggregate number of warrants;
- the price or prices at which the warrants will be issued;
- the currency or currencies, including composite currencies or currency units, in which the price of the warrants may be payable;
- the designation, number or aggregate principal amount and terms of the securities purchasable upon exercise of the warrants, and the procedures and conditions relating to the exercise of the warrants;
- the date on which the right to exercise the warrants will commence, and the date on which the right will expire;
- the designation and terms of any related securities with which the warrants are issued, and the number of the warrants issued with each security;
- the currency or currencies, including composite currencies or currency units, in which any principal, premium, if any, or interest on the securities purchasable upon exercise of the warrants will be payable;
- the date, if any, on and after which the warrants and the related securities will be separately transferable;
- the maximum or minimum number of the warrants which may be exercised at any time;
- any other specific terms of the warrants; and
- if necessary, a discussion of U.S. federal income tax considerations and material Bermuda tax considerations.

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

Exercise of Warrants

Each warrant will entitle the holder to purchase for cash a number of common shares or preference shares or the principal amount of debt securities at the exercise price as will in each case be described in, or can be determined from, the applicable prospectus supplement relating to the offered warrants. Warrants may be exercised at any time up to the close of business on the expiration date described in the applicable prospectus supplement. After the close of business on the expiration date, unexercised warrants will become void.

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

DESCRIPTION OF TRUST PREFERRED SECURITIES AND TRUST GUARANTEES

Trust Preferred Securities

Each declaration will authorize the trustees of each AXIfont-family:ARIAL" SIZE="2">**Client Assets**

	December 31	
(Dollars in millions)	**2009**	2008
Assets under management	**$ 749,852**	$ 523,159
Client brokerage assets (1)	**1,270,461**	172,106
Assets in custody	**274,472**	133,726
Client deposits	**224,840**	176,186
Less: Client brokerage assets and assets in custody included in assets under management	**(346,682)**	(87,519)
Total net client assets	**$ 2,172,943**	$ 917,658

(1) Client brokerage assets include non-discretionary brokerage and fee-based assets.

The increase in net client assets was driven by the acquisition of Merrill Lynch and higher equity market values at December 31, 2009 compared to 2008 partially offset by outflows that primarily occurred in cash and money market assets due to increasing interest rate pressure.

Merrill Lynch Global Wealth Management

Effective January 1, 2009, as a result of the Merrill Lynch acquisition, we combined the Merrill Lynch wealth management business and our former *Premier Banking & Investments* business to form *MLGWM*. *MLGWM* provides a high-touch client experience through a network of approximately 15,000 client-facing financial advisors to our affluent customers with a personal wealth profile of at least $250,000 of investable assets. The addition of Merrill Lynch created one of the largest financial advisor networks in the world. Merrill Lynch added $10.3 billion in revenue and $1.6 billion in net income during 2009. Total client balances in *MLGWM*, which include deposits, AUM, client brokerage assets and other assets in custody, were $1.4 trillion at December 31, 2009.

MLGWM includes the impact of migrating customers and their related deposit and loan balances to or from *Deposits* and *Home Loans & Insurance*. As of the date of migration, the associated net interest income, noninterest income and noninterest expense are recorded in the segment to which the customers migrated. During 2009, total deposits of $43.4 billion were migrated to *Deposits* from *MLGWM.* Conversely, during 2008, total deposits of $20.5 billion were migrated from *Deposits* to *MLGWM.* During 2009 and 2008, total loans of $16.6 billion and $1.7 billion were migrated from *MLGWM,* of which $11.5 billion and $1.6 billion were migrated to *Home Loans & Insurance*. These changes in 2009 were mainly due to client segmentation threshold changes resulting from the Merrill Lynch acquisition.

Table of Contents

Net income increased $271 million, or 22 percent, to $1.5 billion as increases in noninterest income and net interest income were partially offset by higher noninterest expense. Net interest income increased $1.4 billion, or 42 percent, to $4.6 billion driven by higher average deposit and loan balances due to the acquisition of Merrill Lynch partially offset by a lower net interest income allocation from ALM activities, the impact of migration to *Deposits* and *Home Loans & Insurance*, and spread compression on deposits. Noninterest income rose $6.8 billion to $7.8 billion due to an increase in investment and brokerage services income of $5.1 billion driven by the acquisition of Merrill Lynch. Provision for credit losses increased $58 million, or 10 percent, to $619 million primarily driven by increased credit costs related to the consumer real estate portfolio reflecting the weak housing market. Noninterest expense increased $7.6 billion to $9.4 billion driven by the acquisition of Merrill Lynch. In addition, noninterest expense was adversely impacted by higher FDIC insurance and special assessment costs.

U.S. Trust, Bank of America Private Wealth Management

U.S. Trust provides comprehensive wealth management solutions to wealthy and ultra-wealthy clients with investable assets of more than $3 million. In addition, *U.S. Trust* provides resources and customized solutions to meet clients wealth structuring, investment management, trust and banking needs as well as specialty asset management services (oil and gas, real estate, farm and ranch, timberland, private businesses and tax advisory). Clients also benefit from access to resources available through the Corporation including capital markets products, large and complex financing solutions, and our extensive banking platform.

Net income decreased $490 million, or 74 percent, to $174 million driven by higher provision for credit losses and lower net interest income. Net interest income decreased $209 million, or 13 percent, to $1.4 billion due to a lower net interest income allocation from ALM activities partially offset by the shift of client assets from off-balance sheet (e.g., money market funds) to on-balance sheet products (e.g., deposits). Noninterest income decreased $116 million, or eight percent, to $1.3 billion driven by lower investment and brokerage services income due to lower valuations in the equity markets and a decline in transactional revenues offset by the addition of the Merrill Lynch trust business and lower losses related to ARS. Provision for credit losses increased $339 million to $442 million driven by higher net charge-offs, including a single large commercial charge-off, and higher reserve additions in the commercial and consumer real estate portfolios. Noninterest expense increased $114 million, or six percent, to $1.9 billion due to higher FDIC insurance and special assessment costs and the addition of the Merrill Lynch trust business which were partially offset by cost containment strategies and lower revenue-related expenses.

Columbia Management

Columbia is an asset management business serving the needs of both institutional clients and individual customers. *Columbia* provides asset management products and services including mutual funds and separate accounts. *Columbia* mutual fund offerings provide a broad array of investment strategies and products including equity, fixed income (taxable and nontaxable) and money market (taxable and nontaxable) funds. *Columbia* distributes its products and services to institutional clients and individuals directly through *MLGWM, U.S. Trust, Global Banking* and nonproprietary channels including other brokerage firms.

During 2009, the Corporation reached an agreement to sell the long-term asset management business of *Columbia* to Ameriprise Financial, Inc., for consideration of approximately $900 million to $1.2 billion subject to certain adjustments including, among other factors, AUM net flows. This includes the management of *Columbia s* equity and fixed

income mutual funds and separate accounts. The transaction is expected to close in the second quarter of 2010, and is subject to regulatory approvals and customary closing conditions, including fund board, fund shareholder and other required client approvals.

Columbia recorded a net loss of $7 million compared to a net loss of $469 million in 2008. Net revenue increased $539 million due to a reduction in losses of $917 million related to support provided to certain cash funds offset by lower investment and brokerage services income of $406 million. The decrease in investment and brokerage services income was driven by the impact of lower average equity market levels and net outflows primarily in the cash complex. Noninterest expense decreased $194 million driven by lower revenue-related expenses, such as lower sub-advisory, distribution and dealer support expenses, and reduced personnel-related expenses.

Cash Funds Support

Beginning in the second half of 2007, we provided support to certain cash funds managed within *Columbia.* The funds for which we provided support typically invested in high quality, short-term securities with a portfolio weighted-average maturity of 90 days or less, including securities issued by SIVs and senior debt holdings of financial services companies. Due to market disruptions, certain investments in SIVs and senior debt securities were downgraded by the ratings agencies and experienced a decline in fair value. We entered into capital commitments under which the Corporation provided cash to these funds in the event the net asset value per unit of a fund declined below certain thresholds. All capital commitments to these cash funds have been terminated. In 2009 and 2008, we recorded losses of $195 million and $1.1 billion related to these capital commitments.

Additionally, during 2009 and 2008, we purchased $1.8 billion and $1.7 billion of certain investments from the funds. As a result of these purchases, certain cash funds, including the Money Market Funds, managed within *Columbia* no longer have exposure to SIVs or other troubled assets. At December 31, 2009 and 2008, we held AFS debt securities with a fair value of $902 million and $698 million of which $423 million and $279 million were classified as nonperforming AFS debt securities and had $171 million and $272 million of related unrealized losses recorded in accumulated OCI. The decline in value of these securities was driven by the lack of market liquidity and the overall deterioration of the financial markets. These unrealized losses are recorded in accumulated OCI as we expect to recover the full principal amount of such investments and it is more-likely-than-not that we will not be required to sell the investments prior to recovery.

Other

Other includes the results of the Retirement & Philanthropic Services business, the Corporation s approximately 34 percent economic ownership interest in BlackRock and other miscellaneous items. Our investment in BlackRock is accounted for under the equity method of accounting with our proportionate share of income or loss recorded in equity investment income.

Net income increased $868 million to $891 million compared to 2008. The increase was driven by higher noninterest income offset by higher noninterest expense and lower net interest income. Net interest income decreased $406 million due to the funding cost on a management accounting basis for carrying the BlackRock investment. Noninterest income increased $2.4 billion to $2.6 billion due to the addition of the Retirement & Philanthropic Services business from Merrill Lynch and earnings from BlackRock which contributed $1.3 billion during 2009, including the $1.1 billion gain previously mentioned. Noninterest expense increased $624 million to $789 million primarily driven by the addition of the Retirement & Philanthropic Services business from Merrill Lynch.

All Other

	2009			2008		
(Dollars in millions)	**Reported Basis (1)**	**Securitization Offset (2)**	**As Adjusted**	Reported Basis (1)	Securitization Offset (2)	As Adjusted
Net interest income (3)	**$ (6,922)**	**$ 9,250**	**$ 2,328**	$ (8,019)	$ 8,701	$ 682
Noninterest income:						
Card income (loss)	**(895)**	**2,034**	**1,139**	2,164	(2,250)	(86)
Equity investment income	**9,020**		**9,020**	265		265
Gains on sales of debt securities	**4,440**		**4,440**	1,133		1,133
All other income (loss)	**(6,735)**	**115**	**(6,620)**	(711)	219	(492)
Total noninterest income	**5,830**	**2,149**	**7,979**	2,851	(2,031)	820
Total revenue, net of interest expense	**(1,092)**	**11,399**	**10,307**	(5,168)	6,670	1,502
Provision for credit losses	**(3,431)**	**11,399**	**7,968**	(3,769)	6,670	2,901
Merger and restructuring charges (4)	**2,721**		**2,721**	935		935
All other noninterest expense	**1,997**		**1,997**	189		189
Income (loss) before income taxes	**(2,379)**		**(2,379)**	(2,523)		(2,523)
Income tax benefit (3)	**(2,857)**		**(2,857)**	(1,283)		(1,283)
Net income (loss)	**$ 478**	**$**	**$ 478**	$ (1,240)	$	$ (1,240)

(1) Provision for credit losses represents the provision for credit losses in *All Other* combined with the *Global Card Services* securitization offset.
(2) The securitization offset on net interest income is on a funds transfer pricing methodology consistent with the way funding costs are allocated to the businesses.
(3) FTE basis
(4) For more information on merger and restructuring charges, see *Note 2 Merger and Restructuring Activity* to the Consolidated Financial Statements.

(Dollars in millions)	**2009**	2008
Balance Sheet		
Average		
Total loans and leases (1)	**$ 155,561**	$ 135,789
Total assets (1, 2)	**239,642**	77,244
Total deposits	**103,122**	105,725
Allocated equity (3)	**49,015**	16,563
Year end		
Total loans and leases (1)	**$ 152,944**	$ 136,163
Total assets (1, 2)	**137,382**	79,420
Total deposits	**78,618**	86,888

(1) Loan amounts are net of the securitization offset of $98.5 billion and $104.4 billion for 2009 and 2008 and $89.7 billion and $101.0 billion at December 31, 2009 and 2008.
(2) Includes elimination of segments excess asset allocations to match liabilities (i.e., deposits) of $511.0 billion and $413.1 billion for 2009 and 2008 and $561.6 billion and $439.2 billion at December 31, 2009 and 2008.
(3) Increase in allocated equity was due to capital raises during 2009.

Global Card Services is reported on a managed basis which includes a securitization impact adjustment which has the effect of assuming that loans that have been securitized were not sold and presents these loans in a manner similar to the way loans that have not been sold are presented. *All Other* s results include a corresponding securitization offset which removes the impact of these securitized loans in order to present the consolidated results on a GAAP basis (i.e., held basis). See the *Global Card Services* section beginning on page 29 for information on the *Global Card Services* managed results. The following *All Other* discussion focuses on the results on an as adjusted basis excluding the securitization offset. In addition to the securitization offset discussed above, *All Other* includes our *Equity Investments* businesses and *Other*.

Equity Investments includes Global Principal Investments, Corporate Investments and Strategic Investments. On January 1, 2009, Global

Principal Investments added Merrill Lynch s principal investments. The combined business is comprised of a diversified portfolio of investments in private equity, real estate and other alternative investments. These investments are made either directly in a company or held through a fund with related income recorded in equity investment income. Global Principal Investments has unfunded equity commitments amounting to $2.5 billion at December 31, 2009 related to certain of these investments. For more information on these commitments, see *Note 14 Commitments and Contingencies* to the Consolidated Financial Statements.

Corporate Investments primarily includes investments in publicly traded debt and equity securities and funds which are accounted for as AFS marketable equity securities. Strategic Investments includes investments of $9.2 billion in CCB, $5.4 billion in Itaú Unibanco Holding S.A. (Itaú Unibanco), $2.5 billion in Grupo Financiero Santander, S.A. (Santander) and other investments. Our shares of Itaú Unibanco are accounted for as AFS marketable equity securities. Our investment in Santander is accounted for under the equity method of accounting.

In 2009, we sold 19.1 billion common shares representing our entire initial investment in CCB for $10.1 billion, resulting in a pre-tax gain of $7.3 billion. During 2008, under the terms of the CCB purchase option, we increased our ownership by purchasing approximately 25.6 billion common shares for $9.2 billion. We continue to hold the shares purchased in 2008.

These shares are accounted for at cost, are recorded in other assets and are non-transferable until August 2011. We remain a significant shareholder in CCB with an approximate 11 percent ownership interest and intend to continue the important long-term strategic alliance with CCB originally entered into in 2005. As part of this alliance, we expect to continue to provide advice and assistance to CCB.

Table of Contents

The following table presents the components of *All Other* s equity investment income and reconciliation to the total consolidated equity investment income for 2009 and 2008 and also *All Other* s equity investments at December 31, 2009 and 2008.

Equity Investment Income

(Dollars in millions)	**2009**	2008
Global Principal Investments	**$ 1,222**	$ (84)
Corporate Investments	**(88)**	(520)
Strategic and other investments	**7,886**	869
Total equity investment income included in *All Other*	**9,020**	265
Total equity investment income included in the business segments	**994**	274
Total consolidated equity investment income	**$ 10,014**	$ 539

Equity Investments

	December 31	
	2009	2008
Global Principal Investments	**$ 14,071**	$ 3,812
Corporate Investments	**2,731**	2,583
Strategic and other investments	**17,860**	25,027
Total equity investments included in All Other	**$ 34,662**	$ 31,422

Other includes the residential mortgage portfolio associated with ALM activities, the residual impact of the cost allocation processes, merger and restructuring charges, intersegment eliminations and the results of certain businesses that are expected to be or have been sold or are in the process of being liquidated. *Other* also includes certain amounts associated with ALM activities, including the residual impact of funds transfer pricing allocation methodologies, amounts associated with the change in the value of derivatives used as economic hedges of interest rate and foreign exchange rate fluctuations, impact of foreign exchange rate fluctuations related to revaluation of foreign currency-denominated debt, fair value adjustments on certain structured notes, certain gains (losses) on sales of whole mortgage loans and gains (losses) on sales of debt securities. In addition, *Other* includes adjustments to net interest income and income tax expense to remove the FTE effect of items (primarily low-income housing tax credits) that are reported on a FTE basis in the business segments. *Other* also includes a trust services business which is a client-focused business providing trustee services and fund administration to various financial services companies.

First Republic results are also included in *Other*. First Republic, acquired as part of the Merrill Lynch acquisition, provides personalized, relationship-based banking services including private banking, private business banking, real estate lending, trust, brokerage and investment management. First Republic is a stand-alone bank that operates primarily on the west coast and in the northeast and caters to high-end customers. On October 21, 2009, we reached an agreement to sell First Republic to a number of investors, led by First Republic s existing management, Colony Capital, LLC and General Atlantic, LLC. The transaction is expected to close in the second quarter of 2010 subject to regulatory approval.

All Other recorded net income of $478 million in 2009 compared to a net loss of $1.2 billion in 2008 as higher total revenue driven by increases in noninterest income, net interest income and an income tax benefit were partially offset by increased provision for credit losses, merger and restructuring charges and all other noninterest expense.

Net interest income increased $1.6 billion to $2.3 billion primarily due to unallocated net interest income related to increased liquidity driven in

part by capital raises during 2009 and the addition of First Republic in 2009.

Noninterest income increased $7.2 billion to $8.0 billion driven by higher equity investment income of $8.8 billion, increased gains on sales of debt securities of $3.3 billion and increased card income of $1.2 billion. These items were partially offset by a decrease in all other income of $6.1 billion. The increase in equity investment income was driven by a $7.3 billion gain on the sale of a portion of our CCB investment and positive valuation adjustments on public and private investments within Global Principal Investments. The decrease in all other income was driven by the $4.9 billion negative credit valuation adjustments on certain Merrill Lynch structured notes due to an improvement in credit spreads during 2009. In addition, we recorded other-than-temporary impairments of $1.6 billion related to non-agency CMOs included in the ALM debt securities portfolio during the year.

Provision for credit losses increased $5.1 billion to $8.0 billion. This increase was primarily due to higher credit costs related to our ALM residential mortgage portfolio reflecting deterioration in the housing markets and the impacts of a weak economy.

Merger and restructuring charges increased $1.8 billion to $2.7 billion due to the Merrill Lynch and Countrywide acquisitions. The Merrill Lynch acquisition was accounted for in accordance with new accounting guidance for business combinations effective on January 1, 2009 requiring that acquisition-related transaction and restructuring costs be charged to expense. Previously these costs were recorded as an adjustment to goodwill. This change in accounting drove a portion of the increase. We recorded $1.8 billion of merger and restructuring charges during 2009 related to the Merrill Lynch acquisition, the majority of which related to severance and employee-related charges. The remaining merger and restructuring charges related to Countrywide and ABN AMRO North America Holding Company, parent of LaSalle Bank Corporation (LaSalle). For additional information on merger and restructuring charges and systems integrations, see *Note 2 Merger and Restructuring Activity* to the Consolidated Financial Statements. All other noninterest expense increased $1.8 billion to $2.0 billion due to higher personnel costs and a $425 million charge to pay the U.S. government to terminate its asset guarantee term sheet.

Income tax benefit in 2009 increased $1.6 billion primarily as a result of the release of a portion of a valuation allowance that was provided for an acquired capital loss carryforward.

Obligations and Commitments

We have contractual obligations to make future payments on debt and lease agreements. Additionally, in the normal course of business, we enter into contractual arrangements whereby we commit to future purchases of products or services from unaffiliated parties. Obligations that are legally binding agreements whereby we agree to purchase products or services with a specific minimum quantity defined at a fixed, minimum or variable price over a specified period of time are defined as purchase obligations. Included in purchase obligations are commitments to purchase loans of $9.5 billion and vendor contracts of $9.1 billion. The most significant vendor contracts include communication services, processing services and software contracts. Other long-term liabilities include our contractual funding obligations related to the Qualified Pension Plans, Nonqualified Pension Plans and Postretirement Health and Life Plans (the Plans). Obligations to the Plans are based on the current and projected obligations of the Plans, performance of the Plans assets and any participant contributions, if applicable. During 2009 and 2008, we contributed $414 million and $1.6 billion to the Plans, and we expect to make at least $346 million of contributions during 2010.

Table 9 presents total long-term debt and other obligations at December 31, 2009.

Table 9 Long-term Debt and Other Obligations

	December 31, 2009				
(Dollars in millions)	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years	Total
Long-term debt and capital leases	$ 99,144	$ 124,054	$ 72,103	$ 143,220	**$ 438,521**
Operating lease obligations	3,143	5,072	3,355	8,143	**19,713**
Purchase obligations	11,957	3,667	1,627	2,119	**19,370**
Other long-term liabilities	610	1,097	848	1,464	**4,019**
Total long-term debt and other obligations	**$ 114,854**	**$ 133,890**	**$ 77,933**	**$ 154,946**	**$ 481,623**

Debt, lease, equity and other obligations are more fully discussed in *Note 13 Long-term Debt* and *Note 14 Commitments and Contingencies* to the Consolidated Financial Statements. The Plans are more fully discussed in *Note 17 Employee Benefit Plans* to the Consolidated Financial Statements.

We enter into commitments to extend credit such as loan commitments, standby letters of credit (SBLCs) and commercial letters of credit to meet the financing needs of our customers. For a summary of the total unfunded, or off-balance sheet, credit extension commitment amounts by expiration date, see the table in *Note 14 Commitments and Contingencies* to the Consolidated Financial Statements.

Regulatory Initiatives

On November 12, 2009, the Federal Reserve issued the final rule related to changes to Regulation E and on May 22, 2009, the CARD Act was signed into law. For more information on the impact of these new regulations, see Regulatory Overview on page 17.

In December 2009, the Basel Committee on Banking Supervision released consultative documents on both capital and liquidity. In addition, we will begin Basel II parallel implementation during the second quarter of 2010. For more information, see Basel Regulatory Capital Requirements on page 52.

On January 21, 2010, the Federal Reserve, Office of the Comptroller of the Currency, FDIC and Office of Thrift Supervision (collectively, joint agencies) issued a final rule regarding risk-based capital and the impact of adoption of new consolidation rules issued by the FASB. The final rule eliminates the exclusion of certain asset-backed commercial paper (ABCP) program assets from risk-weighted assets and provides a reservation of authority to permit the joint agencies to require banks to treat structures that are not consolidated under the accounting standards as if they were consolidated for risk-based capital purposes commensurate with the risk relationship of the bank to the structure. In addition, the final rule allows for an optional delay and phase-in for a maximum of one year for the effect on risk-weighted assets and the regulatory limit on the inclusion of the allowance for loan and lease losses in Tier 2 capital related to the assets that must be consolidated as a result of the accounting change. The transitional relief does not apply to the leverage ratio or to assets in VIEs to which a bank provides implicit support. We have elected to forgo the phase-in period, and accordingly, we consolidated the amounts for regulatory capital purposes as of January 1, 2010. For more information on the impact of this guidance, see Impact of Adopting New Accounting Guidance on Consolidation on page 52.

On December 14, 2009, we announced our intention to increase lending to small- and medium-sized businesses to approximately $21 billion in 2010 compared to approximately $16 billion in 2009. This announcement is consistent with the U.S. Treasury s initiative, announced as part of the Financial Stability Plan on February 2, 2009, to help increase small

business owners access to credit. As part of the initiative, the U.S. Treasury began making direct purchases of up to $15 billion of certain securities backed by Small Business Administration (SBA) loans to improve liquidity in the credit markets and purchasing new securities to ensure that financial institutions feel confident in extending new loans to small businesses. The program also temporarily raises guarantees to up to 90 percent in the SBA s loan program and temporarily eliminates certain SBA loan fees. We continue to lend to creditworthy small business customers through small business credit cards, loans and lines of credit products.

In response to the economic downturn, the FDIC implemented the Temporary Liquidity Guarantee Program (TLGP) to strengthen confidence and encourage liquidity in the banking system by allowing the FDIC to guarantee senior unsecured debt (e.g., promissory notes, unsubordinated unsecured notes and commercial paper) up to prescribed limits, issued by participating entities beginning on October 14, 2008, and continuing through October 31, 2009. We participated in this program; however, as announced in September 2009, due to improved market liquidity and our ability to issue debt without the FDIC guarantee, we, with the FDIC s agreement, exited the program and have stopped issuing FDIC-guaranteed debt. At December 31, 2009, we still had FDIC-guaranteed debt outstanding issued under the TLGP of $44.3 billion. The TLGP also offered the Transaction Account Guarantee Program (TAGP) that guaranteed noninterest-bearing deposit accounts held at participating FDIC-insured institutions on balances in excess of $250,000. We elected to opt out of the six-month extension of the TAGP which extends the program to June 30, 2010. We exited the TAGP effective December 31, 2009.

On September 21, 2009, the Corporation reached an agreement to terminate its term sheet with the U.S. government under which the U.S. government agreed in principle to provide protection against the possibility of unusually large losses on a pool of the Corporation s financial instruments that were acquired from Merrill Lynch. In connection with the termination of the term sheet, the Corporation paid a total of $425 million to the U.S. government to be allocated among the U.S. Treasury, the Federal Reserve and the FDIC.

In addition to exiting the TARP as discussed on page 18, terminating the U.S. Government s asset guarantee term sheet and exiting the TLGP, including the TAGP, we have exited or ceased participation in market disruption liquidity programs created by the U.S. government in response to the economic downturn of 2008. We have exited or repaid borrowings under the Term Auction Facility, U.S. Treasury Temporary Liquidity Guarantee Program for Money Market Funds, ABCP Money Market Fund Liquidity Facility, Commercial Paper Federal Funding Facility, Money Market Investor Funding Facility, Term Securities Lending Facility and Primary Dealer Credit Facility.

On November 17, 2009, the FDIC issued a final rule that required insured institutions to prepay on December 30, 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. For the fourth quarter of 2009 and for all of 2010, the prepaid assessment rate was based on each institution s total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect on September 30, 2009 had been in effect for the entire third quarter of 2009. The prepaid assessment rates for 2011 and 2012 are equal to the modified third quarter 2009 total base assessment rate plus three bps adjusted quarterly for an estimated five percent annual growth rate in the assessment base through the end of 2012. As the prepayment related to future periods, it was recorded in prepaid assets for financial reporting purposes and will be recognized as expense over the coverage period.

On May 22, 2009, the FDIC adopted a rule designed to replenish the deposit insurance fund. This rule established a special assessment of five bps on each FDIC-insured depository institution s assets minus its Tier 1 capital with a maximum assessment not to exceed 10 bps of an institution s domestic deposits. This special assessment was calculated based on asset levels at June 30, 2009, and was collected on September 30, 2009. The Corporation recorded a net charge of $724 million in 2009 in connection with this assessment. Additionally, beginning April 1, 2009, the FDIC increased fees on deposits based on a revised risk-weighted methodology which increased the base assessment rates.

Pursuant to the Emergency Economic Stabilization Act of 2008 (EESA), the U.S. Treasury announced the creation of the Financial Stability Plan. This plan outlined a series of key initiatives including a new Capital Assistance Program (CAP) to help ensure that banking institutions have sufficient capital. We, as well as several other large financial institutions, are subject to the Supervisory Capital Assessment Program (SCAP) conducted by federal regulators. The objective of the SCAP is to assess losses that could occur under certain economic scenarios, including economic conditions more severe than anticipated. As a result of the SCAP, in May 2009, federal regulators determined that the Corporation required an additional $33.9 billion of Tier 1 common capital to sustain more severe economic circumstances assuming a more prolonged and deeper recession over a two-year period than the majority of both private and government economists projected. We achieved the increased capital requirement during the first half of 2009 through strategic transactions that increased common capital, including the expected reductions in preferred dividends and related reduction in deferred tax asset disallowances, by approximately $39.7 billion and significantly exceeded the SCAP buffer. This Tier 1 common capital increase resulted from the exchange of approximately $14.8 billion aggregate liquidation preference of non-government preferred shares into approximately 1.0 billion common shares, an at-the-market offering of 1.25 billion common shares for $13.5 billion, a $4.4 billion benefit (including associated tax effects) related to the sale of shares of CCB, a $3.2 billion benefit (net of tax and including an approximate $800 million reduction in goodwill and intangibles) related to the gain from the contribution of our merchant processing business to a joint venture, $1.6 billion due to reduced actual and forecasted preferred dividends throughout 2009 and 2010 related to the exchange of preferred for common shares and a $2.2 billion reduction in the deferred tax asset disallowance for Tier 1 common capital from the preceding items.

On March 4, 2009, the U.S. Treasury provided details related to the $75 billion Making Home Affordable program (MHA). The MHA is focused on reducing the number of foreclosures and making it easier for customers to refinance loans. The MHA consists of the Home Affordable Modification Program (HAMP) which provides guidelines on first lien loan modifications, and the Home Affordable Refinance Program (HARP) which provides guidelines for loan refinancing. The HAMP is designed to help at-risk homeowners avoid foreclosure by reducing payments. This program

provides incentives to lenders to modify all eligible loans that fall under the guidelines of this program. The HARP is available to approximately four to five million homeowners who have a proven payment history on an existing mortgage owned by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC). The HARP is designed to help eligible homeowners refinance their mortgage loans to take advantage of current lower mortgage rates or to refinance adjustable-rate mortgages (ARM) into more stable fixed-rate mortgages.

As part of the MHA program, on April 28, 2009, the U.S. government announced intentions to create the second lien modification program (2MP) that will be designed to reduce the monthly payments on qualifying home equity loans and lines of credit under certain conditions, including completion of a HAMP modification on the first mortgage on the property. This program will provide incentives to lenders to modify all eligible loans that fall under the guidelines of this program. On January 26, 2010, we formally announced that we will participate in the 2MP once program details are finalized. We will modify eligible second liens regardless of whether the MHA modified first lien is serviced by Bank of America or another participating servicer.

Another addition to the HAMP is the recently announced Home Affordable Foreclosure Alternatives (HAFA) program to assist borrowers with non-retention options instead of foreclosure. The HAFA program provides incentives to lenders to assist all eligible borrowers that fall under the guidelines of this program. Our first goal is to work with the borrower to determine if a loan modification or other homeownership retention solution is available before pursuing non-retention options such as short sales. Short sales are an important option for homeowners who are facing financial difficulty and do not have a viable option to remain in the home. HAFA s short sale guidelines are designed to streamline and standardize the process and will be compatible with Bank of America s new cooperative short sale program.

As of January 2010, approximately 220,000 Bank of America customers were already in a trial-period modification under the MHA program. We will continue to help our customers address financial challenges through these government programs and our own home retention programs.

Managing Risk

Overview

The Corporation s risk management infrastructure is evolving to meet the challenges posed by the increased complexity of the financial services industry and markets, by our increased size and global footprint, and by the rapid and significant financial crisis of the past two years. We have redefined our risk framework, articulated a risk appetite approved by the Board of Directors (the Board), and begun the roll out and implementation of our risk plan. While many of these processes, and roles and responsibilities continue to evolve and mature, we will ensure that we continue to enhance our risk management process with a focus on clarity of roles and accountabilities, escalation of issues, aggregation of risk and data across the enterprise, and effective governance characterized by clarity and transparency.

Given our wide range of business activities as well as the competitive dynamics, the regulatory environment and the geographic span of such activities, risk taking is an inherent activity for the Corporation. Consequently, we take a comprehensive approach to risk management. Risk management planning is fully integrated with strategic, financial and customer/client planning so that goals and responsibilities are aligned across the organization. Risk is managed in a systematic manner by focusing on the Corporation as a whole and managing risk across the enterprise and within individual business units, products, services and transactions. We maintain a governance structure that delineates the responsibilities for risk management activities, as well as governance and the oversight of those activities, by executive management and the Board.

Economic capital is assigned to each business segment using a risk-adjusted methodology incorporating each segment s stand-alone credit, market, interest rate and operational risk components, and is used to measure risk-adjusted returns. Executive management assesses, and the Board oversees, the risk-adjusted returns of each business through review and approval of strategic and financial operating plans. By allocating economic capital to and establishing a risk appetite for a line of business, we effectively manage the ability to take on risk. Businesses operate within their credit, market, compliance, and operational risk standards and limits in order to adhere to the risk appetite. These limits are based on analyses of risk and reward in each line of business, and executive management is responsible for tracking and reporting performance measurements as well as any exceptions to guidelines or limits. The Board monitors financial performance, execution of the strategic and financial operating plans, compliance with the risk appetite and the adequacy of internal controls through its committees.

Our business exposes us to strategic, credit, market, liquidity, compliance, operational and reputational risk. Strategic risk is the risk that adverse business decisions, ineffective or inappropriate business plans, or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, execution and/or other intrinsic risks of business will impact our ability to meet our objectives. Credit risk is the risk of loss arising from a borrower s or counterparty s inability to meet its obligations. Market risk is the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions such as interest rate movements. Liquidity risk is the inability to accommodate liability maturities and deposit withdrawals, fund asset growth and meet contractual obligations through unconstrained access to funding at reasonable market rates. Compliance risk is the risk posed by the failure to manage regulatory, legal and ethical issues that could result in monetary damages, losses or harm to our reputation or image. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Reputational risk, the risk that negative publicity will adversely affect the Corporation, is managed as a natural part of managing the other six types of risk. The following sections, Strategic Risk Management on page 47, Liquidity Risk and Capital Management beginning on page 47, Credit Risk Management beginning on page 54, Market Risk Management beginning on page 79, Compliance Risk Management on page 86, and Operational Risk Management beginning on page 86, address in more detail the specific procedures, measures and analyses of the major categories of risk that the Corporation manages.

On October 28, 2009, the Board approved the Risk Framework and Risk Appetite Statement for the Corporation. The Risk Framework is designed to be used by our associates to understand risk management activities, including their individual roles and accountabilities. The Risk Framework defines how risk management is integrated into our core business processes, and it defines the risk management governance structure, including management s involvement. The risk management responsibilities of the lines of business, Governance and Control functions, and Corporate Audit are also clearly defined. The Risk Framework reflects how the Board-approved risk appetite influences business and risk strategy. The management process (i.e., identify and measure risk, mitigate and control risk, monitor and test risk, and report and review risk) was enhanced for execution across all business activities. The Risk Framework supports the accountability of the Corporation and its associates to ensure the integrity of assets and the quality of earnings. The Risk Appetite Statement defines the parameters under which we will take

risk to maximize our long-term results by ensuring the integrity of our assets and the quality of our earnings. Our intent is for our risk appetite to reflect a through the cycle view which will be reviewed and assessed annually.

Risk Management Processes and Methods

To ensure that our corporate goals and objectives, risk appetite, and business and risk strategies are achieved, we utilize a risk management process that is applied in executing all business activities. All functions and roles fall into one of three categories where risk must be managed. These are lines of business, Governance and Control (Global Risk Management or other support groups) and Corporate Audit.

The lines of business are responsible for identifying and managing all existing, reputational and emerging risks in their business units, since this is where most of our risk-taking occurs. Line of business management makes and executes the business plan and is closest to the changing nature of risks and, therefore, we believe is best able to implement procedures and controls that align to policies and limits. Risk self-assessments conducted by the business are used to identify risks and calibrate the severity of potential risk issues. These assessments are reviewed by the lines of business and executive management, including senior Risk executives. To the extent appropriate, the assessments are reviewed by the Board or its committees to ensure appropriate risk management and oversight, and to identify enterprise-wide issues. Our management processes, structures and policies aid us in complying with laws and regulations and provide clear lines for decision-making and accountability. Wherever practical, we attempt to house decision-making authority as close to the transaction as possible while retaining supervisory control functions from both inside and outside of the lines of business.

The Governance and Control functions include our Risk Management, Finance, Treasury, Technology and Operations, Human Resources, and Legal functions. These groups are independent of the lines of business and are organized with both line of business-aligned and enterprise-wide functions. The Governance and Control functions are accountable for setting policies, standards and limits according to the Risk Appetite Statement, providing risk reporting and monitoring, and ensuring compliance. For example, in Global Risk Management, a senior risk executive is assigned to each of the lines of business and is responsible for the oversight of all the risks associated with that line of business and ensuring compliance with policies, standards and limits. Enterprise-level risk executives have responsibility to develop and implement the framework for policies and practices to assess and manage enterprise-wide credit, market, compliance and operational risks.

Corporate Audit provides an independent assessment of our management and internal control systems through testing of key processes and controls across the organization. Corporate Audit activities are designed to provide reasonable assurance that resources are adequately protected; significant financial, managerial and operating information is materially complete, accurate and reliable; and employees actions are in compliance with the Corporation s policies, standards, procedures, and applicable laws and regulations.

We use a risk management process, applied across the execution of all business activities, that is designed to identify and measure, mitigate and control, monitor and test, and report and review risks. This process enables us to review risks in an integrated and comprehensive manner and make strategic and business decisions based on that comprehensive view. Corporate goals and objectives and risk appetite are established by executive management, approved by the Board, and are inputs to setting business and risk strategy which guide the execution of business activities. Governance, continuous feedback, and independent testing and validation provide structured controls, reporting and audit of the execution of risk processes and business activities. Examples of tools, methods and processes used include: self-assessments conducted by the lines of business in concert with independent risk assessments by Governance and Control (part of identify and measure); a system of controls and supervision which provides assurance that associates act in accordance with laws, regulations, policies and procedures (part of mitigate and control); independent testing of control and mitigation plans by Credit Review and Corporate Audit (part of monitor and test); and a summary risk report which includes key risk metrics that measure the performance of the Corporation against risk limits and the Risk Appetite Statement (part of report and review).

The formal processes used to manage risk represent only one portion of our overall risk management process. Corporate culture and the actions of our associates are also critical to effective risk management. Through our Code of Ethics, we set a high standard for our associates. The Code of Ethics provides a framework for all of our associates to conduct themselves with the highest integrity in the delivery of our products or services to our customers. We instill a risk-conscious culture through communications, training, policies, procedures, and organizational roles and responsibilities. Additionally, we continue to strengthen the linkage between the associate performance management process and individual compensation to encourage associates to work toward enterprise-wide risk goals.

Board Oversight

The Board oversees management of the Corporation s businesses and affairs. In its oversight of the Corporation, the Board s goal is to set the tone for the highest ethical standards and performance of our management, associates and the Corporation as a whole. The Board strongly believes that good corporate governance practices are important for successful business performance. Our corporate governance practices are designed to align the interests of the Board and management with those of our stockholders and to promote honesty and integrity throughout the Corporation. Over the past year, we have enhanced our corporate governance practices in many important ways, and we continue to monitor best practices to promote a high level of performance from the Board, management and our associates. The Board has adopted Corporate Governance Guidelines that embody long-standing practices of the Corporation as well as current corporate governance best practices.

In 2009, the Board established a special Board committee with five non-management members (the Special Governance Committee) to review and recommend changes in all aspects of the Board s activities. In recognition of the increased complexity of our company following the major acquisitions of Merrill Lynch and Countrywide, and the challenges of the current business environment, the Board has strengthened its membership by appointing new directors who are independent of management and demonstrate significant banking, financial and investment banking expertise. In addition, the Board has assessed and further developed its structures and processes through which it fulfills its oversight role by the following: modifying committee membership and leadership to best leverage the abilities and backgrounds of the Board members; recasting the Asset Quality Committee as a more targeted and focused Credit Committee and establishing the Enterprise Risk Committee such that these two committees, together with the Audit Committee, work in complement to ensure that key aspects of risk, capital and liquidity management are specifically overseen by committees with clear and affirmative oversight responsibilities set forth in their committee charters; working with management and outside regulatory experts to redesign

management reports to the Board and committees; periodically reviewing the composition of the Board in light of the Corporation s business and structure to identify and nominate director candidates who possess relevant experience, qualifications, attributes and skills to the Board; and enhancing the director orientation process to include, among other changes, increased interaction with executive management and increased focus on key risks.

At the Corporation, the Audit, Credit and Enterprise Risk Committees are charged with a majority of the risk oversight responsibilities on behalf of the Board. In 2009, as noted above, the Board recast the Asset Quality Committee as a more targeted and focused Credit Committee and established a new Enterprise Risk Committee. The Credit Committee oversees, among other things, the management of our credit exposures on an enterprise-wide basis, our response to trends affecting those exposures, the adequacy of the allowance for credit losses and our credit related policies. The Enterprise Risk Committee, among other things, oversees our management of and policies and procedures with respect to material risks on an enterprise-wide basis, including market risk, interest rate risk, liquidity risk and reputational risk. It also oversees our capital management and liquidity planning. The Audit Committee retains oversight responsibility for operational risk, the integrity of our consolidated financial statements, compliance, legal risk and overall policies and practices relating to risk management. In addition to the three risk oversight committees, the Compensation and Benefits Committee oversees the Corporation s compensation practices in order that they do not encourage unnecessary and excessive risk taking by our associates.

The Audit, Credit and Enterprise Risk Committees work in tandem to provide enterprise-wide oversight of the Corporation s management and handling of risk. Each of these three committees reports regularly to the Board on risk-related matters within its responsibilities and together this provides the Board with integrated insight about our management of strategic, credit, market, liquidity, compliance, operational and reputational risks.

Starting in 2009, the Board formalized its process of approving the Corporation s articulation of its risk appetite, which is used internally to help the directors and management understand more clearly the Corporation s tolerance for risk in each of the major risk categories, the way those risks are measured and the key controls available that influence the Corporation s level of risk-taking. The Board intends to undertake this process annually going forward. The Board also approves, at a high level, following proposal by management, the Corporation s framework for managing risk.

At meetings of the Board and the Audit, Credit and Enterprise Risk Committees, directors receive updates from management regarding enterprise risk management, including our performance against the identified risk appetite. The Chief Risk Officer, who is responsible for instituting risk management practices that are consistent with our overall business strategy and risk appetite, and the General Counsel, who manages legal risk, both report directly to the Chief Executive Officer and lead management s risk and legal risk discussions at Board and committee meetings. In addition, the Corporate General Auditor, who is responsible for assessing the company s control environment over significant financial, managerial, and operating information, is independent of management and reports directly to the Audit Committee. The Corporate General Auditor also administratively reports to our Chief Executive Officer. Outside of formal meetings, Board members have regular access to senior executives, including the Chief Risk Officer and the General Counsel.

Table of Contents

Strategic Risk Management

Strategic risk is embedded in every line of business and is part of the other major risk categories (credit, market, liquidity, compliance and operational). It is the risk that results from adverse business decisions, ineffective or inappropriate business plans, or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, regulatory environment, business strategy execution, and/or other inherent risks of the business including reputational risk. In the financial services industry, strategic risk is high due to changing customer and regulatory environments. The Corporation s appetite for strategic risk is continually assessed within the context of the strategic plan, with strategic risks selectively and carefully taken to maintain relevance in the evolving marketplace. Strategic risk is managed in the context of our overall financial condition and assessed, managed and acted on by the Chief Executive Officer and executive management team. Significant strategic actions, such as material acquisitions or capital actions, are reviewed and approved by the Board.

Using a plan developed by management, executive management and the Board approve a strategic plan every two to three years. Annually, executive management develops a financial operating plan and the Board reviews and approves the plan. Executive management, with Board oversight, ensures that the plans are consistent with the Corporation s strategic plan, core operating tenets and risk appetite. The following are assessed in their reviews: forecasted earnings and returns on capital; the current risk profile and changes required to support the plan; current capital and liquidity requirements and changes required to support the plan; stress testing results; and other qualitative factors such as market growth rates and peer analysis. Executive management, with Board oversight, performs similar analyses throughout the year, and will define changes to the financial forecast or the risk, capital or liquidity positions as deemed appropriate to balance and optimize between achieving the targeted risk appetite and shareholder returns and maintaining the targeted financial strength.

We use proprietary models to measure the capital requirements for credit, country, market, operational and strategic risks. The economic capital assigned to each line of business is based on its unique risk exposures. With oversight by the Board, executive management assesses the risk-adjusted returns of each business in approving strategic and financial operating plans. The businesses use economic capital to define business strategies, price products and transactions, and evaluate client profitability.

Liquidity Risk and Capital Management

Funding and Liquidity Risk Management

We define liquidity risk as the potential inability to meet our contractual and contingent financial obligations, on- or off-balance sheet, as they come due. Our primary liquidity objective is to ensure adequate funding for our businesses throughout market cycles, including during periods of financial stress. To achieve that objective we analyze and monitor our liquidity risk, maintain excess liquidity and access diverse funding sources including our stable deposit base. We define excess liquidity as readily available assets, limited to cash and high-quality liquid unencumbered securities, that we can use to meet our funding requirements as those obligations arise.

Global funding and liquidity risk management activities are centralized within Corporate Treasury. We believe that a centralized approach to funding and liquidity risk management enhances our ability to monitor liquidity requirements, maximizes access to funding sources, minimizes borrowing costs and facilitates timely responses to liquidity events.

The Board approves the Corporation s liquidity policy and contingency funding plan, including establishing liquidity risk tolerance levels. The Asset and Liability Market Risk Committee (ALMRC), in conjunction with the Board and its committees, monitors our liquidity position and reviews the impact of strategic decisions on our liquidity. ALMRC is responsible for managing liquidity risks and ensuring exposures remain within the established tolerance levels. ALMRC delegates additional oversight responsibilities to the Risk Oversight Committee (ROC), which reports to ALMRC. ROC reviews and monitors our liquidity position, cash flow forecasts, stress testing scenarios and results, and implements our liquidity limits and guidelines. For more information, refer to Board Oversight on page 46.

Under this governance framework, we have developed the following funding and liquidity risk management practices:

- Maintain excess liquidity at the parent company and selected subsidiaries, including our bank and broker/dealer subsidiaries
- Determine what amounts of excess liquidity are appropriate for these entities based on analysis of debt maturities and other potential cash outflows, including those that we may experience during stressed market conditions
- Diversify funding sources, considering our asset profile and legal entity structure
- Perform contingency planning

Global Excess Liquidity Sources and Other Unencumbered Assets

We maintain excess liquidity available to the parent company and selected subsidiaries in the form of cash and high-quality, liquid, unencumbered securities that together serve as our primary means of liquidity risk mitigation. We call these assets our Global Excess Liquidity Sources, and we limit the composition of high-quality, liquid, unencumbered securities to U.S. government securities, U.S. agency securities, U.S. agency MBS and a select group of non-U.S. government securities. We believe we can quickly obtain cash for these securities, even in stressed market conditions, through repurchase agreements or outright sales. We hold these assets in entities that allow us to meet the liquidity requirements of our global businesses and we consider the impact of potential regulatory, tax, legal and other restrictions that could limit the transferability of funds among entities.

Our Global Excess Liquidity Sources totaled $214 billion at December 31, 2009 and were maintained as presented in the table below.

Table 10 Global Excess Liquidity Sources

(Dollars in billions)	December 31, 2009
Parent company	$ 99
Bank subsidiaries	89
Broker/dealers	26
Total global excess liquidity sources	**$ 214**

As noted above, the excess liquidity available to the parent company is held in cash and high-quality, liquid, unencumbered securities and totaled $99 billion at December 31, 2009. Typically, parent company cash is deposited overnight with Bank of America, N.A.

Our bank subsidiaries excess liquidity sources at December 31, 2009 consisted of $89 billion in cash on deposit at the Federal Reserve and high-quality, liquid, unencumbered securities. These amounts are distinct from the cash deposited by the parent company, as previously described. In addition to their excess liquidity sources, our bank sub -

sidiaries hold significant amounts of other unencumbered securities that we believe they could also use to generate liquidity, such as investment grade ABS and municipal bonds. Another way our bank subsidiaries can generate incremental liquidity is by pledging a range of other unencumbered loans and securities to certain FHLBs and the Federal Reserve Discount Window. The cash we could have obtained at December 31, 2009 by borrowing against this pool of specifically identified eligible assets was approximately $187 billion. We have established operational procedures to enable us to borrow against these assets, including regularly monitoring our total pool of eligible loan and securities collateral. Due to regulatory restrictions, liquidity generated by the bank subsidiaries may only be used to fund obligations within the bank subsidiaries and may not be transferred to the parent company or other nonbank subsidiaries.

Our broker/dealer subsidiaries excess liquidity sources at December 31, 2009 consisted of $26 billion in cash and high-quality, liquid, unencumbered securities. Our broker/dealers also held significant amounts of other unencumbered securities we believe they could utilize to generate additional liquidity, including investment grade corporate bonds, ABS and equities. Liquidity held in a broker/dealer subsidiary may only be available to meet the liquidity requirements of that entity and may not be transferred to the parent company or other subsidiaries.

Time to Required Funding and Stress Modeling

We use a variety of metrics to determine the appropriate amounts of excess liquidity to maintain at the parent company and our bank and broker/dealer subsidiaries. The primary metric we use to evaluate the appropriate level of excess liquidity at the parent company is Time to Required Funding. This debt coverage measure indicates the number of months that the parent company can continue to meet its unsecured contractual obligations as they come due using only its Global Excess Liquidity Sources without issuing any new debt or accessing any additional liquidity sources. We define unsecured contractual obligations for purposes of this metric as senior or subordinated debt maturities issued or guaranteed by Bank of America Corporation or Merrill Lynch & Co., Inc., including certain unsecured debt instruments, primarily structured notes, which we may be required to settle for cash prior to maturity. ALMRC has established a minimum target for Time to Required Funding of 21 months. Time to Required Funding was 25 months at December 31, 2009.

We also utilize liquidity stress models to assist us in determining the appropriate amounts of excess liquidity to maintain at the parent company and our bank and broker/dealer subsidiaries. We use these models to analyze our potential contractual and contingent cash outflows and liquidity requirements under a range of scenarios with varying levels of severity and time horizons. These scenarios incorporate market-wide and Corporation-specific events, including potential credit rating downgrades for the parent company and our subsidiaries. We consider and utilize scenarios based on historical experience, regulatory guidance, and both expected and unexpected future events.

We consider all sources of funds that we could access during each stress scenario and focus particularly on matching available sources with corresponding liquidity requirements by legal entity. We also use the stress modeling results to manage our asset-liability profile and establish limits and guidelines on certain funding sources and businesses.

Diversified Funding Sources

We fund our assets primarily with a mix of deposits and secured and unsecured liabilities through a globally coordinated funding strategy. We

diversify our funding globally across products, programs, markets, currencies and investor bases.

We fund a substantial portion of our lending activities through our deposit base which was $992 billion at December 31, 2009. Deposits are primarily generated by our *Deposits, Global Banking* and *GWIM* segments. These deposits are diversified by clients, product types and geography. Domestic deposits may be insured by the FDIC. We consider a substantial portion of our deposits to be a stable, low-cost and consistent source of funding. We believe this deposit funding is generally less sensitive to interest rate changes, market volatility or changes in our credit ratings than wholesale funding sources.

Certain consumer lending activities, primarily in our banking subsidiaries, may be funded through securitizations. Included in these consumer lending activities are the extension of mortgage, credit card, auto loans, home equity loans and lines of credit. If securitization markets are not available to us on favorable terms, we typically finance these loans with deposits or with wholesale borrowings. For additional information on securitizations see *Note 8 Securitizations* to the Consolidated Financial Statements.

Our trading activities are primarily funded on a secured basis through repurchase and securities lending agreements. Due to the underlying collateral, we believe this financing is more cost-efficient and less sensitive to changes in our credit ratings than unsecured financing. Repurchase agreements are generally short-term and often occur overnight. Disruptions in secured financing markets for financial institutions have occurred in prior market cycles which resulted in adverse changes in terms or significant reductions in the availability of such financing. We manage the liquidity risks arising from secured funding by sourcing funding globally from a diverse group of counterparties, providing a range of securities collateral and pursuing longer durations when we finance lower-quality assets.

Unsecured debt, both short- and long-term, is also an important source of funding. We may issue unsecured debt through syndicated U.S. registered offerings, U.S. registered and unregistered medium-term note programs, non-U.S. medium-term note programs, non-U.S. private placements, U.S. and non-U.S. commercial paper and through other methods. We distribute a significant portion of our debt offerings through our retail and institutional sales forces to a large, diversified global investor base. Maintaining relationships with our investors is an important aspect of our funding strategy. We may also make markets in our debt instruments to provide liquidity for investors.

We issue the majority of our unsecured debt at the parent company and Bank of America, N.A. During 2009, we issued $30.2 billion and $10.5 billion of long-term senior unsecured debt at the parent company and Bank of America N.A. The primary benefits of this centralized financing strategy include greater control, reduced funding costs, wider name recognition by investors and greater flexibility to meet the variable funding requirements of subsidiaries. Where regulations, time zone differences, or other business considerations make parent company funding impractical, certain other subsidiaries may issue their own debt.

We issue unsecured debt in a variety of maturities and currencies to achieve cost-efficient funding and to maintain an appropriate maturity profile. While the cost and availability of unsecured funding may be negatively impacted by general market conditions or by matters specific to the financial services industry or Bank of America, we seek to mitigate refinancing risk by actively managing the amount of our borrowings that we anticipate will mature within any month or quarter.

At December 31, 2009, our long-term debt was issued in the currencies presented in the following table.

Table of Contents

Table 11 Long-term Debt By Major Currency

December 31, 2009

(Dollars in millions)	
U.S. Dollar	$ 281,692
Euros	99,917
Japanese Yen	19,903
British Pound	16,460
Australian Dollar	7,973
Canadian Dollar	4,894
Swiss Franc	2,666
Other	5,016
Total long-term debt	**$ 438,521**

We use derivative transactions to manage the duration, interest rate and currency risks of our borrowings, considering the characteristics of the assets they are funding. For further details on our ALM activities, refer to Interest Rate Risk Management for Nontrading Activities beginning on page 83.

We also diversify our funding sources by issuing various types of debt instruments including structured notes. Structured notes are debt obligations that pay investors with returns linked to other debt or equity securities, indices, currencies or commodities. We typically hedge the returns we are obligated to pay on these notes with derivative positions and/or in the underlying instruments so that from a funding perspective, the cost is similar to our other unsecured long-term debt. We could be required to immediately settle certain structured note obligations for cash or other securities under certain circumstances, which we consider for liquidity planning purposes. We believe, however, that a portion of such borrowings will remain outstanding beyond the earliest put or redemption date. At December 31, 2009, we had outstanding structured notes of $57 billion.

Substantially all of our senior and subordinated debt obligations contain no provisions that could trigger a requirement for an early repayment, require additional collateral support, result in changes to terms, accelerate maturity, or create additional financial obligations upon an adverse change in our credit ratings, financial ratios, earnings, cash flows or stock price.

The U.S. government and joint agencies have introduced various programs to stabilize and provide liquidity to the U.S. financial markets since 2007. We have participated in certain of these initiatives and we repaid our borrowings under U.S. government secured financing programs during 2009. We also participated in the FDIC s TLGP which allowed us to issue senior unsecured debt that it guaranteed in return for a fee based on the amount and maturity of the debt. We issued $21.8 billion and $19.9 billion of FDIC-guaranteed long-term debt in 2009 and 2008. We have also issued short-term notes under the program. At December 31, 2009, we had $41.7 billion outstanding under the program. We no longer issue debt under this program and all of our debt issued under TLGP will mature by June 30, 2012. Under this program, our debt received the highest long-term ratings from the major credit ratings agencies which resulted in a lower total cost of issuance than if we had issued non-FDIC guaranteed long-term debt. The associated FDIC fee for the 2009 issuances was $554 million and is being amortized into expense over the stated term of

the debt. For additional information on debt funding see *Note 13 Long-term Debt* to the Consolidated Financial Statements.

Contingency Planning

The Corporation maintains contingency funding plans that outline our potential responses to liquidity stress events at various levels of severity. These policies and plans are based on stress scenarios and include potential funding strategies, communication and notification procedures that we would implement in the event we experienced stressed liquidity conditions. We periodically review and test the contingency funding plans to validate efficacy and assess readiness.

Our U.S. bank subsidiaries can access contingency funding through the Federal Reserve Discount Window. Certain non-U.S. subsidiaries have access to central bank facilities in the jurisdictions in which they operate. While we do not rely on these sources in our liquidity modeling, we maintain the policies, procedures and governance processes that would enable us to access these sources if necessary.

Credit Ratings

Our borrowing costs and ability to raise funds are directly impacted by our credit ratings. In addition, credit ratings may be important to customers or counterparties when we compete in certain markets and when we seek to engage in certain transactions including over-the-counter derivatives. It is our objective to maintain high quality credit ratings.

Credit ratings and outlooks are opinions subject to ongoing review by the ratings agencies and may change from time to time based on our financial performance, industry dynamics and other factors. During 2009, the ratings agencies took numerous actions to adjust our credit ratings and outlooks, many of which were negative. The ratings agencies have indicated that our credit ratings currently reflect their expectation that, if necessary, we would receive significant support from the U.S. government. In February 2010, Standard & Poor s affirmed our current credit ratings but revised the outlook to negative from stable based on their belief that it is less certain whether the U.S. government would be willing to provide extraordinary support. Other factors that influence our credit ratings include the ratings agencies assessment of the general operating environment, our relative positions in the markets in which we compete, reputation, liquidity position, the level and volatility of earnings, corporate governance and risk management policies, capital position and capital management practices.

The credit ratings of Merrill Lynch & Co., Inc. from the three major credit ratings agencies are the same as those of Bank of America Corporation. The major credit ratings agencies have indicated that the primary drivers of Merrill Lynch s credit ratings are Bank of America s credit ratings.

A reduction in our credit ratings or the ratings of certain asset-backed securitizations could potentially have an adverse effect on our access to credit markets, the related cost of funds and our businesses. If Bank of America Corporation or Bank of America, N.A. commercial paper or short-term credit ratings were downgraded by one level, our incremental cost of funds and potential lost funding could be material.

The credit ratings of Bank of America Corporation and Bank of America, N.A. as of February 26, 2010 are reflected in the table below.

Table 12 Credit Ratings

		Bank of America Corporation					**Bank of America, N.A.**		
	Outlook	**Long-term Senior Debt**	**Subordinated Debt**	**Trust Preferred**	**Preferred Stock**	**Short-term Debt**	**Long-term Senior Debt**	**Long-term Deposits**	**Short-term Debt**
Moody s Investors Service	Stable	A2	A3	Baa3	Ba3	P-1	Aa3	Aa3	P-1
Standard & Poor s	Negative	A	A-	BB	BB	A-1	A+	A+	A-1
Fitch Ratings	Stable	A+	A	BB	BB-	F1+	A+	AA-	F1+

Table of Contents

Regulatory Capital

At December 31, 2009, the Corporation operated its banking activities primarily under two charters: Bank of America, N.A. and FIA Card Services, N.A. With the acquisition of Merrill Lynch on January 1, 2009, we acquired Merrill Lynch Bank USA and Merrill Lynch Bank & Trust Co., FSB. Effective July 1, 2009, Merrill Lynch Bank USA merged into Bank of America, N.A, with Bank of America, N.A. as the surviving entity. Effective November 2, 2009, Merrill Lynch Bank & Trust Co., FSB merged into Bank of America, N.A., with Bank of America, N.A. as the surviving entity. Further, with the acquisition of Countrywide on July 1, 2008, we acquired Countrywide Bank, FSB, and effective April 27, 2009, Countrywide Bank, FSB converted to a national bank with the name Countrywide Bank, N.A. and immediately thereafter merged with and into Bank of America, N.A., with Bank of America, N.A. as the surviving entity.

Certain corporate sponsored trust companies which issue trust preferred securities (Trust Securities) are not consolidated under applicable

accounting guidance. In accordance with Federal Reserve guidance, Trust Securities qualify as Tier 1 capital with revised quantitative limits that will be effective on March 31, 2011. Such limits restrict certain types of capital to 15 percent of total core capital elements for internationally active bank holding companies. In addition, the Federal Reserve revised the qualitative standards for capital instruments included in regulatory capital. Internationally active bank holding companies are those with consolidated assets greater than $250 billion or on-balance sheet exposure greater than $10 billion. At December 31, 2009, our restricted core capital elements comprised 11.8 percent of total core capital elements.

Table 13 provides a reconciliation of the Corporation s total shareholders equity at December 31, 2009 and 2008 to Tier 1 common capital, Tier 1 capital and total capital as defined by the regulations issued by the joint agencies. See *Note 16 Regulatory Requirements and Restrictions* to the Consolidated Financial Statements for more information on our regulatory capital.

Table 13 Reconciliation of Tier 1 Common Capital, Tier 1 Capital and Total Capital

	December 31	
(Dollars in millions)	**2009**	2008
Total common shareholders equity	**$ 194,236**	$ 139,351
Goodwill	**(86,314)**	(81,934)
Nonqualifying intangible assets [(1)]	**(8,299)**	(4,195)
Net unrealized losses on AFS debt and marketable equity securities and net losses on derivatives recorded in accumulated OCI, net-of-tax	**1,034**	5,479
Unamortized net periodic benefit costs recorded in accumulated OCI, net-of-tax	**4,092**	4,642
Exclusion of fair value adjustment related to the Merrill Lynch structured notes [(2)]	**3,010**	
Common Equivalent Securities	**19,290**	
Disallowed deferred tax asset	**(7,080)**	
Other	**425**	(4)
Total Tier 1 common capital	**120,394**	63,339
Preferred stock	**17,964**	37,701
Trust preferred securities	**21,448**	18,105
Noncontrolling interest	**582**	1,669
Total Tier 1 capital	**160,388**	120,814
Long-term debt qualifying as Tier 2 capital	**43,284**	31,312
Allowance for loan and lease losses	**37,200**	23,071
Reserve for unfunded lending commitments	**1,487**	421
Other [(3)]	**(16,282)**	(3,957)
Total capital	**$ 226,077**	$ 171,661

(1) Nonqualifying intangible assets include core deposit intangibles, affinity relationships, customer relationships and other intangibles.

(2) Represents loss on Merrill Lynch structured notes, net-of-tax, that is excluded from Tier 1 common capital, Tier 1 capital and total capital for regulatory purposes.

(3) Balance includes a reduction of $18.7 billion and $6.7 billion related to allowance for loan and lease losses exceeding 1.25 percent of risk-weighted assets in 2009 and 2008. Balance also includes 45 percent of the pre-tax unrealized fair value adjustments on AFS marketable equity securities.

At December 31, 2009, the Corporation s Tier 1 common capital, Tier 1 capital, total capital and Tier 1 leverage ratios were 7.81 percent, 10.40 percent, 14.66 percent and 6.91 percent, respectively.

The Corporation calculates Tier 1 common capital as Tier 1 capital including CES less preferred stock, qualifying trust preferred securities, hybrid securities and qualifying noncontrolling interest. CES is included in Tier 1 common capital based upon applicable regulatory guidance and our expectation that the underlying Common Equivalent Stock would convert into common stock following shareholder approval of additional authorized shares. Shareholders approved the increase in the number of authorized shares of common stock at the special meeting of shareholders held on February 23, 2010 and the Common Equivalent Stock converted to common stock on February 24, 2010. Tier 1 common capital increased to $120.4 billion at December 31, 2009 compared to $63.3 billion at December 31, 2008. The Tier 1 common capital ratio increased 301 bps to 7.81 percent. This increase was driven primarily by the second quarter at-the-market common stock issuance and the preferred to common stock exchanges which together represented a benefit of 185 bps and the issuance of CES which together provided a benefit of 138 bps to the Tier 1 common capital ratio. In addition, Tier 1 common capital benefited from the common stock that was issued in connection with the

Merrill Lynch acquisition partially offset by an increase in risk-weighted assets due to the acquisition.

Enterprise-wide Stress Testing

As a part of our core risk management practices, the Corporation conducts enterprise-wide stress tests on a periodic basis to better understand earnings, capital and liquidity sensitivities to certain economic scenarios, including economic conditions that are more severe than anticipated. These enterprise-wide stress tests provide an understanding of the potential impacts to our risk profile, capital and liquidity. Scenario(s) are selected by a group comprised of senior line of business, risk and finance executives. Impacts to each line of business from each scenario are then analyzed and determined, primarily leveraging the models and processes utilized in everyday management routines. Impacts are assessed along with potential mitigating actions that may be taken in each scenario. Analysis from such stress scenarios is compiled for and reviewed through our ROC, ALMRC, and the Enterprise Risk Committee of the Board and serves to inform and be incorporated, along with other core business processes, into decision making by management and the Board. The Corporation continues to invest in and improve stress testing capabilities as a core business process.

Table of Contents

Off-Balance Sheet Liquidity Arrangements with Special Purpose Entities

In the ordinary course of business, we support our customers financing needs by facilitating their access to the commercial paper market. In addition, we utilize certain financing arrangements to meet our balance sheet management, funding and liquidity needs. These activities utilize special purpose entities (SPEs), typically in the form of corporations, limited liability companies, or trusts, which raise funds by issuing short-term commercial paper or other debt or equity instruments to third party investors. These SPEs typically hold various types of financial assets whose cash flows are the primary source of repayment for the liabilities of the SPEs. Investors have recourse to the assets in the SPE and often benefit from other credit enhancements, such as overcollateralization in the form of excess assets in the SPE, liquidity facilities and other arrangements. As a result, the SPEs can typically obtain a favorable credit rating from the ratings agencies, resulting in lower financing costs for us and our customers.

We have liquidity agreements, SBLCs and other arrangements with SPEs, as described below, under which we are obligated to provide funding in the event of a market disruption or other specified event or otherwise provide credit support to the entities. We also fund selected assets via derivative contracts with third party SPEs under which we may be

required to purchase the assets at par value or the third party SPE s cost to acquire the assets. We manage our credit risk and any market risk on these liquidity arrangements by subjecting them to our normal underwriting and risk management processes. Our credit ratings and changes thereto may affect the borrowing cost and liquidity of these SPEs. In addition, significant changes in counterparty asset valuation and credit standing may also affect the ability of the SPEs to issue commercial paper. The contractual or notional amount of these commitments as presented in Table 14 represents our maximum possible funding obligation and is not, in management s view, representative of expected losses or funding requirements.

The table below presents our liquidity exposure to unconsolidated SPEs, which include VIEs and QSPEs. VIEs are SPEs that lack sufficient equity at risk or whose equity investors do not have a controlling financial interest. QSPEs are SPEs whose activities are strictly limited to holding and servicing financial assets. As a result of our adoption of new accounting guidance on consolidation on January 1, 2010 as discussed in the following section, we consolidated all multi-seller conduits, asset acquisition conduits and credit card securitization trusts. In addition, we consolidated certain home equity securitization trusts, municipal bond trusts and credit-linked note and other vehicles.

Table 14 Off-Balance Sheet Special Purpose Entities Liquidity Exposure

		December 31, 2009	
(Dollars in millions)	**VIEs**	**QSPEs**	**Total**
Commercial paper conduits:			
Multi-seller conduits	**$ 25,135**	**$**	**$ 25,135**
Asset acquisition conduits	**1,232**		**1,232**
Home equity securitizations		**14,125**	**14,125**
Municipal bond trusts	**3,292**	**6,492**	**9,784**
Collateralized debt obligation vehicles	**3,283**		**3,283**
Credit-linked note and other vehicles	**1,995**		**1,995**
Customer-sponsored conduits	**368**		**368**
Credit card securitizations		**2,288**	**2,288**
Total liquidity exposure	**$ 35,305**	**$ 22,905**	**$ 58,210**
		December 31, 2008	
	VIEs	QSPEs	Total
Commercial paper conduits:			
Multi-seller conduits	$ 41,635	$	$ 41,635
Asset acquisition conduits	2,622		2,622
Other corporate conduits		1,578	1,578
Home equity securitizations		13,064	13,064
Municipal bond trusts	3,872	2,921	6,793
Collateralized debt obligation vehicles	542		542
Customer-sponsored conduits	980		980
Credit card securitizations		946	946

Total liquidity exposure	$ 49,651	$ 18,509	$ 68,160

At December 31, 2009, our total liquidity exposure to SPEs was $58.2 billion, a decrease of $10.0 billion from December 31, 2008. The decrease was attributable to decreases in commercial paper conduits due to maturities and liquidations partially offset by the acquisition of Merrill Lynch. Legacy Merrill Lynch related exposures as of December 31, 2009 were $4.9 billion in municipal bond trusts, $3.3 billion in CDO vehicles and $2.0 billion in credit-linked note and other vehicles.

For more information on commercial paper conduits, municipal bond trusts, CDO vehicles, credit-linked note and other vehicles, see *Note 9 Variable Interest Entities* to the Consolidated Financial Statements. For more information on home equity and credit card securitizations, see *Note 8 Securitizations* to the Consolidated Financial Statements.

Customer-sponsored conduits are established by our customers to provide them with direct access to the commercial paper market. We are typically one of several liquidity providers for a customer s conduit. We do not provide SBLCs or other forms of credit enhancement to these conduits. Assets of these conduits consist primarily of auto loans and student loans. The liquidity commitments benefit from structural protections which vary depending upon the program, but given these protections, we view the exposures as investment grade quality. These commitments are included in *Note 14 Commitments and Contingencies* to the Consolidated Financial Statements. As we typically provide less than 20 percent of the total liquidity commitments to these conduits and do not provide other forms of support, we have concluded that we do not hold a significant variable interest in the conduits and they are not included in our discussion of VIEs in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements.

Impact of Adopting New Accounting Guidance on Consolidation

On June 12, 2009, the FASB issued new guidance on sale accounting criteria for transfers of financial assets, including transfers to QSPEs and consolidation of VIEs. As described more fully in *Note 8 Securitizations* to the Consolidated Financial Statements, the Corporation routinely transfers mortgage loans, credit card receivables and other financial instruments to SPEs that meet the definition of a QSPE which are not currently subject to consolidation by the transferor. Among other things, this new guidance eliminates the concept of a QSPE and as a result, existing QSPEs generally will be subject to consolidation under the new guidance.

This new guidance also significantly changes the criteria by which an enterprise determines whether it must consolidate a VIE, as described more fully in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements. A VIE is an entity, typically an SPE, which has insufficient equity at risk or which is not controlled through voting rights held by

equity investors. Currently, a VIE is consolidated by the enterprise that will absorb a majority of the expected losses or expected residual returns created by the assets of the VIE. This new guidance requires that a VIE be consolidated by the enterprise that has both the power to direct the activities that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. This new guidance also requires that an enterprise continually reassesses, based on current facts and circumstances, whether it should consolidate the VIEs with which it is involved.

The table below shows the impact on a preliminary basis of this new accounting guidance in terms of incremental GAAP assets and risk-weighted assets for those VIEs and QSPEs that we consolidated on January 1, 2010. The assets and liabilities of the newly consolidated credit card securitization trusts, multi-seller commercial paper conduits, home equity lines of credit and certain other VIEs are recorded at their respective carrying values. The Corporation has elected to account for the assets and liabilities of the newly consolidated asset acquisition commercial paper conduits, municipal bond trusts and certain other VIEs under the fair value option.

Table 15 Preliminary Incremental GAAP and Risk-Weighted Assets Impact

(Dollars in billions)	Preliminary Incremental GAAP Assets	Estimated Incremental Risk-Weighted Assets
Type of VIE/QSPE		
Credit card securitization trusts [1]	$ 70	$ 8
Asset-backed commercial paper conduits [2]	15	11
Municipal bond trusts	5	1
Home equity lines of credit	5	5
Other	5	
Total	**$ 100**	**$ 25**

(1) The Corporation undertook certain actions during 2009 related to its off-balance sheet credit card securitization trusts. As a result of these actions, we included approximately $63.6 billion of incremental risk-weighted assets in its risk-based capital ratios as of December 31, 2009.

(2) Regulatory capital requirements changed effective January 1, 2010 for all ABCP conduits. The increase in risk-weighted assets in this table reflects the impact of these changes on all ABCP conduits, including those that were consolidated prior to January 1, 2010.

In addition to recording the incremental assets and liabilities on the Corporation s Consolidated Balance Sheet, we recorded an after-tax charge of approximately $6 billion to retained earnings on January 1, 2010 as the cumulative effect of adoption of these new accounting standards. The charge relates primarily to the addition of $11 billion of allowance for loan losses for the newly consolidated assets, principally credit card related.

On January 21, 2010, the joint agencies issued a final rule regarding risk-based capital and the impact of adoption of the new consolidation guidance issued by the FASB. The final rule allows for a phase-in period for a maximum of one year for the effect on risk-weighted assets and the regulatory limit on the inclusion of the allowance for loan and lease losses in Tier 2 capital related to the assets that are consolidated. Our current estimate of the incremental impact is a decrease in our Tier 1 and Tier 1 common capital ratios of 65 to 75 bps. However, the final capital impact will be affected by certain factors, including, the final determination of the cumulative effect of adoption of this new accounting guidance on retained earnings, and limitations of deferred tax assets for risk-based capital purposes. The Corporation has elected to forgo the phase-in period and consolidate the amounts for regulatory capital purposes as of January 1, 2010. For more information, refer to the Regulatory Initiatives section on page 43.

Basel Regulatory Capital Requirements

In June 2004, the Basel II Accord was published with the intent of more closely aligning regulatory capital requirements with underlying risks, similar to economic capital. While economic capital is measured to cover unexpected losses, the Corporation also manages regulatory capital to adhere to regulatory standards of capital adequacy.

The Basel II Final Rule (Basel II Rules), which was published on December 7, 2007, establishes requirements for the U.S. implementation and provided detailed capital requirements for credit and operational risk under Pillar 1, supervisory requirements under Pillar 2 and disclosure requirements under Pillar 3. The Corporation will begin Basel II parallel implementation during the second quarter of 2010.

Financial institutions are required to successfully complete a minimum parallel qualification period before receiving regulatory approval to report regulatory capital using the Basel II methodology. During the parallel period, the resulting capital calculations under both the current (Basel I) rules and the Basel II Rules will be reported to the financial institutions regulatory supervisors for at least four consecutive quarterly periods. Once the parallel period is successfully completed, the financial institution will utilize Basel II as their methodology for calculating regulatory capital. A three-year transitional floor period will follow after which use of Basel I will be discontinued.

In July 2009, the Basel Committee on Banking Supervision released a consultative document entitled Revisions to the Basel II Market Risk

Framework that would significantly increase the capital requirements for trading book activities if adopted as proposed. The proposal recommended implementation by December 31, 2010, but regulatory agencies are currently evaluating the proposed rulemaking and related impacts before establishing final rules. As a result, we cannot determine the implementation date or the final capital impact.

In December 2009, the Basel Committee on Banking Supervision issued a consultative document entitled Strengthening the Resilience of the Banking Sector. If adopted as proposed, this could increase significantly the aggregate equity that bank holding companies are required to hold by disqualifying certain instruments that previously have qualified as Tier 1 capital. In addition, it would increase the level of risk-weighted assets. The proposal could also increase the capital charges imposed on certain assets potentially making certain businesses more expensive to conduct. Regulatory agencies have not opined on the proposal for implementation. We continue to assess the potential impact of the proposal.

Common Share Issuances and Repurchases

In January 2009, the Corporation issued 1.4 billion shares of common stock in connection with its acquisition of Merrill Lynch. For additional information regarding the Merrill Lynch acquisition, see *Note 2 Merger and Restructuring Activity* to the Consolidated Financial Statements. In addition, during the first quarter of 2009, we issued warrants to purchase approximately 199.1 million shares of common stock in connection with preferred stock issuances to the U.S. government. For more information, see the following preferred stock discussion. During the second quarter of 2009, we issued 1.25 billion shares of common stock at an average price of $10.77 per share through an at-the-market issuance program resulting in gross proceeds of approximately $13.5 billion. In addition, we issued approximately 7.4 million shares under employee stock plans.

In connection with the TARP repayment approval, the Corporation agreed to increase equity by $3.0 billion through asset sales to be approved by the Federal Reserve and contracted for by June 30, 2010. To the extent those asset sales are not completed by the end of 2010, the Corporation must raise a commensurate amount of common equity. We also agreed to raise up to approximately $1.7 billion through the issuance in 2010 of restricted stock in lieu of a portion of incentive cash compensation to certain of the Corporation s associates as part of their 2009 year-end incentive payments.

For more information regarding our common share issuances, see *Note 15 Shareholders Equity and Earnings Per Common Share* to the Consolidated Financial Statements.

Common Stock Dividends

The following table provides a summary of our declared quarterly cash dividends on common stock during 2009 and through February 26, 2010.

Table 16 Common Stock Dividend Summary

Declaration Date	Record Date	Payment Date	Dividend Per Share
January 27, 2010	March 5, 2010	March 26, 2010	$ 0.01
October 28, 2009	December 4, 2009	December 24, 2009	0.01
July 21, 2009	September 4, 2009	September 25, 2009	0.01
April 29, 2009	June 5, 2009	June 26, 2009	0.01
January 16, 2009	March 6, 2009	March 27, 2009	0.01

Preferred Stock Issuances and Exchanges

During the second quarter of 2009, we completed an offer to exchange up to approximately 200 million shares of common stock at an average price of $12.70 for outstanding depositary shares of portions of certain series of preferred stock. In addition, we also entered into agreements with certain holders of other non-government perpetual preferred shares to exchange their holdings of approximately $10.9 billion aggregate liquidation preference of perpetual preferred stock into approximately 800 million shares of common stock. In total, the exchange offer and these privately negotiated exchanges covered the exchange of approximately $14.8 billion aggregate liquidation preference of perpetual preferred stock into approximately 1.0 billion shares of common stock. During the second quarter of 2009, we recorded an increase to retained earnings and net income applicable to common shareholders of approximately $580 million related to these exchanges. This represents the net of a $2.6 billion benefit due to the excess of the carrying value of our non-convertible preferred stock over the fair value of the common stock exchanged. This was partially offset by a $2.0 billion inducement to convertible preferred shareholders. The inducement represented the excess of the fair value of the common stock exchanged, which was accounted for as an induced conversion of convertible preferred stock, over the fair value of the common stock that would have been issued under the original conversion terms.

On December 2, 2009, we received approval from the U.S. Treasury and Federal Reserve to repay the U.S. government s $45.0 billion preferred stock investment provided under TARP. In accordance with the approval, on December 9, 2009, we repurchased all outstanding shares of Cumulative Perpetual Preferred Stock Series N, Series Q and Series R

issued to the U.S. Treasury as part of the TARP. While participating in the TARP we recorded $7.4 billion in dividends and accretion on the TARP Preferred Stock and repayment will save us approximately $3.6 billion in annual dividends and accretion. We did not repurchase the related common stock warrants issued to the U.S. Treasury in connection with its TARP investment. The U.S. Treasury recently announced its intention to auction these warrants during March 2010. For more detail on the TARP Preferred Stock, refer to *Note 15 Shareholders Equity and Earnings Per Common Share* to the Consolidated Financial Statements.

The Corporation repurchased the TARP Preferred Stock through the use of $25.7 billion in excess liquidity and $19.3 billion in proceeds from the sale of 1.3 billion units of CES valued at $15.00 per unit. The CES consisted of depositary shares representing interests in shares of Common Equivalent Junior Preferred Stock Series S (Common Equivalent Stock) and warrants (Contingent Warrants) to purchase an aggregate 60 million shares of the Corporation s common stock. Each depositary share represented a 1/1000th interest in a share of Common Equivalent Stock and each Contingent Warrant granted the holder the right to purchase 0.0467 of a share of a common stock for $.01 per share. Each depositary share entitled the holder, through the depository, to a proportional fractional interest in all rights and preferences of the Common Equivalent Stock, including conversion, dividend, liquidation and voting rights.

The Corporation held a special meeting of stockholders on February 23, 2010 at which we obtained stockholder approval of an amendment to our amended and restated certificate of incorporation to increase the number of authorized shares of our common stock, and following effectiveness of the amendment, on February 24, 2010, the Common Equivalent Stock converted in full into our common stock and the Contingent Warrants automatically expired without becoming exercisable, and the CES ceased to exist.

Credit Risk Management

The economic recession accelerated in late 2008 and continued to deepen into the first half of 2009 but has shown some signs of stabilization and possible improvement over the second half of the year. Consumers continued to be under financial stress as unemployment and underemployment remained at elevated levels and individuals spent longer periods without work. These factors combined with further reductions in spending by consumers and businesses, continued home price declines and turmoil in sectors of the financial markets continued to negatively impact both the consumer and commercial loan portfolios. During 2009, these conditions drove increases in net charge-offs and nonperforming loans and foreclosed properties as well as higher commercial criticized utilized exposure and reserve increases across most portfolios. The depth, breadth and duration of the economic downturn, as well as the resulting impact on the credit quality of the loan portfolios remain unclear into 2010.

We continue to refine our credit standards to meet the changing economic environment. In our consumer businesses, we have implemented a number of initiatives to mitigate losses. These include increased use of judgmental lending and adjustment of underwriting, and account and line management standards and strategies, including reducing unfunded lines where appropriate. Additionally, we have increased collections, loan modification and customer assistance infrastructures to enhance customer support. In 2009, we provided home ownership retention opportunities to approximately 460,000 customers. This included completion of 260,000 customer loan modifications with total unpaid balances of approximately $55 billion and approximately 200,000 customers who were in trial-period modifications under the government s Making Home Affordable program. As of January 2010, approximately 220,000 customers were in trial period modifications and more than 12,700 were in permanent modifications. Of the 260,000 modifications done during 2009, in terms of both the volume of modifications and the unpaid principal balance associated with the underlying loans most are in the portfolio serviced for investors and is not on our balance sheet. During 2008, Bank of America and Countrywide completed 230,000 loan modifications. The most common types of modifications include rate reductions, capitalization of past due amounts or a combination of rate reduction and capitalization of past due amounts, which are 17 percent, 21 percent and 40 percent, respectively, of modifications completed in 2009. We also provide rate and payment extensions, principal forbearance or forgiveness, and other actions. These modification types are generally considered TDRs except for certain short-term modifications where we expect to collect the full contractual principal and interest.

A number of initiatives have also been implemented in our small business commercial domestic portfolio including changes to underwriting thresholds augmented by a judgmental decision-making process by experienced underwriters including increasing minimum FICO scores and lowering initial line assignments. We have also increased the intensity of our existing customer line management strategies.

To mitigate losses in the commercial businesses, we have increased the frequency and intensity of portfolio monitoring, hedging activity and our efforts in managing an exposure when we begin to see signs of deterioration. Our lines of business and risk management personnel use a variety of tools to continually monitor the ability of a borrower or counterparty to perform under its obligations. It is our practice to transfer the management of deteriorating commercial exposures to independent Special Asset officers as a credit approaches criticized levels. Our experi -

ence has shown that this discipline generates an objective assessment of the borrower s financial health and the value of our exposure, and maximizes our recovery upon resolution. As part of our underwriting process we have increased scrutiny around stress analysis and required pricing and structure to reflect current market dynamics. Given the volatility of the financial markets, we increased the frequency of various tests designed to understand what the volatility could mean to our underlying credit risk. Given the potential for single name risk associated with any disruption in the financial markets, we use a real-time counterparty event management process to monitor key counterparties.

Additionally, we account for certain large corporate loans and loan commitments (including issued but unfunded letters of credit which are considered utilized for credit risk management purposes) that exceed our single name credit risk concentration guidelines under the fair value option. These loans and loan commitments are then actively managed and hedged, principally by purchasing credit default protection. By including the credit risk of the borrower in the fair value adjustments, any credit spread deterioration or improvement is recorded in other income immediately as part of the fair value adjustment. As a result, the allowance for loan and lease losses and the reserve for unfunded lending commitments are not used to capture credit losses inherent in any nonperforming or impaired loans and unfunded commitments carried at fair value. See the Commercial Loans Carried at Fair Value section on page 69 for more information on the performance of these loans and loan commitments and see *Note 20 Fair Value Measurements* to the Consolidated Financial Statements for additional information on our fair value option elections.

The acquisition of Merrill Lynch contributed to both our consumer and commercial loans and commitments. Acquired consumer loans consisted of residential mortgages, home equity loans and lines of credit and direct/indirect loans (principally securities-based lending margin loans). Commercial exposures were comprised of both investment and non-investment grade loans and included exposures to CMBS, monolines and leveraged finance. Consistent with other acquisitions, we incorporated the acquired assets into our overall credit risk management processes.

Consumer Portfolio Credit Risk Management

Credit risk management for the consumer portfolio begins with initial underwriting and continues throughout a borrower s credit cycle. Statistical techniques in conjunction with experiential judgment are used in all aspects of portfolio management including underwriting, product pricing, risk appetite, setting credit limits, operating processes and metrics to quantify and balance risks and returns. Statistical models are built using detailed behavioral information from external sources such as credit bureaus and/or internal historical experience. These models are a component of our consumer credit risk management process and are used, in part, to help determine both new and existing credit decisions, portfolio management strategies including authorizations and line management, collection practices and strategies, determination of the allowance for loan and lease losses, and economic capital allocations for credit risk.

For information on our accounting policies regarding delinquencies, nonperforming status and charge-offs for the consumer portfolio, see *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements.

Consumer Credit Portfolio

Weakness in the economy and housing markets, elevated unemployment and underemployment and tighter credit conditions resulted in deterioration across most of our consumer portfolios during 2009. However, during the last half of the year, the unsecured consumer portfolios within *Global Card Services* experienced lower levels of delinquency and by the fourth quarter consumer credit began to stabilize and in some cases improve. As part of our ongoing risk mitigation and consumer client support initiatives, we have been working with borrowers to modify their loans to terms that better align with their current ability to pay. Under certain circumstances, we identify these as TDRs which are modifications where an economic concession is granted to a borrower experiencing financial difficulty. For more information on TDRs and portfolio impacts, see Nonperforming Consumer Loans and Foreclosed Properties Activity beginning on page 62 and *Note 6 Outstanding Loans and Leases* to the Consolidated Financial Statements.

Table 17 presents our consumer loans and leases and our managed credit card portfolio, and related credit quality information. Nonperforming loans do not include consumer credit card, consumer loans secured by personal property or unsecured consumer loans that are past due as these loans are generally charged off no later than the end of the month in which the account becomes 180 days past due. Real estate-secured past due loans, repurchased pursuant to our servicing agreement with Government National Mortgage Association (GNMA) are not reported as nonperforming as repayments are insured by the Federal Housing Administration (FHA). Additionally, nonperforming loans and accruing balances past due 90 days or more do not include the Countrywide purchased impaired loans even though the customer may be contractually past due. Loans that were acquired from Countrywide that were considered impaired were written down to fair value upon acquisition. In addition to being included in the Outstandings column in the following table, these

loans are also shown separately, net of purchase accounting adjustments, for increased transparency in the Countrywide Purchased Impaired Loan Portfolio column. For additional information, see *Note 6 Outstanding Loans and Leases* to the Consolidated Financial Statements. Under certain circumstances, loans that were originally classified as discontinued real estate loans upon acquisition have been subsequently modified and are now included in the residential mortgage portfolio shown below. The impact of the Countrywide portfolio on certain credit statistics is reported where appropriate. Refer to the Countrywide Purchased Impaired Loan Portfolio discussion beginning on page 59 for more information.

Loans that were acquired from Merrill Lynch were recorded at fair value including those that were considered impaired upon acquisition. The Merrill Lynch consumer purchased impaired loan portfolio did not materially alter the reported credit quality statistics of the consumer portfolios and is, therefore, excluded from the Countrywide Purchased Impaired Loan Portfolio column and discussion that follows. In addition, the nonperforming loans and delinquency statistics presented below include the Merrill Lynch purchased impaired loan portfolio based on the customer s performance under the contractual terms of the loan. At December 31, 2009, consumer loans included $47.2 billion from Merrill Lynch of which $2.0 billion of residential mortgage and $146 million of home equity loans were included in the Merrill Lynch purchased impaired loan portfolio. There were no reported net charge-offs on these loans during 2009 as the initial fair value at acquisition date already considered the estimated credit losses.

Table 17 Consumer Loans and Leases

	December 31							
	Outstandings		Nonperforming (1)		Accruing Past Due 90 Days or More (2)		Countrywide Purchased Impaired Loan Portfolio	
(Dollars in millions)	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Held basis								
Residential mortgage (3)	**$ 242,129**	$ 248,063	**$ 16,596**	$ 7,057	**$ 11,680**	$ 372	**$ 11,077**	$ 10,013
Home equity	**149,126**	152,483	**3,804**	2,637			**13,214**	14,099
Discontinued real estate (4)	**14,854**	19,981	**249**	77			**13,250**	18,097
Credit card domestic	**49,453**	64,128	**n/a**	n/a	**2,158**	2,197	**n/a**	n/a
Credit card foreign	**21,656**	17,146	**n/a**	n/a	**500**	368	**n/a**	n/a
Direct/Indirect consumer (5)	**97,236**	83,436	**86**	26	**1,488**	1,370	**n/a**	n/a
Other consumer (6)	**3,110**	3,442	**104**	91	**3**	4	**n/a**	n/a
Total held	**$ 577,564**	$ 588,679	**$ 20,839**	$ 9,888	**$ 15,829**	$ 4,311	**$ 37,541**	$ 42,209
Supplemental managed basis data								
Credit card domestic	**$ 129,642**	$ 154,151	**n/a**	n/a	**$ 5,408**	$ 5,033	**n/a**	n/a
Credit card foreign	**31,182**	28,083	**n/a**	n/a	**799**	717	**n/a**	n/a
Total credit card managed	**$ 160,824**	$ 182,234	**n/a**	n/a	**$ 6,207**	$ 5,750	**n/a**	n/a

(1) Nonperforming held consumer loans and leases as a percentage of outstanding consumer loans and leases were 3.61 percent (3.86 percent excluding the Countrywide purchased impaired loan portfolio) and 1.68 percent (1.81 percent excluding the Countrywide purchased impaired loan portfolio) at December 31,

2009 and 2008.

(2) Accruing held consumer loans and leases past due 90 days or more as a percentage of outstanding consumer loans and leases were 2.74 percent (2.93 percent excluding Countrywide purchased impaired loan portfolio) and 0.73 percent (0.79 percent excluding the Countrywide purchased impaired loan portfolio) at December 31, 2009 and 2008. Residential mortgages accruing past due 90 days or more represent repurchases of insured or guaranteed loans. See Residential Mortgage discussion for more detail.

(3) Outstandings include foreign residential mortgages of $552 million at December 31, 2009 mainly from the Merrill Lynch acquisition. We did not have any foreign residential mortgage loans at December 31, 2008.

(4) Outstandings include $13.4 billion and $18.2 billion of pay option loans and $1.5 billion and $1.8 billion of subprime loans at December 31, 2009 and 2008. We no longer originate these products.

(5) Outstandings include dealer financial services loans of $41.6 billion and $40.1 billion, consumer lending loans of $19.7 billion and $28.2 billion, securities-based lending margin loans of $12.9 billion and $0, and foreign consumer loans of $8.0 billion and $1.8 billion at December 31, 2009 and 2008, respectively.

(6) Outstandings include consumer finance loans of $2.3 billion and $2.6 billion, and other foreign consumer loans of $709 million and $618 million at December 31, 2009 and 2008.

n/a = not applicable

Table of Contents

Table 18 presents net charge-offs and related ratios for our consumer loans and leases and net losses and related ratios for our managed credit card portfolio for 2009 and 2008. The reported net charge-off ratios for residential mortgage, home equity and discontinued real estate

benefit from the addition of the Countrywide purchased impaired loan portfolio as the initial fair value adjustments recorded on those loans upon acquisition already included the estimated credit losses.

Table 18 Consumer Net Charge-offs/Net Losses and Related Ratios

	Net Charge-offs/Losses		Net Charge-off/Loss Ratios [1, 2]	
(Dollars in millions)	**2009**	2008	**2009**	2008
Held basis				
Residential mortgage	**$ 4,350**	$ 925	**1.74%**	0.36%
Home equity	**7,050**	3,496	**4.56**	2.59
Discontinued real estate	**101**	16	**0.58**	0.15
Credit card domestic	**6,547**	4,161	**12.50**	6.57
Credit card foreign	**1,239**	551	**6.30**	3.34
Direct/Indirect consumer	**5,463**	3,114	**5.46**	3.77
Other consumer	**428**	399	**12.94**	10.46
Total held	**$ 25,178**	$ 12,662	**4.22**	2.21
Supplemental managed basis data				
Credit card domestic	**$ 16,962**	$ 10,054	**12.07**	6.60
Credit card foreign	**2,223**	1,328	**7.43**	4.17
Total credit card managed	**$ 19,185**	$ 11,382	**11.25**	6.18

(1) Net charge-off/loss ratios are calculated as held net charge-offs or managed net losses divided by average outstanding held or managed loans and leases.

(2) Net charge-off ratios excluding the Countrywide purchased impaired loan portfolio were 1.82 percent and 0.36 percent for residential mortgage, 5.00 percent and 2.73 percent for home equity, 5.57 percent and 1.33 percent for discontinued real estate, and 4.52 percent and 2.29 percent for the total held portfolio for 2009 and 2008. These are the only product classifications materially impacted by the Countrywide purchased impaired loan portfolio for 2009 and 2008. For all loan and lease categories, the dollar amounts of the net charge-offs were unchanged.

We believe that the presentation of information adjusted to exclude the impacts of the Countrywide purchased impaired loan portfolio is more representative of the ongoing operations and credit quality of the business. As a result, in the following discussions of the residential mortgage, home equity and discontinued real estate portfolios, we supplement certain reported statistics with information that is adjusted to exclude the impacts of the Countrywide purchased impaired loan portfolio. In addition, beginning on page 59, we separately disclose information on the Countrywide purchased impaired loan portfolio.

Residential Mortgage

The residential mortgage portfolio, which excludes the discontinued real estate portfolio acquired with Countrywide, makes up the largest percentage of our consumer loan portfolio at 42 percent of consumer loans and leases (43 percent excluding the Countrywide purchased impaired loan portfolio) at December 31, 2009. Approximately 15 percent of the residential portfolio is in *GWIM* and represents residential mortgages that are originated for the home purchase and refinancing needs of our affluent customers. The remaining portion of the portfolio is mostly in *All Other* and is comprised of both purchased loans as well as residential loans originated for our customers which are used in our overall ALM activities.

Outstanding loans and leases decreased $5.9 billion at December 31, 2009 compared to December 31, 2008 due to lower balance sheet retention of new originations, paydowns and charge-offs as well as sales and conversions of loans into retained MBS. These decreases were offset, in part, by the acquisition of Merrill Lynch and GNMA repurchases. Merrill Lynch added $21.7 billion of residential mortgage outstandings as of December 31, 2009. At December 31, 2009 and 2008, loans past due 90 days or more and still accruing interest of $11.7 billion and $372 million were related to repurchases pursuant to our servicing agreements with GNMA where repayments are insured by the FHA. The increase was driven by the repurchase of delinquent loans from securitizations during the year as we repurchase these loans for economic reasons, with no significant detrimental impact to our risk exposure. Excluding these repurchases, the accruing loans past due 90 days or more as a percentage of consumer loans and leases would have been 0.72 percent (0.77 percent excluding the Countrywide purchased impaired loan portfolio) and 0.67 percent (0.72 percent excluding the Countrywide purchased impaired loan portfolio) at December 31, 2009 and 2008.

Nonperforming residential mortgage loans increased $9.5 billion compared to December 31, 2008 due to the impacts of the weak housing markets and economic conditions and in part due to TDRs. For more information on TDRs, refer to the Nonperforming Consumer Loans and Foreclosed Properties Activity discussion on page 62 and *Note 6 Outstanding Loans and Leases* to the Consolidated Financial Statements. At December 31, 2009, $9.6 billion or approximately 58 percent, of the nonperforming residential mortgage loans were greater than 180 days past due and had been written down to their fair values. Net charge-offs increased $3.4 billion to $4.4 billion in 2009, or 1.74 percent (1.82 percent excluding the Countrywide purchased impaired portfolio), of total average residential mortgage loans compared to 0.36 percent (0.36 percent excluding the Countrywide purchased impaired portfolio) for 2008. These increases reflect the impacts of the weak housing markets and the weak economy. See the Countrywide Purchased Impaired Loan Portfolio discussion beginning on page 59 for more information.

We mitigate a portion of our credit risk through synthetic securitizations which are cash collateralized and provide mezzanine risk protection of $2.5 billion which will reimburse us in the event that losses exceed 10 bps of the original pool balance. For further information regarding these synthetic securitizations, see *Note 6 Outstanding Loans and Leases* to the Consolidated Financial Statements. The reported net charge-offs for residential mortgages do not include the benefits of amounts reimbursable under cash collateralized synthetic securitizations. Adjusting for the benefit of this credit protection, the residential mortgage net charge-off ratio in 2009 would have been reduced by 25 bps and four bps in 2008. Synthetic securitizations and the protection provided by GSEs together provided risk mitigation for approximately 32 percent and 48 percent of our residential mortgage portfolio at December 31, 2009 and 2008. Our regulatory risk-weighted assets are reduced as a result of these risk protection transactions because we transferred a portion of our credit risk to unaffiliated parties. At December 31, 2009 and 2008, these

Table of Contents

transactions had the cumulative effect of reducing our risk-weighted assets by $16.8 billion and $34.0 billion, and strengthened our Tier 1 capital ratio by 11 bps and 24 bps and our Tier 1 common capital ratio by eight bps and 12 bps.

Below is a discussion of certain risk characteristics of the residential mortgage portfolio, excluding the Countrywide purchased impaired loan portfolio, which contributed to higher losses. These characteristics include loans with high refreshed LTVs, loans which were originated at the peak of home prices in 2006 and 2007, loans to borrowers located in the states of California and Florida where we have concentrations and where significant declines in home prices have been experienced, as well as interest-only loans. Although the disclosures below address each of these risk characteristics separately, there is significant overlap in loans with these characteristics, which contributed to a disproportionate share of the losses in the portfolio. Excluding the Countrywide purchased impaired portfolio, residential mortgage loans with all of these higher risk characteristics comprised seven percent of the total residential mortgage portfolio at December 31, 2009, but have accounted for 31 percent of the residential mortgage net charge-offs in 2009.

Residential mortgage loans with a greater than 90 percent but less than 100 percent refreshed LTV represented 11 percent of the residential mortgage portfolio and loans with a refreshed LTV greater than 100 percent represented 26 percent at December 31, 2009. Of the loans with a refreshed LTV greater than 100 percent, 90 percent were performing at December 31, 2009. Loans with a refreshed LTV greater than 100 per -

cent reflect loans where the outstanding book balance of the loan is greater than the most recent valuation of the property securing the loan. The majority of these loans have a refreshed LTV greater than 100 percent due primarily to home price deterioration from the weakened economy. Loans with refreshed FICO scores below 620 represented 16 percent of the residential mortgage portfolio.

The 2006 and 2007 vintage loans, which represented 42 percent of our residential mortgage portfolio at December 31, 2009, continued to season and have higher refreshed LTVs and accounted for 69 percent of nonperforming residential mortgage loans at December 31, 2009 and approximately 75 percent of residential mortgage net charge-offs during 2009.

The table below presents outstandings, nonperforming loans and net charge-offs by certain state concentrations for the residential mortgage portfolio. California and Florida combined represented 43 percent of the total residential mortgage portfolio and 47 percent of nonperforming residential mortgage loans at December 31, 2009, but accounted for 58 percent of the residential mortgage net charge-offs for 2009. The Los Angeles-Long Beach-Santa Ana Metropolitan Statistical Area (MSA) within California represented 12 percent and 13 percent of the total residential mortgage portfolio at December 31, 2009 and 2008. Additionally, 37 percent and 24 percent of loans in California and Florida are in reference pools of synthetic securitizations, as described above, which provide mezzanine risk protection.

Table 19 Residential Mortgage State Concentrations

	December 31				Year Ended December 31	
	Outstandings		Nonperforming		Net Charge-offs	
(Dollars in millions)	**2009**	2008	**2009**	2008	**2009**	2008
California	**$ 82,329**	$ 84,847	**$ 5,967**	$ 2,028	**$ 1,726**	$ 411
Florida	**16,518**	15,787	**1,912**	1,012	**796**	154
New York	**16,278**	15,539	**632**	255	**66**	5
Texas	**10,737**	10,804	**534**	315	**59**	20
Virginia	**7,812**	9,696	**450**	229	**89**	32
Other U.S./Foreign	**97,378**	101,377	**7,101**	3,218	**1,614**	303
Total residential mortgage loans (excluding the Countrywide purchased impaired residential mortgage loan portfolio)	**$ 231,052**	$ 238,050	**$ 16,596**	$ 7,057	**$ 4,350**	$ 925
Total Countrywide purchased impaired residential mortgage loan portfolio [1]	**11,077**	10,013				
Total residential mortgage loan portfolio	**$ 242,129**	$ 248,063				

(1) Represents acquired loans from Countrywide that were considered impaired and written down to fair value upon acquisition date. See page 59 for the discussion of the characteristics of the purchased impaired loans.

Of the residential mortgage portfolio, $84.2 billion, or 35 percent, at December 31, 2009 are interest-only loans of which 89 percent were performing. Nonperforming balances on interest-only residential mortgage loans were $9.1 billion, or 55 percent, of total nonperforming residential mortgages. Additionally, net charge-offs on the interest-only portion of the portfolio represented 58 percent of the total residential mortgage net charge-offs for 2009.

The Community Reinvestment Act (CRA) encourages banks to meet the credit needs of their communities for housing and other purposes, particularly in neighborhoods with low or moderate incomes. At December 31, 2009, our CRA portfolio comprised six percent of the total residential mortgage loan balances but comprised 17 percent of nonperforming residential mortgage loans. This portfolio also comprised 20 percent of residential mortgage net charge-offs during 2009. While approximately 32 percent of our residential mortgage portfolio carries risk mitigation protection, only a small portion of our CRA portfolio is covered by this protection.

We have sold and continue to sell mortgage and other loans, including mortgage loans, to third-party buyers and to FNMA and FHLMC under agreements that contain representations and warranties related to, among other things, the process for selecting the loans for inclusion in a sale and compliance with applicable criteria established by the buyer. Such agreements contain provisions under which we may be required to either repurchase the loans or indemnify or provide other recourse to the buyer or insurer if there is a breach of the representations and warranties that materially and adversely affects the interests of the buyer or pursuant to such other standard established by the terms of such agreements. We have experienced and continue to experience increasing repurchase and similar demands from, and disputes with buyers and insurers. We expect to contest such demands that we do not believe are valid. In the event that we are required to repurchase loans that have been the subject of repurchase demands or otherwise provide indemnification or other recourse, this could significantly increase our losses and thereby affect our future earnings. For further information regarding representations and warranties, see *Note 8 Securitizations* to the Consolidated Financial Statements, and Item 1A., Risk Factors.

Home Equity

The home equity portfolio is comprised of home equity lines of credit, home equity loans and reverse mortgages. At December 31, 2009, approximately 87 percent of the home equity portfolio was included in *Home Loans & Insurance*, while the remainder of the portfolio was primarily in *GWIM*. Outstanding balances in the home equity portfolio decreased $3.4 billion at December 31, 2009 compared to December 31, 2008 due to charge-offs and management of credit lines in the legacy portfolio partially offset by the acquisition of Merrill Lynch. Of the loans in the home equity portfolio at December 31, 2009 and 2008, approximately $26.0 billion, or 18 percent, and $23.2 billion, or 15 percent, were in first lien positions (19 percent and 17 percent excluding the Countrywide purchased impaired home equity loan portfolio). For more information on the Countrywide purchased impaired home equity loan portfolio, see the Countrywide Purchased Impaired Loan Portfolio discussion beginning on page 59.

Home equity unused lines of credit totaled $92.7 billion at December 31, 2009 compared to $107.4 billion at December 31, 2008. This decrease was driven primarily by higher customer account net utilization and lower attrition as well as line management initiatives on deteriorating accounts with declining equity positions partially offset by the Merrill Lynch acquisition. The home equity line of credit utilization rate was 56 percent at December 31, 2009 compared to 52 percent at December 31, 2008.

Nonperforming home equity loans increased $1.2 billion compared to December 31, 2008 due to the weak housing market and economic conditions and in part to TDRs. For more information on TDRs, refer to the Nonperforming Consumer Loans and Foreclosed Properties Activity discussion on page 62 and *Note 6 Outstanding Loans and Leases* to the Consolidated Financial Statements. At December 31, 2009, $721 million, or approximately 20 percent, of the nonperforming home equity loans were greater than 180 days past due and had been written down to their fair values. Net charge-offs increased $3.6 billion to $7.1 billion for 2009, or 4.56 percent (5.00 percent excluding the Countrywide purchased impaired loan portfolio) of total average home equity loans compared to 2.59 percent (2.73 percent excluding the Countrywide purchased impaired loan portfolio) in 2008. These increases were driven by continued weakness in the housing markets and the economy.

There are certain risk characteristics of the home equity portfolio, excluding the Countrywide purchased impaired loan portfolio, which have contributed to higher losses. These characteristics include loans with high refreshed CLTVs, loans originated at the peak of home prices in 2006 and 2007 and loans in geographic areas that have experienced the most significant declines in home prices. Home price declines coupled with the fact that most home equity loans are secured by second lien

positions have significantly reduced and, in some cases, eliminated all collateral value after consideration of the first lien position. Although the disclosures below address each of these risk characteristics separately, there is significant overlap in loans with these characteristics, which has contributed to a disproportionate share of losses in the portfolio. Excluding the Countrywide purchased impaired portfolio, home equity loans with all of these higher risk characteristics comprised 11 percent of the total home equity portfolio at December 31, 2009, but have accounted for 38 percent of the home equity net charge-offs for 2009.

Home equity loans with greater than 90 percent but less than 100 percent refreshed CLTVs comprised 12 percent of the home equity portfolio while loans with refreshed CLTVs greater than 100 percent comprised 31 percent of the home equity portfolio at December 31, 2009. Net charge-offs on loans with a refreshed CLTV greater than 100 percent represented 82 percent of net charge-offs for 2009. Of those loans with a refreshed CLTV greater than 100 percent, 95 percent were performing at December 31, 2009. Home equity loans and lines of credit with a refreshed CLTV greater than 100 percent reflect loans where the balance and available line of credit of the combined loans are equal to or greater than the most recent valuation of the property securing the loan. The majority of these high refreshed CLTV ratios are due to the weakened economy and home price declines. In addition, loans with a refreshed FICO score below 620 represented 13 percent of the home equity loans at December 31, 2009. Of the total home equity portfolio, 68 percent at December 31, 2009 were interest-only loans.

The 2006 and 2007 vintage loans, which represent 49 percent of our home equity portfolio, continued to season and have higher refreshed CLTVs and accounted for 62 percent of nonperforming home equity loans at December 31, 2009 and approximately 72 percent of net charge-offs for 2009. Additionally, legacy Bank of America discontinued the program of purchasing non-franchise originated home equity loans in the second quarter of 2007. These purchased loans represented only two percent of the home equity portfolio but accounted for 10 percent of home equity net charge-offs for 2009.

The table below presents outstandings, nonperforming loans and net charge-offs by certain state concentrations for the home equity portfolio. California and Florida combined represented 41 percent of the total home equity portfolio and 50 percent of nonperforming home equity loans at December 31, 2009, but accounted for 60 percent of the home equity net charge-offs for 2009. In the New York area, the New York-Northern New Jersey-Long Island MSA made up 11 percent of outstanding home equity loans at December 31, 2009 but comprised only six percent of net charge-offs for 2009. The Los Angeles-Long Beach-Santa Ana MSA within California made up 11 percent of outstanding home equity loans at December 31, 2009 and 13 percent of net charge-offs for 2009.

Table 20 Home Equity State Concentrations

	December 31				Year Ended December 31	
	Outstandings		Nonperforming		Net Charge-offs	
(Dollars in millions)	**2009**	2008	**2009**	2008	**2009**	2008
California	**$ 38,573**	$ 38,015	**$ 1,178**	$ 857	**$ 2,669**	$ 1,464
Florida	**16,735**	17,893	**731**	597	**1,583**	788
New York	**8,752**	8,602	**274**	176	**262**	96
New Jersey	**8,732**	8,929	**192**	126	**225**	96
Massachusetts	**6,155**	6,008	**90**	48	**93**	56
Other U.S./Foreign	**56,965**	58,937	**1,339**	833	**2,218**	996
Total home equity loans (excluding the Countrywide purchased impaired home equity portfolio)	**$ 135,912**	$ 138,384	**$ 3,804**	$ 2,637	**$ 7,050**	$ 3,496
Total Countrywide purchased impaired home equity portfolio (1)	**13,214**	14,099				
Total home equity portfolio	**$ 149,126**	$ 152,483				

(1) Represents acquired loans from Countrywide that were considered impaired and written down to fair value at the acquisition date. See page 59 for the discussion of the characteristics of the purchased impaired loans.

Table of Contents

Discontinued Real Estate

The discontinued real estate portfolio, totaling $14.9 billion at December 31, 2009, consisted of pay option and subprime loans obtained in the Countrywide acquisition. Upon acquisition, the majority of the discontinued real estate portfolio was considered impaired and written down to fair value. At December 31, 2009, the Countrywide purchased impaired loan portfolio comprised $13.3 billion, or 89 percent, of the $14.9 billion discontinued real estate portfolio. This portfolio is included in *All Other* and is managed as part of our overall ALM activities. See the Countrywide Purchased Impaired Loan Portfolio discussion below for more information on the discontinued real estate portfolio.

At December 31, 2009, the purchased non-impaired discontinued real estate portfolio was $1.6 billion. Loans with greater than 90 percent refreshed LTVs and CLTVs comprised 25 percent of this portfolio and those with refreshed FICO scores below 620 represented 39 percent of the portfolio. California represented 37 percent of the portfolio and 30 percent of the nonperforming loans while Florida represented nine percent of the portfolio and 16 percent of the nonperforming loans at December 31, 2009. The Los Angeles-Long Beach-Santa Ana MSA within California made up 15 percent of outstanding discontinued real estate loans at December 31, 2009.

Countrywide Purchased Impaired Loan Portfolio

Loans acquired with evidence of credit quality deterioration since origination and for which it is probable at purchase that we will be unable to collect all contractually required payments are accounted for under the accounting guidance for purchased impaired loans, which addresses accounting for differences between contractual and expected cash flows to be collected from the Corporation s initial investment in loans if those differences are attributable, at least in part, to credit quality. Evidence of credit quality deterioration as of the acquisition date may include statistics such as past due status, refreshed FICO scores and refreshed LTVs. Purchased impaired loans are recorded at fair value and the applicable accounting guidance prohibits carrying over or creation of valuation allowances in the initial accounting. The Merrill Lynch purchased impaired consumer loan portfolio did not materially alter the reported credit quality statistics of the consumer portfolios. As such, the Merrill Lynch consumer purchased impaired loans are excluded from the following discussion and credit statistics.

Certain acquired loans of Countrywide that were considered impaired were written down to fair value at the acquisition date. As of December 31, 2009, the carrying value was $37.5 billion and the unpaid principal balance of these loans was $47.7 billion. Based on the unpaid

principal balance, $30.6 billion have experienced no charge-offs and of these loans 82 percent, or $25.1 billion are current based on their contractual terms. Of the $5.5 billion that are not current, approximately 51 percent, or $2.8 billion are in early stage delinquency. During 2009, had the acquired portfolios not been accounted for as impaired, we would have recorded additional net charge-offs of $7.4 billion. During 2009, the Countrywide purchased impaired loan portfolio experienced further credit deterioration due to weakness in the housing markets and the impacts of a weak economy. As such, in 2009, we recorded $3.3 billion of provision for credit losses which was comprised of $3.0 billion for home equity loans and $316 million for discontinued real estate loans compared to $750 million in 2008. In addition, we wrote down Countrywide purchased impaired loans by $179 million during 2009 as losses on certain pools of impaired loans exceeded the original purchase accounting adjustment. The remaining purchase accounting credit adjustment of $487 million and the allowance of $3.9 billion results in a total credit adjustment of $4.4 billion remaining on all pools of Countrywide purchased impaired loans at December 31, 2009. For further information on the purchased impaired loan portfolio, see *Note 6 Outstanding Loans and Leases* to the Consolidated Financial Statements.

The following discussion provides additional information on the Countrywide purchased impaired residential mortgage, home equity and discontinued real estate loan portfolios. Since these loans were written down to fair value upon acquisition, we are reporting this information separately. In certain cases, we supplement the reported statistics on these portfolios with information that is presented as if the acquired loans had not been accounted for as impaired upon acquisition.

Residential Mortgage

The Countrywide purchased impaired residential mortgage portfolio outstandings were $11.1 billion at December 31, 2009 and comprised 30 percent of the total Countrywide purchased impaired loan portfolio. Those loans with a refreshed FICO score below 620 represented 33 percent of the Countrywide purchased impaired residential mortgage portfolio at December 31, 2009. Refreshed LTVs greater than 90 percent after consideration of purchase accounting adjustments and refreshed LTVs greater than 90 percent based on the unpaid principal balance represented 65 percent and 80 percent of the purchased impaired residential mortgage portfolio. The table below presents outstandings net of purchase accounting adjustments and net charge-offs had the portfolio not been accounted for as impaired upon acquisition by certain state concentrations.

Table 21 Countrywide Purchased Impaired Loan Portfolio Residential Mortgage State Concentrations

(Dollars in millions)	Outstandings [1] December 31 2009	2008	Purchased Impaired Portfolio Net Charge-offs [1, 2] Year Ended December 31 2009	2008
California	**$ 6,142**	$ 5,633	**$ 496**	$ 177
Florida	**843**	776	**143**	103
Virginia	**617**	556	**30**	14
Maryland	**278**	253	**13**	6
Texas	**166**	148	**5**	5
Other U.S./Foreign	**3,031**	2,647	**237**	133
Total Countrywide purchased impaired residential mortgage loan portfolio	**$ 11,077**	$ 10,013	**$ 924**	$ 438

(1) Those loans that were originally classified as discontinued real estate loans upon acquisition and have been subsequently modified are now included in the residential mortgage outstandings shown above. Charge-offs on these loans prior to modification are excluded from the amounts shown above and shown as discontinued real estate charge-offs consistent with the product classification of the loan at the time of charge-off.

(2) Represents additional net charge-offs had the portfolio not been accounted for as impaired upon acquisition.

Table of Contents

Home Equity

The Countrywide purchased impaired home equity outstandings were $13.2 billion at December 31, 2009 and comprised 35 percent of the total Countrywide purchased impaired loan portfolio. Those loans with a refreshed FICO score below 620 represented 21 percent of the Countrywide purchased impaired home equity portfolio at December 31, 2009. Refreshed CLTVs greater than 90 percent represented 90 percent of the

purchased impaired home equity portfolio after consideration of purchase accounting adjustments and 89 percent of the purchased impaired home equity portfolio based on the unpaid principal balance at December 31, 2009. The table below presents outstandings net of purchase accounting adjustments and net charge-offs had the portfolio not been accounted for as impaired upon acquisition, by certain state concentrations.

Table 22 Countrywide Purchased Impaired Portfolio Home Equity State Concentrations

	Outstandings December 31		Purchased Impaired Portfolio Net Charge-offs (1) Year Ended December 31	
(Dollars in millions)	**2009**	2008	**2009**	2008
California	**$ 4,311**	$ 5,110	**$ 1,769**	$ 744
Florida	**765**	910	**320**	186
Virginia	**550**	529	**77**	42
Arizona	**542**	626	**203**	79
Colorado	**416**	402	**48**	22
Other U.S./Foreign	**6,630**	6,522	**1,057**	421
Total Countrywide purchased impaired home equity portfolio	**$ 13,214**	$ 14,099	**$ 3,474**	$ 1,494

(1) Represents additional net charge-offs had the portfolio not been accounted for as impaired upon acquisition.

Discontinued Real Estate

The Countrywide purchased impaired discontinued real estate outstandings were $13.3 billion at December 31, 2009 and comprised 35 percent of the total Countrywide purchased impaired loan portfolio. Those loans with a refreshed FICO score below 620 represented 51 percent of the Countrywide purchased impaired discontinued real estate portfolio at December 31, 2009. Refreshed LTVs and CLTVs greater than 90 percent represented 52 percent of the purchased impaired discontinued real

estate portfolio after consideration of purchase accounting adjustments. Refreshed LTVs and CLTVs greater than 90 percent based on the unpaid principal balance represented 80 percent of the purchased impaired discontinued real estate portfolio at December 31, 2009. The table below presents outstandings net of purchase accounting adjustments and net charge-offs had the portfolio not been accounted for as impaired upon acquisition, by certain state concentrations.

Table 23 Countrywide Purchased Impaired Loan Portfolio Discontinued Real Estate State Concentrations

Outstandings (1)	Purchased Impaired Portfolio Net Charge-offs (1, 2)

	December 31		Year Ended December 31	
(Dollars in millions)	**2009**	2008	**2009**	2008
California	**$ 7,148**	$ 9,987	**$ 1,845**	$ 1,010
Florida	**1,315**	1,831	**393**	275
Arizona	**430**	666	**151**	61
Washington	**421**	492	**30**	8
Virginia	**399**	580	**76**	48
Other U.S./Foreign	**3,537**	4,541	**517**	297
Total Countrywide purchased impaired discontinued real estate loan portfolio	**$ 13,250**	$ 18,097	**$ 3,012**	$ 1,699

(1) Those loans that were originally classified as discontinued real estate loans upon acquisition and have been subsequently modified are now excluded from amounts shown above. Charge-offs on these loans prior to modification are included in the amounts shown above consistent with the product classification of the loan at the time of charge-off.

(2) Represents additional net charge-offs had the portfolio not been accounted for as impaired upon acquisition.

Pay option ARMs have interest rates that adjust monthly and minimum required payments that adjust annually (subject to resetting of the loan if minimum payments are made and deferred interest limits are reached). Annual payment adjustments are subject to a 7.5 percent maximum change. To ensure that contractual loan payments are adequate to repay a loan, the fully amortizing loan payment amount is re-established after the initial five or 10-year period and again every five years thereafter. These payment adjustments are not subject to the 7.5 percent limit and may be substantial due to changes in interest rates and the addition of unpaid interest to the loan balance. Payment advantage ARMs have interest rates that are fixed for an initial period of five years. Payments are subject to reset if the minimum payments are made and deferred interest limits are reached. If interest deferrals cause the loan s principal balance

to reach a certain level within the first 10 years of the loans, the payment is reset to the interest-only payment; then at the 10-year point, the fully amortizing payment is required.

The difference between the frequency of changes in the loans interest rates and payments along with a limitation on changes in the minimum monthly payments to 7.5 percent per year can result in payments that are not sufficient to pay all of the monthly interest charges (i.e., negative amortization). Unpaid interest charges are added to the loan balance until the loan balance increases to a specified limit, which is no more than 115 percent of the original loan amount, at which time a new monthly payment amount adequate to repay the loan over its remaining contractual life is established.

Table of Contents

At December 31, 2009, the unpaid principal balance of pay option loans was $17.0 billion, with a carrying amount of $13.4 billion, including $12.5 billion of loans that were impaired upon acquisition. The total unpaid principal balance of pay option loans with accumulated negative amortization was $15.2 billion and accumulated negative amortization from the original loan balance was $1.0 billion. The percentage of borrowers electing to make only the minimum payment on option ARMs was 65 percent at December 31, 2009. We continue to evaluate our exposure to payment resets on the acquired negatively amortizing loans and have taken into consideration several assumptions regarding this evaluation (e.g., prepayment rates). We also continue to evaluate the potential for resets on the Countrywide purchased impaired pay option portfolio. Based on our expectations, 21 percent, eight percent and two percent of the pay option loan portfolio is expected to reset in 2010, 2011, and 2012, respectively. Approximately three percent are expected to reset thereafter, and approximately 66 percent are expected to repay prior to being reset.

We manage these purchased impaired portfolios, including consideration for the home retention programs to modify troubled mortgages, consistent with our other consumer real estate practices.

Credit Card Domestic

The consumer domestic credit card portfolio is managed in *Global Card Services*. Outstandings in the held domestic credit card loan portfolio decreased $14.7 billion at December 31, 2009 compared to December 31, 2008 due to lower originations and transactional volume, the conversion of certain credit card loans into held-to-maturity debt securities and charge-offs partially offset by lower payment rates and new

draws on previously securitized accounts. For more information on this conversion, see *Note 8 Securitizations* to the Consolidated Financial Statements. Net charge-offs increased $2.4 billion in 2009 to $6.5 billion reflecting the weak economy including elevated unemployment underemployment and higher bankruptcies. However, held domestic loans 30 days or more past due and still accruing interest decreased $668 million from December 31, 2008 driven by improvement in the last three quarters of 2009. Due to the decline in outstandings, the percentage of balances 30 days or more past due and still accruing interest increased to 7.90 percent from 7.13 percent at December 31, 2008.

Managed domestic credit card outstandings decreased $24.5 billion to $129.6 billion at December 31, 2009 compared to December 31, 2008 due to lower originations and transactional volume and credit losses partially offset by lower payment rates. The $6.9 billion increase in managed net losses to $17.0 billion was driven by the same factors as described in the held discussion above. Managed loans that were 30 days or more past due and still accruing interest decreased $856 million to $9.9 billion compared to $10.7 billion at December 31, 2008. Similar to the held discussion above, the percentage of balances 30 days or more past due and still accruing interest increased to 7.61 percent from 6.96 percent at December 31, 2008 due to the decline in outstandings.

Managed consumer credit card unused lines of credit for domestic credit card totaled $438.5 billion at December 31, 2009 compared to $713.0 billion at December 31, 2008. The $274.5 billion decrease was driven primarily by account management initiatives on higher risk customers in higher risk states and inactive accounts.

The table below presents asset quality indicators by certain state concentrations for the managed credit card domestic portfolio.

Table 24 Credit Card Domestic State Concentrations Managed Basis

	December 31				Year Ended December 31	
	Outstandings		Accruing Past Due 90 Days or More		Net Losses	
(Dollars in millions)	**2009**	2008	**2009**	2008	**2009**	2008
California	**$ 20,048**	$ 24,191	**$ 1,097**	$ 997	**$ 3,558**	$ 1,916
Florida	**10,858**	13,210	**676**	642	**2,178**	1,223
Texas	**8,653**	10,262	**345**	293	**960**	634
New York	**7,839**	9,368	**295**	263	**855**	531
New Jersey	**5,168**	6,113	**189**	172	**559**	316
Other U.S.	**77,076**	91,007	**2,806**	2,666	**8,852**	5,434

Total credit card domestic loan portfolio	**$ 129,642**	$ 154,151	**$ 5,408**	$ 5,033	**$ 16,962**	$ 10,054

Credit Card Foreign

The consumer foreign credit card portfolio is managed in *Global Card Services*. Outstandings in the held foreign credit card loan portfolio increased $4.5 billion to $21.7 billion at December 31, 2009 compared to December 31, 2008 primarily due to the strengthening of certain foreign currencies, particularly the British pound against the U.S. dollar. Net charge-offs for the held foreign portfolio increased $688 million to $1.2 billion in 2009, or 6.30 percent of total average held credit card foreign loans compared to 3.34 percent in 2008. The increase was driven primarily by weak economic conditions and higher unemployment also being experienced in Europe and Canada, including a higher level of bankruptcies/insolvencies.

Managed foreign credit card outstandings increased $3.1 billion to $31.2 billion at December 31, 2009 compared to December 31, 2008 primarily due to the strengthening of certain foreign currencies, partic -

ularly the British pound against the U.S. dollar. Managed consumer foreign loans that were accruing past due 90 days or more increased to $799 million, or 2.56 percent, compared to $717 million, or 2.55 percent, at December 31, 2008. The dollar increase was primarily due to the strengthening of foreign currencies, especially the British pound against the U.S. dollar, further exacerbated by continuing weakness in the European and Canadian economies. Net losses for the managed foreign portfolio increased $895 million to $2.2 billion for 2009, or 7.43 percent of total average managed credit card foreign loans compared to 4.17 percent in 2008. The increase in managed net losses was driven by the same factors as described in the held discussion above.

Managed consumer credit card unused lines of credit for foreign credit card totaled $69.0 billion at December 31, 2009 compared to $80.6 billion at December 31, 2008. The $11.6 billion decrease was driven primarily by account management initiatives mainly on inactive accounts.

Table of Contents

Direct/Indirect Consumer

At December 31, 2009, approximately 45 percent of the direct/indirect portfolio was included in *Global Banking* (dealer financial services automotive, marine and recreational vehicle loans), 22 percent was included in *Global Card Services* (consumer personal loans and other non-real estate secured), 24 percent in *GWIM* (principally other non-real estate secured and unsecured personal loans and securities-based lending margin loans) and the remainder in *Deposits* (student loans).

Outstanding loans and leases increased $13.8 billion to $97.2 billion at December 31, 2009 compared to December 31, 2008 primarily due to the acquisition of Merrill Lynch which included both domestic and foreign securities-based lending margin loans, partially offset by lower outstandings in the *Global Card Services* consumer lending portfolio. Net charge-offs increased $2.3 billion to $5.5 billion for 2009, or 5.46 per -

cent of total average direct/indirect loans compared to 3.77 percent for 2008. The dollar increase was concentrated in the *Global Card Services* consumer lending portfolio, driven by the effects of a weak economy including higher bankruptcies. Net charge-off ratios in the consumer lending portfolio have also been impacted by a significant slowdown in new loan production due, in part, to a tightening of underwriting criteria. Net charge-off ratios in the consumer lending portfolio were 17.75 percent during 2009, compared to 7.98 percent during 2008. The weak economy resulted in higher charge-offs in the dealer financial services portfolio. Loans that were past due 30 days or more and still accruing interest declined compared to December 31, 2008 driven by the consumer lending portfolio.

The table below presents asset quality indicators by certain state concentrations for the direct/indirect consumer loan portfolio.

Table 25 Direct/Indirect State Concentrations

	December 31				Year Ended December 31	
	Outstandings		Accruing Past Due 90 Days or More		Net Charge-offs	
(Dollars in millions)	**2009**	2008	**2009**	2008	**2009**	2008
California	**$ 11,664**	$ 10,555	**$ 228**	$ 247	**$ 1,055**	$ 601
Texas	**8,743**	7,738	**105**	88	**382**	222
Florida	**7,559**	7,376	**130**	145	**597**	334
New York	**5,111**	4,938	**73**	69	**272**	162
Georgia	**3,165**	3,212	**52**	48	**205**	115
Other U.S./Foreign	**60,994**	49,617	**900**	773	**2,952**	1,680
Total direct/indirect loans	**$ 97,236**	$ 83,436	**$ 1,488**	$ 1,370	**$ 5,463**	$ 3,114

Other Consumer

At December 31, 2009, approximately 73 percent of the other consumer portfolio was associated with portfolios from certain consumer finance businesses that we have previously exited and are included in *All Other*. The remainder consisted of the foreign consumer loan portfolio which is mostly included in *Global Card Services* and deposit overdrafts which are recorded in *Deposits*.

Nonperforming Consumer Loans and Foreclosed Properties Activity

Table 26 presents nonperforming consumer loans and foreclosed properties activity during 2009 and 2008. Nonperforming loans held for sale are excluded from nonperforming loans as they are recorded at either fair value or the lower of cost or fair value. Nonperforming loans do not include consumer credit card, consumer loans secured by personal property or unsecured consumer loans that are past due as these loans are generally charged off no later than the end of the month in which the account becomes 180 days past due. Real estate-secured past due loans repurchased pursuant to our servicing agreements with GNMA are not reported as nonperforming as repayments are insured by the FHA. Additionally, nonperforming loans do not include the Countrywide purchased impaired portfolio. For further information regarding nonperforming loans, see *Note 1 Summary of Significant Accounting Principles to* the Consolidated Financial Statements. Total net additions to nonperforming loans in 2009 were $11.0 billion compared to $6.4 billion in 2008. The net additions to nonperforming loans in 2009 were driven primarily by the residential mortgage and home equity portfolios reflecting weak housing markets and economy, seasoning of vintages originated in periods of higher growth and performing loans that were accelerated into nonperforming loan status upon modification into a TDR. Nonperforming consumer real estate related TDRs as a percentage of total nonperforming consumer loans and foreclosed properties were 21 percent at

December 31, 2009 compared to five percent at December 31, 2008 due primarily to increased modification volume during the year.

The outstanding balance of a real estate secured loan that is in excess of the estimated property value, less costs to sell, is charged off no later than the end of the month in which the account becomes 180 days past due unless repayment of the loan is insured by the FHA. Property values are refreshed at least quarterly with additional charge-offs taken as needed. At December 31, 2009, $10.7 billion, or approximately 60 percent, of the nonperforming residential mortgage loans and foreclosed properties, comprised of $9.6 billion of nonperforming loans and $1.1 billion of foreclosed properties, were greater than 180 days past due and had been written down to their fair values and $790 million, or approximately 20 percent, of the nonperforming home equity loans and foreclosed properties, comprised of $721 million of nonperforming loans and $69 million of foreclosed properties, were greater than 180 days past due and had been written down to their fair values.

In 2009, approximately 16 percent and six percent of the net increase in nonperforming loans were from Countrywide purchased non-impaired loans and Merrill Lynch loans that deteriorated subsequent to acquisition. While we witnessed increased levels of nonperforming loans transferred to foreclosed properties due to the lifting of various foreclosure moratoriums during 2009, the net reductions to foreclosed properties of $78 million were driven by sales of foreclosed properties and write-downs.

Restructured Loans

As discussed above, nonperforming loans also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Corporation s loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower s sustained repayment performance for a reasonable period, generally six months. Nonperforming TDRs, excluding those loans modified in the purchased impaired portfolio, are included in Table 26.

The pace of modifications slowed during the second half of 2009 due to the MHA and other programs where the loan goes through a trial period prior to formal modification. For more information on our modification programs, see Regulatory Initiatives beginning on page 43.

At December 31, 2009, residential mortgage TDRs were $5.3 billion, an increase of $4.7 billion compared to December 31, 2008. Nonperforming TDRs increased $2.7 billion during 2009 to $2.9 billion. Nonperforming residential mortgage TDRs comprised approximately 17 percent and three percent of total residential mortgage nonperforming loans and foreclosed properties at December 31, 2009 and 2008. Residential mortgage TDRs that were performing in accordance with their modified terms and excluded from nonperforming loans in Table 26 were $2.3 billion, an increase of $2.0 billion compared to December 31, 2008.

At December 31, 2009, home equity TDRs were $2.3 billion, an increase of $2.0 billion compared to December 31, 2008. Nonperforming TDRs increased $1.4 billion during 2009 to $1.7 billion. Nonperforming home equity TDRs comprised 44 percent and 11 percent of total home

equity nonperforming loans and foreclosed properties at December 31, 2009 and 2008. Home equity TDRs that were performing in accordance with their modified terms and excluded from nonperforming loans in Table 26 were $639 million compared to $1 million at December 31, 2008.

Discontinued real estate TDRs totaled $78 million at December 31, 2009. This was an increase of $7 million from December 31, 2008. Of these loans, $43 million were nonperforming while the remaining $35 million were classified as performing at December 31, 2009.

We also work with customers that are experiencing financial difficulty by renegotiating consumer credit card and consumer lending loans, while ensuring that we remain within Federal Financial Institutions Examination Council (FFIEC) guidelines. These renegotiated loans are excluded from Table 26 as we do not classify consumer non-real estate unsecured loans as nonperforming. For further information regarding these restructured and renegotiated loans, see *Note 6 Outstanding Loans and Leases* to the Consolidated Financial Statements.

Certain modifications of loans in the purchased impaired loan portfolio result in removal of the loan from the purchased impaired portfolio pool and subsequent classification as a TDR. These modified loans are excluded from Table 26. For more information on TDRs, renegotiated and modified loans, refer to *Note 6 Outstanding Loans and Leases* to the Consolidated Financial Statements.

Table 26 Nonperforming Consumer Loans and Foreclosed Properties Activity [1]

(Dollars in millions)	**2009**	2008
Nonperforming loans		
Balance, January 1	**$ 9,888**	$ 3,442
Additions to nonperforming loans:		
New nonaccrual loans and leases [2]	**28,011**	13,421
Reductions in nonperforming loans:		
Paydowns and payoffs	**(1,459)**	(527)
Returns to performing status [3]	**(4,540)**	(1,844)
Charge-offs [4]	**(9,442)**	(3,729)
Transfers to foreclosed properties	**(1,618)**	(875)
Transfers to loans held-for-sale	**(1)**	
Total net additions to nonperforming loans	**10,951**	6,446
Total nonperforming loans, December 31 [5]	**20,839**	9,888
Foreclosed properties		
Balance, January 1	**1,506**	276
Additions to foreclosed properties:		
New foreclosed properties [6, 7]	**1,976**	2,530
Reductions in foreclosed properties:		

Sales	**(1,687)**	(1,077)
Write-downs	**(367)**	(223)
Total net additions (reductions) to foreclosed properties	**(78)**	1,230
Total foreclosed properties, December 31	**1,428**	1,506
Nonperforming consumer loans and foreclosed properties, December 31	**$ 22,267**	$ 11,394
Nonperforming consumer loans as a percentage of outstanding consumer loans and leases	**3.61%**	1.68%
Nonperforming consumer loans and foreclosed properties as a percentage of outstanding consumer loans and foreclosed properties	**3.85**	1.93

(1) Balances do not include nonperforming LHFS of $2.9 billion and $3.2 billion in 2009 and 2008.

(2) 2009 includes $465 million of nonperforming loans acquired from Merrill Lynch.

(3) Consumer loans may be restored to performing status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower s sustained repayment performance for a reasonable period, generally six months.

(4) Our policy is not to classify consumer credit card and consumer loans not secured by real estate as nonperforming; therefore, the charge-offs on these loans have no impact on nonperforming activity.

(5) Approximately half of the 2009 and 2008 nonperforming loans are greater than 180 days past due and have been charged off to approximately 68 percent and 71 percent of original cost.

(6) Our policy is to record any losses in the value of foreclosed properties as a reduction in the allowance for credit losses during the first 90 days after transfer of a loan into foreclosed properties. Thereafter, all losses in value are recorded as noninterest expense. New foreclosed properties in the table above are net of $818 million and $436 million of charge-offs in 2009 and 2008 taken during the first 90 days after transfer.

(7) 2009 includes $21 million of foreclosed properties acquired from Merrill Lynch. 2008 includes $952 million of foreclosed properties acquired from Countrywide.

Commercial Portfolio Credit Risk Management

Credit risk management for the commercial portfolio begins with an assessment of the credit risk profile of the borrower or counterparty based on an analysis of its financial position. As part of the overall credit risk assessment, our commercial credit exposures are assigned a risk rating and are subject to approval based on defined credit approval standards. Subsequent to loan origination, risk ratings are monitored on an ongoing basis, and if necessary, adjusted to reflect changes in the financial condition, cash flow, risk profile or outlook of a borrower or counterparty. In making credit decisions, we consider risk rating, collateral, country, industry and single name concentration limits while also balancing the total borrower or counterparty relationship. Our lines of business and risk management personnel use a variety of tools to continuously monitor the ability of a borrower or counterparty to perform under its obligations. We use risk rating aggregations to measure and evaluate concentrations within portfolios. In addition, risk ratings are a factor in determining the level of assigned economic capital and the allowance for credit losses.

For information on our accounting policies regarding delinquencies, nonperforming status and charge-offs for the commercial portfolio, see *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements.

Management of Commercial Credit Risk Concentrations

Commercial credit risk is evaluated and managed with a goal that concentrations of credit exposure do not result in undesirable levels of risk. We review, measure and manage concentrations of credit exposure by industry, product, geography and customer relationship. Distribution of loans and leases by loan size is an additional measure of portfolio risk diversification. We also review, measure and manage commercial real estate loans by geographic location and property type. In addition, within our international portfolio, we evaluate borrowings by region and by country. Tables 31, 34, 38, 39 and 40 summarize our concentrations. Additionally, we utilize syndication of exposure to third parties, loan sales, hedging and other risk mitigation techniques to manage the size and risk profile of the loan portfolio.

As part of our ongoing risk mitigation initiatives, we attempt to work with clients to modify their loans to terms that better align with their current ability to pay. In situations where an economic concession has been granted to a borrower experiencing financial difficulty, we identify these loans as TDRs.

We account for certain large corporate loans and loan commitments (including issued but unfunded letters of credit which are considered utilized for credit risk management purposes) that exceed our single name credit risk concentration guidelines under the fair value option. Lending commitments, both funded and unfunded, are actively managed and

monitored, and as appropriate, credit risk for these lending relationships may be mitigated through the use of credit derivatives, with the Corporation s credit view and market perspectives determining the size and timing of the hedging activity. In addition, credit protection is purchased to cover the funded portion as well as the unfunded portion of certain other credit exposures. To lessen the cost of obtaining our desired credit protection levels, credit exposure may be added within an industry, borrower or counterparty group by selling protection. These credit derivatives do not meet the requirements for treatment as accounting hedges. They are carried at fair value with changes in fair value recorded in other income.

Commercial Credit Portfolio

During 2009, continued housing value declines and economic stress impacted our commercial portfolios which experienced higher levels of losses. Broad-based economic pressures, including further reductions in spending by consumers and businesses, have also impacted commercial credit quality indicators. Loan balances continued to decline in 2009 as businesses aggressively managed their working capital and production capacity by maintaining low inventories, deferring capital spending and rationalizing staff and physical locations. Additionally, borrowers increasingly accessed the capital markets for financing while reducing their use of bank credit facilities. Risk mitigation strategies further contributed to the decline in loan balances.

Increases in nonperforming loans were largely driven by continued deterioration in the commercial real estate and commercial domestic portfolios. Nonperforming loans and utilized reservable criticized exposures increased from 2008 levels; however, during the second half of 2009 the pace of increase slowed for nonperforming loans while reservable criticized exposure declined in the fourth quarter.

The loans and leases net charge-off ratios increased across all commercial portfolios. The increase in commercial real estate net charge-offs during 2009 compared to 2008 was driven by both the non-homebuilder and homebuilder portfolios, although homebuilder portfolio net charge-offs declined in the second half of 2009 compared to the first half of 2009. The increases in commercial domestic and commercial foreign net charge-offs were diverse in terms of borrowers and industries.

The acquisition of Merrill Lynch increased our concentrations to certain industries and countries. For more detail on the Merrill Lynch impact, see the Industry Concentrations discussion beginning on page 70 and the Foreign Portfolio discussion beginning on page 74. There were also increased concentrations within both investment and non-investment grade exposures including monolines, and certain leveraged finance and CMBS positions.

Table 27 presents our commercial loans and leases, and related credit quality information at December 31, 2009 and 2008. Loans that were acquired from Merrill Lynch that were considered impaired were written down to fair value upon acquisition. In addition to being included in the Outstandings column below, these loans are also shown separately, net of purchase accounting adjustments, for increased transparency, in the Merrill Lynch Purchased Impaired Loan Portfolio column. Nonperforming loans and accruing balances 90 days or more past due do not include Merrill Lynch purchased impaired loans even though the customer may be contractually past due. The portion of the Merrill Lynch port -

folio that was not impaired at acquisition was recorded at fair value in accordance with fair value accounting. This adjustment to fair value incorporates the interest rate, creditworthiness of the borrower and market liquidity compared to the contractual terms of the non-impaired loans at the date of acquisition. For more information, see *Note 2 Merger and Restructuring Activity* and *Note 6 Outstanding Loans and Leases* to the Consolidated Financial Statements. The acquisition of Countrywide and related purchased impaired loan portfolio did not impact the commercial portfolios.

Table 27 Commercial Loans and Leases

	December 31						
	Outstandings		**Nonperforming [1]**		**Accruing Past Due 90 Days or More [2]**		**Merrill Lynch Purchased Impaired Loan Portfolio**
(Dollars in millions)	**2009**	2008	**2009**	2008	**2009**	2008	**2009**
Commercial loans and leases							
Commercial domestic [3]	**$ 181,377**	$ 200,088	**$ 4,925**	$ 2,040	**$ 213**	$ 381	**$ 100**
Commercial real estate [4]	**69,447**	64,701	**7,286**	3,906	**80**	52	**305**
Commercial lease financing	**22,199**	22,400	**115**	56	**32**	23	
Commercial foreign	**27,079**	31,020	**177**	290	**67**	7	**361**
	300,102	318,209	**12,503**	6,292	**392**	463	**766**
Small business commercial domestic [5]	**17,526**	19,145	**200**	205	**624**	640	
Total commercial loans excluding loans measured at fair value	**317,628**	337,354	**12,703**	6,497	**1,016**	1,103	**766**
Total measured at fair value [6]	**4,936**	5,413	**15**		**87**		
Total commercial loans and leases	**$ 322,564**	$ 342,767	**$ 12,718**	$ 6,497	**$ 1,103**	$ 1,103	**$ 766**

(1) Nonperforming commercial loans and leases as a percentage of outstanding commercial loans and leases excluding loans measured at fair value were 4.00 percent (4.01 percent excluding the purchased impaired loan portfolio) and 1.93 percent at December 31, 2009 and 2008.

(2) Accruing commercial loans and leases past due 90 days or more as a percentage of outstanding commercial loans and leases excluding loans measured at fair value were 0.32 percent and 0.33 percent at December 31, 2009 and 2008. The December 31, 2009 ratio remained unchanged excluding the purchased impaired loan portfolio.

(3) Excludes small business commercial domestic loans.

(4) Includes domestic commercial real estate loans of $66.5 billion and $63.7 billion, and foreign commercial real estate loans of $3.0 billion and $979 million at December 31, 2009 and 2008.

(5) Small business commercial domestic including card related products.

(6) Certain commercial loans are accounted for under the fair value option and include commercial domestic loans of $3.0 billion and $3.5 billion, commercial foreign loans of $1.9 billion and $1.7 billion and commercial real estate loans of $90 million and $203 million at December 31, 2009 and 2008. See *Note 20 Fair Value Measurements* to the Consolidated Financial Statements for additional discussion of fair value for certain financial instruments.

Table 28 presents net charge-offs and related ratios for our commercial loans and leases for 2009 and 2008. The reported net charge-off ratios for commercial domestic, commercial real estate and commercial foreign were impacted by the addition of the Merrill Lynch purchased

impaired loan portfolio as the initial fair value adjustments recorded on those loans upon acquisition would have already included the estimated credit losses.

Table 28 Commercial Net Charge-offs and Related Ratios

	Net Charge-offs		Net Charge-off Ratios [1, 2, 3]	
(Dollars in millions)	**2009**	2008	**2009**	2008
Commercial loans and leases				
Commercial domestic[4]	**$ 2,190**	$ 519	**1.09%**	0.26%
Commercial real estate	**2,702**	887	**3.69**	1.41
Commercial lease financing	**195**	60	**0.89**	0.27
Commercial foreign	**537**	173	**1.76**	0.55
	5,624	1,639	**1.72**	0.52
Small business commercial domestic	**2,886**	1,930	**15.68**	9.80
Total commercial	**$ 8,510**	$ 3,569	**2.47**	1.07

(1) Net charge-off ratios are calculated as net charge-offs divided by average outstanding loans and leases excluding loans accounted for under the fair value option.

(2) Net charge-off ratios excluding the Merrill Lynch purchased impaired loan portfolio were 1.06 percent for commercial domestic, 3.60 percent for commercial real estate, 1.49 percent for commercial foreign, and 2.41 percent for the total commercial portfolio in 2009. These are the only product classifications impacted by the Merrill Lynch purchased impaired loan portfolio in 2009.

(3) Although the Merrill Lynch purchased impaired portfolio was recorded at fair value at acquisition on January 1, 2009, actual credit losses have exceeded the initial purchase accounting estimates. Included above are net charge-offs related to the Merrill Lynch purchased impaired portfolio in 2009 of $55 million for commercial domestic, $88 million for commercial real estate and $90 million for commercial foreign.

(4) Excludes small business commercial domestic.

Table of Contents

Table 29 presents commercial credit exposure by type for utilized, unfunded and total binding committed credit exposure. Commercial utilized credit exposure includes funded loans, standby letters of credit, financial guarantees, bankers acceptances and commercial letters of credit for which the bank is legally bound to advance funds under prescribed conditions, during a specified period. Although funds have not been advanced, these exposure types are considered utilized for credit risk management purposes. Total commercial committed credit exposure decreased by $10.1 billion, or one percent, at December 31, 2009 compared to December 31, 2008. The decrease was largely driven by reductions in loans and leases partially offset by an increase in derivatives due to the acquisition of Merrill Lynch.

Total commercial utilized credit exposure decreased to $494.4 billion at December 31, 2009 compared to $498.7 billion at December 31,

2008. Funded loans and leases declined due to limited demand for acquisition financing and capital expenditures in the large corporate and middle-market portfolios and as clients utilized the improved capital markets more extensively for their funding needs. With the economic outlook remaining uncertain, businesses are aggressively managing working capital and production capacity, maintaining low inventories and deferring capital spending. The increase in derivative assets was driven by the acquisition of Merrill Lynch substantially offset during 2009 by maturing transactions, mark-to-market adjustments from changing interest and foreign exchange rates, as well as narrower credit spreads.

The loans and leases funded utilization rate was 57 percent at December 31, 2009 compared to 58 percent at December 31, 2008.

Table 29 Commercial Credit Exposure by Type

	December 31					
	Commercial Utilized (1, 2)		Commercial Unfunded (1, 3, 4)		Total Commercial Committed (1)	
(Dollars in millions)	**2009**	2008	**2009**	2008	**2009**	2008
Loans and leases	**$ 322,564**	$ 342,767	**$ 293,519**	$ 300,856	**$ 616,083**	$ 643,623
Derivative assets (5)	**80,689**	62,252			**80,689**	62,252
Standby letters of credit and financial guarantees	**70,238**	72,840	**6,008**	4,740	**76,246**	77,580
Assets held-for-sale (6)	**13,473**	14,206	**781**	183	**14,254**	14,389
Bankers acceptances	**3,658**	3,382	**16**	13	**3,674**	3,395
Commercial letters of credit	**2,958**	2,974	**569**	791	**3,527**	3,765
Foreclosed properties and other	**797**	328			**797**	328
Total commercial credit exposure	**$ 494,377**	$ 498,749	**$ 300,893**	$ 306,583	**$ 795,270**	$ 805,332

(1) At December 31, 2009, total commercial utilized, total commercial unfunded and total commercial committed exposure include $88.5 billion, $25.7 billion and $114.2 billion, respectively, related to Merrill Lynch.

(2) Total commercial utilized exposure at December 31, 2009 and 2008 includes loans and issued letters of credit accounted for under the fair value option and is comprised of loans outstanding of $4.9 billion and $5.4 billion, and letters of credit with a notional amount of $1.7 billion and $1.4 billion.

(3) Total commercial unfunded exposure at December 31, 2009 and 2008 includes loan commitments accounted for under the fair value option with a notional amount of $25.3 billion and $15.5 billion.

(4) Excludes unused business card lines which are not legally binding.

(5) Derivative assets are carried at fair value, reflect the effects of legally enforceable master netting agreements, and have been reduced by cash collateral of $58.4 billion and $34.8 billion at December 31, 2009 and 2008. Not reflected in utilized and committed exposure is additional derivative collateral held of $16.2 billion and $13.4 billion which consists primarily of other marketable securities at December 31, 2009 and 2008.

(6) Total commercial committed assets held-for-sale exposure consists of $9.0 billion and $12.1 billion of commercial LHFS exposure (e.g., commercial mortgage and leveraged finance) and $5.3 billion and $2.3 billion of assets held-for-sale exposure at December 31, 2009 and 2008.

Table 30 presents commercial utilized reservable criticized exposure by product type. Criticized exposure corresponds to the Special Mention, Substandard and Doubtful asset categories defined by regulatory authorities. In addition to reservable loans and leases, excluding those accounted for under the fair value option, exposure includes SBLCs, financial guarantees, bankers acceptances and commercial letters of credit for which we are legally bound to advance funds under prescribed conditions, during a specified period. Although funds have not been advanced, these exposure types are considered utilized for credit risk management purposes. Total commercial utilized reservable criticized

exposure rose by $21.7 billion primarily due to increases in commercial real estate and commercial domestic. Commercial real estate increased $10.0 billion primarily due to the non-homebuilder portfolio which has been impacted by the weak economy partially offset by a decrease in the homebuilder portfolio. The $9.3 billion increase in commercial domestic reflects deterioration across various lines of business and industries, primarily in *Global Banking*. At December 31, 2009, approximately 85 percent of the loans within criticized reservable utilized exposure are secured.

Table 30 Commercial Utilized Reservable Criticized Exposure

	December 31			
	2009		2008	
(Dollars in millions)	**Amount**	**Percent [1]**	Amount	Percent [1]
Commercial domestic [2]	**$ 28,259**	**11.66%**	$ 18,963	7.20%
Commercial real estate	**23,804**	**32.13**	13,830	19.73
Commercial lease financing	**2,229**	**10.04**	1,352	6.03
Commercial foreign	**2,605**	**7.12**	1,459	3.65
	56,897	**15.17**	35,604	8.99
Small business commercial domestic	**1,789**	**10.18**	1,333	6.94
Total commercial utilized reservable criticized exposure	**$ 58,686**	**14.94**	$ 36,937	8.90

(1) Percentages are calculated as commercial utilized reservable criticized exposure divided by total commercial utilized reservable exposure for each exposure category.

(2) Excludes small business commercial domestic exposure.

Commercial Domestic (excluding Small Business)

At December 31, 2009, approximately 81 percent of the commercial domestic loan portfolio, excluding small business, was included in *Global Banking* (business banking, middle-market and large multinational corporate loans and leases) and *Global Markets* (acquisition, bridge financing and institutional investor services). The remaining 19 percent was mostly in *GWIM* (business-purpose loans for wealthy individuals). Outstanding commercial domestic loans, excluding loans accounted for under the fair value option, decreased driven primarily by reduced customer demand within *Global Banking,* partially offset by the acquisition of Merrill Lynch. Nonperforming commercial domestic loans increased $2.9 billion compared to December 31, 2008. Net charge-offs increased $1.7 billion in 2009 compared to 2008. The increases in nonperforming loans and net charge-offs were broad-based in terms of borrowers and industries. The acquisition of Merrill Lynch accounts for a portion of the increase in nonperforming loans and reservable criticized exposure.

Commercial Real Estate

The commercial real estate portfolio is predominantly managed in *Global Banking* and consists of loans made primarily to public and private developers, homebuilders and commercial real estate firms. Outstanding loans and leases, excluding loans accounted for under the fair value option, increased $4.7 billion at December 31, 2009 compared to December 31, 2008, primarily due to the acquisition of Merrill Lynch partially offset by

portfolio attrition and losses. The portfolio remains diversified across property types and geographic regions. California and Florida represent the two largest state concentrations at 21 percent and seven percent for loans and leases at December 31, 2009. For more information on geographic or property concentrations, refer to Table 31.

For the year, nonperforming commercial real estate loans increased $3.4 billion and utilized reservable criticized exposure increased $10.0 billion from December 31, 2008 across most property types and was attributable to the continuing impact of the housing slowdown, elevated unemployment and deteriorating vacancy and rental rates across most non-homebuilder property types and geographies during 2009. The increase in nonperforming loans was driven by the retail, office, multi-use, and land and land development portfolios. The increase in utilized reservable criticized exposure was driven by the office, retail and multi-family rental property types, offset by a $1.9 billion decrease in the homebuilder portfolio. For 2009, net charge-offs were up $1.8 billion compared to 2008 driven by increases in net charge-offs in both the non-homebuilder and the homebuilder portfolios.

The following table presents outstanding commercial real estate loans by geographic region and property type. Commercial real estate primarily includes commercial loans and leases secured by non owner-occupied real estate which are dependent on the sale or lease of the real estate as the primary source of repayment.

Table 31 Outstanding Commercial Real Estate Loans

	December 31	
(Dollars in millions)	**2009**	2008
By Geographic Region [(1)]		
California	**$ 14,273**	$ 11,270
Northeast	**11,661**	9,747
Southwest	**8,183**	6,698
Southeast	**6,830**	7,365
Midwest	**6,505**	7,447
Florida	**4,568**	5,146
Illinois	**4,375**	5,451
Midsouth	**3,332**	3,475
Northwest	**3,097**	3,022
Geographically diversified [(2)]	**3,238**	2,563
Non-U.S.	**2,994**	979
Other [(3)]	**481**	1,741
Total outstanding commercial real estate loans [(4)]	**$ 69,537**	$ 64,904

By Property Type		
Office	**$ 12,511**	$ 10,388
Multi-family rental	**11,169**	8,177
Shopping centers/retail	**9,519**	9,293
Homebuilder [5]	**7,250**	10,987
Hotels/motels	**6,946**	2,513
Multi-use	**5,924**	3,444
Industrial/warehouse	**5,852**	6,070
Land and land development	**3,215**	3,856
Other [6]	**7,151**	10,176
Total outstanding commercial real estate loans [4]	**$ 69,537**	$ 64,904

(1) Distribution is based on geographic location of collateral.
(2) The geographically diversified category is comprised primarily of unsecured outstandings to real estate investment trusts and national home builders whose portfolios of properties span multiple geographic regions.
(3) Primarily includes properties in the states of Colorado, Utah, Hawaii, Wyoming and Montana.
(4) Includes commercial real estate loans accounted for under the fair value option of $90 million and $203 million at December 31, 2009 and 2008.
(5) Homebuilder includes condominiums and residential land.
(6) Represents loans to borrowers whose primary business is commercial real estate, but the exposure is not secured by the listed property types or is unsecured.

During 2009, deterioration within the commercial real estate portfolio shifted from the homebuilder portfolio to the non-homebuilder portfolio. Non-homebuilder credit quality indicators and appraised values weakened in 2009 due to deteriorating property fundamentals and increased loss severities, whereas homebuilder credit quality indicators, while remaining elevated, began to stabilize. The non-homebuilder portfolio remains most

at risk as occupancy and rental rates continued to deteriorate due to the current economic environment and restrained business hiring and capital investment. We have adopted a number of proactive risk mitigation initiatives to reduce utilized and potential exposure in the commercial real estate portfolios.

The following table presents commercial real estate credit quality data by non-homebuilder and homebuilder property types. Commercial real estate primarily includes commercial loans secured by non owner-occu -

pied real estate which is dependent on the sale or lease of the real estate as the primary source of repayment.

Table 32 Commercial Real Estate Credit Quality Data

	December 31				Year Ended December 31			
	Nonperforming Loans and Foreclosed Properties (1)		Utilized Reservable Criticized Exposure (2)		Net Charge-offs		Net Charge-off Ratios (3)	
(Dollars in millions)	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Commercial real estate non-homebuilder								
Office	**$ 729**	$ 95	**$ 3,822**	$ 801	**$ 249**	$	**2.01%**	%
Multi-family rental	**546**	232	**2,496**	822	**217**	13	**1.96**	0.18
Shopping centers/retail	**1,157**	204	**3,469**	1,442	**239**	10	**2.30**	0.11
Hotels/motels	**160**	9	**1,140**	67	**5**	4	**0.08**	0.09
Industrial/warehouse	**442**	91	**1,757**	464	**82**		**1.34**	
Multi-use	**416**	17	**1,578**	409	**146**	24	**2.58**	0.38
Land and land development	**968**	455	**1,657**	1,281	**286**		**8.00**	
Other (4)	**417**	88	**2,210**	973	**140**	22	**1.72**	0.42
Total non-homebuilder	**4,835**	1,191	**18,129**	6,259	**1,364**	73	**2.13**	0.15
Commercial real estate homebuilder (5)	**3,228**	3,036	**5,675**	7,571	**1,338**	814	**14.41**	6.25
Total commercial real estate	**$ 8,063**	$ 4,227	**$ 23,804**	$ 13,830	**$ 2,702**	$ 887	**3.69**	1.41

(1) Includes commercial foreclosed properties of $777 million and $321 million at December 31, 2009 and 2008.

(2) Utilized reservable criticized exposure corresponds to the Special Mention, Substandard and Doubtful asset categories defined by regulatory authorities. This is defined as loans, excluding those accounted for under the fair value option, SBLCs and bankers acceptances.

(3) Net charge-off ratios are calculated as net charge-offs divided by average outstanding loans excluding loans accounted for under the fair value option during the year for each loan and lease category.

(4) Represents loans to borrowers whose primary business is commercial real estate, but the exposure is not secured by the listed property types or is unsecured.

(5) Homebuilder includes condominiums and residential land.

At December 31, 2009, we had total committed non-homebuilder exposure of $84.4 billion compared to $84.1 billion at December 31, 2008. The increase was due to the Merrill Lynch acquisition, largely offset by repayments and net charge-offs. Non-homebuilder nonperforming loans and foreclosed properties were $4.8 billion, or 7.73 percent of total non-homebuilder loans and foreclosed properties at December 31, 2009 compared to $1.2 billion, or 2.21 percent at December 31, 2008, with the increase driven by deterioration in the shopping center/retail, office, and land and land development portfolios.

Non-homebuilder utilized reservable criticized exposure increased $11.9 billion to $18.1 billion, or 27.27 percent of total non-homebuilder utilized reservable exposure at December 31, 2009 compared to $6.3 billion, or 10.66 percent, at December 31, 2008. The increase was driven primarily by office, shopping center/retail and multi-family rental property types which have been the most adversely affected by high unemployment and the slowdown in consumer spending.

For the non-homebuilder portfolio, net charge-offs increased $1.3 billion for 2009 compared to 2008 with the increase concentrated in non-homebuilder land and land development, office, shopping center/retail and multi-family rental property types.

Within our total non-homebuilder exposure, at December 31, 2009, we had total committed non-homebuilder construction and land development exposure of $24.5 billion compared to $27.8 billion at December 31, 2008. Non-homebuilder construction and land development exposure is mostly secured and diversified across property types and geographies. Assets in the non-homebuilder construction and land development portfolio face significant challenges in the current rental market. Weak rental demand and cash flows and declining property valuations have resulted in increased levels of reservable criticized exposure and nonperforming loans and foreclosed properties. Nonperforming loans and foreclosed properties and utilized reservable criticized exposure for

the non-homebuilder construction and land development portfolio increased $2.0 billion and $6.1 billion from December 31, 2008 to $2.6 billion and $8.9 billion at December 31, 2009.

At December 31, 2009, we had committed homebuilder exposure of $10.4 billion compared to $16.2 billion at December 31, 2008 of which $7.3 billion and $11.0 billion were funded secured loans. The decline in homebuilder committed exposure was driven by repayments, charge-offs, reduced new home construction and continued risk mitigation initiatives. Homebuilder nonperforming loans and foreclosed properties stabilized due to the slowdown in the rate of home price declines. Homebuilder utilized reservable criticized exposure decreased by $1.9 billion driven by higher net charge-offs. The nonperforming loans, leases and foreclosed properties and the utilized reservable criticized ratios for the homebuilder portfolio were 42.16 percent and 74.44 percent at December 31, 2009 compared to 27.07 percent and 66.33 percent at December 31, 2008. Lower loan balances and exposures in 2009 drove a portion of the increase in the ratios. Net charge-offs for the homebuilder portfolio increased $524 million in 2009 from 2008.

Commercial Foreign

The commercial foreign loan portfolio is managed primarily in *Global Banking*. Outstanding loans, excluding loans accounted for under the fair value option, decreased due to repayments as borrowers accessed the capital markets to refinance bank debt and aggressively managed working capital and investment spending, partially offset by the acquisition of Merrill Lynch. Reduced merger and acquisition activity was also a factor contributing to modest new loan origination. Net charge-offs increased primarily due to deterioration in the portfolio, particularly in financial services, consumer dependent and housing-related sectors. For additional information on the commercial foreign portfolio, refer to the Foreign Portfolio discussion beginning on page 74.

Table of Contents

Small Business Commercial Domestic

The small business commercial domestic loan portfolio is comprised of business card and small business loans primarily managed in *Global Card Services*. In 2009, small business commercial domestic net charge-offs increased $956 million from 2008. The portfolio deterioration was primarily driven by the impacts of a weakened economy. Approximately 77 percent of the small business commercial domestic net charge-offs for 2009 were credit card related products, compared to 75 percent in 2008.

Commercial Loans Carried at Fair Value

The portfolio of commercial loans accounted for under the fair value option is managed in *Global Markets*. The $477 million decrease in the fair value loan portfolio in 2009 was driven primarily by reduced corporate borrowings under bank credit facilities. We recorded net gains of $515 million resulting from changes in the fair value of the loan portfolio during 2009 compared to net losses of $780 million for 2008. These gains and losses were primarily attributable to changes in instrument-specific credit risk and were predominantly offset by net gains or net losses from hedging activities.

In addition, unfunded lending commitments and letters of credit had an aggregate fair value of $950 million and $1.1 billion at December 31, 2009 and 2008 and were recorded in accrued expenses and other liabilities. The associated aggregate notional amount of unfunded lending commitments and letters of credit accounted for under the fair value

option was $27.0 billion and $16.9 billion at December 31, 2009 and 2008 with the increase driven by the acquisition of Merrill Lynch. Net gains resulting from changes in fair value of commitments and letters of credit of $1.4 billion were recorded during 2009 compared to net losses of $473 million for 2008. These gains and losses were primarily attributable to changes in instrument-specific credit risk.

Nonperforming Commercial Loans, Leases and Foreclosed Properties Activity

The following table presents the additions and reductions to nonperforming loans, leases and foreclosed properties in the commercial portfolio during 2009 and 2008. The $16.2 billion in new nonaccrual loans and leases for 2009 was primarily attributable to increases within non-homebuilder commercial real estate property types such as shopping centers/retail, office, land and land development, and multi-use and within commercial domestic excluding small business, where the increases were broad-based across industries and lines of business. Approximately 90 percent of commercial nonperforming loans, leases and foreclosed properties are secured and approximately 35 percent are contractually current. In addition, commercial nonperforming loans are carried at approximately 75 percent of their unpaid principal balance before consideration of the allowance for loan and lease losses as the carrying value of these loans has been reduced to the estimated net realizable value.

Table 33 Nonperforming Commercial Loans, Leases and Foreclosed Properties Activity [1, 2]

(Dollars in millions)	**2009**	2008
Nonperforming loans and leases		
Balance, January 1	**$ 6,497**	$ 2,155
Additions to nonperforming loans and leases:		
Merrill Lynch balance, January 1, 2009	**402**	
New nonaccrual loans and leases	**16,190**	8,110
Advances	**339**	154
Reductions in nonperforming loans and leases:		
Paydowns and payoffs	**(3,075)**	(1,467)
Sales	**(630)**	(45)
Returns to performing status [3]	**(461)**	(125)
Charge-offs [4]	**(5,626)**	(1,900)
Transfers to foreclosed properties	**(857)**	(372)

Transfers to loans held-for-sale	**(76)**	(13)
Total net additions to nonperforming loans and leases	**6,206**	4,342
Total nonperforming loans and leases, December 31	**12,703**	6,497
Foreclosed properties		
Balance, January 1	**321**	75
Additions to foreclosed properties:		
New foreclosed properties	**857**	372
Reductions in foreclosed properties:		
Sales	**(310)**	(110)
Write-downs	**(91)**	(16)
Total net additions to foreclosed properties	**456**	246
Total foreclosed properties, December 31	**777**	321
Nonperforming commercial loans, leases and foreclosed properties, December 31	**$ 13,480**	$ 6,818
Nonperforming commercial loans and leases as a percentage of outstanding commercial loans and leases (5)	**4.00%**	1.93%
Nonperforming commercial loans, leases and foreclosed properties as a percentage of outstanding commercial loans, leases and foreclosed properties (5)	**4.24**	2.02

(1) Balances do not include nonperforming LHFS of $4.5 billion and $852 million at December 31, 2009 and 2008.

(2) Includes small business commercial domestic activity.

(3) Commercial loans and leases may be restored to performing status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection. TDRs are generally classified as performing after a sustained period of demonstrated payment performance.

(4) Business card loans are not classified as nonperforming; therefore, the charge-offs on these loans have no impact on nonperforming activity.

(5) Outstanding commercial loans and leases exclude loans accounted for under the fair value option.

At December 31, 2009, the total commercial TDR balance was $577 million. Nonperforming TDRs increased $442 million while performing TDRs increased $78 million during 2009. Nonperforming TDRs of $486 million are included in Table 33.

Industry Concentrations

Table 34 presents commercial committed and commercial utilized credit exposure by industry and the total net credit default protection purchased to cover the funded and the unfunded portion of certain credit exposure. Our commercial credit exposure is diversified across a broad range of industries.

Industry limits are used internally to manage industry concentrations and are based on committed exposure and capital usage that are allocated on an industry-by-industry basis. A risk management framework is in place to set and approve industry limits, as well as to provide ongoing monitoring. The Credit Risk Committee (CRC) oversees industry limits governance.

Total commercial committed exposure decreased $10.1 billion in 2009 across most industries. Those industries that experienced increases in total commercial committed exposure in 2009 were driven by the Merrill Lynch acquisition.

Diversified financials, our largest industry concentration, experienced an increase in committed exposure of $7.6 billion, or seven percent at December 31, 2009 compared to 2008. The total committed credit exposure increase was driven by the Merrill Lynch portfolio which contributed $34.7 billion, largely the result of $28.8 billion in capital markets industry exposure, primarily comprised of derivatives. This was offset, in part, by a reduction in legacy Bank of America positions of $27.1 billion, the majority of which came from a $21.2 billion reduction in capital markets industry exposure including the cancellation of $8.8 billion in facilities to legacy Merrill Lynch.

Real estate, our second largest industry concentration, experienced a decrease in committed exposure of $12.4 billion, or 12 percent at December 31, 2009 compared to 2008. An $18.6 billion decrease in legacy Bank of America committed exposure, driven primarily by decreases in homebuilder, unsecured commercial real estate and commercial construction and land development exposure, was partially offset by the acquisition of Merrill Lynch. Real estate construction and land development exposure comprised 31 percent of the total real estate industry committed exposure at December 31, 2009. For more information on the commercial real estate and related portfolios, refer to the commercial real estate discussion beginning on page 67.

The insurance and utilities committed exposure increased primarily due to the acquisition of Merrill Lynch. Refer to the *Global Markets* discussion beginning on page 35 and to the monoline and related exposure discussion below for more information.

Retailing committed exposure declined 16 percent at December 31, 2009 compared to 2008, driven by the retirement of several large retail exposures and paydowns as retailers and wholesalers worked to reduce inventory levels.

Monoline and Related Exposure

Monoline exposure is reported in the insurance industry and managed under insurance portfolio industry limits. Direct loan exposure to monolines consisted of revolvers in the amount of $41 million and $126 million at December 31, 2009 and 2008.

We have indirect exposure to monolines primarily in the form of guarantees supporting our loans, investment portfolios, securitizations, credit-enhanced securities as part of our public finance business and other selected products. Such indirect exposure exists when we purchase credit protection from monolines to hedge all or a portion of the credit risk on certain credit exposures including loans and CDOs. We underwrite our public finance exposure by evaluating the underlying securities.

We also have indirect exposure to monoline financial guarantors, primarily in the form of guarantees supporting our mortgage and other loan sales. Indirect exposure may exist when we purchase credit protection from monoline financial guarantors to hedge all or a portion of the credit risk on certain mortgage and other loan exposures. A loss may occur when we are required to repurchase a loan and the market value of the loan has declined or when we are required to indemnify or provide recourse for a guarantor s loss. We have experienced and continue to experience increasing repurchase demands from and disputes with monoline financial guarantors. We expect to contest such demands that we do not believe are valid. In the event that we are required to repurchase loans that have been the subject of repurchase demands or otherwise provide indemnification or other recourse, this could significantly increase our losses and thereby affect our future earnings. For further information regarding representations and warranties, see *Note 8 Securitizations* to the Consolidated Financial Statements and Item 1A., Risk Factors.

Monoline derivative credit exposure at December 31, 2009 had a notional value of $42.6 billion compared to $9.6 billion at December 31, 2008. Mark-to-market monoline derivative credit exposure was $11.1 billion at December 31, 2009 compared to $2.2 billion at December 31, 2008, driven by the addition of Merrill Lynch exposures as well as credit deterioration related to underlying counterparties and spread widening in both wrapped CDO and structured finance related exposures. At December 31, 2009, the counterparty credit valuation adjustment related to monoline derivative exposure was $6.0 billion, which reduced our net mark-to-market exposure to $5.1 billion. We do not hold collateral against these derivative exposures. For more information on our monoline exposure, see the *Global Markets* discussion beginning on page 35.

We also have indirect exposure as we invest in securities where the issuers have purchased wraps (i.e., insurance). For example, municipalities and corporations purchase protection in order to enhance their pricing power which has the effect of reducing their cost of borrowing. If the ratings agencies downgrade the monolines, the credit rating of the bond may fall and may have an adverse impact on the market value of the security. In the case of default, we first look to the underlying securities and then to recovery on the purchased insurance. Investments in securities issued by municipalities and corporations with purchased wraps at December 31, 2009 and 2008 had a notional value of $5.0 billion and $6.0 billion. Mark-to-market investment exposure was $4.9 billion at December 31, 2009 compared to $5.7 billion at December 31, 2008.

Table of Contents

Table 34 Commercial Credit Exposure by Industry [1, 2, 3]

	December 31			
	Commercial Utilized		Total Commercial Committed	
(Dollars in millions)	**2009**	2008	**2009**	2008
Diversified financials	**$ 68,876**	$ 50,327	**$ 110,948**	$ 103,306
Real estate [4]	**75,049**	79,766	**91,479**	103,889
Government and public education	**44,151**	39,386	**61,446**	58,608
Capital goods	**23,834**	27,588	**47,413**	52,522
Healthcare equipment and services	**29,584**	31,280	**46,370**	46,785
Consumer services	**28,517**	28,715	**44,164**	43,948
Retailing	**23,671**	30,736	**42,260**	50,102
Commercial services and supplies	**23,892**	24,095	**34,646**	34,867
Individuals and trusts	**25,191**	22,752	**33,678**	33,045
Materials	**16,373**	22,825	**32,898**	38,105
Insurance	**20,613**	11,223	**28,033**	17,855
Food, beverage and tobacco	**14,812**	17,257	**27,985**	28,521
Utilities	**9,217**	8,230	**25,229**	19,272
Energy	**9,605**	11,885	**23,619**	22,732
Banks	**20,299**	22,134	**23,384**	26,493
Media	**11,236**	8,939	**22,832**	19,301
Transportation	**13,724**	13,050	**19,597**	18,561
Religious and social organizations	**8,920**	9,539	**11,371**	12,576
Pharmaceuticals and biotechnology	**2,875**	3,721	**10,343**	10,111
Consumer durables and apparel	**4,374**	6,219	**9,829**	10,862
Technology hardware and equipment	**3,135**	3,971	**9,671**	10,371
Telecommunication services	**3,558**	3,681	**9,478**	8,036
Software and services	**3,216**	4,093	**9,306**	9,590
Food and staples retailing	**3,680**	4,282	**6,562**	7,012
Automobiles and components	**2,379**	3,093	**5,339**	6,081
Other	**3,596**	9,962	**7,390**	12,781
Total commercial credit exposure by industry	**$ 494,377**	$ 498,749	**$ 795,270**	$ 805,332
Net credit default protection purchased on total commitments [5]			**$ (19,025)**	$ (9,654)

(1) Total commercial utilized and total commercial committed exposure includes loans and letters of credit accounted for under the fair value option and are comprised of loans outstanding of $4.9 billion and $5.4 billion, and issued letters of credit with a notional amount of $1.7 billion and $1.4 billion at December 31, 2009 and 2008. In addition, total commercial committed exposure includes unfunded loan commitments with a notional amount of $25.3 billion and $15.5 billion at December 31, 2009 and 2008.

(2) Includes small business commercial domestic exposure.

(3) At December 31, 2009, total commercial utilized and total commercial committed exposure included $88.5 billion and $114.2 billion of exposure due to the acquisition of Merrill Lynch which included $31.7 billion and $34.7 billion in diversified financials and $12.3 billion and $13.0 billion in insurance with the remaining exposure spread across various industries.

(4) Industries are viewed from a variety of perspectives to best isolate the perceived risks. For purposes of this table, the real estate industry is defined based upon the borrowers or counterparties primary business activity using operating cash flow and primary source of repayment as key factors.

(5) Represents net notional credit protection purchased. Refer to the Risk Mitigation discussion beginning on page 71 for additional information.

Risk Mitigation

Credit protection is purchased to cover the funded portion as well as the unfunded portion of certain credit exposure. To lessen the cost of obtaining our desired credit protection levels, credit exposure may be added within an industry, borrower or counterparty group by selling protection.

At December 31, 2009 and 2008, we had net notional credit default protection purchased in our credit derivatives portfolio to hedge our funded and unfunded exposures for which we elected the fair value option as well as certain other credit exposures of $19.0 billion and $9.7 billion. The increase from December 31, 2008 is primarily driven by the acquisition of Merrill Lynch. The mark-to-market impacts, including the cost of net credit default protection hedging our credit exposure, resulted in net

losses of $2.9 billion in 2009 compared to net gains of $993 million in 2008. The average Value-at-Risk (VAR) for these credit derivative hedges was $76 million in 2009 compared to $24 million in 2008. The average VAR for the related credit exposure was $130 million in 2009 compared to $57 million in 2008. The year-over-year increase in VAR was driven by the combination of the Merrill Lynch and Bank of America businesses in 2009. There is a diversification effect between the net credit default protection hedging our credit exposure and the related credit exposure such that the combined average VAR was $89 million in 2009. Refer to the Trading Risk Management discussion beginning on page 80 for a description of our VAR calculation for the market-based trading portfolio.

Table of Contents

Tables 35 and 36 present the maturity profiles and the credit exposure debt ratings of the net credit default protection portfolio at December 31, 2009 and 2008. The distribution of debt rating for net

notional credit default protection purchased is shown as a negative and the net notional credit protection sold is shown as a positive amount.

Table 35 Net Credit Default Protection by Maturity Profile

	December 31	
	2009	2008
Less than or equal to one year	**16%**	1%
Greater than one year and less than or equal to five years	**81**	92
Greater than five years	**3**	7
Total net credit default protection	**100%**	100%

Table 36 Net Credit Default Protection by Credit Exposure Debt Rating (1)

(Dollars in millions)	December 31			
	2009		2008	
Ratings (2)	**Net Notional**	**Percent of Total**	Net Notional	Percent of Total
AAA	**$ 15**	**(0.1)%**	$ 30	(0.3)%
AA	**(344)**	**1.8**	(103)	1.1
A	**(6,092)**	**32.0**	(2,800)	29.0
BBB	**(9,573)**	**50.4**	(4,856)	50.2
BB	**(2,725)**	**14.3**	(1,948)	20.2
B	**(835)**	**4.4**	(579)	6.0
CCC and below	**(1,691)**	**8.9**	(278)	2.9
NR (3)	**2,220**	**(11.7)**	880	(9.1)
Total net credit default protection	**$ (19,025)**	**100.0%**	$ (9,654)	100.0%

(1) Ratings are refreshed on a quarterly basis.

(2) The Corporation considers ratings of BBB- or higher to meet the definition of investment grade.

(3) In addition to names which have not been rated, NR includes $2.3 billion and $948 million in net credit default swaps index positions at December 31, 2009 and 2008. While index positions are principally investment grade, credit default swaps indices include names in and across each of the ratings categories.

In addition to our net notional credit default protection purchased to cover the funded and unfunded portion of certain credit exposures, credit derivatives are used for market-making activities for clients and establishing positions intended to profit from directional or relative value changes. We execute the majority of our credit derivative positions in the over-the-counter market with large, multinational financial institutions, including broker/dealers and, to a lesser degree, with a variety of other investors. Because these transactions are executed in the over-the-counter market, we are subject to settlement risk. We are also

subject to credit risk in the event that these counterparties fail to perform under the terms of these contracts. In most cases, credit derivative transactions are executed on a daily margin basis. Therefore, events such as a credit downgrade (depending on the ultimate rating level) or a breach of credit covenants would typically require an increase in the amount of collateral required of the counterparty (where applicable), and/or allow us to take additional protective measures such as early termination of all trades.

Table of Contents

The notional amounts presented in Table 37 represent the total contract/notional amount of credit derivatives outstanding and include both purchased and written credit derivatives. The credit risk amounts are measured as the net replacement cost in the event the counterparties with contracts in a gain position to us fail to perform under the terms of those contracts. The addition of Merrill Lynch drove the increase in counterparty credit risk for purchased credit derivatives and the increase in the contract/notional amount. For information on the performance risk of our written credit derivatives, see *Note 4 Derivatives* to the Consolidated Financial Statements.

The credit risk amounts discussed above and noted in the table below take into consideration the effects of legally enforceable master netting agreements while amounts disclosed in *Note 4 Derivatives* to the Consolidated Financial Statements are shown on a gross basis. Credit risk reflects the potential benefit from offsetting exposure to non-credit derivative products with the same counterparties that may be netted upon the occurrence of certain events, thereby reducing the Corporation s overall exposure.

Table 37 Credit Derivatives

	December 31			
	2009		2008	
(Dollars in millions)	**Contract/Notional**	**Credit Risk**	Contract/Notional	Credit Risk
Credit derivatives				