How much cash does CEA, or GeoVERA, or AXIS Re have on hand right now today, to pay EQ claims?

CASH Reserves = $ ________

ITEM 1A. RISK FACTORS

Risks Related to the Company

Our business, results of operations and financial condition could be materially adversely affected by losses related to Hurricanes Katrina, Rita and Wilma.

We have substantial exposure to losses resulting from natural disasters, including hurricanes. During the third and fourth quarters of 2005, Hurricanes Katrina, Rita and Wilma caused significant destruction in the Gulf Coast region of the United States. For the year ended December 31, 2005, our estimate of net losses and loss expenses from these hurricanes was $1,091.1 million. This estimate was derived from our insurance and reinsurance segments and was derived from a combination of the output of industry models, market share analyses, a review of in-force contracts and preliminary loss information from our clients, brokers and loss adjustors. If our actual losses from these hurricanes are materially greater than our estimated losses, our business, results of operations and financial condition could be materially adversely affected.

Credit agency ratings of our insurance companies and our securities have become an increasingly important factor in maintaining the competitive position of our insurance and reinsurance companies and are also important in establishing the market value of our securities. Our ratings are subject to periodic review by, and may be revised downward or revoked at the sole discretion of, the rating agencies. If our losses from Hurricanes Katrina, Rita or Wilma exceed our estimates, or if additional large loss events occur, our ratings could be revised downward or revoked, which could result in a substantial loss of business and a reduction in the market value of our securities. See "—Our operating subsidiaries are rated by rating agencies and a decline in these ratings could affect our standing among brokers and customers and cause our premiums and earnings to decrease."

What happens if can't collect from reinsurers?

We purchase reinsurance for our insurance and reinsurance operations in order to mitigate the volatility of losses upon our financial results. The occurrence of additional large loss events could reduce the reinsurance coverage that is available to us and could weaken the financial condition of our reinsurers, which could have a material adverse effect on our results of operations. See "—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."

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 continue to develop and maintain business relationships, operating procedures, 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.

→ Probably every insurer that provides earthquake coverage buys reinsurance.

→ Primary EQ insurer probably will "retain" a certain dollar amount if total loss from an event exceeds a given threshold or what if more than one event in a given year?

→ Who else does the reinsurer insure? Who insures a reinsurer?

→ As a consumer - if I am told I should buy EQ insurance I want to feel 100% certain after a major event I'll get paid.

Our results of operations and 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 intend to 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 catastrophic events until they occur. 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. In addition, increases in the values and concentrations of insured property and demand surge caused by the frequency of events may generate more volatility in the level of losses from catastrophic events. 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 adversely affected.

Our results of operations and financial condition depend upon our ability to accurately assess 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 limited and our loss history is insufficient to allow us currently to extrapolate reserves directly for most of our lines of business. Instead, our current loss reserves are primarily based on estimates involving actuarial and statistical projections of our expectations of the ultimate settlement and administration costs of claims incurred. 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 losses and loss expenses paid will 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. If our net income is insufficient to absorb a required increase in our loss reserves, we would incur an operating loss and could incur a reduction of our capital.

The 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 the program size for each client on our insurance business and purchase reinsurance for many of our lines of business. In the case of proportional reinsurance treaties, we seek per occurrence limitations or loss and loss expense ratio caps to limit the impact of losses from any one event. In proportional reinsurance, the reinsurer shares a proportional part of the premiums and losses of the reinsured. We cannot be sure that any of these loss limitation methods will be effective and mitigate our loss exposure. 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 whether some of the substantial losses from recent hurricanes are the result of storm surge, which is sometimes covered by insurance, or flood, which is generally not covered. Another example of an emerging coverage and claims 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. On February 6, 2006, John R. Charman, our Chief Executive Officer and President informed us that he will retire on December 31, 2008. Andrew Cook, our Chief Financial Officer, notified us that he is leaving the Company effective April 1, 2006. Also, Carol S. Rivers, our General Counsel and Secretary, notified us that she is leaving the Company effective March 1, 2006. The Company has commenced a search for qualified individuals to succeed Mr. Cook and Ms. Rivers. There can be no assurance, however, that the Company will be successful in identifying, hiring or retaining successors on terms acceptable to the Company or on any terms.

Under Bermuda law, non-Bermudians, with some limited exceptions, may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government only upon showing that, after proper public advertisement in most cases, no Bermudian or spouse of a Bermudian, holder of a permanent resident'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 rating agencies and a decline in these ratings could affect our standing among brokers and customers and cause our premiums and earnings to decrease.

Ratings have become an increasingly important factor in establishing the competitive position of insurance and reinsurance companies. 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 Bermuda, AXIS Re Ireland and AXIS Re U.S. are rated "A2" (Good) by Moody's Investors Service, which is the sixth highest of 21 ratings. 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 our subsidiaries that are party to our credit facility 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 and provided 28.0%, 15.7%, 8.4%, and 6.0% (for a total of 58.1%), respectively, of our gross premiums written in the year ended December 31, 2005. These brokers also have, or may in the future acquire, ownership interests in insurance and reinsurance companies that may compete with us. 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 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.

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 insurance and reinsurance operations in order to mitigate the volatility of losses upon our financial results. A reinsurer's insolvency, or inability or refusal to make payments under the terms of its reinsurance agreement with us, could have a material adverse effect on our business because we remain liable to the insured.

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 occurrence of recent hurricanes, terms and conditions in the reinsurance markets generally became less attractive to purchasers of reinsurance. Accordingly, we may not be able to obtain our desired amounts of reinsurance. In addition, even if we are able to obtain such reinsurance, we may not be able to negotiate terms that we deem appropriate or acceptable or obtain such 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 in accordance with investment guidelines set by us. 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, 2005, $239.8 million, or 8.5% of our total revenues, was derived from our invested assets. This represented 266.3% of our net income available to common shares.

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. 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. Despite our mitigation efforts, a significant increase in interest rates could have a material adverse effect on our shareholders' equity and a significant decrease in interest rates could have a material adverse effect on our investment income and results of operations.

In addition, our investment portfolio includes mortgage-backed securities. As of December 31, 2005, mortgage-backed securities constituted approximately 39.2% of our invested assets (assets under management by third party investment managers). As with other fixed income investments, the fair market value of these securities fluctuates depending on market and other general economic conditions and the interest rate environment. Changes in interest rates can expose us to prepayment

7. Losses and Loss Expenses

and loss expenses at December 31, 2003 and 2003 net favorable prior period development of $27.7 million, or 20.9% of the reserve for losses and loss expenses at December 31, 2002. The favorable development for all years was due to lower than expected losses on short tail lines of business. In 2005, the favorable development was largely generated by the 2004 and 2003 accident years on terror and war risk and property lines of business.

U.S. Insurance experienced $26.4 million of net favorable prior period development, representing 3.5% of the reserve for losses and loss expenses at December 31, 2004. This compares with 2004 net favorable prior period development of $14.3 million, or 6.4% of the reserve for losses and loss expenses at December 31, 2003. The favorable development related to the 2004 accident year property account.

Reinsurance experienced $114.3 million of net favorable prior period development, representing 15.0% of the reserve for losses and loss expenses at December 31, 2004. This compares with 2004 net favorable prior period development of $74.9 million, or 26.1% of the reserve for losses and loss expenses at December 31, 2003, and 2003 net favorable prior period development of $28.1 million, or 33.7% of the reserve for losses and loss expenses at December 31, 2002. The favorable development for all years was due to lower than expected losses on short tail lines of business. In 2005, the favorable development was largely generated by the 2004 accident year on the catastrophe line of business.

8. Reinsurance

The Company purchases reinsurance to reduce the risk of exposure to loss. The Company's global insurance sub-segment and reinsurance segment purchase reinsurance to reduce exposure to large losses or series of losses. The Company's U.S. insurance sub-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. This excess point can be based on the size of an industry loss or a fixed monetary amount. Generally these covers 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 reserves from reinsurers. Under its reinsurance security policy, the Company predominantly cedes its business to reinsurers rated A- or better by Standard & Poor's Company ("S&P") and/or

A.M. Best Company ("A.M. Best"). The Company remains liable to the extent that reinsurers do not meet their obligations under these agreements either due to solvency issues, contractual disputes or some other reason.

(Expressed in thousands of U.S. dollars, except share and per share amounts)

8. Reinsurance (Continued)

The breakdown of reinsurance by type of cover for the years ended December 31, 2005, 2004 and 2003 is as follows:

	Year Ended December 31, 2005	December 31, 2004	December 31, 2003
Quota Share	$274,967	$249,441	$209,638
Excess of Loss	398,453	295,280	129,164
Facultative	61,476	43,917	26,456
	$734,896	$588,638	$365,258

Gross premiums written, ceded and net amounts of premiums written and premiums earned for the years ended December 31, 2005, 2004 and 2003 are as follows:

	Year Ended December 31, 2005		December 31, 2004		December 31, 2003	
	Premiums written	Premiums earned	Premiums written	Premiums earned	Premiums written	Premiums earned
Gross	$3,393,885	$3,278,266	$3,012,311	$2,510,847	$2,273,645	$1,701,015
Ceded	(734,896)	(724,583)	(588,638)	(482,450)	(365,258)	(264,785)
Net	$2,685,989	$2,553,683	$2,423,673	$2,028,397	$1,908,387	$1,436,230

(Expressed in thousands of U.S. dollars, except share and per share amounts)

8. Reinsurance (Continued)

Reinsurance recoverable and the reserve for uncollectible reinsurance by segment as at December 31, 2005 and 2004 is:

	Year Ended December 31, 2005				
	Global Insurance	U.S. Insurance	Total Insurance	Reinsurance	Total
Reinsurance recoverable on paid losses	$ 16,236	$ 33,633	$ 49,869	$ 12,993	$ 62,862
Reinsurance recoverable on unpaid losses and loss expenses	405,366	974,760	1,380,126	90,719	1,470,845
Reserve for uncollectible reinsurance	—	(2,604)	(2,604)	(12,993)	(15,597)
Total reinsurance recoverable	$421,602	$1,005,789	$1,427,391	$ 90,719	$1,518,110
% of Reinsurance recoverable with Reinsurers rated A- or better *	99.7%	99.4%	99.5%	50.2%	96.5%

Of the reinsurance recoverable balance for Reinsurance 38.5% is fully collaterized.

	Year Ended December 31, 2004				
	Global Insurance	U.S. Insurance	Total Insurance	Reinsurance	Total
Reinsurance recoverable on paid losses	$11,760	$ 7,650	$ 19,410	$12,575	$ 31,985
Reinsurance recoverable on unpaid losses and loss expenses	43,894	461,355	505,249	62,259	567,508
Reserve for uncollectible reinsurance	—	(3,194)	(3,194)	—	(3,194)
Total reinsurance recoverable	$55,654	$465,811	$521,465	$74,834	$596,299
% of Reinsurance recoverable with Reinsurers rated A- or better *	100.0%	97.0%	97.4%	94.6%	97.0%

* Ratings as assigned by S&P and/or A.M. Best

9. Derivative Instruments

a) Insurance and Reinsurance Derivative Contracts

During the year ended December 31, 2005, the change in fair value of these contracts resulted in a net loss of $5.9 million (2004: $11.3 million net gain; 2003: $25.0 million net gain). The Company had no contracts outstanding as at December 31, 2005. Included in insurance and reinsurance premium balances receivable was a net asset relating to these contracts of $8.3 million as at