

# ACE LTD

## FORM 10-K (Annual Report)

Filed 12/18/98 for the Period Ending 09/30/98

Telephone	441 295 5200
CIK	0000896159
Symbol	ACE
SIC Code	6331 - Fire, Marine, and Casualty Insurance
Industry	Insurance (Prop. & Casualty)
Sector	Financial
Fiscal Year	12/31

# ACE LTD

## FORM 10-K (Annual Report)

Filed 12/18/1998 For Period Ending 9/30/1998

Address	ACE BLDG 30 WOODBOURNE AVE HAMILTON HM 08 BERMU, 00000
Telephone	809-295-5200
CIK	0000896159
Industry	Insurance (Prop. & Casualty)
Sector	Financial
Fiscal Year	12/31

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

---

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 1998

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

*COMMISSION FILE NO. 1-11778*

---

**ACE LIMITED**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

**CAYMAN ISLANDS NOT APPLICABLE**

(JURISDICTION OF INCORPORATION) (I.R.S. EMPLOYER IDENTIFICATION NO.)

**THE ACE BUILDING  
30 WOODBOURNE AVENUE  
HAMILTON HM 08  
BERMUDA**

(441) 295-5200

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,  
INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

---

**SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:**

<b>TITLE OF EACH CLASS</b>	<b>NAME OF EXCHANGE ON WHICH REGISTERED</b>
----- Ordinary Shares, par value \$0.041666667 per share	----- New York Stock Exchange

---

**SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE**

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference into Part III of this Form 10-K or any amendment to this Form 10-K. (X)

As of December 15, 1998, there were 193,656,476 Ordinary Shares par value \$0.041666667 of the Registrant outstanding and the aggregate market value of voting stock held by non-affiliates at such date was approximately \$5.35 billion. For the purposes of this computation, shares held by directors (and shares held by any entities in which they serve as officers) and officers of the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Certain portions of registrant's definitive proxy statement relating to its Annual General Meeting of Shareholders scheduled to be held on February 5, 1999, are incorporated by reference into Part III of this report and certain portions of the 1998 Annual Report to Shareholders are incorporated by reference into Parts II and IV of this report.

---

---

**ACE LIMITED**

**INDEX TO 10-K**

	PAGE
----- PART I	
Item 1. Business.....	1
Item 2. Properties.....	24
Item 3. Legal Proceedings.....	24
Item 4. Submission of Matters to a Vote of Security Holders.....	24
PART II	
Item 5. Market for the Registrant's Ordinary Shares and Related Stockholder Matters.....	25
Item 6. Selected Financial Data.....	26
Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition.	26
Item 7A. Quantitative and Qualitative Disclosures about Market Risk.....	27
Item 8. Financial Statements and Supplementary Data.....	27
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure..	27
PART III	
Item 10. Directors and Executive Officers of the Registrant.....	27
Item 11. Executive Compensation.....	27
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	27
Item 13. Certain Relationships and Related Transactions.....	27
PART IV	
Item 14. Exhibits, Financial Statements, Schedules and Reports on Form 8-K.....	27

## PART I

### ITEM 1. BUSINESS

Certain terms used below are defined in the "Glossary of Selected Insurance Terms" appearing on page 23.

#### SAFE HARBOR DISCLOSURE

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Any written or oral statements made by or on behalf of the Company may include forward-looking statements which reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other factors (which are described in more detail elsewhere in documents filed by the Company with the Securities and Exchange Commission) include, but are not limited to, (i) uncertainties relating to government and regulatory policies (such as subjecting the Company to insurance regulation or taxation in additional jurisdictions), (ii) the occurrence of catastrophic events with a frequency or severity exceeding the Company's estimates, (iii) the legal environment, (iv) the uncertainties of the reserving process, (v) loss of the services of any of the Company's executive officers, (vi) changing rates of inflation and other economic conditions, (vii) losses due to foreign currency exchange rate fluctuations, (viii) ability to collect reinsurance recoverables, (ix) the competitive environment in which the Company operates, (x) the impact of mergers and acquisitions, (xi) the impact of Year 2000 related issues, (xii) developments in global financial markets which could affect the Company's investment portfolio, and (xiii) risks associated with the introduction of new products and services. The words "believe," "anticipate," "project," "plan," "expect," "intend," "will likely result," or "will continue" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

#### GENERAL

ACE Limited ("ACE") is a holding company incorporated with limited liability under the Cayman Islands Companies Law and maintains its principal business office in Bermuda. The Company, through its Bermuda-based operating subsidiaries, A.C.E. Insurance Company, Ltd. ("ACE Bermuda"), Corporate Officers & Directors Assurance Ltd. ("CODA"), Tempest Reinsurance Company Limited ("Tempest Re") and CAT Limited ("CAT") and its Dublin, Ireland based subsidiaries, ACE Bermuda Company Europe Limited ("AICE") and ACE Reinsurance Company Europe Limited ("ARCE"), provides a broad range of insurance and reinsurance products for a diverse group of international clients. Through its U.S. based subsidiary, ACE USA, Inc. (formerly Westchester Specialty Group, Inc.) ("ACE USA"), the Company provides commercial property, umbrella liability, specialty program business, warranty, errors and omissions and directors and officers coverages as well as a captive management reinsurance facility to a broad range of clients in the United States. In addition, the Company provides funds at Lloyd's to support underwriting by Lloyd's syndicates managed by Methuen Underwriting Limited ("MUL"), ACE London Aviation Limited ("ALA"), ACE London Underwriting Limited ("ALU") and Charman Underwriting Agencies Ltd. ("CUAL"), each indirect wholly owned subsidiaries of ACE. Unless the context otherwise indicates, the term "Company" refers to one or more of ACE and its consolidated subsidiaries. The operations of the Company in the Lloyd's market are collectively referred to herein as "ACE Global Markets."

The Company's long-term business strategy focuses on achieving underwriting profits and providing value to its clients and shareholders through the utilization of its growing capital base within the insurance and reinsurance markets. As part of this strategy, the Company acquired CODA in 1993, and diversified its product portfolio in ACE Bermuda from excess liability insurance and directors and officers liability insurance to accommodate the needs of its expanding, global client base of multinational corporations by adding satellite insurance, aviation insurance, excess property insurance and financial lines products during 1994 and 1995. This diversification added balance to the risk of the existing portfolio of insurance products and enhanced the Company's overall profit potential while utilizing its existing capital base. The Company continued its strategic

diversification with the acquisition in March 1996 of Methuen Group Limited ("Methuen"), the holding company for MUL, and in July 1996 of Tempest Re, a leading Bermuda-based property catastrophe reinsurer. The short-tail nature of the property catastrophe business and shorter loss payout patterns complemented the generally longer-tail nature of the Company's other product lines.

Also in November 1996, the Company acquired Ockham Worldwide Holdings plc which was renamed ACE London Holdings Limited ("ACE London"). ACE London owns two Lloyd's managing agencies, ALA and ALU.

In March 1997, the Company, together with two other insurance companies, formed Sovereign Risk Insurance Limited ("Sovereign"), a Bermuda-based managing general agency, to provide underwriting services to the three organizations for political risk insurance coverage. Sovereign issues subscription policies with the Company assuming 50 percent of each risk underwritten.

On September 30, 1997, the Company announced the incorporation of AICE, as part of the International Financial Services Centre in Dublin, Ireland. AICE has been granted a license to write all 18 classes of non-life insurance in all member states of the European Union. The Company also operates ARCE, a Dublin-based reinsurance company. ARCE provides flexibility mainly to European corporations that wish to access the Company's products using different structures.

On January 2, 1998, the Company acquired ACE USA, through its newly-created U.S. holding company, ACE US Holdings, Inc ("ACE US"). In connection with the acquisition, National Indemnity, a subsidiary of Berkshire Hathaway, provided \$750 million (75 percent quota share of \$1 billion) of reinsurance protection to ACE USA with respect to its loss reserves for the 1996 and prior accident years.

On April 1, 1998, the Company acquired CAT Limited, a privately held, Bermuda-based property catastrophe reinsurer. This acquisition increased the Company's already significant participation in the international property catastrophe reinsurance market.

On July 9, 1998, the Company completed the acquisition of Tarquin Limited ("Tarquin"), a UK-based holding company which owns Lloyd's managing agency CUAL and Tarquin Underwriting Limited, its corporate capital provider. The CUAL managed syndicates, 488 and 2488, are leading international underwriters of short-tail marine, aviation, political risk and specialty property-casualty insurance and reinsurance.

The following table sets forth an analysis of gross premiums written by subsidiary for each of the years ended September 30, 1998, 1997 and 1996:

	FOR THE YEARS ENDED SEPTEMBER 30,					
	GROSS 1998		GROSS 1997		GROSS 1996	
	PREMIUMS WRITTEN	PERCENT	PREMIUMS WRITTEN	PERCENT	PREMIUMS WRITTEN	PERCENT
	( IN MILLIONS )					
ACE Bermuda.....	\$ 521.6	42%	\$523.2	55%	\$581.6	68%
ACE Global Markets (1)....	436.3	35%	316.5	33%	243.6	28%
Tempest Re (2).....	124.1	10%	119.6	12%	34.8	4%
ACE USA (3).....	160.2	13%	--	--	--	--
	\$1,242.2	100%	\$959.3	100%	\$860.0	100%
	=====	=====	=====	=====	=====	=====

(1) On July 9, 1998, the Company completed the acquisition of Tarquin. All amounts included for ACE Global Markets for 1998, 1997 and 1996 have been restated to reflect the gross written premiums of Tarquin as the transaction has been accounted for on a pooling-of-interests basis.

(2) Tempest Re was acquired on July 1, 1996 and thus gross premiums written for Tempest Re in fiscal 1996 only relate to the three month period since acquisition. CAT was acquired on April 1, 1998 and thus gross premiums written for Tempest Re in fiscal 1998 include gross premiums written for CAT for the six month period since acquisition.

(3) ACE USA was acquired on January 2, 1998 and thus gross premiums written for ACE USA in fiscal 1998 only relate to the nine month period since acquisition.

### **ACE Bermuda**

ACE Bermuda primarily provides property and casualty insurance coverage, including excess liability insurance, directors and officers liability insurance, satellite insurance, aviation insurance, excess property insurance and financial lines products, to a diverse group of industrial, commercial and other enterprises. The nature of the insurance coverages provided by ACE Bermuda are generally expected to result in low frequency but high severity of individual losses. ACE Bermuda uses the reinsurance market as an integral part of its risk management process and has secured reinsurance on all of its major lines of business.

At September 30, 1998 approximately 66 percent of written premiums in ACE Bermuda came from companies headquartered in North America with approximately 14 percent coming from companies headquartered in the United Kingdom and continental Europe and approximately 20 percent from companies headquartered in other countries.

### **Excess Liability**

ACE Bermuda seeks to provide the highest layer of excess liability coverage in the insurance programs of the world's major corporations and requires that at least a portion of its coverage be the highest layer in a policyholder's insurance program. ACE Bermuda writes excess liability coverage, on an occurrence first reported stand alone form, generally in excess of a minimum attachment point of \$100 million per occurrence and with a minimum limit of \$10 million and a maximum limit of \$200 million per occurrence and in the aggregate for all covered occurrences of which notice is given during such year. Such limit is subject to reinstatement at the insureds election for incidents post reinstatement. ACE Bermuda imposes an annual aggregate sublimit of \$100 million for integrated occurrences for all business that purchases limits greater than \$100 million. For certain classes of non-U.S. domiciled excess liability risks, the minimum attachment point is \$50 million (or the foreign currency equivalent). In this instance, ACE Bermuda offers limits up to twice the reduced attachment point. ACE Bermuda maintains quota-share and excess of loss reinsurance to reduce net exposures to a maximum of \$100 million.

### **Directors and Officers Liability**

ACE Bermuda offers up to \$75 million of directors and officers liability insurance with a maximum of \$50 million being provided for corporate reimbursement coverage. The directors and officers liability insurance is written on a claims made form and is provided to large industrial corporations, not-for-profit corporations, financial institutions and others.

### **Satellite**

ACE Bermuda's satellite insurance operations offer separate gross limits of up to \$80 million per risk for launch insurance, including ascent to orbit and/or initial testing and up to \$80 million per risk for in-orbit insurance. The Company has entered into a surplus treaty arrangement which provides for up to \$40 million of reinsurance on each risk. Satellite insurance falls within a small, well defined market characterized by a limited number of brokers, underwriters and international clients. There are also a limited number of satellite and launch vehicle manufacturers in the world. The growing worldwide demand for satellite communications capabilities by both governments and private enterprises has resulted in an increase in the number of satellites per annum

requiring launch and/or in-orbit insurance coverage. The typical satellite insurance policy is written on a quota-share basis, rather than on an excess of loss basis. The insured value of a commercial satellite now ranges from approximately \$150 million to \$300 million.

### **Financial Lines**

Financial lines utilizes transactions which combine the concepts of finance with the principles of insurance. Typically, clients purchasing these products are seeking insurance or reinsurance for exposures which are difficult to place because of limited or nonexistent capacity, ineffective terms, or inefficient pricing being provided by traditional insurance markets. Alternatively, they may use these insurance or reinsurance products to cover loss exposures which are not appropriately addressed by current products available.

Unlike certain traditional insurance, each financial lines contract is individually tailored to meet the needs of the insured. Financial lines programs typically have the following common characteristics: multi-year contract terms; broad coverage that includes stable capacity and pricing for the insured; insured participation in the results of their own loss experience; and aggregate limits. The specific product types offered by financial lines include the various forms of finite risk insurance. Examples of finite risk products include the combination of self-insurance with an excess program, the combination of various coverages subject to a single retention and insured limit or programs that insure large loss exposure or a portfolio of losses over a period of years. Other product types offered are specialty insurance that cover financial exposures or involve financial instruments.

ACE Bermuda believes it has a competitive advantage in the marketplace because of its financial strength and its ability to offer significant risk transfer while still allowing the insured to retain some of its own exposures. Risk transfer is important to the insured thereby enabling it to meet the accounting and regulatory requirements related to the purchase of insurance or reinsurance.

Financial lines has a flexible approach to limits offered, attachment points and coverages provided primarily due to the risk sharing feature and use of funding mechanisms which are generally included in the contract. Each contract is unique because it is tailored to the insurance needs, specific loss history and financial strength of the client. Premium volume, as well as the number of contracts written, can vary significantly from period to period due to the nature of the contracts being written. Profit margins may vary from contract to contract depending on the amount of underwriting risk and investment risk assumed on each contract.

### **Aviation**

ACE Bermuda's aviation insurance group offers limits of up to \$150 million per insured, with no minimum attachment point. ACE Bermuda reduces its net exposure per policy to approximately \$50 million with a dedicated reinsurance program. Classes of business written include aviation product liability, aviation manufacturers (including hull and all risks and products liability); aviation refuellers; and airport and airport contractors, together with certain aircraft risks. Generally, ACE Bermuda will write aircraft liability in conjunction with one or more of the other aviation products, and where the aircraft (owned or non-owned) is used for corporate purposes.

### **Excess Property**

ACE Bermuda also offers excess property insurance. Its primary target markets are chemical, energy, electronics, mineral, oil and gas, and utilities. Property insurance coverage is offered with limits of up to \$50 million per risk, typically above an attachment point of \$25 million. In certain circumstances, ACE Insurance uses reinsurance to establish the retained net limit per risk.

### **Other**

In March 1997, ACE Bermuda, together with two other insurance companies, formed Sovereign Risk Insurance Limited ("Sovereign"), a Bermuda-based managing general agency, to provide underwriting services

to these three organizations for political risk insurance coverage. Sovereign issues subscription policies with ACE Bermuda assuming 50 percent of each risk underwritten.

On March 11, 1998, ACE Bermuda formed a joint venture, ACE Capital Re Limited, with Capital Re Corporation ("Capital Re"). ACE Capital Re Limited, a Bermuda-domiciled insurance company, writes both traditional and custom- designed programs covering financial guaranty, mortgage guaranty and a broad range of financial risks. Operations are underwritten and managed in Bermuda by a joint venture managing agency, ACE Capital Re Managers Ltd. ACE Bermuda and Capital Re each have a 50 percent economic interest in ACE Capital Re Limited and ACE Capital Re Managers Ltd.

### **ACE Global Markets**

The Company's participation in the Lloyd's market is twofold. The Company owns four managing agencies at Lloyd's, having completed its acquisitions of MUL, ALA and ALU during calendar 1996 and CUAL in 1998. These managing agencies receive fees and profit commissions in respect of the underwriting and administrative services they provide to the syndicates. For the calendar 1998 year of account, these managing agencies manage 11 syndicates with total capacity under management of \$1.55 billion.

For calendar 1998, the Company, through six corporate members, participated on ten of the ACE managed syndicates with an underwriting capacity of approximately \$935 million out of the \$1.55 billion of the ACE managed capacity referred to above. Included in the ten syndicates is Syndicate 2488, a dedicated corporate syndicate whose capital is provided solely by the Company, which underwrites in parallel with Syndicate 488 which comprises names and other corporate members.

For the 1999 year of account, the ACE Global Markets operations have been reorganized with the result that four ACE managed syndicates will be active in 1999. This reorganization is part of ACE Global Market's strategy to combine all its underwriting operations into a single capital base in 2000. These syndicates, which will focus on broad classes of business, are Syndicates 219 (Non-Marine) managed by ALU; 960 (Aviation) managed by ALA; and 488/2488 (Marine) managed by CUAL. As a consequence, MUL will not have any active syndicates for the 1999 year of account.

In addition, following a de-emption in managed capacity (a process whereby unutilized underwriting capacity is removed from the syndicates), the Company will participate on all four of the ongoing ACE managed syndicates for 1999 with an anticipated underwriting capacity of approximately \$700 million, out of an anticipated \$1 billion of ACE managed capacity.

### **Tempest Re**

The Company's reinsurance activities are principally conducted through Tempest Re, which was acquired in July 1996. On April 1, 1998, the Company acquired CAT, another Bermuda-based property catastrophe reinsurer. Underwriting operations have been combined with the group's existing catastrophe reinsurance subsidiary, Tempest Re, and going forward the combined entity will operate under the Tempest Re name. CAT specialized in providing customized coverages, particularly multi-year contracts, to regional accounts. Two thirds of CAT's business was non-traditional versus one third at Tempest Re. Due to the different marketing focus there is only a limited overlap of clients and programs between Tempest Re and CAT.

Tempest Re provides property catastrophe reinsurance worldwide to insurers of commercial and personal property, typically under treaties having a duration of one year. Property catastrophe reinsurance protects a ceding company against an accumulation of losses covered by the insurance policies it has issued arising from a common event or "occurrence." Ceding companies may purchase reinsurance to achieve a number of results, including: reduction of net exposure on individual risks or groups of risks, which enables the ceding company to underwrite larger risks, or accept more business than its own capital resources would ordinarily support;

diversification of risks; protection against the effect of major catastrophic losses, such as losses involving an accumulation of single retentions; stabilization of a ceding company's operating results by smoothing its loss experience to protect its financial position; and maintenance by a ceding company of acceptable surplus, reserve and other financial ratios.

Tempest Re's property catastrophe reinsurance contracts cover unpredictable natural or man-made disasters, such as hurricanes, windstorms, hail storms, earthquakes, volcanic eruptions, conflagrations, freezes, floods, fires and explosions. The predominant exposure under such coverage is to property damage. However, other risks, such as business interruption may also be covered when arising from a covered peril. In accordance with market practice, Tempest Re's property catastrophe reinsurance contracts generally exclude certain risks such as war, nuclear contamination, and radiation.

Tempest Re underwrites reinsurance principally on an excess of loss basis. Other property reinsurance written by Tempest Re on a limited basis for select clients, includes proportional property and per risk excess of loss treaty reinsurance.

Tempest Re underwrites a substantial portion of its business in currencies other than U.S. dollars and may from time to time experience exchange gains and losses and incur significant underwriting losses in currencies other than U.S. dollars. The following table sets forth the amount of Tempest Re's gross premiums written allocated by territory of coverage:

	YEAR ENDED SEPTEMBER 30,		
	1998	1997	1996
United States.....	79.1%	68.4%	64.0%
United Kingdom.....	8.9%	12.8%	13.3%
Australia & New Zealand.....	4.6%	6.3%	6.0%
Asia.....	4.0%	3.6%	3.8%
Other.....	3.4%	8.9%	12.9%
	100.0%	100.0%	100.0%
	=====	=====	=====

#### ACE USA

ACE USA's insurance subsidiaries are Westchester Fire Insurance Company, Westchester Surplus Lines Insurance Company and Industrial Underwriters Insurance Company (collectively, "US Insurance Subsidiaries"). The US Insurance Subsidiaries write property and casualty insurance primarily within the US commercial specialty lines market. ACE USA's non-insurance subsidiaries are Westchester Specialty Insurance Services, Inc. and Industrial Excess and Surplus Insurance Brokers, both brokerage companies. In addition, ACE USA owns 60 percent of automobile warranty administrator, CRC Creditor Resources Canada Limited and other affiliated companies, which it purchased in June 1998.

The acquisition of ACE USA provides the Company with the opportunity to continue its strategic diversification by gaining access to the U.S. direct insurance market through an established company with a solid distribution network. The Company believes that prior to the acquisition, uncertainty regarding ACE USA's ownership and loss reserve adequacy adversely affected that company's premium volume. The elimination of ownership uncertainty, combined with ACE USA's reduced net exposure to reserve uncertainty as a result of the National Indemnity reinsurance protection, has enhanced ACE USA's market profile in the competitive US operating environment. Management believes ACE USA's association with the Company following the acquisition has increased its ability to attract staff with the requisite experience to gain immediate access to these new markets.

To maintain the quality of its insured profile, ACE USA sets strict underwriting and pricing guidelines and has established a structure that ensures control of risk quality and conservative use of policy limits, terms, and conditions. ACE USA's niche is highly cyclical and as a result, management emphasizes the continual review of market conditions to identify trends and opportunities to underwrite attractive coverages.

During 1998, ACE USA primarily wrote specialty property, umbrella, and excess casualty business coverages. ACE USA's principal focus has been on excess and surplus lines business which are either difficult to place or have complex risk profiles which require greater underwriting and claims expertise than that generally found in the standard market.

### **Property Division**

ACE USA's property business, which encompasses both the catastrophe and non-catastrophe market segments, includes coverages for fire, allied lines, inland marine, and commercial multi-peril. The catastrophe segment focuses on customers whose primary purpose in obtaining coverage is to secure financial protection against the perils of hurricane or earthquake. ACE USA employs catastrophe management tools to optimize the geographic spread of catastrophe exposures and determine adequate product pricing levels. The non-catastrophe segment focuses on unique and difficult to place risks by developing coverages for specific industry groups through tailored products. During 1998, the non-catastrophe segment's areas of concentration included lumber products, low value dwellings, railroad and builders' risk. Property business accounted for 72 percent of ACE USA's total gross premium volume for the nine months ended September 30, 1998.

### **Casualty Division**

Within its casualty business, ACE USA specializes in writing umbrella and excess liability products. These products provide coverage over an underlying insurance program of at least \$1 million on both a per occurrence and aggregate basis. The focus is on medium to large accounts with a moderate risk profile, primarily in manufacturing, construction and service/retail businesses.

### **New Divisions**

Since the acquisition of ACE USA on January 2, 1998, ACE USA has established and staffed five new operating divisions and opened a new marketing and underwriting office in New York City. The new divisions are the Specialty Division, the Warranty Division, the Directors' and Officers' Liability Division, the Errors and Omissions Division and the Captive Reinsurance Division. To date, these new divisions have focused on the hiring of experienced industry professionals to staff the new divisions, developing business plans and strategies, identifying of business partners, developing of policy forms and language and various state regulatory filings and other requirements.

**Specialty Division**--The program business requires more up front investment of time and development costs than other property and casualty business lines as it must establish distribution networks with desirable program administrators and managing general agents. Thus a longer period of operation is required to achieve profitability on any particular program when compared to other areas of the property and casualty business. The specialty division's strategy is to focus on selected general agents or brokers with a specialty or distinguishable advantage. In order to keep transaction costs lower, business associated with low frequency and moderate to high severity losses is being targeted. Additional opportunities are also under review from both reinsurers and close coordination with other divisions of the Company.

**Warranty Division**--The Warranty division offers extended service contracts for a broad range of products. This division intends to provide warranty administrative services as well as underwriting, to gain greater access to the marketplace. This division has the advantage of being able to obtain business directly through large retailers and buying group networks, or through forming strategic alliances with large independent third party administrators. In June 1998, ACE USA purchased a controlling interest in CRC Creditor Resources Canada Limited Group of Companies, in order to enter the Canadian automobile warranty business through a well-established marketing and administrative service organization.

Directors' and Officers' Liability Division--This division offers directors and officers liability ("D&O") and associated coverages to specific segments of the Fortune 1000 group of companies in the U.S. The primary method of product distribution is through major retail brokers in the D&O market. The D&O division is also targeting business through wholesale brokers that specialize in the D&O business.

Errors and Omissions Division--This division offers miscellaneous errors and omissions ("E&O") products for certain selected segments of the market. The E&O market is currently very competitive and this book of business is expected to grow slowly. The division is initially targeting distribution through wholesale brokers as the division's strategy is to capitalize on current relationships ACE USA has with the wholesale market.

Captive Reinsurance Division--The captive reinsurance division offers insurance and reinsurance products to clients who are willing to assume some amount of risk in order to benefit from underwriting gain. As the trend towards self insurance in the U.S. over the past several years has expanded, ACE USA believes there is a growing market demand for this division's products. Potential sources of business include captive insurers, risk retention groups, rent-a-captives, agency captives, public entity risk pools, charitable trusts, policyholder owned mutual insurers and self insured organizations. The division will focus on casualty exposures and seek to take lead positions in order to control terms and conditions. The primary distribution network is through reinsurance intermediaries.

**MARKETING AND UNDERWRITING**

**ACE Bermuda**

ACE Bermuda markets its insurance products through brokers and seeks to maintain a competitive advantage by providing insurance coverages which require utilization of technical skills to underwrite individual risks, emphasizing quality rather than volume of business to obtain a suitable spread of risk. This enables the company to operate with a relatively small number of employees and, together with the reduced costs of operating in favorable regulatory and tax environments, results in significantly lower administrative expenses relative to other companies in the industry.

Policyholders are obtained through non-U.S. insurance brokers who generally receive a brokerage commission on any business accepted and bound by the Company. ACE Bermuda is not committed to accept any business from any particular broker and brokers do not have the authority to bind the Company. All policy applications to ACE Bermuda and CODA (both for renewals and new policies) are subject to approval and acceptance by ACE Bermuda in its Bermuda office. A substantial number of policyholders meet with the Company outside of the United States each year to discuss their insurance coverage. ACE Bermuda does not believe that conducting its operations through its offices in Bermuda has materially affected its underwriting and marketing activities to date.

Policy applications may also be approved and accepted by the Company through the Dublin-based insurance and reinsurance subsidiaries. AICE undertakes marketing and underwriting activities with particular emphasis on the European Union.

ACE Bermuda receives business from approximately 150 non-U.S. brokers of which seven produced approximately 72 percent of the Company's business in 1998. The following table sets forth the percentage of the Company's insurance business placed through each broker and its affiliates placing more than 10 percent of the Company's business.

NAME ----	YEAR ENDED SEPTEMBER 30,		
	1998	1997	1996
J&H, Marsh & McLennan, Incorporated (1) (3).....	35%	42%	42%
Aon Corporation (2) (3).....	19%	16%	16%

- (1) During 1997, Marsh & McLennan, Incorporated acquired Johnson & Higgins. For fiscal 1996, the percentage of business placed by Marsh & McLennan, Incorporated was 31 percent and the percentage of business placed by Johnson & Higgins was 11 percent.
- (2) During 1997, Aon Corporation acquired Alexander & Alexander Services, Inc. For fiscal 1996, the percentage of business placed by Aon Corporation was 10 percent and the percentage of business placed by Alexander & Alexander Services, Inc. was 6 percent.
- (3) The percentages shown in the table for fiscal 1997 reflect the business placed by the combined entities and their affiliates for the entire year.

ACE Bermuda employs underwriting staff with substantial industry experience. The underwriter's primary objective is to assess the potential for an underwriting profit, a process complicated in some cases by the limited amount of data for claims which would have been covered by the company's policy form and which would have exceeded its policy's attachment point.

The risk assessment process undertaken by ACE Bermuda involves a comprehensive analysis of historical data and estimates of future value of losses which may not be evident in the historical data. The factors which ACE Insurance considers include the type of risk, the attachment point and coverage limits, the type, size, complexity and location of the potential insureds operations, financial data, the industry in which the potential insured operates, details of the underlying insurance coverage provided, loss history and future corporate plans.

### ACE Global Markets

In the ordinary course of events, Lloyd's syndicates may only access business through Lloyd's brokers. However, for certain lines of business, it is possible to utilize a service company to access and service business from both Lloyd's and non-Lloyd's brokers.

ACE Underwriting Services Limited ("AUS") was established in 1998 as such a Lloyd's service company to market and service, on behalf of ACE managed syndicates, a broad range of products in the small business, industrial and commercial markets. AUS deals predominantly with Lloyd's brokers but also accesses business from regional (non-Lloyd's) brokers.

### Tempest Re

Tempest Re markets its reinsurance products worldwide through reinsurance brokers. Tempest Re's underwriting team builds relationships with key brokers and clients by explaining Tempest Re's approach and demonstrating responsiveness to customer needs. Tempest Re's approach to the business of reinsurance takes a long-term perspective. Management believes that continual strengthening of the relationships between Tempest Re, its producing brokers and their clients will continue to contribute to a stable portfolio necessary to achieve continuity. By retaining clients, Tempest Re seeks to build up extensive knowledge of them and gain additional insight to enable a more accurate assessment of their exposures.

Tempest Re receives business from approximately 34 brokers. The following table sets forth the percentage of Tempest Re's business written through each broker and its affiliates placing more than 10 percent of Tempest Re's business:

	YEAR ENDED SEPTEMBER 30,	YEAR ENDED SEPTEMBER 30,	TEN MONTHS ENDED SEPTEMBER 30,
	1998	1997	1996
J&H, Marsh & McLennan, Incorporated (1).....	31%	34%	30%
E.W. Blanch Co. ....	16%	15%	7%
Sedgwick.....	16%	8%	7%

(1) During 1997, Marsh & McLennan, Incorporated acquired Johnson & Higgins. For 1996, the percentage of business placed by Marsh & McLennan, Incorporated was 26 percent and the percentage of business placed by Johnson & Higgins was 4 percent. The percentage shown in the table for fiscal 1997 reflect the business placed by the combined entity and its affiliates for the entire fiscal 1997 year.

Rates, limits, retention and other reinsurance terms and conditions are generally established in a worldwide competitive market that evaluates exposure and balances demand for property catastrophe coverage against the available supply. Tempest Re believes it is perceived by the market as being a "lead" reinsurer and is typically involved in the negotiation and quotation of the terms and conditions of the majority of the contracts in which it participates.

Because Tempest Re underwrites property catastrophe reinsurance and has large aggregate exposures to natural and man-made disasters, Tempest Re's claims experience generally will involve infrequent events of great severity. Tempest Re seeks to diversify its reinsurance portfolio to moderate the impact of this severity. The principal means of diversification are by geographic coverage and by varying attachment points and imposing coverage limits per program. Tempest Re also establishes zonal accumulation limits to avoid concentrations of risk within particular geographic areas.

Tempest Re applies an underwriting process based on models that use exposure data submitted by prospective reinsureds in accordance with requirements set by Tempest Re's underwriters. The client data is then analysed using a selection from several available catastrophe analysis tools, including externally developed event based models licensed from leading vendors as well as proprietary models developed in house.

The output from the catastrophe analysis tools is also used for portfolio risk management, enabling Tempest Re to extensively simulate possible combinations of events affecting the portfolio. This analysis also supports the decision making with regard to purchasing retrocession. During 1998, Tempest Re has significantly increased its use of retrocessional coverages.

## **ACE USA**

ACE USA primarily distributes its insurance products through a limited group of wholesale brokers with whom long-term relationships have been forged. ACE USA's management believes the match between its expertise and that of its wholesalers is one of the key reasons wholesalers place business with it. ACE USA currently utilizes approximately 207 wholesale brokers across the U.S. The majority of premium volume is currently derived from a limited number of wholesalers with whom ACE USA has established mutually significant relationships. For the nine-month period ending September 30, 1998, the top ten producers accounted for 62 percent of direct premium volume.

Operating in a market in which capacity and price adequacy for its products can change dramatically, ACE USA's underwriting strategy is to employ consistent, disciplined pricing and risk selection in order to maintain an attractive book of business. Management's priority is to ensure that criteria for risk selection are closely adhered to by its underwriting professionals and to maintain sufficient experience and expertise in its underwriting staff.

ACE USA has the ability to write business on an admitted basis using forms and rates as filed with state insurance regulators and on a non-admitted, or surplus lines basis using flexible forms and rates not filed with state insurance regulators. Having access to a non-admitted carrier provides the flexibility to write non-standard coverage.

## **COMPETITION**

Competitive forces in the international property and casualty insurance and reinsurance business are substantial. Results are a function of underwriting and investment performance, direct costs associated with the

delivery of insurance products, including the costs of regulation, the frequency and severity of both natural and man-made disasters, as well as inflation (actual, social and judicial), which impact loss costs. Decisions made by insurers concerning their mix of business (offering certain types of coverage but declining to write other types), their methods of operations and the quality and allocation of their assets (including any reinsurance recoverable balances) will all affect their competitive position. The relative size and reputation of insurers may influence purchasing decisions of present and prospective customers and will contribute to both geographic and industrial sector market penetration. Oversupply of available capital has historically had the effect of encouraging competition and depressing prices. The Company's competitive position in the property and casualty insurance industry is influenced by all of these factors.

All of the Company's operating subsidiaries have received ratings from A.M. Best Company ("A.M. Best") and Standard & Poors Corporation ("S&P") except for AICE and ARCE which have an A.M. Best rating only. The Lloyd's market has also received ratings from A.M. Best and S&P. These ratings are based upon factors relevant to policyholders, agents and intermediaries and are not directed toward the protection of investors. Such ratings are not recommendations to buy, sell or hold securities.

### **ACE Bermuda**

ACE Bermuda operates in a highly competitive worldwide market and competes with most major U.S. and non-US insurers which may differ across product lines. ACE Bermuda utilizes its experienced underwriting staff, its strong capital base, its ability to market a number of insurance products to its existing client and potential client base and its ability to be flexible in providing contracts which extend coverages for periods in excess of one year to compete in the worldwide insurance markets.

ACE Bermuda has received a group rating of A+ from A.M. Best. The most current rating covers ACE, together with its operating subsidiaries, ACE Bermuda and CODA. ACE Insurance and CODA have also received A+ claims paying ratings from S&P. AICE and ARCE have a rating of A+ from A.M. Best.

### **ACE Global Markets**

There remains significant competition in all classes of business transacted by the syndicates emanating from a number of different markets world-wide. Depending on the class of business concerned, competition comes from the London market, other Lloyd's syndicates and ILU Companies (Institute of London Underwriters), major international insurers and reinsurers. On international risks, competition also comes from the domestic insurers in the country of origin of the insured. The syndicates are able to compete successfully by developing and maintaining close, long term relationships with clients through a high quality service and an ability to deliver innovative solutions tailored to the client's needs. The establishment of AUS as described above is an example of this.

The Lloyd's market has received a rating of A from A.M. Best and a claims paying ability rating of A+ from S&P.

### **Tempest Re**

The property catastrophe reinsurance industry is highly competitive. Tempest Re competes worldwide with major U.S. and non-U.S. property catastrophe reinsurers, including other Bermuda-based property catastrophe reinsurers, as well as reinsurance departments of numerous multi-line insurance organizations. Tempest Re competes effectively because of its strong capital position, the quality of service provided to customers, the leading role Tempest Re plays in setting the terms, pricing and conditions in negotiating contracts and its customised approach to risk selection.

Tempest Re has received a rating of A from A.M. Best and a claims paying ability rating of A+ from S&P.

### **ACE USA**

ACE USA operates in a highly competitive industry and faces competition from both domestic and foreign insurers, many of which are larger and have greater financial, marketing and management resources. Competition in the U.S. property and casualty market is based on many factors including financial strength of the insurer, ratings assigned by rating companies, premiums charged, policy terms and conditions, reputation, services offered and broker commissions. The markets in which ACE USA competes are subject to significant cycles of fluctuating capacity and wide disparities in price adequacy. ACE USA's strategy in its competitive environment has been to grow when conditions are favorable for a particular product line and to reduce writings and preserve capital when competitive pricing prevents adequate returns.

During 1998, the ratings issued by A.M. Best, to the US Insurance Subsidiaries were raised from A- to A following the acquisition by the Company. In addition, in June 1998, ACE USA's S&P claims paying ability rating was raised two increment levels from A- to A+.

### **CLAIMS ADMINISTRATION**

#### **ACE Bermuda**

Claims arising under policies issued by ACE Bermuda and CODA are managed in Bermuda by ACE Bermuda's claims department. This department maintains a claims database into which all notices of loss are entered. If the claims department determines that a loss is of sufficient severity, it makes a further inquiry of the facts surrounding the loss and, if deemed necessary, retains outside claims counsel to monitor claims. Based upon its evaluation of the claim, the claims department may recommend that a case reserve in a specified amount be established or that all or part of a claim be paid. The claims department monitors all claims and, where appropriate, will recommend the establishment of a new case reserve or the increase or decrease of an existing case reserve with respect to a claim.

AICE subscribes to the group claims database and interacts with the ACE Bermuda legal and claims department, and where appropriate, with outside counsel. Case reserves are established using the same criteria as ACE Bermuda.

With the exception of certain aviation coverages, ACE Bermuda does not undertake to defend its insureds. It has, in certain instances, provided advice to insureds with respect to the management of claims. ACE Bermuda believes that its experience in resolving large claims and its proactive approach to claims management has contributed to the favourable resolution of several cases.

Because ACE Bermuda does not do business in the U.S., it must often rely on U.S. counsel to assist it in evaluating liability and damages confronting its insureds in the U.S. ACE Bermuda does not believe that the information received or the procedures followed have materially or adversely affected its ability to identify, review or settle claims.

#### **ACE Global Markets**

With respect to claims arising in Lloyd's syndicates, each syndicate maintains a claims database into which all notices of loss are entered. These are primarily notified by the Lloyd's Claims Office ("LCO") through a daily electronic data interchange message. Where a syndicate is a "leading" syndicate on a Lloyd's policy, then it acts through its underwriters and claims adjusters, on its own behalf and with the LCO for the following

market, in dealing with the broker and/or insured for any particular claim. This may involve the appointment of attorneys and/or loss adjusters. The leading syndicates, together with the LCO, advise movements in case reserves to all syndicates participating on the risk.

All information received with respect to case reserves, whether on "lead business" or on "following business," screened and recorded by the syndicates. The syndicates' claims department can vary the case reserves carried from those advised by the LCO and can carry reserves for claims not processed by the LCO. Any such adjustments and entries are specifically identifiable within the claims system.

### **Tempest Re**

Claims arising under contracts written by Tempest Re are managed in Bermuda by Tempest Re. Tempest Re also maintains a claims database into which all notices of loss are entered. Loss notices are received from brokers. They are reviewed and case reserves are established for Tempest Re's portion of the loss. Case reserves are then adjusted based on receipt of further notifications from brokers.

### **ACE USA**

The claims handling process is critical to ACE USA given that its specialty property and umbrella coverages are written on an excess coverage basis. As a result, losses arise from significant events that tend to present complex claim issues. Although the claims volume of the US Insurance Subsidiaries has been historically low compared to premium volume, individual casualty claims usually involve injuries or damages that amount to more than \$1 million. ACE USA's claims professionals average over 19 years of claims handling experience. Management believes that this level of experience provides ACE USA with stability and consistency in its claims handling process.

Recognizing the unique claim handling characteristics of construction defect claims, ACE USA has a dedicated unit to manage them. The asbestos and environmental claims arising from policies issued by the US Insurance Subsidiaries had been subcontracted to Envision Claims Management Corporation ("Envision"), a separate service company that is part of The Resolution Group, Inc., a former affiliate of ACE USA. Subsequent to September 30, 1998, this arrangement was discontinued and these claims are now directed by in-house claim handlers trained to manage specialized coverage and coordination issues that arise in asbestos and environmental claims.

### **UNPAID LOSSES AND LOSS EXPENSES**

The Company is required to make provisions in its financial statements for the estimated unpaid liability for losses and loss expenses for claims made against it under the terms of its policies and agreements. Estimating the ultimate liability for losses and loss expenses is an imprecise science subject to variables that are influenced by both internal and external factors. This is true because claim settlements to be made in the future may be impacted by changing rates of inflation and other economic conditions, changing legislative, judicial and social environments and changes in the Company's claims handling procedures. In many liability cases, significant periods of time, ranging up to several years or more, may elapse between the occurrence of an insured loss, the reporting of the loss to the Company and the settlement of the Company's liability for that loss.

Several aspects of the Company's operations exacerbate the inherent uncertainties in estimating its losses as compared to more conventional insurance companies. Primary among these aspects are the limited amount of statistically significant historical data regarding losses, particularly of the type intended to be covered by the Company's excess liability policies and the expectation that losses in excess of the attachment level of the policies will be characterized by low frequency and high severity, limiting the utility of claims experience of other insurers for similar claims. Accordingly, the ultimate claims experience of the Company cannot be as reliably predicted as may be the case with more traditional insurance companies, and there can be no assurance that losses and loss expenses will not exceed the reserves.

After a claim is reported to the Company, a case reserve is established for the estimated ultimate losses and loss expenses, if any, with respect to the reported claim. The amount and timing of the reserve reflects the judgement of the claims personnel based upon general corporate reserving practices and on the experience and knowledge of the claims personnel (including, where appropriate, outside counsel and claim consultants) regarding the nature and value of the specific type of claim.

A number of the Company's insureds have given notice of claims relating to breast implants or components or raw material thereof that had been produced and/or sold by such insureds. Lawsuits, including class actions, involving thousands of implant recipients have been filed in both state and federal courts throughout the United States. Most of the federal cases have been consolidated pursuant to the rules for Multidistrict Litigation ("MDL") to a Federal District Court in Alabama, although cases are in the process of being transferred back to federal courts or remanded to state courts. At June 30, 1994, the Company increased its then existing reserves relating to breast implant claims. Although the reserve increase was partially satisfied by an allocation from existing IBNR, it also required an increase in the Company's total reserve for unpaid losses and loss expenses at June 30, 1994 of \$200 million. The increase in reserves was based on information made available in the pending lawsuits and information from the Company's insureds and was predicated upon an allocation between coverage provided before and after the end of 1985 (when the Company commenced underwriting operations). No additional reserves relating to breast implant claims have been added since June 30, 1994.

The Company continually evaluates its reserves in light of developing information and in light of discussions and negotiations with its insureds. Significant uncertainties continue to exist with regard to the ultimate outcome and cost of the breast implant litigation and value of the opt-out claims related to it. While the Company is unable at this time to determine whether additional reserves, which could have a material adverse effect upon the financial condition, results of operations and cash flows of the Company, may be necessary in the future, the Company believes that its reserve for unpaid losses and loss expenses including those arising from breast implant claims are adequate as at September 30, 1998. See "Management's Discussion and Analysis of Results of Operations and Financial Condition--Breast Implant Litigation" in the 1998 Annual Report to Shareholders filed with this Form 10- K.

The Company engages an independent actuarial firm to review the methods and assumptions used by the Company in estimating the unpaid loss and loss expenses. As stated in its actuarial review, such firm believes that the methods and assumptions used by the Company are reasonable and appropriate for use in setting loss reserves at September 30, 1998.

Losses and loss expenses are charged to income as incurred. The reserve for unpaid losses and loss expenses represents the estimated ultimate losses and loss expenses less paid losses and loss expenses and is composed of case reserves, loss expense reserves and IBNR loss reserves. During the loss settlement period, which can be many years in duration, additional facts regarding individual claims and trends often will become known. As these become apparent, case reserves may be adjusted by allocation from the IBNR loss reserve without any change in the overall reserve. In addition, application of statistical and actuarial methods may require the adjustment of the overall reserves upward or downward from time to time. The final liability nonetheless may be significantly greater than or less than the prior estimates.

At September 30, 1998, the reserve for unpaid losses including IBNR loss reserves was \$2,484.6 million and the reserve for loss expenses was \$193.7 million. The Company believes that its reserves for unpaid losses and loss expenses including those arising from breast implant claims are adequate as of September 30, 1998.

The "Analysis of Loss and Loss Expense Development" shown on page 15 presents the subsequent development of the estimated year-end liability for unpaid losses and loss expenses at the end of each of the years in the eleven- year period ended September 30, 1998. The top line of the table shows the estimated liability for unpaid losses and loss expenses recorded at the balance sheet date for each of the indicated years. This liability represents the estimated amount of losses and loss expenses for claims arising from all prior years' policies and agreements that were unpaid at the balance sheet date, including IBNR loss reserves. The upper



10 years later..  
Cumulative  
Redundancy/  
(deficiency).... 0  
Net unpaid losses  
and loss  
expenses..... 2,678,341  
Reinsurance  
recoverables on  
unpaid losses... 1,059,528  
-----  
Gross unpaid  
losses and loss  
expenses..... 3,737,869  
-----

(1) The Company does not consider it appropriate to extrapolate future deficiencies or redundancies based upon the above tables, as conditions and trends that have affected development of liability in the past may not necessarily occur in the future.

(2) In 1994, the Company recorded an additional reserve of \$200 million, related primarily to developments in breast implant litigation, in respect of years prior to 1994.

(3) In 1992, the Company began applying actuarial and statistical methods to estimate ultimate expected losses and loss expenses for all of the Company's business since inception. As at September 30, 1994 the Company changed its method of allocating IBNR to accident and balance sheet years. This allocation assigns IBNR to years based upon various risk factors including immaturity of year, amount of earned premium in that year, and development of known claims. As the Company's loss experience is characterized as low frequency and high severity, IBNR is considered a bulk reserve, and is therefore available for loss development from whichever year it may arise. Prior to 1994, the allocation of IBNR to accident and balance sheet years was based upon a loss distribution indicated by the expected loss method employed by the Company. Losses paid for the year ending September 30, 1988 include an amount of \$26.0 million, which is expected to be recovered from an insured.

(4) It should be noted that on November 1, 1993, the Company acquired CODA, on July 1, 1996, the Company acquired Tempest Re and on July 9, 1998, the Company acquired Tarquin. The table has been re-stated to include CODA's, Tempest Re's and Tarquin's loss experience as if each of these companies had been wholly-owned subsidiaries of the Company from their inception. On January 2, 1998, the Company acquired ACE USA, and on April 1, 1998, the Company acquired CAT Limited. The unpaid loss information for these companies has been included in the table only for the period ending September 30, 1998. For the period through September 30, 1997, reinsurance recoverables were not material to the Company's financials, and the table was prepared on a net basis. For the year ended September 30, 1998, gross, ceded and net unpaid liabilities are shown at the bottom of the table.

(5) The "cumulative redundancy/(deficiency)" shown in the table represents the aggregate change in the reserve estimates over all subsequent years. The amounts noted are cumulative in nature; that is, an increase in loss estimate for prior year losses generates a deficiency in each intermediate year. For instance, a deficiency recognized in 1994 relating to losses incurred during the year ending September 30, 1992 would be included in the cumulative deficiency amount for each year from 1992 to 1994, the year the loss was recognized, yet the deficiency would be reflected in operating results only in 1994. An analysis of the changes in aggregate reserves for losses and loss expenses under GAAP is presented below. Since reserves are necessarily based upon estimates, the ultimate net costs may vary from the original estimates. As adjustments to these estimates become necessary, they are reflected in current operations.

#### RECONCILIATION OF UNPAID LOSSES AND LOSS EXPENSES

	1998	1997	1996
	-----	-----	-----
	( IN THOUSANDS )		
Gross unpaid losses and loss expenses at beginning of year.....	\$2,111,670	\$1,977,680	\$1,455,342
Reinsurance recoverable.....	(104,797)	(85,378)	(3,043)
	-----	-----	-----
Net unpaid losses and loss expenses at beginning of year.....	2,006,873	1,892,302	1,452,299
Unpaid losses and loss expenses assumed in respect of acquired companies.....	731,949	--	34,735
Unpaid losses and loss expenses assumed in respect of reinsurance business acquired..	6,403	50,326	--
	-----	-----	-----
Total.....	2,745,225	1,942,628	1,487,034
	-----	-----	-----
Losses and loss expenses incurred in respect of losses incurring in:			
Current year.....	534,021	486,140	520,277
Prior years.....	(17,129)	--	--
	-----	-----	-----
Total.....	516,892	486,140	520,277
	-----	-----	-----
Losses and loss expenses paid in respect of losses incurred in:			
Current year.....	246,354	63,182	41,602
Prior years.....	337,422	358,713	73,407
	-----	-----	-----
Total.....	583,776	421,895	115,009
	-----	-----	-----
Net unpaid losses and loss expenses at end of year.....	2,678,341	2,006,873	1,892,302
Reinsurance recoverable on unpaid losses...	1,059,528	104,797	85,378
	-----	-----	-----
Gross unpaid losses and loss expenses at end of year.....	\$3,737,869	\$2,111,670	\$1,977,680
	=====	=====	=====

## INVESTMENTS

The Finance Committee of the Board of Directors is responsible for the establishment of the Company's investment policy consistent with the company's strategies, goals and objectives. The investment policy is reviewed with, and approved by, the Board of Directors.

The Company's primary investment objectives are to ensure that funds will be available to meet its insurance and reinsurance obligations and then, to maximize its rate of return on invested funds within specifically approved constraints as to credit quality, liquidity and volatility. Accordingly, the Company's investment portfolio is invested primarily in fixed income instruments of high credit quality.

The consolidated investment portfolio is divided into three segments. Assets which are required to match and offset certain specifically identified liabilities are segregated in an asset-liability management ("ALM") segment. The second segment, the core portfolio, supports the current general insurance exposures and is structured to have low to moderate investment risk. The remainder of the portfolio, the discretionary segment, is invested to enhance total return and return on equity by taking on additional investment risks within prudent limits. The core and discretionary portfolios are managed by professional outside managers whose performance is measured against certain recognized broad market indices. Written investment guidelines, approved by the Finance Committee, document standards to ensure portfolio liquidity and diversification, maintain credit quality, and limit volatility within approved asset allocation guidelines. The use of financial futures, forwards and options contracts, as well as certain mortgage derivative securities which do not provide a planned stable structure of principal and interest payments, require prior approval from the Finance Committee.

Funds are invested in both U.S. and non-U.S. dollar denominated high-quality fixed maturity and equity securities. The approved asset allocation targets 20 percent of the consolidated investment portfolio to have an exposure to equities, with international equities limited to no more than 35 percent of total equities. This represents an increase from the period January 1995 to May 1996, when the target equity allocation was 15 percent, with international equities limited to no more than 20 percent of total equities. The remainder of the consolidated portfolio is to be invested predominantly in U.S. dollar fixed income securities. Prior to January 1, 1998, the portfolio had a 5 percent allocation to international bonds. Currency hedging is permitted and used at the discretion of the investment managers. Prior to the first quarter of fiscal 1995, all investments were denominated in U.S. dollars, and total equity exposure was limited to 10 percent of the consolidated investment portfolio.

The fixed maturity portion of the Company's investment portfolio includes U.S. and non-U.S. government obligations, corporate bonds, mortgage-backed securities, and other investment grade securities. Those fixed income investment managers with authorization to invest a portion of their portfolios in non-U.S. dollar securities are required to hedge a minimum of 75 percent of their total non-U.S. dollar exposure. Previously, currency hedging of fixed income securities was permitted at the discretion of the manager. The Company's investment guidelines limit investments in high yield and convertible bonds rated B or better to 5 percent each of the consolidated investment portfolio. To ensure diversity and limit concentrations of credit risk, no more than 5 percent of the portfolio may be invested in the obligations of any one issuer (other than the U.S. government).

The asset allocation target allows 5 percent of the consolidated investment portfolio to be invested in alternative investments.

For additional information regarding the investment portfolio, including breakdowns of the sector and maturity distributions, see note 5 to the consolidated financial statements included in the 1998 Annual Report to Shareholders.

The trading status of underwriters at Lloyd's in the U.S. is supported by a unique trust fund structure. The trust funds were reviewed and restructured in August 1995 in consultation with the New York Insurance Department ("NYID"), which acts as the domiciliary commissioner for Lloyd's US trust funds held in the state of New York.

## **REGULATION**

### **Bermuda**

In Bermuda, the businesses of ACE Bermuda, CODA, Tempest Re and CAT are regulated by the Insurance Act 1978 (as amended by the Insurance Amendment Act 1995) and related regulations (the "Act"). The Act imposes on Bermuda insurance companies solvency and liquidity standards and auditing and reporting requirements and grants the Minister of Finance (the "Minister") powers to supervise, investigate and intervene in the affairs of insurance companies. Under the Act, ACE Bermuda, Tempest Re and CAT are required to maintain capital and surplus in excess of \$100 million. CODA requires capital and surplus in excess of \$1 million. Each registered insurer must appoint an independent auditor to audit and report on the Statutory Financial Statements and Statutory Financial Return on an annual basis. Each company must also appoint a loss reserve specialist to review and report on the loss reserves of the insurer on an annual basis.

### **United Kingdom**

#### **United Kingdom and Lloyd's Regulation**

The Company has established for marketing purposes, a representative office in London, England. However, all underwriting operations continue to be conducted in Bermuda.

The Company, certain of its UK subsidiaries and substantially all staff employed within the Lloyd's operations are currently subject to the regulatory jurisdiction of the Council of Lloyd's (the "Council"). This jurisdiction arises by virtue of the Company's being a controller of each of the four Lloyd's managing agencies referred to above and the six Corporate Members in which it has an interest. Certain other subsidiaries have also been approved as controllers, and are similarly subject to Lloyd's jurisdiction.

Under English law, there are restrictions on the interests Lloyd's brokers or their holding companies may have in Lloyd's managing agents or their holding companies.

The UK government has announced the establishment of the Financial Services Authority ("FSA") as a single regulator to supervise securities, banking and insurance business, including Lloyd's. The FSA will have wide powers to make rules, and it is envisaged these will replace the existing statutory and self regulatory arrangements relevant to these areas. A consultation process has commenced in relation to Lloyd's regulatory framework. The Company and the appropriate subsidiaries will seek any necessary authorizations and permissions in relation to its Lloyd's operations.

#### **Regulation of Lloyd's Entities in the United States**

Direct business can be written on either a licensed or a non-admitted (which includes surplus lines) basis. Licensed insurers are subject to regulation of both solvency margin and business practices such as premium rate and policy form control. Non-admitted insurers are not subject to rate and form control in most states, but regulators manage the entry to the surplus lines market by imposing minimum solvency and trust requirements for insurers wishing to be deemed "eligible" surplus lines insurers.

Insurer licensing requirements do not apply to reinsurers and as a result both licensed and non-admitted reinsurers may write reinsurance in the U.S.

Lloyd's underwriters operate as licensed insurers in Illinois, Kentucky and the U.S. Virgin Islands and as eligible surplus lines insurers in all states except Kentucky and the U.S. Virgin Islands. Underwriters are approved for credit for reinsurance purposes in all states except Michigan, Kansas and Arizona. Cedents in these states may require underwriters to provide alternative funding (such as a letter of credit) to enable them to take credit for reinsurance placed with underwriters at Lloyd's. Similarly, life, accident and health cedents domiciled in New York may require such funding in order to allow them to take credit for reinsurance ceded.

Prior to August 1995, all US dollar premiums were deposited and held in the Lloyd's American Trust Fund ("LATF"), regardless of the actual of the risk. The LATF continues to support risks for US business incepting prior to August 1995, but the trust fund and accounting arrangements have changed for US dollar business incepting after August 1, 1995. These include the creation of a Lloyd's Dollar Trust Fund in the UK and a series of deposit trust funds in the US. There are additional trust fund arrangements in certain US states.

#### United States of America Non-U.S. Operations

The Company and its non-U.S. insurance subsidiaries, excluding its Lloyd's operations, are not admitted to do business as insurers in any jurisdiction in the U.S. Each state in the U.S. licenses insurers and prohibits, with some exceptions, the sale of insurance products by non-admitted insurers within their applicable jurisdictions.

The Company conducts its insurance business from its offices in Bermuda. All of the Company's insurance clients are obtained through non-U.S. insurance brokers and non-U.S. affiliates of U.S. insurance brokers. All insurance policies are issued and delivered and premiums are received in Bermuda. Based on, among other things, the foregoing, the Company does not believe it is in violation of the insurance laws of any state in the U.S.

Many states impose a premium tax (typically 2 percent to 4 percent of gross premiums) on insureds obtaining insurance from nonadmitted foreign insurers, such as ACE Bermuda and CODA. The premiums charged by the Company do not include any American state premium tax. Each insured is responsible for determining whether it is subject to any such tax and for paying such tax as may be due.

The U.S. also imposes on policyholders an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rates of tax applicable to premiums paid to ACE Bermuda and CODA are 4 percent for insurance premiums and 1 percent for reinsurance premiums.

The Company has from time to time received inquiries from certain U.S. state insurance regulators regarding the Company's activities in a particular jurisdiction. To date only the State of Nevada Department of Insurance has formally challenged the insurance activities of the Company and that challenge was resolved in favor of the Company by legislation. There can be no assurance that additional challenges will not be raised in the future or that the Company will be able to successfully defend against such challenges. Such challenges may arise, among other things, in connection with actions seeking the payment of state premium taxes from insureds.

In the event that the Company is not able to successfully defend against challenges by certain U.S. jurisdictions, the Company's business could be adversely affected in the short term. However, should this occur, the Company could elect to qualify as a surplus lines insurer in such U.S. jurisdictions as were necessary. Were it necessary to do so, the Company believes that generally it could meet and comply with the prescribed legislative requirements, and such compliance would not have a material impact on the ability of the Company to conduct its business or its results of operations.

If the Company is unable to defend successfully against challenges of U.S. jurisdiction, it is possible that a policyholder could attempt to sue the Company in a U.S. court. The Company's primary defense to such action is that its policies have a mandatory arbitration clause for coverage disputes. Courts in some states can impose damages in excess of policy limits if an insurer is found to have improperly and in bad faith declined coverage. If a U.S. court took jurisdiction of such a claim, it is possible that the Company's exposure could be significantly greater than policy limits. It is also possible that an arbitration panel, if the issues were properly presented, could make an extra-contractual award for bad faith damage.

There can be no assurance that new or additional legislation will not be proposed and enacted that has the effect of subjecting the Company to regulation in the U.S.

## **U.S. Operations**

Although at the present time there is limited federal regulation of the insurance business in the US, the US insurance subsidiaries are subject to extensive regulation in the states in which they do business. The laws of the various states establish supervisory agencies with broad authority to regulate, among other things, licenses to transact business, insurance rates for certain business, policy language, underwriting and claims practices, transactions with affiliates, reserve adequacy, dividends and insurer solvency. In addition, the US insurance subsidiaries are subject to legislative measures and judicial decisions that define the risks and benefits for which insurance is sought and provided. These include redefinitions of insured risk in such areas as product liability and environmental coverages.

The US Insurance Subsidiaries are required to file detailed annual reports with state insurance regulators in each of the states in which they do business. Such annual reports are required to be prepared on a calendar year basis. In addition, the US Insurance Subsidiaries' operations and accounts are subject to examination at regular intervals by state regulators. The respective reports made referring to the most recent periodic examinations of the US Insurance Subsidiaries, contained no material adverse findings. The US Insurance Subsidiaries are domiciled in the states of New York, Georgia and Texas.

Statutory surplus is an important measure utilized by the regulators and rating agencies to assess the Company's US Insurance Subsidiaries' ability to support business operations and provide dividend capacity. The Company's US Insurance Subsidiaries are subject to various state statutory and regulatory restrictions that limit the amount of dividends that may be paid without prior approval from regulatory authorities. These restrictions differ by state, but are generally based on calculations incorporating statutory surplus, statutory net income, and/or investment income.

Insurance company state regulators have adopted Risk Based Capital ("RBC") requirements for the US Insurance Subsidiaries. These RBC requirements are designed to monitor capital adequacy and to raise the level of protection that statutory surplus provides for policyholders. The RBC formula provides a mechanism for the calculation of an insurance company's Authorized Control Level (the "ACL") RBC amount. The initial RBC level which triggers regulatory action is known as the Company Action Level. Failure to achieve this level of RBC, which occurs if policyholders' surplus falls below 200 percent of the ACL, requires the insurance company to submit a plan of corrective action to the relevant insurance commissioner. There are several additional progressive RBC failure levels, which trigger more stringent regulatory action. Based on the RBC formula, at December 31, 1997, which is the most recent RBC calculation, the policyholders' surplus of each of the US Insurance Subsidiaries was higher than the Company Action Level and, as a result, no regulatory action or response is required.

## **Ireland**

The Companies were established and operate as limited liability companies under the Laws of Ireland. The relevant Irish Company Law applies to both companies. ACE Bermuda Company Europe Limited must also comply with European Union Insurance Regulations in respect of the 18 Classes of Insurance it is authorised to provide as supervised by the Irish Department of Enterprise, Trade and Employment.

## **TAX MATTERS**

### **United States of America**

#### **Corporate Income Tax**

ACE is a Cayman Islands corporation and has never paid U.S. corporate income taxes (other than withholding taxes on dividend income) on the basis that it is not engaged in a trade or business in the U.S.; however, there can be no assurance that the Internal Revenue Service ("IRS") will not contend to the contrary. If the Company were subject to U.S. income tax, there could be a material adverse effect on the Company's shareholders' equity and earnings. The Company and its Bermuda-based insurance and reinsurance subsidiaries do not file U.S. income tax returns reporting income subject to U.S. income tax since they do not conduct business within the U.S. except that the Company and its Bermuda-based insurance and reinsurance subsidiaries have filed protective tax returns reporting no U.S. income to preserve their ability to deduct their ordinary and necessary business expenses should the IRS successfully challenge the Company's contention that none of its income is subject to a net income tax in the U.S.

#### **Related Person Insurance Income**

Each U.S. person who beneficially owns Ordinary Shares of the Company (directly or through foreign entities) on the last day of an insurance company subsidiary's fiscal year will have to include in such person's gross income for U.S. tax purposes a proportionate share (determined as described herein) of the related person insurance income ("RPII") of such insurance company subsidiary if the RPII of such insurance company subsidiary, determined on a gross basis, is 20 percent or more of that insurance company subsidiary's gross insurance income in such fiscal year. RPII is income attributable to insurance policies where the direct or indirect insureds are U.S. shareholders or are related to U.S. shareholders of the Company. RPII may be includible in a U.S. shareholder's gross income for U.S. tax purposes regardless of whether or not such shareholder is an insured. For the fiscal year ended September 30, 1998, the Company believes that gross RPII of each of its insurance company subsidiaries was below 20 percent for the year. Although no assurances can be given, the Company anticipates that gross RPII of each of its insurance company subsidiaries will be less than 20 percent of each such subsidiary's gross insurance income for subsequent years and the Company will endeavor to take such steps as it determines to be reasonable to cause its gross RPII to remain below such level.

The RPII provisions of the Internal Revenue Code of 1986, as amended (the "Code"), have never been interpreted by the courts. Regulations interpreting the RPII provisions of the Code exist only in proposed form, having been proposed on April 16, 1991. 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. For a more detailed discussion of RPII and other tax matters pertaining to an investment in the Company's shares, reference is hereby made to the section entitled "Taxation of Ace and its Shareholders" in the Company's Registration Statement on Form S-4 (No. 333- 04153), which section is incorporated by reference herein.

### **United Kingdom**

Lloyd's is required to pay U.S. income tax on U.S. connected income ("U.S. income") written by Lloyd's syndicates. Lloyd's has a closing agreement with the IRS whereby the amount of tax due on this business is calculated by Lloyd's and remitted directly to the IRS. These amounts are then charged to the personal accounts of the Names/Corporate Members in proportion to their participation in the relevant syndicates.

The Company's Corporate Members are subject to this arrangement but, as UK domiciled companies, will receive UK corporation tax credits for any U.S. income tax incurred up to the value of the equivalent UK corporation income tax charge on the U.S. income.

All the subsidiaries of the Company, which are registered in the UK are subject to UK corporation tax, Value Added Tax and capital gains tax. In addition, the respective Managing Agents are required, on behalf of underwriting members participating on ACE managed syndicates, to account, via Lloyd's, to the UK Tax Authorities for Insurance Premium Taxes.

### **Bermuda**

Under current Bermuda law, the Company and its Bermuda subsidiaries are not required to pay any taxes on its income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2016.

### **Ireland**

Both companies have received approval from the Irish Government to operate their facilities in the International Financial Services Centre, Dublin (IFSC) and have obtained clearance to have their income arising from trading activities covered under their tax license taxed at 10 percent. This concession is scheduled to apply to both companies until December 31, 2005. Corporation Tax will be levied at the standard rate in Ireland on January 1, 2006 and thereafter to all IFSC companies.

### **Cayman Islands**

Under current Cayman Islands law, the Company is not required to pay any taxes on its income or capital gains. The Company has received an undertaking that, in the event of any taxes being imposed, the Company will be exempted from taxation in the Cayman Islands until the year 2013.

### **EMPLOYEES**

At September 30, 1998, the Company employed a total of 642 persons, 208 of whom were located in Bermuda, 199 in London, 233 in the United States and 2 in Dublin. None of these employees are represented by a labor union.

## GLOSSARY OF SELECTED INSURANCE TERMS

Catastrophe Excess of Loss Reinsurance.....	Catastrophe excess of loss reinsurance provides coverage to a primary insurer when aggregate claims and claim expenses from a single occurrence of a peril covered under a portfolio of primary insurance contracts written by the insurer exceed the attachment point specified in the reinsurance contract with the insurer.
Claims made form.....	Insurance coverage which is dependent upon the filing of a claim, which must normally fall within the policy period.
IBNR loss reserves.....	The reserves included in the Company's financial statements under the caption "Unpaid Losses and Loss Expenses" for the estimated ultimate unpaid liability which the Company has incurred under the terms of the Company's policies and agreements, less case reserves.
Integrated occurrence.....	All losses attributable directly or indirectly to the same event, condition, cause, defect or hazard or failure to warn of such which are added together and treated as one occurrence under an insured's policy.
Occurrence first reported.....	Manuscripted form of stand-alone insurance coverage offered by the Company, which generally ties the limits available and other policy terms to the date on which an occurrence is first reported to the Company.
Proportional Property Reinsurance.....	Proportional property reinsurance treaties assume a specified percentage of the risk exposure under a portfolio of primary insurance contracts written by the ceding insurer and receive an equal percentage of the premium received by the ceding insurer.
Risk Excess of Loss Reinsurance.....	Property per risk excess of loss reinsurance responds to a loss of the reinsured in excess of its retention level on a single "risk," rather than to aggregate losses for all covered risks. A risk in this context might mean the insurance coverage on one building or a group of buildings.
Stand alone basis.....	A term referring to an insurance policy which is governed by its own terms, conditions, exclusions and retention and does not incorporate the terms, conditions or exclusions of underlying policies.

## ITEM 2. PROPERTIES

The Company operates from offices in Bermuda, the United Kingdom, the United States and Ireland. In Bermuda, the Company leases its principal offices from a joint venture company in which the Company has a 40 percent interest and there is an agreement with the joint venture partner which ensures the Company's ability to occupy a portion of the building until 2011. The Company is currently building new corporate headquarters in Bermuda that will house its Bermuda-based operations. It is expected that this facility will be available by the end of 2000.

All other office facilities, including those occupied by Tempest in Bermuda, ACE USA in Atlanta, Georgia; New York, New York; Los Angeles and San Francisco, California; ACE Global Markets in London, England and ACE Europe in Dublin, Ireland are leased. During 1998, ACE Global Markets consolidated the operations of Methuen and ACE London into its current office space and disposed of the two existing leases.

## ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries, in common with the insurance industry in general, are subject to litigation in the normal course of its business. Although the policies issued by the Company's Bermuda-based insurance subsidiaries generally provide for resolution of disputes by arbitration in Bermuda or London, one of these subsidiaries has been sued by insureds several times in the United States and, with one exception which is currently on appeal, has been successful in either being dismissed from such suits or in having such suits dismissed on procedural grounds or stayed pending the results of arbitration. In addition, that same Bermuda subsidiary is occasionally named as a party in Louisiana "direct action" suits by insureds. That subsidiary has sought dismissal of these actions as well and decisions are pending in these actions. At September 30, 1998, the Company and its subsidiaries were not party to any material litigation other than as encountered in claims activity and none of such litigation is expected by management to have a materially adverse effect on the Company's financial condition.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders during the fourth quarter of the fiscal year covered by this report.

### EXECUTIVE OFFICERS OF THE COMPANY

The table below sets forth the names, ages, positions and business experience of the executive officers of the Company.

NAME ----	AGE ---	POSITION -----
Brian Duperreault	51	Chairman, President and Chief Executive Officer & Director
Donald Kramer	61	Vice Chairman and Director; President and Chief Executive Officer of Tempest Reinsurance Company Limited
John Charman	46	Chief Executive Officer of ACE UK Limited
Dominic J. Frederico	45	President of A.C.E. Insurance Company, Ltd.
William J. Loschert	59	Chairman of ACE UK Limited
Dennis B. Reding	50	President and Chief Executive Officer of ACE USA
Christopher Z. Marshall	42	Chief Financial Officer
Peter N. Mear	54	General Counsel & Secretary
John C. Burville	51	Chief Actuary
Robin J.W. Masters	43	Chief Investment Officer
Keith P. White	55	Chief Administration Officer

Brian Duperreault has been a director and Chairman, President and Chief Executive Officer of the Company since October 1994. Prior to joining the Company, Mr. Duperreault had been employed with American International Group ("AIG") since 1973 and served in various senior executive positions with AIG and its affiliates from 1978 until September 1994, most recently as Executive Vice President, Foreign General Insurance and, concurrently, as Chairman and Chief Executive Officer of American International Underwriters Inc., a subsidiary of AIG, from April 1994 to September 1994. Mr. Duperreault was President of American International Underwriters Inc. from 1991 to April 1994, and chief executive officer of AIG affiliates in Japan and Korea from 1989 until 1991.

Donald Kramer has been a director and Vice Chairman of the Company and President of Tempest Reinsurance Company Limited ("Tempest") since July 1996. Mr. Kramer served as Chairman or Co-Chairman of the Board of Tempest from its formation in September 1993 until July 1996. Tempest was acquired by the Company on 1 July 1996. Prior to the formation of Tempest, he was President of Kramer Capital Corporation (venture capital investments) from March to September 1993, President of Carteret Federal Savings Bank (banking) from August 1991 to March 1993, Chairman of the Board of NAC Re Corporation (reinsurance) from June 1985 to June 1993, Chairman of the Board and Chief Executive Officer of KCP Holding Company (insurance) from July 1986 to August 1991 and of its affiliates, KCC Capital Managers (insurance investments) and Kramer Capital Consultants, Inc. (insurance investments), as well as Chairman of the Board of its subsidiary, National American Insurance Company of California (insurance) from September 1988 to August 1991.

John Charman has served as Chief Executive Officer of ACE UK Limited since July 1998, and continues to act as Active Underwriter to Lloyd's Syndicate 488/2488. Mr. Charman has been the Active Underwriter of Syndicate 488 since July 1986. Mr. Charman previously served as Managing Director of Charman Underwriting Agencies Limited, and since 1994, as Chief Executive of Tarquin Underwriters Limited, the corporate capital provider of Syndicate 2488.

Dominic J. Frederico has served as President of A.C.E. Insurance Company, Ltd. since July 1997. Mr. Frederico previously served as Executive Vice President, Underwriting since December 1, 1996, and as Executive Vice President, Financial Lines from January 1995 to December 1, 1996. Mr. Frederico served in various capacities at AIG in Europe and the U.S. from 1982 to January 1995, most recently as Senior Vice President and Chief Financial Officer of an AIG subsidiary, with multi-regional general management responsibilities.

William J. Loschert was appointed as Chairman of ACE UK Limited with effect from December 1, 1996 to oversee the Company's insurance operations at Lloyd's. Mr. Loschert previously served as Executive Vice President, Underwriting of the Company since January 1986.

Dennis B. Reding has served as President and Chief Executive Officer of ACE USA since January 1998. Mr. Reding previously served as President and Chief Executive Officer of Westchester Specialty Group, Inc. ("WSG"), a position he held since July 1993. Prior to joining WSG, Mr. Reding served in various senior positions at Fireman's Fund Insurance Company.

Christopher Z. Marshall has served as Chief Financial Officer of the Company since November 1992 and as Senior Vice President, Finance of the Company from January 1990 to November 1992.

Peter N. Mear has served as General Counsel and Secretary of the Company since April 1996. Mr. Mear served as Vice President and Claims Counsel of Aetna Casualty and Surety Company from February 1991 to April 1996 and Counsel and Litigation Section Head of Aetna Life & Casualty from September 1977 to February 1991.

John C. Burville has served as Chief Actuary of the Company since January 1992. Mr. Burville served as managing actuarial consultant with Tillinghast, Nelson & Warren (Bermuda) Ltd. (management consulting and actuaries) from March 1986 to December 1991.

Robin J. W. Masters has served as Chief Investment Officer since July 1, 1997. Ms. Masters previously served as Senior Vice President since February 1995 and as Treasurer of the Company since October 1992.

Keith P. White has served as Chief Administration Officer since July 1, 1997. Mr. White previously served as Senior Vice President, Administration of the Company since January 1990.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S ORDINARY SHARES AND RELATED STOCKHOLDER MATTERS

(a) The Company's Ordinary Shares, par value \$0.041666667 per share, have been listed on the New York Stock Exchange since March 25, 1993, under the symbol ACL. On November 13, 1997, the Company declared a three-for-one split of the Company's stock. The stock split was voted on and approved by the shareholders of the company on February 6, 1998. The record date for determining those shareholders entitled to receive certificates representing additional shares pursuant to the stock split was as of close of business on February 17, 1998. Certificates representing the additional shares of stock were mailed on March 2, 1998.

The following table sets forth the high and low closing sales prices of the Company's Ordinary Shares per fiscal quarters, as reported on the New York Stock Exchange Composite Tape for the periods indicated:

	FISCAL 1998		FISCAL 1997	
	HIGH	LOW	HIGH	LOW
First Quarter.....	33 31/64	29 43/64	20 3/64	17 29/64
Second Quarter.....	40 15/16	30 27/64	22 5/64	18 7/8
Third Quarter.....	40 5/16	34 7/16	24 7/8	19 27/64
Fourth Quarter.....	42 1/8	26 15/16	32 11/64	24 1/2

The last reported sale price of the Ordinary Shares on the New York Stock Exchange Composite Tape on December 15, 1998 was \$27 11/16.

(b) The approximate number of record holders of Ordinary Shares as of December 15, 1998 was 439.

(c) The Company paid quarterly dividends of \$0.06 per share to shareholders of record on December 29, 1996 and March 31, 1997, quarterly dividends of \$0.0733 per share to shareholders of record on June 30, 1997 and September 30, 1997 and a quarterly dividend of \$0.08 per share to shareholders of record on December 13, 1997. Following the approval by the shareholders of the three- for-one stock split the Company paid quarterly dividends of \$0.08 per share to shareholders of record on March 31, 1998 and \$0.09 per share to shareholders of record on June 30, 1998 and September 30, 1998. On November 13, 1998 the Company declared a quarterly dividend of \$0.09 per Ordinary Share, payable on January 16, 1999 to shareholders of record on December 15, 1998.

The Board of Directors had authorized the repurchase from time to time of the Company's Ordinary Shares in open market and private purchase transactions. On May 9, 1997 the Board of Directors terminated the then existing share repurchase program and authorized a new share program for up to \$300 million of the Company's Ordinary Shares. During the first two quarters of fiscal 1998, the Company repurchased 3,521,100 Ordinary Shares under the share repurchase program for an aggregate cost of \$107.6 million. No shares were repurchased after March 31, 1998. On July 6, 1998 the Executive Committee of the Board of Directors rescinded all existing authorizations for the repurchase of the Company's Ordinary Shares. During 1997 the Company repurchased 9,093,000 Ordinary Shares under share repurchase programs for an aggregate cost of \$182.6 million.

On April 14, 1998, the Company sold 16.5 million Ordinary Shares for net proceeds of approximately \$606 million (For further discussions, see "Management's Discussion and Analysis--Liquidity and Capital Resources").

ACE is a holding company whose principal source of income is investment income and dividends from its operating subsidiaries. The ability of the operating subsidiaries to pay dividends to ACE and the Company's ability to pay dividends to its shareholders are each subject to legal and regulatory restrictions. The declaration and payment of future dividends will be at the discretion of the Board of Directors and will be dependent upon the profits and financial requirements of the Company and other factors, including legal restrictions on the payment of dividends and such other factors as the Board of Directors deems relevant. See "Management's Discussion and Analysis of Results of Operations and Financial Condition--Liquidity and Capital Resources" in the 1998 Annual Report to Shareholders filed with this Form 10-K.

#### **ITEM 6. SELECTED FINANCIAL DATA**

Selected financial data for the five years ended September 30, 1998 is incorporated by reference to page 16 of the 1998 Annual Report to Shareholders filed with this Form 10-K.

#### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

This item is incorporated by reference to pages 18 through 38 of the 1998 Annual Report to Shareholders filed with this Form 10-K.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

This item is incorporated by reference to page 35 and 36 of the 1998 Annual Report to Shareholders filed with this Form 10-K.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

This item is incorporated by reference to pages 40 through 76 of the 1998 Annual Report to Shareholders filed with this Form 10-K.

#### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There have been no changes in nor any disagreements with accountants on accounting and financial disclosure within the 24 months ended September 30, 1998.

### **PART III**

#### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

This item is incorporated by reference to the sections entitled "Election of Directors--Nominees for Election to Terms Expiring in 2000," "Election of Directors--Nominees for Election to Terms Expiring in 2001" and "Election of Directors--Directors Whose Terms of Office Will Continue After This Meeting" of the definitive proxy statement for the Annual General Meeting of Shareholders to be held on February 5, 1999, which involves the election of directors and will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

#### **ITEM 11. EXECUTIVE COMPENSATION**

This item is incorporated by reference to the section entitled "Executive Compensation" of the definitive proxy statement for the Annual General Meeting of Shareholders to be held on February 5, 1999, which will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

## ITEM 12. SECURITY OWNERSHIP AND CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This item is incorporated by reference to the section entitled "Beneficial Ownership of Ordinary Shares" of the definitive proxy statement for the Annual General Meeting of Shareholders to be held on February 5, 1999, which will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This item is incorporated by reference to the section entitled "Election of Directors--Certain Business Relationships" of the definitive proxy statement for the Annual General Meeting of Shareholders to be held on February 5, 1999, which will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

### (a) FINANCIAL STATEMENTS, SCHEDULES AND EXHIBITS

#### 1. Financial Statements

The following is a list of financial statements filed as part of this Report, all of which have been incorporated by reference to the material in the 1998 Annual Report to Shareholders as described under item 8 of this Report:

--Report of Independent Accountants --Consolidated Balance Sheets at September 30, 1998 and 1997 --Consolidated Statements of Operations for the years ended September 30, 1998, 1997 and 1996 --Consolidated Statements of Shareholders' Equity for the years ended September 30, 1998, 1997 and 1996 --Consolidated Statements of Cash Flows for the years ended September 30, 1998, 1997 and 1996 --Notes to Consolidated Financial Statements.

#### 2. Financial Statement Schedules

Included in Part IV of this report.

	SCHEDULE NUMBER	PAGE
	-----	----
--Report of Independent Accountants on financial statement schedules included in Form 10-K		32
--Summary of Investments	I	33
--Condensed financial information of the Registrant as of September 30, 1998 and 1997 and for the years ended September 30, 1998, 1997 and 1996	II	34
--Supplemental information concerning Property/Casualty Insurance Operations	VI	37

Other schedules have been omitted as they are not applicable to the Company, or the required information has been included in the financial statements and related notes.

#### 3. Exhibits

- 2.1 Agreement and Plan of Amalgamation, dated as of March 14, 1996, by and among ACE Limited, TRCL Acquisition Limited and Tempest Reinsurance Company Limited (incorporated by reference to Exhibit 2.1 to Form S-4 of the Company (No. 333-04153)).
- 2.2 Stock Purchase Agreement, dated September 18, 1997 by and between ACE Limited and Talagen Holdings, Inc.

- 2.3 Tax Allocation and Indemnification Agreement, dated September 18, 1997 by and among Xerox Financial Services, Inc., Talagen Holdings, Inc., Westchester Specialty Group and ACE Limited.
- 2.4 Stock Purchase Agreement dated as of March 25, 1998, by and among ACE Limited, CAT Limited and the selling shareholders named therein (incorporated by reference to Exhibit 2.1 to the Registration Statement on Form S-3 of the Company (No. 333-49257)).
- 2.5 Share Purchase Agreement dated June 15, 1998, by and among J.R. Charman & Others, Chairman Group Limited, Tarquin Limited and ACE Limited (incorporated by reference to Exhibit 2.1 to Form 8-K current report (date of earliest event reported: July 9, 1998) pertaining to the completion of the acquisition of Tarquin Limited).
- 3.1 Memorandum of Association of the Company.
- 3.2 Articles of Association of the Company.
- 4.1 Memorandum of Association of the Company (see Exhibit 3.1).
- 4.2 Articles of Association of the Company (see Exhibit 3.2).
- 4.3 Specimen certificate representing Ordinary Shares, (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).
- 10.1\* Employment Agreement dated December 23, 1985, between ACE Limited, A.C.E. Insurance Company Ltd., and William J. Loschert, (incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).
- 10.2\* Employment Agreement dated January 1, 1986, between ACE Limited, A.C.E. Insurance Company Ltd., and Christopher Z. Marshall, (incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).
- 10.3\* ACE Limited Annual Performance Incentive Plan, (incorporated by reference to Exhibit 10.13 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).
- 10.4\* ACE Limited Equity Linked Incentive Plan, (incorporated by reference to Exhibit 10.14 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).
- 10.5\* Amendment to ACE Limited Equity Linked Incentive Plan, (incorporated by reference to Exhibit 10.15 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).
- 10.6\* ACE Limited Employee Retirement Plan, (incorporated by reference to Exhibit 10.21 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).
- 10.7\* First Amendment to ACE Limited Employee Retirement Plan, (incorporated by reference to Exhibit 10.22 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).
- 10.8\* Second Amendment to ACE Limited Employee Retirement Plan, (incorporated by reference to Exhibit 10.23 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).
- 10.9\* Third Amendment to ACE Limited Employee Retirement Plan, (incorporated by reference to Exhibit 10.24 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).
- 10.10\* ACE Limited Supplement Retirement Plan, (incorporated by reference to Exhibit 10.25 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).
- 10.11\* First Amendment to ACE Limited Supplement Retirement Plan, (incorporated by reference to Exhibit 10.26 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).
- 10.12\* Second Amendment to ACE Limited Supplement Retirement Plan, (incorporated by reference to Exhibit 10.27 to the Registration Statement on Form S-1 of the Company (No. 33-57206)).

- 10.13\* Form of restricted stock award dated August 24, 1993 to ACE Limited Directors, (incorporated by reference to Exhibit 10.39 to Form 10-K of the Company for the year ended September 30, 1993).
- 10.14\* Employment Agreement, dated October 1, 1994, between ACE Limited and Brian Duperreault, (incorporated by reference to Exhibit 10.42 to Form 10-K of the Company for the year ended September 30, 1994).
- 10.15\* Option and Restricted Share Agreement, dated October 1, 1994, between ACE Limited and Brian Duperreault, (incorporated by reference to Exhibit 10.43 to Form 10-K of the Company for the year ended September 30, 1994).
- 10.16\* Consulting Agreement, effective October 1, 1994, between ACE Limited and Walter A. Scott, (incorporated by reference to Exhibit 10.44 to Form 10-K of the Company for the year ended September 30, 1994).
- 10.17\* Employment Agreement, dated January 9, 1995, between ACE Limited and Dominic J. Frederico, (incorporated by reference to Exhibit 10.45 to Form 10-K of the Company for the year ended September 30, 1995).
- 10.18\* Second amendment to ACE Limited Equity Linked Incentive Plan, (incorporated by reference to Exhibit 10.45 to Form 10-K of the Company for the year ended September 30, 1995).
- 10.20\* Employment Agreement, dated April 1, 1996, between ACE Limited and Peter N. Mear, (incorporated by reference to Exhibit 10.48 to Form 10-Q of the Company for the quarter ended June 30, 1996).
- 10.21\* ACE Limited 1995 Long Term Incentive Plan, (incorporated by reference to Exhibit 10.35 to Form 10-Q of the Company for the quarter ended March 31, 1996).
- 10.22\* Employee Stock Purchase Plan, (incorporated by reference to Exhibit 10.36 to Form 10-Q of the Company for the quarter ended March 31, 1996).
- 10.23\* 1995 Outside Directors Plan, (incorporated by reference to Exhibit 10.37 to Form 10-Q of the Company for the quarter ended March 31, 1996).
- 10.24\* ACE Limited 1996 Tempest Replacement Option Plan, (incorporated by reference to Exhibit 10.24 to Form 10-K of the Company for the year ended September 30, 1996).
- 10.25 Credit Agreement between the Company and a syndicate of banks dated November 15, 1996.
- 10.26 Reimbursement Agreement and Pledge Agreement between the Company and a syndicate of banks dated November 22, 1996.
- 10.27\* First Amendment of ACE Limited 1995 Long Term Incentive Plan, (incorporated by reference to Exhibit 10.27 to Form 10-K of the Company for the year ended September 30, 1996).
- 10.28\* Third Amendment to Equity Linked Incentive Plan--Stock Appreciation Right Plan, (incorporated by reference to Exhibit 10.28 to Form 10-Q of the Company for the quarter ended March 31, 1997).
- 10.29\* First Amendment of ACE Limited 1995 Outstanding Directors Plan, (incorporated by reference to Exhibit 10.29 to Form 10-Q of the Company for the quarter ended June 30, 1997).
- 10.30 364 day Credit Agreement dated as of December 11, 1997 among ACE Limited, A.C.E. Insurance Company Ltd., Corporate Officers & Directors Assurance Ltd, and Tempest Reinsurance Company Limited, the Banks listed on the signature pages hereof and Morgan Guaranty Trust Company of New York, as Administrative Agent, (incorporated by reference to exhibit 10.30 to form 10-K of the Company for the year ended September 30, 1997).

- 10.31 Five year Credit Agreement dated as of December 11, 1997 among ACE Limited, A.C.E. Insurance Company Ltd., Corporate Officers & Directors Assurance Ltd, and Tempest Reinsurance Company Limited, the Banks listed on the signature pages hereof and Morgan Guaranty Trust Company of New York, as Administrative Agent, (incorporated by reference to exhibit 10.31 to form 10-K of the Company for the year ended September 30, 1997).
- 10.32 Amended and Restated Reimbursement Agreement dated as of December 11, 1997 among A.C.E. Insurance Company Ltd., the Banks listed on the signature pages hereof and Morgan Guaranty Trust Company of New York, as Issuing Bank and Administrative Agent, (incorporated by reference to exhibit 10.32 to form 10-K of the Company for the year ended September 30, 1997).
- 10.33 Term Loan Agreement dated as of December 11, 1997 among ACE US Holdings, Inc., ACE Limited, the Banks listed on the signature pages hereof and Morgan Guaranty Trust Company of New York, as Administrative Agent, (incorporated by reference to exhibit 10.33 to form 10-K of the Company for the year ended September 30, 1997).
- 10.34\* ACE Limited Elective Deferred Compensation Plan, (incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company for the quarter ended December 31, 1997).
- 10.35\* ACE Limited Rules of the Approved U.K. Stock Option Program, (incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company for the quarter ended December 31, 1997).
- 10.36\* ACE Limited 1998 Long-Term Incentive Plan.
- 10.37 ACE US Holdings, Inc. Credit Sensitive Senior Notes due 2008 Indenture dated as of October 27, 1998.
- 13.1 Pages 16 through 76 of the 1998 Annual Report to Shareholders.
- 21.1 Subsidiaries of the Company.
- 23.1 Consent of PricewaterhouseCoopers LLP.
- 27.1 Financial Data Schedule.
- 99.1 Summary of taxation of ACE, its subsidiaries and shareholders.

---

**\*Management Contract or Compensation Plan**

**(b) REPORTS ON FORM 8-K**

Other than as previously reported in the Form 10-Q of the Company for the quarter ended June 30, 1998, there were no reports on Form 8-K filed during the quarter.

**REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT  
SCHEDULES INCLUDED IN FORM 10-K**

Our report on the consolidated financial statements of ACE LIMITED AND SUBSIDIARIES has been incorporated by reference in this Form 10-K from page 43 of the 1998 Annual Report to Shareholders of ACE Limited. In connection with our audits of such financial statements, we have also audited the related financial statement schedules listed in item 14 of this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as whole, present fairly, in all material respects, the information required to be included therein.

**PricewaterhouseCoopers llp**

New York, New York  
November 4, 1998

**SCHEDULE I**

**SUMMARY OF INVESTMENTS--OTHER THAN INVESTMENTS IN RELATED PARTIES**

**ACE LIMITED AND SUBSIDIARIES**

SEPTEMBER 30, 1998

	COST OR AMORTIZED COST	FAIR VALUE	AMOUNT AT WHICH SHOWN IN THE BALANCE SHEET
	-----	-----	-----
	(IN THOUSANDS OF U.S. DOLLARS)		
<b>FIXED MATURITIES:</b>			
Bonds:			
U.S. Treasury and agency.....	\$ 771,678	\$ 796,535	\$ 796,535
Non-U.S. governments.....	122,233	126,998	126,998
Corporate securities.....	2,265,755	2,339,786	2,339,786
Mortgage-backed securities.....	1,710,591	1,751,769	1,751,769
States, municipalities and political subdivision.....	40,535	41,719	41,719
	-----	-----	-----
Total fixed maturities.....	4,910,792	5,056,807	5,056,807
	-----	-----	-----
<b>EQUITY SECURITIES:</b>			
Common stock:			
Public utilities.....	7,248	5,753	5,753
Banks, trust and insurance companies...	33,531	30,490	30,490
Industrial, miscellaneous and all other.....	157,422	153,349	153,349
Non redeemable preferred stock.....	246	125	125
	-----	-----	-----
Total equity securities.....	198,447	189,717	189,717
	-----	-----	-----
Other investments.....	156,758	156,646	156,646
Short-term investments and cash.....	797,950	797,904	797,904
	-----	-----	-----
Total investments and cash.....	\$6,063,947	\$6,201,074	\$6,201,074
	=====	=====	=====

**SCHEDULE II**

**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

**ACE LIMITED AND SUBSIDIARIES**

**BALANCE SHEETS (PARENT COMPANY ONLY)**

**SEPTEMBER 30, 1998 AND 1997**

	1998	1997
	-----	-----
	(IN THOUSANDS OF U.S. DOLLARS)	
<b>ASSETS</b>		
Investments and cash		
Investments in subsidiaries and affiliate on equity basis.....	\$3,635,641	\$2,850,585
Other investments, at cost.....	33,465	33,151
Cash.....	6,057	17,770
	-----	-----
Total investments and cash.....	3,675,163	2,901,506
Due from subsidiaries and affiliates, net.....	56,857	14,272
Other assets.....	6,719	10,891
	-----	-----
Total assets.....	\$3,738,739	\$2,926,669
	=====	=====
<b>LIABILITIES</b>		
Advances from affiliate.....	\$ --	\$ 122,270
Accounts payable and accrued liabilities.....	6,776	6,807
Dividend payable.....	17,693	12,436
Due to subsidiaries and affiliates, net.....	--	--
	-----	-----
Total liabilities.....	24,169	141,513
	-----	-----
<b>SHAREHOLDERS' EQUITY</b>		
Ordinary Shares.....	8,066	7,508
Additional paid-in capital.....	1,765,261	1,177,954
Unearned stock grant compensation.....	(6,181)	(1,993)
Net unrealized appreciation on investments.....	127,845	196,655
Cumulative translation adjustment.....	(275)	1,568
Retained earnings.....	1,819,554	1,403,464
	-----	-----
Total shareholders' equity.....	3,714,270	2,785,156
	-----	-----
Total liabilities and shareholders' equity.....	\$3,738,739	\$2,926,669
	=====	=====

**SCHEDULE II--(CONTINUED)**

**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

**ACE LIMITED AND SUBSIDIARIES**

**STATEMENTS OF OPERATIONS (PARENT COMPANY ONLY)**

**FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997 AND 1996**

	1998	1997	1996
	-----	-----	-----
	(IN THOUSANDS OF U.S. DOLLARS)		
Revenues			
Management fees.....	\$ --	\$ 26,601	\$ 21,081
Investment income, including intercompany interest income.....	(12,514)	(17,348)	(6,881)
Equity in net income of subsidiaries and affiliate.....	616,658	522,368	351,245
Net realized losses on investments.....	(6)	(16)	--
	-----	-----	-----
	604,138	531,605	365,445
Expenses			
Administrative expenses.....	(43,987)	(28,880)	(37,826)
	-----	-----	-----
Net income.....	\$560,151	\$502,725	\$327,619
	=====	=====	=====

**SCHEDULE II--(CONTINUED)**

**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

**ACE LIMITED AND SUBSIDIARIES**

**STATEMENTS OF CASH FLOWS (PARENT COMPANY ONLY)**

**FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997 AND 1996**

	1998	1997	1996
	-----	-----	-----
Cash flows from operating activities			
Net income.....	\$ 560,151	\$ 502,725	\$ 327,619
Adjustments to reconcile net income to net cash provided by operation activities			
Equity in net income of subsidiaries and affiliate.....	(616,658)	(522,368)	(351,245)
Realized losses on investments.....	6	16	--
Amounts due to subsidiaries and affiliate, net.....	(41,585)	(6,944)	(4,036)
Accounts payable and accrued liabilities..	(33)	(10,004)	6,625
Accrued interest on advance to affiliate..	(18,250)	3,978	(9,729)
Other.....	2,405	(6,804)	(3,957)
	-----	-----	-----
Net cash flows used for operating activities.....	(114,966)	(39,401)	(34,723)
	-----	-----	-----
Cash flow from investing activities			
Dividends received from subsidiaries.....	365,000	190,000	135,000
Capitalization of subsidiary.....	(856,477)	--	74,123
Advances to affiliate.....	--	(241,000)	(284,620)
Repayment of advances to affiliate.....	--	(19,817)	--
Other.....	(314)	--	--
	-----	-----	-----
Net cash used for investing activities..	(491,791)	(70,817)	(75,497)
	-----	-----	-----
Cash flows from financing activities			
Repurchase of Ordinary Shares.....	(107,644)	(182,648)	(57,931)
Dividends paid.....	(54,389)	(43,028)	(27,685)
Net proceeds from issuance of Ordinary Shares.....	605,899	--	--
Proceeds from bank debt.....	635,000	--	--
Repayment of bank debt.....	(385,000)	--	--
Proceeds from exercise of options for shares.....	4,243	2,191	28
Proceeds from shares issued under ESPP.....	955	--	--
Proceeds from shares issued under SAR Plan..	--	4,156	--
Advances from affiliate.....	504,600	525,020	198,050
Loan Repayments.....	(608,620)	(180,000)	--
	-----	-----	-----
Net cash from financing activities.....	595,044	125,691	112,462
	-----	-----	-----
Net increase (decrease) in cash.....	(11,713)	15,473	2,242
Cash--beginning of year.....	17,770	2,297	55
	-----	-----	-----
Cash--end of year.....	\$ 6,057	\$ 17,770	\$ 2,297
	=====	=====	=====



**SIGNATURE**

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

**ACE Limited**

*/s/ Christopher Z. Marshall*  
By: \_\_\_\_\_  
*Christopher Z. Marshall*  
*Chief Financial Officer*

*December 17, 1998*

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE -----	TITLE -----	DATE ----
<i>/s/ Brian Duperreault</i> ----- Brian Duperreault	Chairman, President and Chief Executive Officer; Director	December 17, 1998
<i>/s/ Christopher Z. Marshall</i> ----- Christopher Z. Marshall	Chief Financial Officer (Principal Financial and Accounting Officer)	December 17, 1998
<i>/s/ Donald Kramer</i> ----- Donald Kramer	Vice Chairman; Director	December 17, 1998
<i>/s/ Michael G. Atieh</i> ----- Michael G. Atieh	Director	December 17, 1998
<i>/s/ Bruce L. Crockett</i> ----- Bruce L. Crockett	Director	December 17, 1998
<i>/s/ Jeffrey W. Greenberg</i> ----- Jeffrey W. Greenberg	Director	December 17, 1998
<i>/s/ Meryl D. Hartzband</i> ----- Meryl D. Hartzband	Director	December 17, 1998
<i>/s/ Robert M. Hernandez</i> ----- Robert M. Hernandez	Director	December 17, 1998

SIGNATURE -----	TITLE -----	DATE -----
/s/ Peter Menikoff -----		
Peter Menikoff /s/ Thomas J. Neff -----	Director	December 17, 1998
Thomas J. Neff /s/ Glen M. Renfrew -----	Director	December 17, 1998
Glen M. Renfrew /s/ Robert Ripp -----	Director	December 17, 1998
Robert Ripp /s/ Walter A. Scott -----	Director	December 17, 1998
Walter A. Scott /s/ Dermot F. Smurfit -----	Director	December 17, 1998
Dermot F. Smurfit /s/ Robert W. Staley -----	Director	December 17, 1998
Robert W. Staley /s/ Gary M. Stuart -----	Director	December 17, 1998
Gary M. Stuart /s/ Sidney F. Wentz -----	Director	December 17, 1998
Sidney F. Wentz -----	Director	December 17, 1998

**THE COMPANIES LAW**  
**COMPANY LIMITED BY SHARES**  
**MEMORANDUM OF ASSOCIATION**  
**OF**  
**ACE LIMITED**

(as amended by Special Resolution on 14th January, 1993)

(as amended by Special Resolution on 6th February, 1998 with effect from 2nd March, 1998)

1. The name of the Company is ACE Limited.
2. The Registered Office of the Company shall be the offices of Messrs. Maples and Calder, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies or at such other place as the Directors may from time to time decide.
3. The objects for which the Company is established are as follows:
  - (i) (a) To own, hold, purchase or otherwise acquire equity or debt securities in companies, firms or other persons engaged in all or any forms of insurance or reinsurance business and to promote the establishment of such entities.
  - (b) To act as consultants, managers, advisers, agents and brokers in connection with all forms of insurance and reinsurance business.

(c) To carry on all forms of investment, financial holding company and other such activities.

(d) To purchase, lease, develop, charge or mortgage or otherwise acquire or dispose of interests in real property in any part of the world either directly or indirectly through subsidiaries or joint ventures.

(ii) To exercise and enforce all rights and powers conferred by or incidental to the ownership of any shares, stock, obligations, or other securities including without prejudice to the generality of the foregoing all such powers of veto or control as may be conferred by virtue of the holding by the Company of some special proportion of the issued or nominal amount thereof, to provide managerial and other executive supervisory and consultant services for or in relation to any company in which the Company is interested upon such terms as may be thought fit.

(iii) To stand surety for or to guarantee, support or secure the performance of all or any of the obligations of any person, firm or company whether or not related or affiliated to the Company in any manner and whether by personal covenant or by mortgage, charge or lien upon the

whole or any part of the undertaking, property and assets of the Company, both present and future, including its uncalled capital or by any such method whether or not the Company shall receive valuable consideration therefor.

(iv) To engage in or carry on any other lawful trade, business or enterprise which may at any time appear to the Directors or the Company capable of being conveniently carried on in conjunction with any of the aforementioned businesses or activities or which may appear to the Directors or the Company likely to be profitable to the Company, IT BEING HEREBY DECLARED that in the interpretation of this Memorandum of Association in general and of this Clause 3 in particular no object, business or power specified or mentioned shall be limited or restricted by reference to or inference from any other object, business or power, or the name of the Company, or by the juxtaposition of two or more objects, businesses or powers and that in the event of any ambiguity in this clause or elsewhere in this Memorandum of Association, the same shall be resolved by such interpretation and construction as will widen and enlarge and not restrict the objects, businesses and powers of and exercisable by the Company.

4. Except as prohibited or limited by the Companies Law (Cap. 22), the Company shall have full power and authority to carry out any object and shall have and be capable of from time to time and at all times exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate in doing in any part of the world whether as principal, agent, contractor, or otherwise whatever may be considered by it necessary for the attainment of its objects and whatever else may be considered by it as incidental or conducive thereto or consequential thereof, including, but without in any way restricting the generality of the foregoing, the power to make any alterations or amendments to this Memorandum of Association and the Articles of Association of the Company considered necessary or convenient in the manner set out in the Articles of Association of the Company, and the power to do any of the following acts or things, viz: to pay all expenses of and incidental to the promotion, formation and incorporation of the Company; to sell, lease or dispose of any property of the Company; to draw, make, accept, endorse, discount, execute and issue promissory notes, debentures, bills of exchange, bills of lading, warrants and other negotiable or transferable instruments; to lend money or other assets and to act as guarantors; to borrow or raise money on the

security of the undertaking or on all or any of the assets of the Company including uncalled capital or without security; to invest monies of the Company in such manner as the directors determine; to promote other companies; to sell the undertaking of the Company for cash or any other consideration; to distribute assets in specie to members of the Company; to carry on any trade or business and generally to do all acts and things which, in the opinion of the Company or the Directors, may be conveniently or profitably or usefully acquired and dealt with, carried on, executed or done by the Company in connection with the business aforesaid provided that the Company shall only carry on the businesses for which licenses are required under the laws of the Cayman Islands when so licensed under the terms of such laws.

5. The liability of each member is limited to the amount from time to time unpaid on such member's shares.

6. The share capital of the Company is U.S.\$22,500,000, divided into 300,000,000 Ordinary Shares, par value of U.S.\$0.041666667 per share, 10,000,000 other Shares, par value of U.S.\$1.00 per share, which may be issued in series, all of such shares with power for the Company insofar as is permitted by law, to redeem, call or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law (Cap. 22)

and the Articles of Association and to issue any part of its capital, whether original, redeemed, called or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that unless the conditions of issue shall otherwise expressly declare every issue of shares whether declared to be preference or otherwise shall be subject to the powers hereinabove contained.

7. The operations of the Company will be carried on subject to the provisions of Section 190 of the Companies Law Cap. 22.

**THE COMPANIES LAW**  
**COMPANY LIMITED BY SHARES**  
**AMENDED AND RESTATED**  
**ARTICLES OF ASSOCIATION**  
**OF**  
**ACE LIMITED**

(as amended by Special Resolution on 14th January, 1993)

(as amended by Special Resolution on 6th February, 1998 with effect from 2nd March, 1998)

1. In these Articles Table A in the Schedule to the Statute does not apply and, unless there be something in the subject or context inconsistent therewith,

"Articles" means these Articles as originally framed or as from time to time altered by Special Resolution.

"The Auditors" means the persons for the time being performing the duties of auditors of the Company.

"The Company" means the above named Company.

"Controlled Shares" in reference to any person means:

(a) all shares of the Company directly, indirectly or constructively owned by such person within the meaning of Section 958 of the Internal Revenue Code of 1986, as amended from time to time, of the United States of America; or

(b) all shares of the Company directly, indirectly or beneficially owned by such person within the meaning of Section 13(d) of the Securities Exchange Act of 1934, as amended from time to time, of the United States of America (including any shares beneficially owned by any group of persons as so defined and including any shares that would otherwise be excluded by the provisions of Section 13(d)(6)

thereof) and the rules and regulations thereunder, as amended from time to time (including any shares that would otherwise be excluded by the provisions of Rule 13d-4 thereof);

(c) notwithstanding anything contained in these Articles to the contrary, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding shares entitled to vote, voting together as a single class, shall be required to amend or repeal, or adopt any provision inconsistent with, the definition of Controlled Shares contained in this Article 1.

"Debenture" means debenture stock, mortgages, bonds and any other such securities of the Company whether constituting a charge on the assets of the Company or not.

"The Directors" means the directors for the time being of the Company.

"Dividend" includes bonus.

"Member" shall bear the meaning ascribed to it in Section 37 of the Statute.

"Month" means calendar month.

"Paid-up" means paid-up and/or credited as paid-up.

"The Registered Office" means the registered office for the time being of the Company.

"Seal" means the common seal of the Company and includes every official seal.

"Secretary" includes an Assistant Secretary and any person appointed to perform the duties of Secretary of the Company.

"Special Resolution" has the same meaning as in the Statute.

"Statute" means The Companies Law (Revised) of the Cayman Islands as amended and every statutory modification or re-enactment thereof for the time being in force.

"Written" and "In Writing" include all modes of representing or reproducing words in visible form.

Words importing the singular number shall also include the plural number and vice-versa.

Words importing the masculine gender shall also include the feminine gender.

Words importing persons shall also include corporations.

### **CERTIFICATE FOR SHARES**

2. Certificates representing shares of the Company shall be in such form and may bear such legends (reflecting the terms of issue of the shares thereby represented, or any of these Articles or other relevant matters) as shall be determined by the Directors. Such certificates shall be under seal signed by a Director and countersigned by the Secretary or another Director or other authorised person. All certificates for shares shall be consecutively numbered or otherwise identified and shall specify the shares to which they relate. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered in the register of Members of the Company. All certificates surrendered to the Company for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares has been surrendered and cancelled. The Directors may authorise certificates to be issued with the seal and authorised signatures affixed by some method or system of mechanical process.

3. Notwithstanding Article 2 of these Articles, if a share certificate be defaced, lost or destroyed, it may be renewed on such terms (if any) as to evidence and indemnity and the payment of the expenses incurred by the Company in investigating evidence, as the Directors may prescribe.

### **ISSUE OF SHARES**

4. (a) The authorised share capital shall be represented by Ordinary Shares with respective rights as set forth in Part I below, and other classes or series of Shares with respective rights

to be determined upon the creation thereof by action of the Directors from time to time as set forth in Part II below.

## **PART I**

### **ORDINARY SHARES**

(1) Dividends. The holders of Ordinary Shares shall be entitled to receive dividends declared in accordance with the Articles set forth under the caption "Dividends and Reserve."

(2) Liquidation. In the event of any dissolution, liquidation or winding up of the Company, whether voluntary or involuntary, after there shall have been paid or set aside for payment to the holders of any outstanding shares ranking senior to the Ordinary Shares as to distribution on liquidation, distribution or winding up, the full amounts to which they shall be entitled, the holders of the then outstanding Ordinary Shares shall be entitled to receive, pro rata according to the number of Ordinary Shares registered in the names of such Members, any remaining assets of the Company available for distribution to its Members; provided, if, at such time, the holder of Ordinary Shares has any outstanding debts, liabilities or engagements to or with the Company (whether presently payable or not), either alone or jointly with any other person, whether a Member or not, (including, without limitation, any liability associated with the unpaid purchase price of such Ordinary Shares), the liquidator appointed to oversee the liquidation of the Company shall deduct from the amount payable in respect of such Ordinary Shares the aggregate amount of such debts, liabilities and engagements and apply such amount to any of such holder's debts, liabilities or engagements to or with the Company (whether presently payable or not). The liquidator may distribute, in kind, to the holders of the Ordinary Shares remaining assets of the Company or may sell, transfer or otherwise dispose of all or any part of such remaining assets to any other corporation, trust or entity and receive payment therefor in cash, shares or obligations of such other corporation, trust or entity or any combination thereof, and may sell all or any part of the consideration so received, and may distribute the consideration received or any balance or proceeds thereof to holders of the Ordinary Shares.

(3) Voting. Each outstanding Ordinary Share of the Company shall be entitled to one vote per share (subject to Article 46) and the holder thereof shall be entitled to notice of, to attend, and to vote at, General Meetings of the Company in accordance with the Articles set forth under the captions "Notices of General Meetings," "General Meetings," "Proceedings at General Meetings," "Votes of Members" and "Proxies".

(4) Reservation of Ordinary Shares. Such numbers of Ordinary Shares as may from time to time be required for such purpose shall be reserved for issuance upon exercise of any options or warrants to purchase Ordinary Shares.

(5) Preemptive Rights. No holder of Ordinary Shares of the Company shall, by reason of such holding, have any preemptive right to subscribe to any additional issue of shares of any class or series nor to any security convertible into such shares.

(6) Redemption. Any issued and outstanding Ordinary Shares shall be redeemable in such circumstances and on such terms as shall be agreed by the Directors and the holder thereof, subject always to the laws of the Cayman Islands, and the Directors may deduct from the redemption price for such shares the aggregate amount of any outstanding debts, liabilities and engagements to or with the Company (whether presently payable or not) by the holder of such shares, either alone or jointly with any other person, whether a Member or not. Without limiting the foregoing, the Company may, from time to time, purchase or redeem all or part of the Ordinary Shares of any Member, whether or not the Company has made a similar offer to all or any of the other Members.

## **PART II**

### **OTHER CLASSES OR SERIES OF SHARES**

The Directors are authorized, without obtaining any vote or consent of the holders of any class or series of shares of the Company unless expressly provided by the terms of issue of such class or series, subject to any limitations prescribed by law, to provide from time to time for the issuance of other classes or series of Shares, and in accordance with applicable procedures of the Statute, to establish the characteristics of each class or series including, without limitation, the following:

- (1) the number of shares of that class or series, which may subsequently be increased or decreased (but not below the number of shares of that class or series then outstanding) by resolution of the Directors, and the distinctive designation thereof;
- (2) the voting powers, full or limited, if any, of the shares of that class or series;
- (3) the rights in respect of dividends on the shares of that class or series, whether dividends shall be cumulative and, if so, from which date or dates and the relative rights or priority, if any, of payment of dividends on shares of that class or series and any limitations, restrictions or conditions on the payment of dividends;
- (4) the relative amounts, and the relative rights or priority, if any, of payment in respect of shares of that class or series, which the holders of the shares of that class or series shall be entitled to receive upon any liquidation, dissolution or winding up of the Company;
- (5) 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 shares of that class or series may be redeemed, and any limitations, restrictions or conditions on such redemption;
- (6) the terms, if any, of any purchase, retirement or sinking fund to be provided for the shares of that class or series;
- (7) the terms, if any, upon which the shares of that class or series shall be convertible into or exchangeable for shares of any other class, classes or series, or other securities, whether or not issued by the Company;
- (8) the restrictions, limitations and conditions, if any, upon issuance of indebtedness of the Company so long as any shares of that class or series are outstanding; and
- (9) any other preferences and relative, participating, optional or other rights and limitations not inconsistent with applicable law or the provisions of this Article 4.

(b) In the event of any conflict, the provisions of this Article 4 shall override the provisions of any other Article of these presents.

(c) Subject as aforesaid, the Directors may allot, issue, grant options over or otherwise dispose of any shares of the Company at such times and on such terms as they think proper.

(d) Unless otherwise specified by the Board of Directors, any shares which have been called, redeemed or otherwise repurchased by the Company shall, unless otherwise specified by the Directors, have the status of authorised but unissued shares and may be subsequently issued for valid consideration.

(e) The Directors shall have the fullest powers permitted by law to pay all or any redemption monies in respect of any shares out of the Company's share capital and share premium accounts.

5. The Company shall maintain a register of its Members and every person whose name is entered as a Member in the register of Members shall be entitled without payment to receive within two (2) months after allotment or lodgement of transfer (or within such other period as the conditions of issue shall provide) one certificate for all his shares or several certificates each for one or more of his shares provided that in respect of a share or shares held jointly by several persons the Company shall not be bound to issue more than one certificate and delivery of a certificate for a share to one of the several joint holders shall be sufficient delivery to all such holders.

#### **TRANSFER OF SHARES**

6. The instrument of transfer of any share shall be in writing and shall be executed by or on behalf of the transferor (and, in the case of a partly paid share, by the transferee) and the transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register in respect thereof.

7. (a) The Directors shall have absolute discretion to decline to register a transfer of shares:

(i) unless a registration statement under the Securities Act of 1933, as amended, of the United States of America is in effect with respect to such shares or a written opinion from counsel acceptable to the Directors is obtained to the effect that no such registration is required; or

(ii) if it appears to the Directors that the effect of such transfer would be to increase the number of the Controlled Shares of any person to ten percent (10%) or any higher percentage of any class or series of the issued shares of the Company.

In any other case, the Directors shall also have absolute discretion to decline to register any transfer of shares. If the Directors refuse to register a transfer they shall notify the transferee within two (2) months of such refusal.

(b) Notwithstanding anything contained in these Articles to the contrary, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding shares entitled to vote, voting together as a single class, shall be required to amend or repeal, or adopt any provision inconsistent with, this Article 7.

8. The holder of any redeemable shares for which the Company has issued a notice of call in accordance with these Articles may not transfer such shares, whether or not the Company has yet paid the call price to the Member.

9. The registration of transfers may be suspended at such time and for such periods as the Directors may from time to time determine, provided always that such registration shall not be suspended for more than forty-five (45) days in any year.

### **VARIATION OF RIGHTS OF SHARES**

10. (a) If at any time the share capital of the Company is divided into different classes or series of shares, the rights attached to any class or series (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound-up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or

series, or with the sanction of a Special Resolution passed at a general meeting of the holders of the shares of that class or series.

(b) The provisions of these Articles relating to general meetings shall apply to every such general meeting of the holders of one class or series of shares except that the necessary quorum shall be one person holding or representing by proxy at least one-third of the issued shares of the class or series and that any holder of shares of the class or series present in person or by proxy may demand a poll.

(c) Class or series meetings and class or series votes may only be called at the direction of the Directors. Nothing in this Article 10 gives any Member or group of Members the right to call a class or series meeting or demand a class or series vote.

11. The rights conferred upon the holders of the shares of any class or series issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class or series, be deemed to be varied by the creation or issue of further shares ranking in any respect prior to or pari passu therewith. The rights of the holders of Ordinary Shares shall not be deemed to be varied by the creation or issue of shares with preferred or other rights, which may be effected by the Directors as provided in these Articles without any vote or consent of the holders of Ordinary Shares.

#### **NON-RECOGNITION OF TRUSTS**

12. No person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future, or partial interest in any share, or any interest in any fractional part of a share, or (except only as is otherwise provided by these Articles or the Statute) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.

## LIEN ON SHARES

13. The Company shall have a first and paramount lien and charge on all shares (whether fully paid-up or not) registered in the name of a Member (whether solely or jointly with others) for all debts, liabilities or engagements to or with the Company (whether presently payable or not) by such Member or his estate, either alone or jointly with any other person, whether a Member or not, but the Directors may at any time declare any share to be wholly or in part exempt from the provisions of this Article. The registration of a transfer of any such share shall operate as a waiver of the Company's lien (if any) thereon. The Company's lien (if any) on a share shall extend to all dividends, redemptions or other monies payable in respect thereof.

14. The Company may sell, in such manner as the Directors deem fit, any shares on which the Company has a lien, except as set forth in this Article

14. Unless otherwise permitted in the instrument creating such lien, no such sale shall be made unless a sum in respect of which the lien exists is presently payable. Unless otherwise permitted in the instrument creating such lien, no such sale shall be made until the expiration of fourteen (14) days after a notice in writing stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder or holders for the time being of the shares, or the person, of which the Company has notice, entitled thereto by reason of his death or bankruptcy.

15. To give effect to any such sale the Directors may authorise some person to transfer the shares sold to the purchaser thereof. The purchaser shall be registered as the holder of the shares comprised in any such transfer, and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.

16. The proceeds of such sale shall be received by the Company and applied in payment of such part of the amount in respect of which the lien exists as is presently payable and the residue, if any, shall (subject to a like lien for sums not

presently payable as existed upon the shares before the sale) be paid to the person entitled to the shares at the date of the sale.

### **CALL ON SHARES**

17. (a) The Directors may from time to time make calls upon the Members in respect of any monies unpaid on their shares (whether on account of the nominal value of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed terms; and each Member shall, subject to receiving at least fourteen (14) days notice (or such shorter period of notice as may have been authorised by the terms of issue of the shares) specifying the time or times of payment, pay to the Company at the time or times so specified the amount called on the shares. A call may be revoked or postponed as the Directors may determine. A call may be made payable by installments.

(b) A call shall be deemed to have been made at the time when the resolution of the Directors authorising such call was passed.

(c) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

18. If a sum called in respect of a share is not paid before or on a day appointed for payment thereof, the persons from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate not exceeding ten percent (10%) per annum as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest either wholly or in part.

19. Any sum which by the terms of issue of a share becomes payable on allotment or at any fixed date, whether on account of the nominal value of the share or by way of premium or otherwise, shall for the purposes of these Articles be deemed to be a call duly made, notified and payable on the date on which by the terms of issue the same becomes payable, and in the case of non- payment all the relevant provisions of these Articles as to payment of interest forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.

20. The Directors may, on the issue of shares, differentiate between the holders as to the amount of calls or interest to be paid and the times of payment.

21. (a) The Directors may, if they think fit, receive from any Member willing to advance the same, all or any part of the monies uncalled and unpaid upon any shares held by him, and upon all or any of the monies so advanced may (until the same would but for such advances, become payable) pay interest at such rate not exceeding (unless the Company in general meeting shall otherwise direct) seven percent (7%) per annum, as may be agreed upon between the Directors and the Member paying such sum in advance.

(b) No such sum paid in advance of calls shall entitle the Member paying such sum to any portion of a dividend declared in respect of any period prior to the date upon which such sum would, but for such payment, become presently payable.

### **FORFEITURE OF SHARES**

22. (a) If a Member fails to pay any call or instalment of a call or to make any payment required by the terms of issue on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call, instalment or payment remains unpaid, give notice requiring payment of so much of the call, instalment or payment as is unpaid, together with any interest which may have accrued and all expenses that have been incurred by the Company by reason of such non-payment. Such notice shall name a day (not earlier than the expiration of fourteen (14) days from the date of giving of the notice) on or before which the payment required by the notice is to be made, and shall state that, in the event of non-payment at or before the time appointed the shares in respect of which such notice was given will be liable to be forfeited.

(b) If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all

dividends declared in respect of the forfeited share and not actually paid before the forfeiture.

(c) A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the Directors deem fit and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the Directors think fit.

23. A person whose shares have been forfeited shall cease to be a Member in respect of the forfeited shares, but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture were payable by him to the Company in respect of the shares together with interest thereon, but his liability shall cease if and when the Company shall have received payment in full of all monies whenever payable in respect of the shares.

24. A certificate in writing under the hand of one Director and the Secretary of the Company that a share in the Company has been duly forfeited on a date stated in the declaration shall be conclusive evidence of the fact therein stated as against all persons claiming to be entitled to the share. The Company may receive the consideration given for the share on any sale or disposition thereof and may execute a transfer of the share in favour of the person to whom the share is sold or disposed of and he shall thereupon be registered as the holder of the share and shall not be bound to see to the application of the purchase money, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.

25. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium as if the same had been payable by virtue of a call duly made and notified.

### **TRANSMISSION OF SHARES**

26. In case of the death of a Member who is a natural person, the survivor or survivors where the deceased was a joint holder, and the legal personal representatives of the deceased where he was

a sole holder, shall be the only persons recognised by the Company as having any title to his interest in the shares, but nothing herein contained shall release the estate of any such deceased holder from any liability in respect of any shares which had been held by him solely or jointly with other persons.

27. (a) Any person becoming entitled to a share in consequence of the death or bankruptcy of a Member (or in any other way than by transfer) may, upon such evidence being produced as may from time to time be required by the Directors and subject as hereinafter provided, elect either to be registered himself as holder of the share or to make such transfer of the share to such other person nominated by him as the deceased or bankrupt person could have made and to have such person registered as the transferee thereof, but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by that Member before his death or bankruptcy as the case may be.

(b) If the person so becoming entitled shall elect to be registered himself as holder he shall deliver or send to the Company a notice in writing signed by him stating that he so elects.

28. A person becoming entitled to a share by reason of the death or bankruptcy of the holder (or in any other case than by transfer) shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a Member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company; provided, however, that the Directors may at any time give notice requiring any such person to elect either to be registered himself or to transfer the share and if the notice is not complied with within ninety (90) days the Directors may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the share until the requirements of the notice have been complied with.

AMENDMENT OF MEMORANDUM OF ASSOCIATION, CHANGE OF LOCATION OF REGISTERED OFFICE & ALTERATION OF CAPITAL

29. (a) Subject to and insofar as permitted by the provisions of the Statute, the Company may from time to time by Special Resolution alter or amend its Memorandum of Association and may, without restricting the generality of the foregoing:

(i) increase the share capital by such sum to be divided into shares of such amount or without nominal or par value as the resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine;

(ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

(iii) by subdivision of its existing shares or any of them divide the whole or any part of its share capital into shares of smaller amount than is fixed by the Memorandum of Association;

(iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person.

(b) All new shares created hereunder shall be subject to the same provisions with reference to the payment of calls, liens, transfer, transmission, forfeiture and otherwise as the shares in the original share capital.

(c) Subject to the provisions of the Statute the Company may by Special Resolution reduce its share capital, any capital redemption reserve fund, or any share premium account.

30. Subject to the provisions of the Statute the Company may by Special Resolution change its name or alter its objects.

31. Subject to the provisions of the Statute the Company may by resolution of the Directors change the location of its registered office.

### **CLOSING REGISTER OF MEMBERS OR FIXING RECORD DATE**

32. For the purpose of determining Members entitled to notice of or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any dividend, or in order to make the determination of Members for any other proper purpose, the Directors of the Company may provide that the register of Members shall be closed for transfers for a stated period but not to exceed in any case forty (40) days. If the register of Members shall be so closed for the purpose of determining Members entitled to notice of or to vote at a meeting of Members such register shall be so closed for at least ten (10) days immediately preceding such meeting and the record date for such determination shall be the date of the closure of the register of Members.

33. In lieu of or apart from closing the register of Members, the Directors may fix in advance a date as the record date for any such determination of Members entitled to notice of or to vote at a meeting of the Members and for the purpose of determining the Members entitled to receive payment of any dividend.

34. If the register of Members is not so closed and no record date is fixed for the determination of Members entitled to notice of or to vote at a meeting of Members or Members entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this section, such determination shall apply to any adjournment thereof.

### **GENERAL MEETING**

35. (a) The Company shall in each year of its existence hold a general meeting as its Annual General Meeting and shall specify

the meeting as such in the notices calling it. The Annual General Meeting shall be held at such time and place as the Directors shall appoint.

(b) At these meetings the financial statements of the Company and the reports of the Directors and Auditors shall be presented and the Directors to be elected at that meeting and Auditors shall be elected for the ensuing year or until their respective successors have been elected and have qualified.

36. (a) Except as otherwise required by law, and subject to the terms of any class or series of shares issued by the Company having a preference over the Ordinary Shares as to dividends or upon liquidation to elect directors in specified circumstances, extraordinary general meetings of the Members of the Company may be called only by (i) the Directors or (ii) at the request in writing of Members owning at least twenty-five percent (25%) of the outstanding shares generally entitled to vote.

(b) Any action required or permitted to be taken by the Members of the Company must be taken at a duly called annual or extraordinary general meeting of the Members of the Company and may not be taken by consent in writing or otherwise.

(c) Notwithstanding anything contained in these Articles to the contrary, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding shares generally entitled to vote, voting together as a single class, shall be required to amend or repeal, or adopt any provision inconsistent with, this Article 36.

#### **NOTICE OF GENERAL MEETINGS**

37. Written notice of each meeting of the Members stating the place, date and time of the meeting shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting, to each Member entitled to vote at such meeting. The notice of any extraordinary meeting of Members shall state the purpose or purposes for which the meeting is called.

38. The accidental omission to give notice of a general meeting to, or the non-receipt of notice of a meeting by any person

entitled to receive notice shall not invalidate the proceedings of that meeting.

### **PROCEEDINGS AT GENERAL MEETINGS**

39. (a) No business shall be transacted at any general meeting unless a quorum of Members is present at the time when the meeting proceeds to business. Not less than six (6) Members present in person or by proxy holding at least fifty percent (50%) of the issued and outstanding shares of the Company entitled to vote at such meeting shall be a quorum; provided, however, that no quorum shall exist for the purpose of considering or passing any Special Resolution unless the Members present in person or by proxy shall hold at least sixty-six and two-thirds percent (66-2/3%) of the issued and outstanding shares of the Company entitled to vote at such meeting.

(b) An Ordinary Resolution shall require the vote of a majority of such shares as, being entitled to do so, vote in person or by proxy at any general meeting at which the required quorum is present in person or by proxy, voting together as a single class.

40. (a) If a Member desires to submit a proposal for consideration at an annual general meeting or extraordinary general meeting, or to nominate persons for election as Directors at any general meeting duly called for the election of Directors, written notice of such Member's intent to make such a proposal or nomination must be given and received by the Secretary of the Company at the principal executive offices of the Company not later than (i) with respect to an annual general meeting of Members, sixty (60) days prior to the anniversary date of the immediately preceding annual general meeting, and (ii) with respect to a extraordinary general meeting, the close of business on the tenth (10th) day following the date on which notice of such meeting is first sent or given to Members. Each notice shall describe the proposal or nomination in sufficient detail for a proposal or nomination to be summarized on the agenda for the meeting and shall set forth (i) the name and address, as it appears on the books of the Company, of the Member who intends to make the proposal or nomination; (ii) a representation that the Member is a holder of record of shares of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to present such proposal or nomination; and (iii) the class and number

of shares of the Company which are beneficially owned by the Member. In addition, in the case of a Member's proposal, the notice shall set forth the reasons for conducting such proposed business at the meeting and any material interest of the Member in such business.

(b) In the case of a nomination of any person for election as a Director, the notice shall set forth: (i) the name and address of any person to be nominated; (ii) a description of all arrangements or understandings between the Member and each nominee and any other person or persons (naming such person or persons pursuant to which the nomination or nominations are to be made by the Member; (iii) such other information regarding such nominee proposed by such Member as would be required to be included in a proxy statement filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended from time to time, of the United States of America, whether or not the Company is then subject to such Regulation; and (iv) the consent of each nominee to serve as a Director of the Company, if so elected. The Chairman of the annual general meeting or extraordinary general meeting shall, if the facts warrant, refuse to acknowledge a proposal or nomination not made in compliance with the foregoing procedure, and any such proposal or nomination not properly brought before the meeting shall not be considered.

(c) Notwithstanding anything contained in these Articles to the contrary, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding shares entitled to vote, voting together as a single class, shall be required to amend or repeal, or adopt any provision inconsistent with, this Article 40.

41. If within one hour after the time appointed for the meeting a quorum is not present, the meeting shall be dissolved.

42. The Chairman, if any, of the Board of Directors shall preside as Chairman at every general meeting of the Company, or if there is no such Chairman, or if he shall not be present within thirty (30) minutes after the time appointed for the holding of the meeting, or is unwilling to act, the Directors present shall elect one of their number to be Chairman of the meeting.

43. If at any general meeting no Director is willing to act as Chairman or if no Director is present within thirty (30) minutes after the time appointed for holding the meeting, the Members present shall choose one of their number to be Chairman of the meeting.

44. The Chairman may, with the consent of any general meeting duly constituted hereunder, and shall if so directed by the meeting, adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a general meeting is adjourned for thirty (30) days or more, notice of the adjourned meeting shall be given as in the case of an original meeting; save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned general meeting.

45. At any general meeting a resolution put to the vote at the meeting shall be decided on a poll taken in such manner as the Chairman directs.

#### **VOTES OF MEMBERS**

46. (a) Subject to Article 4, every Member of record present in person or by proxy shall have one vote for each issued and outstanding Ordinary Share registered in his name in the register; provided that if and so long as the Controlled Shares of any person constitute ten percent (10%) or more of the issued and outstanding Ordinary Shares of the Company, each issued and outstanding Ordinary Share comprised in such Controlled Shares shall confer only a fraction of a vote according to the following formula:

$[(T \text{ divided by } 10) - 1] \text{ divided by } C.$

Where: "T" is the aggregate number of votes conferred by all the issued and outstanding Ordinary Shares of the Company;

"C" is the number of the Controlled Shares of such person.

(b) Except as may be otherwise provided by the Directors in connection with the authorization of any class or series of shares,

the limitation of the foregoing Section (a) shall apply on an aggregate basis to all classes or series of shares entitled to vote that the Company may issue from time to time.

(c) Notwithstanding anything contained in these Articles to the contrary, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding shares entitled to vote, voting together as a single class, shall be required to amend or repeal, or adopt any provision inconsistent with, this Article 46.

47. In the case of joint holders of record the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of Members.

48. A Member of unsound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, receiver, curator bonis, or other person in the nature of a committee, receiver or curator bonis appointed by that court, and any such committee, receiver, curator bonis or other persons may vote by proxy.

49. No Member shall be entitled to vote at any general meeting unless he is registered as a Member of the Company on the record date for such meeting nor unless all calls or other sums presently payable in respect of the shares to be voted have been paid.

50. No objection shall be raised to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at such general meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman of the general meeting whose decision shall be final and conclusive.

51. Votes may be given either personally or by proxy.

## **PROXIES**

52. The instrument appointing a proxy shall be in writing and shall be executed under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation under the hand of an officer or attorney duly authorised in that behalf. A proxy need not be a Member of the Company.
53. The instrument appointing a proxy shall be deposited at the Registered Office of the Company or at such other place as is specified for that purpose in the notice convening the meeting no later than the time for holding the meeting, or adjourned meeting provided that the Chairman of the Meeting may at his discretion direct that an instrument of proxy shall be deemed to have been duly deposited upon receipt of facsimile transmission of the signed proxy or upon receipt of telex or cable confirmation from the appointor that the instrument of proxy duly signed is in the course of transmission to the Company.
54. The instrument appointing a proxy may be in any usual or common form and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked.
55. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given provided that no intimation in writing of such death, insanity, revocation or transfer as aforesaid shall have been received by the Company at the office before the commencement of the general meeting, or adjourned meeting at which it is sought to use the proxy.
56. Any corporation which is a Member of record of the Company may in accordance with its Articles or in the absence of such provision by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members of the Company, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it were an individual Member of record of the Company.

## DIRECTORS

57. (a) There shall be a Board of Directors consisting of not less than three (3) or more than twenty (20) persons, provided, however, that the Company may from time to time by ordinary resolution increase or decrease the limits in the number of Directors. The Directors shall have the exclusive power and right to set the exact number of Directors within that range from time to time by resolution adopted by the vote of a majority of the Directors present at a meeting at which a quorum is present, or by unanimous written consent. The Directors shall be divided into three classes, designated by Class I, Class II and Class III. At the 1993 annual general meeting of Members, Class I Directors shall be elected for a term expiring at the 1994 annual general meeting of Members, Class II Directors for a term expiring at the 1995 annual general meeting of Members and Class III Directors for a term expiring at the 1996 annual general meeting of Members. At each succeeding annual general meeting of Members, successors to Directors whose terms expire at that annual general meeting shall be of the same class as the Directors they succeed and shall be elected for three-year terms. If the number of Directors is decreased by resolution of the Board of Directors pursuant to this Article 57, in no case shall that decrease shorten the term of any incumbent Director.

(b) A Director shall hold office until the annual general meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement or removal from office. Any newly created directorship resulting from an increase in the number of Directors and any other vacancy on the Board of Directors, however caused, may be filled by a majority of the Directors then in office, although less than a quorum, or by a sole remaining Director. Any Director elected by one or more Directors to fill a newly created directorship or other vacancy shall, without regard to the class in which the vacancy occurred, hold office until the next succeeding annual general meeting of Members and until his or her successor shall have been elected and qualified. The term of a Director elected by Members to fill a newly created directorship or other vacancy shall expire at the same time as the terms of the other Directors of the same class.

(c) One or more or all of the Directors of the Company may be removed (i) with cause, by Ordinary Resolution, and (ii) without cause, by the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding shares generally entitled to vote, voting together as a single class, at a meeting of Members for which proper notice of the proposed removal has been given.

(d) Advance notice of nominations for the election of Directors, other than nominations by the Board of Directors or a committee thereof, shall be given to the Company in the manner provided in Article 40 of these Articles.

(e) Notwithstanding the foregoing, whenever the holders of any one or more classes or series of shares issued by the Company shall have the right, voting separately by class or series, to elect Directors at an annual general meeting or extraordinary general meeting of Members, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the provisions of these Articles, including any applicable resolutions of the Directors adopted pursuant to Article 4 hereof. Directors so elected shall not be divided into classes and shall be elected by such holders annually unless expressly provided otherwise by those provisions or resolutions, and, during the prescribed terms of office of those Directors, the Board of Directors shall consist of a number of Directors equal to the number of those Directors plus the number of Directors determined as provided in the first paragraph of this Article 57.

(f) Notwithstanding anything contained in these Articles to the contrary, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding shares generally entitled to vote, voting together as a single class, shall be required to amend or repeal, or adopt any provision inconsistent with, this Article 57.

58. The Directors shall have the authority to fix the compensation of Directors, which may include their expenses, if any, of attendance at each meeting of the Directors or of a committee.

59. A Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction

with his office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.

60. A Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.

61. A membership qualification for Directors may be fixed by the Company in general meeting, but unless and until so fixed no qualification shall be required.

62. A Director of the Company may be or become a Director or other Officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as shareholder, member or otherwise and no such Director shall be accountable to the Company for any remuneration or other benefits received by him as a Director or Officer of, or from his interest in, such other company.

63. No person shall be disqualified from the office of Director or prevented by such office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director shall be in any way interested or be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or transaction by reason of such Director holding office or of the fiduciary relation thereby established. A Director shall be at liberty to vote in respect of any contract or transaction in which he is so interested as aforesaid; provided, however, that the nature of the interest of any Director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote thereon.

64. A general notice that a Director is a shareholder or member of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure under Article 63 and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

## **POWERS AND DUTIES OF DIRECTORS**

65. The business of the Company shall be managed by the Directors who may exercise all such powers of the Company as are not, from time to time by the Statute, or by these Articles, or such regulations, being not inconsistent with the aforesaid, as may be prescribed by the Company in general meeting required to be exercised by the Company in general meeting; provided, however, that no regulations made by the Company in general meeting shall invalidate any prior act of the Directors which would have been valid if that regulation had not been made.

66. The Directors may from time to time and at any time by powers of attorney appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorneys as the Directors may deem fit and may also authorise any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

67. All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Directors shall from time to time by resolution determine.

68. The Directors shall cause Minutes to be made in books provided for the purpose:

(a) of all appointments of Officers made by the Directors;

(b) of the names of the Directors present at each meeting of the Directors and of any committee of the Directors;

(c) of all resolutions and proceedings at all meetings of the Company and of the Directors and of Committees of Directors.

69. The Directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any Director who has held any other salaried office or place of profit with the Company or to his widow or dependents and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

70. The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

### **COMMITTEES**

71. (a) The Board of Directors, by resolution adopted by a majority of the whole Board, may designate one or more Directors to constitute an Executive Committee.

(b) Except as expressly limited by the Statute, the Memorandum of Association, these Articles of Association or as determined from time to time by the Directors, the Executive Committee shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Company. The Executive Committee shall keep a record of its acts and proceedings, which shall form a part of the records of the Company in the custody of the Secretary and all actions of the Executive Committee shall be reported to the Board of Directors at the next meeting of the Board.

72. The Board of Directors, or any committee thereunto expressly authorized by the Board of Directors, by resolution adopted by a majority of the whole Board or committee, as the case may be, may designate one or more other committees, each such committee to consist of such person or persons as may be designated by the Directors or appointing committee. Except as expressly limited by law or by these Articles or by resolution of the Directors or appointing committee, any such committee shall have

and may exercise such powers and adopt such procedures as the Directors or appointing committee, as the case may be, may determine and specify in the resolution designating such committee.

### **PROCEEDINGS OF DIRECTORS**

73. Except as otherwise provided by these Articles, the Directors shall meet together for the dispatch of business, convening, adjourning and otherwise regulating their meetings as they think fit. Questions arising at any meeting shall be decided by a majority of votes of the Directors present at a meeting at which there is a quorum.

74. A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Directors by at least seven (7) days' notice in writing to every Director which notice shall set forth the general nature of the business to be considered unless notice is waived by all the Directors either at, before or after the meeting is held; provided further if notice is given in person, by air courier, telegram, facsimile transmission, telex, cablegram or wireless the same shall be deemed to have been given on the day it is delivered to the Directors or transmitting organisation as the case may be. The provisions of Article 37 shall apply mutatis mutandis with respect to notices of meetings of Directors.

75. The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall a majority of the Board; provided, however, that if there shall be at any time only a sole Director the quorum shall be one.

76. The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors the continuing Directors or Director may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the Company, but for no other purpose.

77. The Directors may elect a Chairman of their Board and determine the period for which he is to hold office; but if no such Chairman is elected, or if at any meeting the Chairman is not present within thirty (30) minutes after the time appointed for

holding the same, the Directors present may choose one of their number to be Chairman of the meeting.

78. All acts done by any meeting of the Directors or of a committee of Directors shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and qualified to be a Director.

79. Members of the Board of Directors or of any committee thereof may participate in a meeting of the Board or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting. A resolution in writing (in one or more counterparts), signed by all the Directors for the time being or all the members of a committee of Directors shall be as valid and effectual as if it had been passed at a meeting of the Directors or committee as the case may be duly convened and held.

#### **VACATION OF OFFICE OF DIRECTOR**

80. The office of a Director shall be vacated:

- (a) If he gives notice in writing to the Company that he resigns the office of Director;
- (b) If he dies, becomes bankrupt or makes any arrangement or composition with his creditors generally;
- (c) If he is found a lunatic or becomes of unsound mind; or
- (d) In the circumstances described in Article 57.

## **PRESUMPTION OF ASSENT**

81. A Director of the Company who is present at a meeting of the Board of Directors at which action on any Company matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the Minutes of the meeting or unless he shall file his written dissent from such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Company immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favour of such action.

## **CERTAIN BUSINESS COMBINATIONS**

82. (a) In addition to any approval by Members required by the Statute or any other law of the Cayman Islands, the approval of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding shares entitled to vote, voting together as a single class, at a meeting called for such purpose, shall be required in order for the Company:

- (i) to merge, consolidate or amalgamate with another company;
- (ii) to reorganize or reconstruct itself pursuant to a plan sanctioned by the Cayman Islands courts; or
- (iii) to sell, lease or exchange all or substantially all of the assets of the Company;

provided that the foregoing approval by Members shall not apply to any such transaction of the Company with any entity which the Company, directly or indirectly, controls, as defined in Rule 405 under the Securities Act of 1933, as amended from time to time, of the United States of America.

(b) Notwithstanding anything contained in these Articles to the contrary, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding

shares entitled to vote, voting together as a single class, shall be required to amend or repeal, or adopt any provision inconsistent with, this Article 82.

### **SEAL**

83. Subject to the provisions of Article 2 hereof, the Seal shall only be used by the authority of the Directors or of a committee of the Directors authorised by the Directors in that behalf and every instrument to which the Seal has been affixed shall be signed by one person who shall be either a Director or the Secretary or Secretary-Treasurer or some person appointed by the Directors for the purpose; provided that the Company may have for use in any territory, district or place not situated in the Cayman Islands, an official seal which shall be a facsimile of the Common Seal of the Company with the addition on its face of the name of every territory, district or place where it is to be used; provided further that a Director, Secretary or other officer or representative or attorney may without further authority of the Directors affix the Seal of the Company over his signature alone to any document of the Company required to be authenticated by him under Seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wheresoever.

### **OFFICERS**

84. The Company may have a Chairman of the Board, Chairman of the Executive Committee and/or President and shall have a Secretary or Secretary-Treasurer appointed by the Directors who may also from time to time appoint such other Officers as they consider necessary, all for such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors from time to time prescribe.

85. A provision of the Statute or these Articles requiring or authorising a thing to be done by a Director and an Officer shall not be satisfied by its being done by the one person acting in the dual capacity of Director and Officer.

## **DIVIDENDS AND RESERVE**

86. Subject to the Statute, the Directors may from time to time declare dividends on shares of the Company outstanding and authorise payment of the same out of the profits of the Company, share premium account, or any other account permitted by the Statute, and may from time to time pay to the Members such interim dividends, as appears to the Directors to be justified by the financial condition of the Company.

87. The Directors may deduct from any dividend payable to any Member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

88. The Directors may declare that any dividend be paid wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures, or debenture stock of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the footing of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees as may seem expedient to the Directors.

89. No dividend shall bear interest against the Company.

## **CAPITALISATION**

90. The Company may upon the recommendation of the Directors by ordinary resolution authorise the Directors to capitalise any sum standing to the credit of any of the Company's reserve accounts (including share premium account and capital redemption reserve fund) or any sum standing to the credit of profit and loss account or otherwise available for distribution and to appropriate such sum to Members in the proportions in which such sum would have been divisible amongst them had the same been a distribution of profits by way of dividend and to apply such sum on their behalf in paying up in full unissued shares (not being redeemable shares) for allotment and distribution credited as fully paid up to and amongst them in the proportion aforesaid. In such

event the Directors shall do all acts and things required to give effect to such capitalisation, with full power to the Directors to make such provisions as they think fit for the case of shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the Members concerned). The Directors may authorise any person to enter on behalf of all of the Members interested into an agreement with the Company providing for such capitalisation and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

#### **AUDIT**

91. The Company shall at each Annual General Meeting appoint an Auditor or Auditors of the Company who shall hold office until the next Annual General Meeting and may fix his or their remuneration.

92. The Directors shall fill any casual vacancy in the office of Auditor but while any such vacancy continues the surviving or continuing Auditor or Auditors, if any, may act. The remuneration of any Auditor, unless fixed by the Company in General Meeting, shall be fixed by the Directors.

93. Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and Officers of the Company such information and explanation as may be necessary for the performance of the duties of the auditors.

94. Auditors shall at the next Annual General Meeting following their appointment and at any other time during their term of office, upon request of the Directors or any general meeting of the Members make a report on the accounts of the Company in general meeting during their tenure of office.

#### **NOTICES**

95. Notices shall be in writing and may be given by the Company to any Member either personally or by sending it by post, air courier, cable, facsimile transmission or telex to him or to his address as shown in the register of Members, such notice, if mailed, to be forwarded airmail where practicable.

96. (a) Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, pre-paying and posting a letter containing the notice, and to have been effected at the expiration of five (5) days after the letter containing the same is posted as aforesaid.

(b) Where a notice is sent by air courier, cable, facsimile transmission or telex, service of the notice shall be deemed to be effected by properly addressing pre-paying and sending through a transmitting organisation the notice, and to have been effected at the expiration of forty-eight (48) hours after the same is sent as aforesaid.

97. A notice may be given by the Company to the joint holders of record of a share by giving the notice to the joint holder first named on the register of Members in respect of the share.

98. A notice may be given by the Company to the person or persons which the Company has been advised are entitled to a share or shares in consequence of the death or bankruptcy of a Member by sending it through the post as aforesaid in a pre-paid letter addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankruptcy, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

99. Notice of every general meeting shall be given in any manner hereinbefore authorised to:

(a) every holder of voting shares as shown in the register of Members as of the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the register of Members.

(b) every person upon whom the ownership of a voting share devolves by reason of his being a legal personal representative or a trustee in bankruptcy of a holder of voting shares of record where such holder but for his death or bankruptcy would be entitled to receive notice of the meeting; and

Except as otherwise required by law or these Articles, no other person shall be entitled to receive notices of general meetings.

### **INDEMNITY AND LIMITATION OF LIABILITY**

100. (a) The Company shall indemnify, in accordance with and to the full extent now or hereafter permitted by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, an action by or in the right of the Company), by reason of his acting as a director, officer, employee or agent of, or his acting in any other capacity for or on behalf of, the Company, against any liability or expense actually and reasonably incurred by such person in respect thereof. The Company may advance the expenses of defending any such act, suit or proceeding in accordance with and to the full extent now or hereafter permitted by law. Such indemnification and advancement of expenses are not exclusive of any other right to indemnification or advancement of expenses provided by law or otherwise.

(b) The Board of Directors may authorise the Company to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another company, partnership, joint venture, trust or other enterprise, or in a fiduciary or other capacity with respect to any employee benefit plan maintained by the Company, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Company would have the power to indemnify him against such liability under the provisions of this Article 101.

(c) Directors of the Company shall have no personal liability to the Company or its Members for monetary damages for breach of fiduciary or other duties as a director, except (i) for any breach of a director's duty of loyalty to the Company or its Members, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) a payment of a dividend on stock of the Company or a purchase or redemption of stock of the Company in violation of law, or (iv) for any transaction from which a director derived an improper personal benefit.

### **BOOKS AND RECORDS**

101. Without prejudice to Article 35(b), no Member shall be entitled to review the books and records of the Company, including without limitation, the Company's register of Members, without the approval of the Directors.

### **FISCAL YEAR**

102. Each Fiscal Year shall commence on 1st of October and end on the 30th September next following. At any time or times the Directors may prescribe some other period for any Fiscal Year.

### **AMENDMENTS OF ARTICLES**

103. Subject to the Statute, except as otherwise provided in these Articles, the Company may at any time and from time to time by Special Resolution alter or amend these Articles in whole or in part.

**ACE LIMITED 1998  
LONG-TERM INCENTIVE PLAN**

## TABLE OF CONTENTS

GENERAL.....	1
Purpose.....	1
Participation.....	1
Operation, Administration, and Definitions.....	1
OPTIONS AND SARS.....	1
Definitions.....	1
Exercise Price.....	1
Exercise.....	2
Payment of Option Exercise Price.....	2
Settlement of Award.....	2
OTHER STOCK AWARDS.....	2
Definitions.....	2
Restrictions on Awards.....	2
OPERATION AND ADMINISTRATION.....	3
Effective Date.....	3
Shares Subject to Plan.....	3
General Restrictions.....	4
Use of Shares.....	5
Dividends and Dividend Equivalents.....	5
Payments.....	5
Transferability.....	5
Form and Time of Elections.....	5
Agreement With Company.....	5
Action by Company or Subsidiary.....	5
Gender and Number.....	5
Limitation of Implied Rights.....	6
Benefits Under Qualified Retirement Plans.....	6
Evidence.....	6
CHANGE IN CONTROL.....	6
COMMITTEE.....	6
Administration.....	6
Powers of Committee.....	7
Delegation by Committee.....	7
Information to be Furnished to Committee.....	7
AMENDMENT AND TERMINATION.....	7
DEFINED TERMS.....	7

**ACE LIMITED 1998  
LONG-TERM INCENTIVE PLAN**

SECTION 1

**GENERAL**

1.1. Purpose. The ACE Limited Long-Term Incentive Plan (the "Plan") has been established by ACE Limited (the "Company") to (i) attract and retain persons eligible to participate in the Plan; (ii) motivate Participants, by means of appropriate incentives, to achieve long-range goals; (iii) provide incentive compensation opportunities that are competitive with those of other similar companies; and (iv) further identify Participants' interests with those of the Company's other shareholders through compensation that is based on the Company's ordinary shares of stock; and thereby promote the long-term financial interest of the Company and the Subsidiaries, including the growth in value of the Company's equity and enhancement of long-term shareholder return.

1.2. Participation. Subject to the terms and conditions of the Plan, the Committee shall determine and designate, from time to time, from among the Eligible Individuals (including transferees of Eligible Individuals to the extent the transfer is permitted by the Plan and the applicable Award Agreement), those persons who will be granted one or more Awards under the Plan, and thereby become "Participants" in the Plan. In the discretion of the Committee, a Participant may be granted any Award permitted under the provisions of the Plan, and more than one Award may be granted to a Participant. Awards may be granted as alternatives to or replacement of awards granted or outstanding under the Plan, or any other plan or arrangement of the Company or a Subsidiary (including a plan or arrangement of a business or entity, all or a portion of which is acquired by the Company or a Subsidiary).

1.3. Operation, Administration, and Definitions. The operation and administration of the Plan, including the Awards made under the Plan, shall be subject to the provisions of Section 4 (relating to operation and administration). Capitalized terms in the Plan shall be defined as set forth in the Plan (including the definition provisions of Section 8 of the Plan).

SECTION 2

**OPTIONS AND SARS**

2.1. Definitions.

(a) The grant of an "Option" entitles the Participant to purchase shares of Stock at an Exercise Price established by the Committee. Any Option granted under this Section 2 may be either an incentive stock option (an "ISO") or a non-qualified option (an "NQO"), as determined in the discretion of the Committee. An "ISO" is an Option that is intended to satisfy the requirements applicable to an "incentive stock option" described in section 422(b) of the Code. An "NQO" is an Option that is not intended to be an "incentive stock option" as that term is described in section 422(b) of the Code.

(b) A stock appreciation right (an "SAR") entitles the Participant to receive, in cash or Stock (as determined in accordance with subsection 2.5), value equal to (or otherwise based on) the excess of: (a) the Fair Market Value of a specified number of shares of Stock at the time of exercise; over

(b) an Exercise Price established by the Committee.

2.2. Exercise Price. The "Exercise Price" of each Option and SAR granted under this Section 2 shall be established by the Committee or shall be determined by a method established by the Committee at the time the Option or SAR is granted; except that the Exercise Price shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant (or, if greater, the par value of a share of Stock).

2.3. Exercise. An Option and an SAR shall be exercisable in accordance with such terms and conditions and during such periods as may be established by the Committee.

2.4. Payment of Option Exercise Price. The payment of the Exercise Price of an Option granted under this Section 2 shall be subject to the following:

(a) Subject to the following provisions of this subsection 2.4, the full Exercise Price for shares of Stock purchased upon the exercise of any Option shall be paid at the time of such exercise (except that, in the case of an exercise arrangement approved by the Committee and described in paragraph 2.4(c), payment may be made as soon as practicable after the exercise).

(b) The Exercise Price shall be payable in cash or by tendering, by either actual delivery of shares or by attestation, shares of Stock acceptable to the Committee, and valued at Fair Market Value as of the day of exercise, or in any combination thereof, as determined by the Committee.

(c) The Committee may permit a Participant to elect to pay the Exercise Price upon the exercise of an Option by irrevocably authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise.

2.5. Settlement of Award. Shares of Stock delivered pursuant to the exercise of an Option or SAR shall be subject to such conditions, restrictions and contingencies as the Committee may establish in the applicable Award Agreement. Settlement of SARs may be made in shares of Stock (valued at their Fair Market Value at the time of exercise), in cash, or in a combination thereof, as determined in the discretion of the Committee. The Committee, in its discretion, may impose such conditions, restrictions and contingencies with respect to shares of Stock acquired pursuant to the exercise of an Option or an SAR as the Committee determines to be desirable.

## SECTION 3

### OTHER STOCK AWARDS

3.1. Definitions.

(a) A "Stock Unit" Award is the grant of a right to receive shares of Stock in the future.

(b) A "Performance Share" Award is a grant of a right to receive shares of Stock or Stock Units which is contingent on the achievement of performance or other objectives during a specified period.

(c) A "Performance Unit" Award is a grant of a right to receive a designated dollar value amount of Stock which is contingent on the achievement of performance or other objectives during a specified period.

(d) A "Restricted Stock" Award is a grant of shares of Stock, and a "Restricted Stock Unit" Award is the grant of a right to receive shares of Stock in the future, with such shares of Stock or right to future delivery of such shares of Stock subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the Participant, or achievement of performance or other objectives, as determined by the Committee.

3.2. Restrictions on Awards. Each Stock Unit Award, Restricted Stock Award, Restricted Stock Unit Award, Performance Share Award and Performance Unit Award shall be subject to the following:

(a) Any such Award shall be subject to such conditions, restrictions and contingencies as the Committee shall determine.

(b) The Committee may designate whether any such Award being granted to any Participant is intended to be "performance-based compensation" as that term is used in section 162(m) of the Code. Any such Awards designated as intended to be "performance-based compensation" shall be conditioned on the achievement of one or more Performance Measures, to the extent required by Code section 162(m). The

Performance Measures that may be used by the Committee for such Awards shall be based on any one or more of the following Company, Subsidiary, operating unit or division performance measures, as selected by the Committee: gross premiums written; net premiums written; net premiums earned; net investment income; losses and loss expenses; underwriting and administrative expenses; operating expenses; cash flow (s); operating income; earnings before interest and taxes; net income; stock price; dividends; strategic business objectives, consisting of one or more objectives based on meeting specified cost targets, business expansion goals, and goals relating to acquisitions or divestitures; or any combination thereof. Each goal may be expressed on an absolute and/or relative basis, may be based on or otherwise employ comparisons based on internal targets, the past performance of the Company and/or the past or current performance of other companies, and in the case of earnings-based measures, may use or employ comparisons relating to capital, shareholders' equity and/or shares outstanding, investments or to assets or net assets. For Awards under this Section 3 intended to be "performance-based compensation," the grant of the Awards and the establishment of the Performance Measures shall be made during the period required under Code section 162(m).

(c) If the right to become vested in a Restricted Stock Award or Restricted Stock Unit Award granted under this Section 3 is conditioned on the completion of a specified period of service with the Company or the Subsidiaries, without achievement of Performance Measures or other performance objectives being required as a condition of vesting, and without it being granted in lieu of other compensation, then the required period of service for vesting shall be not less than three years (subject to acceleration of vesting, to the extent permitted by the Committee, in the event of the Participant's death, disability, retirement, change in control or involuntary termination).

## SECTION 4

### OPERATION AND ADMINISTRATION

4.1. Effective Date. Subject to the approval of the shareholders of the Company at the Company's 1999 annual meeting of its shareholders, the Plan shall be effective as of November 13, 1998 (the "Effective Date"); provided, however, that to the extent that Awards are granted under the Plan prior to its approval by shareholders, the Awards shall be contingent on approval of the Plan by the shareholders of the Company at such annual meeting. The Plan shall be unlimited in duration and, in the event of Plan termination, shall remain in effect as long as any Awards under it are outstanding; provided, however, that no Awards may be granted under the Plan after the ten-year anniversary of the Effective Date.

4.2. Shares Subject to Plan. The shares of Stock for which Awards may be granted under the Plan shall be subject to the following:

(a) The shares of Stock with respect to which Awards may be made under the Plan shall be currently authorized but unissued shares, or shares purchased in the open market by a direct or indirect wholly-owned subsidiary of the Company (as determined by the Chairman or any Executive Vice President of the Company). The Company may contribute to the subsidiary an amount sufficient to accomplish the purchase in the open market of the shares of Stock to be so acquired (as determined by the Chairman or any Executive Vice President of the Company).

(b) The number of shares of Stock available for Awards under the Plan during any fiscal year of the Company shall equal (i) five percent of the adjusted average of the outstanding Stock, as that number is determined by the Company to calculate fully diluted earnings per share for the preceding fiscal year; reduced by (ii) any shares of Stock granted pursuant to Awards under the Plan, and any shares of Stock subject to any outstanding award under the Plan.

(c) To the extent provided by the Committee, any Award may be settled in cash rather than Stock. To the extent any shares of Stock covered by an Award are not delivered to a Participant or beneficiary because the Award is forfeited or canceled, or the shares of Stock are not delivered because the Award is settled in

cash or used to satisfy the applicable tax withholding obligation, such shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Stock available for delivery under the Plan.

(d) If the exercise price of any Option granted under the Plan is satisfied by tendering shares of Stock to the Company (by either actual delivery or by attestation), only the number of shares of Stock issued net of the shares of Stock tendered shall be deemed delivered for purposes of determining the maximum number of shares of Stock available for delivery under the Plan.

(e) Subject to paragraph 4.2(f), the following additional maximums are imposed under the Plan:

(i) The maximum number of shares of Stock that may be issued by Options intended to be ISOs shall be 8,000,000 shares.

(ii) The maximum number of shares that may be covered by Awards granted to any one individual pursuant to Section 2 (relating to Options and SARs) shall be 6,000,000 shares during any one-calendar-year period.

(iii) The maximum number of shares of Stock that may be issued in conjunction with Awards granted pursuant to Section 3 (relating to Other Stock Awards) shall be 2,000,000 shares.

(iv) For Stock Unit Awards, Restricted Stock Awards, Restricted Stock Unit Awards and Performance Share Awards that are intended to be "performance-based compensation" (as that term is used for purposes of Code section 162(m)), no more than 2,000,000 shares of Stock may be subject to such Awards granted to any one individual during any one- calendar-year period (regardless of when such shares are deliverable).

(v) For Performance Unit Awards that are intended to be "performance- based compensation" (as that term is used for purposes of Code section 162(m)), no more than \$5,000,000 may be subject to such Awards granted to any one individual during any one-calendar-year period (regardless of when such amounts are deliverable).

(f) In the event of a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), the Committee may adjust Awards to preserve the benefits or potential benefits of the Awards. Action by the Committee may include: (i) adjustment of the number and kind of shares which may be delivered under the Plan; (ii) adjustment of the number and kind of shares subject to outstanding Awards;

(iii) adjustment of the Exercise Price of outstanding Options and SARs; and

(iv) any other adjustments that the Committee determines to be equitable.

4.3. General Restrictions. Delivery of shares of Stock or other amounts under the Plan shall be subject to the following:

(a) Notwithstanding any other provision of the Plan, the Company shall have no liability to deliver any shares of Stock under the Plan or make any other distribution of benefits under the Plan unless such delivery or distribution would comply with all applicable laws (including, without limitation, the requirements of the United States Securities Act of 1933), and the applicable requirements of any securities exchange or similar entity.

(b) To the extent that the Plan provides for issuance of stock certificates to reflect the issuance of shares of Stock, the issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

4.4. Tax Withholding. All distributions under the Plan are subject to withholding of all applicable taxes, and the Committee may condition the delivery of any shares or other benefits under the Plan on satisfaction of the applicable withholding obligations. The Committee, in its discretion, and subject to such requirements as the Committee may impose prior to the occurrence of such withholding, may permit such withholding obligations to

be satisfied through cash payment by the Participant, through the surrender of shares of Stock which the Participant already owns, or through the surrender of shares of Stock to which the Participant is otherwise entitled under the Plan.

4.5. Use of Shares. Subject to the overall limitation on the number of shares of Stock that may be delivered under the Plan, the Committee may use available shares of Stock as the form of payment for compensation, grants or rights earned or due under any other compensation plans or arrangements of the Company or a Subsidiary, including the plans and arrangements of the Company or a Subsidiary assumed in business combinations.

4.6. Dividends and Dividend Equivalents. An Award (including without limitation an Option or SAR Award) may provide the Participant with the right to receive dividend payments or dividend equivalent payments with respect to Stock subject to the Award (both before and after the Stock subject to the Award is earned, vested, or acquired), which payments may be either made currently or credited to an account for the Participant, and may be settled in cash or Stock as determined by the Committee. Any such settlements, and any such crediting of dividends or dividend equivalents or reinvestment in shares of Stock, may be subject to such conditions, restrictions and contingencies as the Committee shall establish, including the reinvestment of such credited amounts in Stock equivalents.

4.7. Payments. Awards may be settled through cash payments, the delivery of shares of Stock, the granting of replacement Awards, or combination thereof as the Committee shall determine. Any Award settlement, including payment deferrals, may be subject to such conditions, restrictions and contingencies as the Committee shall determine. The Committee may permit or require the deferral of any Award payment, subject to such rules and procedures as it may establish, which may include provisions for the payment or crediting of interest, or dividend equivalents, including converting such credits into deferred Stock equivalents. Each Subsidiary shall be liable for payment of cash due under the Plan with respect to any Participant to the extent that such benefits are attributable to the services rendered for that Subsidiary by the Participant. Any disputes relating to liability of a Subsidiary for cash payments shall be resolved by the Committee.

4.8. Transferability. Except as otherwise provided by the Committee, Awards under the Plan are not transferable except as designated by the Participant by will or by the laws of descent and distribution.

4.9. Form and Time of Elections. Unless otherwise specified herein, each election required or permitted to be made by any Participant or other person entitled to benefits under the Plan, and any permitted modification, or revocation thereof, shall be in writing filed with the Committee at such times, in such form, and subject to such restrictions and limitations, not inconsistent with the terms of the Plan, as the Committee shall require.

4.10. Agreement With Company. An Award under the Plan shall be subject to such terms and conditions, not inconsistent with the Plan, as the Committee shall, in its sole discretion, prescribe. The terms and conditions of any Award to any Participant shall be reflected in such form of written document as is determined by the Committee. A copy of such document shall be provided to the Participant, and the Committee may, but need not require that the Participant sign a copy of such document. Such document is referred to in the Plan as an "Award Agreement" regardless of whether any Participant signature is required.

4.11. Action by Company or Subsidiary. Any action required or permitted to be taken by the Company or any Subsidiary shall be by resolution of its board of directors, or by action of one or more members of the board (including a committee of the board) who are duly authorized to act for the board, or (except to the extent prohibited by applicable law or applicable rules of any stock exchange) by a duly authorized officer of such company.

4.12. Gender and Number. Where the context admits, words in any gender shall include any other gender, words in the singular shall include the plural and the plural shall include the singular.

#### 4.13. Limitation of Implied Rights.

(a) Neither a Participant nor any other person shall, by reason of participation in the Plan, acquire any right in or title to any assets, funds or property of the Company or any Subsidiary whatsoever, including, without limitation, any specific funds, assets, or other property which the Company or any Subsidiary, in their sole discretion, may set aside in anticipation of a liability under the Plan. A Participant shall have only a contractual right to the Stock or amounts, if any, payable under the Plan, unsecured by any assets of the Company or any Subsidiary, and nothing contained in the Plan shall constitute a guarantee that the assets of the Company or any Subsidiary shall be sufficient to pay any benefits to any person.

(b) The Plan does not constitute a contract of employment, and selection as a Participant will not give any participating employee or other individual the right to be retained in the employ of the Company or any Subsidiary or the right to continue to provide services to the Company or any Subsidiary, nor any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan. Except as otherwise provided in the Plan, no Award under the Plan shall confer upon the holder thereof any rights as a shareholder of the Company prior to the date on which the individual fulfills all conditions for receipt of such rights.

4.14. Benefits Under Qualified Retirement Plans. Except as otherwise provided by the Committee, Awards to a Participant (including the grant and the receipt of benefits) under the Plan shall be disregarded for purposes of determining the Participant's benefits under any Qualified Retirement Plan and other plans maintained by the Participant's employer. The term "Qualified Retirement Plan" means any plan of the Company or a Subsidiary that is intended to be qualified under section 401(a) of the Code.

4.15. Evidence. Evidence required of anyone under the Plan may be by certificate, affidavit, document or other information which the person acting on it considers pertinent and reliable, and signed, made or presented by the proper party or parties.

### SECTION 5

#### **CHANGE IN CONTROL**

Subject to the provisions of paragraph 4.2(f) (relating to the adjustment of shares), and except as otherwise provided in the Plan or the Award Agreement reflecting the applicable Award, upon the occurrence of a Change in Control:

(a) All outstanding Options (regardless of whether in tandem with SARs) shall become fully exercisable.

(b) All outstanding SARs (regardless of whether in tandem with Options) shall become fully exercisable.

(c) All Stock Units, Restricted Stock, Restricted Stock Units, Performance Shares, and Performance Units shall become fully vested.

### SECTION 6

#### **COMMITTEE**

6.1. Administration. The authority to control and manage the operation and administration of the Plan shall be vested in a committee (the "Committee") in accordance with this Section 6. The Compensation Committee of the Board shall serve as the "Committee" under the Plan, except as otherwise determined by the Board. If the Committee does not exist, or for any other reason determined by the Board, the Board may take any action under the Plan that would otherwise be the responsibility of the Committee.

6.2. Powers of Committee. The Committee's administration of the Plan shall be subject to the following:

(a) Subject to the provisions of the Plan, the Committee will have the authority and discretion to select from among the Eligible Individuals those persons who shall receive Awards, to determine the time or times of receipt, to determine the types of Awards and the number of shares covered by the Awards, to establish the terms, conditions, performance criteria, restrictions, and other provisions of such Awards, and (subject to the restrictions imposed by Section 7) to cancel or suspend Awards.

(b) To the extent that the Committee determines that the restrictions imposed by the Plan preclude the achievement of the material purposes of the Awards in jurisdictions outside the United States, the Cayman Islands, and Bermuda, the Committee will have the authority and discretion to modify those restrictions as the Committee determines to be necessary or appropriate to conform to applicable requirements or practices of jurisdictions outside of the United States, the Cayman Islands, and Bermuda.

(c) The Committee will have the authority and discretion to interpret the Plan, to establish, amend, and rescind any rules and regulations relating to the Plan, to determine the terms and provisions of any Award Agreement made pursuant to the Plan, and to make all other determinations that may be necessary or advisable for the administration of the Plan.

(d) Any interpretation of the Plan by the Committee and any decision made by it under the Plan is final and binding on all persons.

(e) In controlling and managing the operation and administration of the Plan, the Committee shall take action in a manner that conforms to the Memorandum and Articles of Association of the Company, and applicable corporate law.

6.3. Delegation by Committee. Except to the extent prohibited by applicable law or the applicable rules of a stock exchange, the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it. Any such allocation or delegation may be revoked by the Committee at any time.

6.4. Information to be Furnished to Committee. The Company and Subsidiaries shall furnish the Committee with such data and information as it determines may be required for it to discharge its duties. The records of the Company and Subsidiaries as to an employee's or Participant's employment (or other provision of services), termination of employment (or cessation of the provision of services), leave of absence, reemployment and compensation shall be conclusive on all persons unless determined to be incorrect. Participants and other persons entitled to benefits under the Plan must furnish the Committee such evidence, data or information as the Committee considers desirable to carry out the terms of the Plan.

## SECTION 7

### **AMENDMENT AND TERMINATION**

The Board may, at any time, amend or terminate the Plan, provided that no amendment or termination may, in the absence of written consent to the change by the affected Participant (or, if the Participant is not then living, the affected beneficiary), adversely affect the rights of any Participant or beneficiary under any Award granted under the Plan prior to the date such amendment is adopted by the Board; provided that adjustments pursuant to subject to paragraph 4.2(f) shall not be subject to the foregoing limitations of this Section 7.

## SECTION 8

### **DEFINED TERMS**

In addition to the other definitions contained herein, the following definitions shall apply:

(a) Award. The term "Award" shall mean any award or benefit granted under the Plan, including, without limitation, the grant of Options, SARs, Stock Unit Awards, Restricted Stock Awards, Restricted Stock Unit Awards, Performance Share Awards, and Performance Unit Awards.

(b) Board. The term "Board" shall mean the Board of Directors of the Company.

(c) Change in Control. The term "Change in Control" shall mean the occurrence of any one of the following events:

(i) any "person," as such term is used in Sections 3(a)(9) and 13(d) of the United States Securities Exchange Act of 1934, becomes a "beneficial owner," as such term is used in Rule 13d-3 promulgated under that act, of 50% or more of the Voting Stock (as defined below) of the Company;

(ii) the majority of the Board consists of individuals other than Incumbent Directors, which term means the members of the Board on the Effective Date; provided that any person becoming a director subsequent to such date whose election or nomination for election was supported by three-quarters of the directors who then comprised the Incumbent Directors shall be considered to be an Incumbent Director;

(iii) the Company adopts any plan of liquidation providing for the distribution of all or substantially all of its assets;

(iv) all or substantially all of the assets or business of the Company is disposed of pursuant to a merger, consolidation or other transaction (unless the shareholders of the Company immediately prior to such merger, consolidation or other transaction beneficially own, directly or indirectly, in substantially the same proportion as they owned the Voting Stock of the Company, all of the Voting Stock or other ownership interests of the entity or entities, if any, that succeed to the business of the Company); or

(v) the Company combines with another company and is the surviving corporation but, immediately after the combination, the shareholders of the Company immediately prior to the combination hold, directly or indirectly, 50% or less of the Voting Stock of the combined company (there being excluded from the number of shares held by such shareholders, but not from the Voting Stock of the combined company, any shares received by Affiliates (as defined below) of such other company in exchange for stock of such other company).

For the purpose of this definition of "Change in Control," (I) an "Affiliate" of a person or other entity shall mean a person or other entity that directly or indirectly controls, is controlled by, or is under common control with the person or other entity specified and (II) "Voting Stock" shall mean capital stock of any class or classes having general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation.

(d) Code. The term "Code" means the United States Internal Revenue Code of 1986, as amended. A reference to any provision of the Code shall include reference to any successor provision of the Code.

(e) Dollars. As used in the Plan, the term "dollars" or numbers preceded by the symbol "\$" shall mean amounts in United States dollars.

(f) Eligible Individual. For purposes of the Plan, the term "Eligible Individual" shall mean any employee of the Company or a Subsidiary, and any consultant, director, or other person providing services to the Company or a Subsidiary. An Award may be granted to an employee or other individual providing services, in connection with hiring, retention or otherwise, prior to the date the employee or service provider first performs services for the Company or the Subsidiaries, provided that such Awards shall not become vested prior to the date the employee or service provider first performs such services.

(g) Fair Market Value. Except as otherwise provided by the Committee, the "Fair Market Value" of a share of Stock as of any date shall be the closing market composite price for such Stock as reported for the New York Stock Exchange--Composite Transactions on that date or, if Stock is not traded on that date, on the next preceding date on which Stock was traded.

(h) Subsidiaries. For purposes of the Plan, the term "Subsidiary" means any corporation, partnership, joint venture or other entity during any period in which at least a fifty percent voting or profits interest is

owned, directly or indirectly, by the Company (or by any entity that is a successor to the Company), and any other business venture designated by the Committee in which the Company (or any entity that is a successor to the Company) has a significant interest, as determined in the discretion of the Committee.

(i) Stock. The term "Stock" shall mean ordinary shares of stock of the Company.

**ACE US HOLDINGS, INC.**

**Credit Sensitive Senior Notes due 2008**

---

**INDENTURE**

**Dated as of October 27, 1998**

---

**UNITED STATES TRUST COMPANY OF NEW YORK,**

**Trustee**

---

# TABLE OF CONTENTS

	PAGE
ARTICLE 1 DEFINITIONS AND INCORPORATION BY REFERENCE -----	1
SECTION 1.01. Definitions.....	1
SECTION 1.02. Other Definitions.....	21
SECTION 1.03. Trust Indenture Act.....	21
SECTION 1.04. Rules of Construction.....	21
ARTICLE 2 THE SECURITIES -----	22
SECTION 2.01. Form and Dating.....	22
SECTION 2.02. Execution and Authentication.....	22
SECTION 2.03. Registrar and Paying Agent.....	23
SECTION 2.04. Paying Agent To Hold Money in Trust.....	23
SECTION 2.05. Securityholder Lists.....	24
SECTION 2.06. Transfer and Exchange.....	24
SECTION 2.07. Replacement Securities.....	25
SECTION 2.08. Outstanding Securities.....	25
SECTION 2.09. Temporary Securities.....	25
SECTION 2.10. Cancellation.....	26
SECTION 2.11. Defaulted Interest.....	26
SECTION 2.12. CUSIP Numbers.....	26
ARTICLE 3 REDEMPTION -----	26
SECTION 3.01. Notices to Trustee.....	26
SECTION 3.02. Selection of Securities To Be Redeemed.....	27
SECTION 3.03. Notice of Redemption.....	27
SECTION 3.04. Effect of Notice of Redemption.....	28
SECTION 3.05. Deposit of Redemption Price.....	28
SECTION 3.06. Securities Redeemed in Part.....	28
ARTICLE 4 COVENANTS -----	28
SECTION 4.01. Payment of Securities.....	28
SECTION 4.02. Certain Reports and Certificates.....	28
SECTION 4.03. Limitation on Indebtedness.....	30
SECTION 4.04. Limitation on Restricted Payments.....	32
SECTION 4.05. Limitation on Restrictions on Distributions from Restricted Subsidiaries.....	34
SECTION 4.06. Limitation on Sales of Assets and Subsidiary Stock.....	35

SECTION 4.07.	Limitation on Transactions with Affiliates.....	38
SECTION 4.08.	Change of Control.....	39
SECTION 4.09.	Compliance Certificate.....	40
SECTION 4.10.	Further Instruments and Acts.....	40
SECTION 4.11.	Future Subsidiary Guarantors.....	40
SECTION 4.12.	Limitation on Lines of Business.....	41
SECTION 4.13.	Limitation on the Sale or Issuance of Capital Stock or Restricted Subsidiaries.....	41
SECTION 4.14.	Limitation on Liens.....	41
SECTION 4.15.	USE OF PROCEEDS.....	41
-----		
SECTION 4.16.	FINANCIAL STRENGTH RATING.....	41
-----		
SECTION 4.17.	MAINTENANCE OF SUBORDINATED LOAN AGREEMENT.....	41
-----		
ARTICLE 5	SUCCESSOR COMPANY, ETC.	42
-----		
SECTION 5.01.	When Company AND SUBSIDIARY GUARANTORS May Merge or Transfer Assets.....	42
-----		
ARTICLE 6	DEFAULTS AND REMEDIES	43
-----		
SECTION 6.01.	Events of Default.....	43
SECTION 6.02.	Acceleration.....	45
SECTION 6.03.	Other Remedies.....	46
SECTION 6.04.	Waiver of Past Defaults.....	46
SECTION 6.05.	Control by Majority.....	46
SECTION 6.06.	Limitation on Suits.....	46
SECTION 6.07.	Rights of Holders to Receive Payment.....	47
SECTION 6.08.	Collection Suit by Trustee.....	47
SECTION 6.09.	Trustee May File Proofs of Claim.....	47
SECTION 6.10.	Priorities.....	47
SECTION 6.11.	Undertaking for Costs.....	48
SECTION 6.12.	Waiver of Stay or Extension Laws.....	48
ARTICLE 7	TRUSTEE	48
-----		
SECTION 7.01.	Duties of Trustee.....	48
SECTION 7.02.	Rights of Trustee.....	49
SECTION 7.03.	Individual Rights of Trustee.....	50
SECTION 7.04.	Trustee's Disclaimer.....	50
SECTION 7.05.	Notice of Defaults.....	51
SECTION 7.06.	Reports by Trustee to Holders.....	51
SECTION 7.07.	Compensation and Indemnity.....	51
SECTION 7.08.	Replacement of Trustee.....	52
SECTION 7.09.	Successor Trustee by Merger.....	52
SECTION 7.10.	Eligibility; Disqualification.....	53

SECTION 7.11.	Preferential Collection of Claims Against Company.....	53
ARTICLE 8 DISCHARGE OF INDENTURE; DEFEASANCE		
-----		
SECTION 8.01.	Discharge of Liability on Securities; Defeasance.....	53
SECTION 8.02.	Conditions to Defeasance.....	54
SECTION 8.03.	Application of Trust Money.....	55
SECTION 8.04.	Repayment to Company.....	55
SECTION 8.05.	Indemnity for Government Obligations.....	56
SECTION 8.06.	Reinstatement.....	56
ARTICLE 9 AMENDMENTS		
-----		
SECTION 9.01.	Without Consent of Holders.....	56
SECTION 9.02.	With Consent of Holders.....	57
SECTION 9.03.	Revocation and Effect of Consents and Waivers.....	57
SECTION 9.04.	Notation on or Exchange of Securities.....	58
SECTION 9.06.	Trustee to Sign Amendments.....	58
SECTION 9.06.	Payment for Consent.....	58
ARTICLE 10 SUBSIDIARY GUARANTEES		
-----		
ARTICLE 11 MISCELLANEOUS		
-----		
SECTION 11.01.	Trust Indenture Act Controls.....	59
SECTION 11.02.	Notices.....	59
SECTION 11.03.	Communication by Holders with Other Holders.....	59
SECTION 11.04.	Certificate and Opinion as to Conditions Precedent.....	60
SECTION 11.05.	Statements Required in Certificate or Opinion.....	60
SECTION 11.06.	When Securities Disregarded.....	60
SECTION 11.07.	Rules by Trustee, Paying Agent, Registrar and Calculation Agent.....	60
SECTION 11.08.	Legal Holidays.....	60
SECTION 11.09.	Governing Law.....	61
SECTION 11.10.	No Recourse Against Others.....	61
SECTION 11.11.	Successors.....	61
SECTION 11.12.	Multiple Originals.....	61
SECTION 11.13.	Table of Contents; Headings.....	61

Appendix A - Provisions Relating to Securities

Exhibit A - Form of Security

- Exhibit B - Form of Supplemental Indenture
- Exhibit C - Reference Swap Transaction
- Exhibit D - Form of Quarterly Certificate
- Exhibit E - Form of Ratings Certificate

INDENTURE, dated as of October 27, 1998, between ACE US Holdings, Inc., a Delaware corporation (the "Company"), and United States Trust Company of New York, as trustee (the "Trustee").

Each party agrees as follows for the benefit of the other parties and for the equal and ratable benefit of the Holders of the Company's Credit Sensitive Senior Notes due 2008 issued on the date hereof (the "Securities"). Except as otherwise provided herein, the Securities will be limited to \$250,000,000 in aggregate principal amount outstanding, all of which \$250,000,000 aggregate principal amount will be initially issued on the date hereof.

## ARTICLE 1

### **DEFINITIONS AND INCORPORATION BY REFERENCE**

#### SECTION 1.01. Definitions.

"ACE Insurance" means A.C.E. Insurance Company, Ltd., a Bermuda limited liability company.

"ACE USA Insurance Group" means any group of two or more Insurance Subsidiaries of the Company that are rated in the aggregate as a group, by Moody's or S&P, provided that if no such group exists, but one or more Insurance Subsidiaries of the Company is rated individually by Moody's or S&P, "ACE USA Insurance Group" shall refer to each such Insurance Subsidiary that is Material. "Material" means, with respect to any Subsidiary, that such Subsidiary would be a "significant subsidiary" as defined in Article I, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such regulation is in effect on the Closing Date.

"Additional Assets" means (i) any property or assets (other than Indebtedness and Capital Stock) to be used by the Company or a Restricted Subsidiary in a Related Business including Investments by Insurance Subsidiaries in Investment Securities; (ii) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary; or (iii) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary; provided, however, that any such Restricted Subsidiary described in clauses (ii) or (iii) above is primarily engaged in a Related Business.

"Affiliate" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of Sections 4.06 and 4.07 only, "Affiliate" shall also mean any beneficial owner of shares representing 10% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Voting Stock (whether or not currently

exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Asset Disposition" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "disposition"), of (i) any shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary), (ii) all or substantially all the assets of any division or line of business of the Company or any Restricted Subsidiary or (iii) any other assets of the Company or any Restricted Subsidiary outside of the ordinary course of business of the Company or such Restricted Subsidiary (other than, in the case of (i), (ii) and (iii) above, (u) a disposition of property of the Company or any of its Subsidiaries that, in the reasonable judgment of the Company, has become uneconomic, obsolete or worn out, (v) the sale of Temporary Cash Equivalents or Investment Securities or any disposition of cash, (w) a disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to a Wholly Owned Subsidiary, (x) for purposes of Section 4.06 only, a disposition that constitutes a Restricted Payment or Permitted Investment permitted by Section 4.04, (y) any reinsurance or retrocession arrangements (other than bulk reinsurance or retrocession arrangements) and (z) any disposition of assets, or one or more related dispositions of assets, with a fair market value in the aggregate of less than \$2,500,000).

"Average Life" means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing (i) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by (ii) the sum of all such payments.

"Balance Sheet Indebtedness" means Indebtedness that is reflected on the face of the Consolidated balance sheet of the Company and the Restricted Subsidiaries.

"Bank Indebtedness" means any and all amounts payable under or in respect of Credit Facilities and any Refinancing Indebtedness with respect thereto, as amended from time to time, including principal, premium (if any), interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company whether or not a claim for post-filing interest is allowed in such proceedings), fees, charges, expenses, reimbursement obligations, guarantees and all other amounts payable thereunder or in respect thereof.

"Base Redemption Price" has the meaning set forth in paragraph 5 of the Securities.

"Board of Directors" means, with respect to any Person, the Board of Directors of such Person or, except for purposes of the definition of "Change of Control", any committee thereof duly authorized to act on behalf of such Board. Unless otherwise specified, "Board of Directors" means the Board of Directors of the Company.

"Business Day" means each day which is not a Legal Holiday.

"Calculation Agent" means the calculation agent who will determine the applicable interest rate pursuant to paragraph 1 of the Securities, or any successor person thereto, who shall initially be the Trustee.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"Capitalized Lease Obligations" means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

"Change of Control" means the occurrence of any of the following events:

(i) Parent ceases to be the direct or indirect beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of 70% of the total voting power of the Voting Stock of the Company, whether as a result of issuance of securities of the Company, any merger, consolidation, liquidation or dissolution of Parent or the Company, or otherwise; or

(ii) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the beneficial owner (as defined in clause (i) above, except that for purposes of this clause (ii) such person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 30% of the total voting power of the Voting Stock of Parent; or

(iii) during any one year period, individuals who at the beginning of such period constituted the Board of Directors of Parent or the Company (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of Parent or the Company was approved by a vote of 66-2/3% of the directors of Parent or the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of Parent or the Company then in office; or

(iv) the adoption of a plan relating to the liquidation or dissolution of the Company; or

(v) the merger or consolidation of Parent with or into another Person and the securities of Parent that are outstanding immediately prior to such transaction and which represent 100% of the aggregate voting power of the Voting Stock of Parent are changed

into or exchanged for cash, securities or property, unless pursuant to such transaction such securities are changed into or exchanged for, in addition to any other consideration, securities of the surviving Person or transferee that represent immediately after such transaction, at least a majority of the aggregate voting power of the Voting Stock of the surviving Person or transferee.

"Closing Date" means October 27, 1998.

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" means the party named as such in this Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein.

"Consolidated Coverage Ratio" as of any date of determination means the ratio of (i) the aggregate amount of EBITDA for the period of the most recent four consecutive fiscal quarters ending prior to the date of such determination for which financial statements are available to (ii) Consolidated Interest Expense for such four fiscal quarters; provided, however, that (A) if the Company or any Restricted Subsidiary has Incurred any Indebtedness since the beginning of such period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period and the discharge of any other Indebtedness repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Indebtedness as if such discharge had occurred on the first day of such period, (B) if the Company or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Consolidated Coverage Ratio, EBITDA and Consolidated Interest Expense for such period shall be calculated on a pro forma basis as if such discharge had occurred on the first day of such period, (C) if since the beginning of such period the Company or any Restricted Subsidiary shall have made any Asset Disposition, the EBITDA for such period shall be reduced by an amount equal to the EBITDA (if positive) directly attributable to the assets that are the subject of such Asset Disposition for such period or increased by an amount equal to the EBITDA (if negative) directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Company or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Company and its continuing Restricted Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Company and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale), (D) if since the beginning of such period the Company or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Restricted Subsidiary (or any Person that becomes a Restricted Subsidiary) or an

acquisition of assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period and (E) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Company or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (C) or (D) above if made by the Company or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition of assets occurred on the first day of such period. For purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the pro forma calculations shall be determined in good faith by a responsible financial or accounting Officer of the Company. If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest expense on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term as at the date of determination in excess of 12 months). Interest on Indebtedness that may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rate, shall be deemed to have been based upon the rate actually chosen, or, if none, then based upon such optional rate chosen as the Company may designate.

"Consolidated Interest Expense" means, for any period, the total interest expense of the Company and its consolidated Restricted Subsidiaries, plus, to the extent Incurred by the Company and its Subsidiaries in such period but not included in such interest expense, (i) interest expense attributable to Capitalized Lease Obligations, (ii) amortization of debt discount and debt issuance cost, (iii) capitalized interest, (iv) non-cash interest expense, (v) commissions, discounts and other fees and charges attributable to letters of credit and bankers' acceptance financing, (vi) interest actually paid on any Indebtedness of any other Person pursuant to a Guarantee by the Company or any Restricted Subsidiary; (vii) net costs associated with Hedging Obligations (including amortization of fees but excluding any net costs associated with "marking to market" of such Hedging Obligations), and (viii) dividends in respect of (A) all Preferred Stock of the Company and any of the Subsidiaries of the Company and (B) Disqualified Stock of the Company, in the case of each of (A) and (B) to the extent held by Persons other than the Company or a Wholly Owned Subsidiary.

"Consolidated Net Income" means, for any period, the net income of the Company and its Consolidated Subsidiaries for such period; provided, however, that there shall not be included in such Consolidated Net Income:

(i) any net income of any Person (other than the Company) if such Person is not a Restricted Subsidiary, except that subject to the limitations contained in clause (iv)

below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution made to a Restricted Subsidiary, to the limitations contained in clause (iii) below);

(ii) any net income (or loss) of any Person acquired by the Company or a Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition;

(iii) any net income of any Restricted Subsidiary:

(A) for purposes of determining limitations on Indebtedness under Section 4.03 only, to the extent that such net income exceeds the sum (without duplication) of (v) the maximum aggregate amount of cash that such Restricted Subsidiary is permitted to pay as a dividend or other distribution to the Company or another Restricted Subsidiary at the date of determination without any prior governmental approval (which has not been obtained) and payment which is not prohibited, directly or indirectly, by the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, writ, injunction, certificate, statute, rule, law, code, ordinance or governmental regulation applicable to such Restricted Subsidiary or its shareholders (each such restriction or prohibition, a "Payment Restriction"); (w) the amount of any dividend or distribution declared or paid during such period by such Restricted Subsidiary to the Company or another Restricted Subsidiary to the extent that such dividend or distribution reduces the amount described in clause (w) that could be distributed at the date of determination; (x) the maximum aggregate amount of cash that the Company is permitted to draw under the Subordinated Loan Agreement during such period at the date of determination; (y) the amount actually drawn by the Company under the Subordinated Loan Agreement to the extent that such amount drawn reduces the amount described in clause (x) that could be drawn at the date of determination; and (z) the amount of cash payments made by such Restricted Subsidiary to the Company or another Restricted Subsidiary during such period under tax sharing agreements, surplus debentures or other intercompany agreements, but only without duplication and only to the extent that the making of such payment when made was permitted by the Payment Restrictions, subject, in the case of dividends, distributions or payments to another Restricted Subsidiary under any of clause (v), (w) or (z), to the limitations in this clause (iii); provided, however, that the Company's equity in net loss of any such Restricted Subsidiary for such period to the extent of any contributions or advances made by the Company or any Restricted Subsidiary to such Restricted Subsidiary shall be included in determining such Consolidated Net Income; and

(B) for all other purposes of this Indenture (including determining limitations on Restricted Payments under Section 4.04), to the extent that such net income exceeds the amount of any dividend or distribution declared and paid

during such period by such Restricted Subsidiary to the Company or, subject to this clause (iii), another Restricted Subsidiary;

(iv) any gain (or loss) realized upon the sale or other disposition of any asset of the Company or its Consolidated Subsidiaries (including pursuant to any Sale/Leaseback Transaction) that is not sold or otherwise disposed of in the ordinary course of business and any gain (or loss) realized upon the sale or other disposition of any Capital Stock of any Person;

(v) any extraordinary or non-recurring gain or loss as well as the tax effects thereof;

(vi) any restoration to income of any contingency reserve (not including insurance and reinsurance reserves and reserves for reinsurance recoverables), except to the extent that provision for such reserve reduced Consolidated Net Income for any period following the first day of the four fiscal quarter period ending prior to the Closing Date;

(vii) the cumulative effect of a change in accounting principles; and

(viii) any unrealized gains and losses on Investment Securities to the extent such gains and losses affect such net income (loss); provided, further, however, that the net income (loss) shall include upon any disposition of any Investment Security referred to in this clause (viii), the then realized gain or loss on any such Investment Security (after excluding the effect of any unrealized gains and losses on such Investment Security which affected such net income (loss)).

Notwithstanding the foregoing, for the purposes of Section 4.04 only, there shall be excluded from Consolidated Net Income any dividends, repayments of loans or advances or other transfers of assets from Unrestricted Subsidiaries to the Company or a Restricted Subsidiary to the extent such dividends, repayments or transfers increase the amount of Restricted Payments permitted under such Section pursuant to clause (a)(3)(D) thereof.

"Consolidated Net Worth" means the total of the amounts shown on the balance sheet of the Company and its Restricted Subsidiaries, determined on a Consolidated basis, as of the end of the most recent fiscal quarter of the Company ending prior to the taking of any action for the purpose of which the determination is being made for which financial statements are available, as (i) the par or stated value of all outstanding Capital Stock of the Company plus

(ii) paid-in capital or capital surplus relating to such Capital Stock plus

(iii) any retained earnings or earned surplus less (A) any accumulated deficit and (B) any amounts attributable to Disqualified Stock.

"Consolidation" means the consolidation of the amounts of each of the Restricted Subsidiaries with those of the Company in accordance with GAAP consistently applied; provided, however, that "Consolidation" shall not include consolidation of the accounts of any Unrestricted Subsidiary, but the interest of the Company or any Restricted Subsidiary in an

Unrestricted Subsidiary shall be accounted for as an investment. The term "Consolidated" has a correlative meaning.

"Corporate Trust Office" means the principal office of the Trustee at which at any particular time its corporate trust business shall be administered which office at the date of the execution of this agreement is located at 114 West 47th Street - 25th floor, New York, New York 10036-1532, Attention: Corporate Trust Office or at any other time at such other address as the Trustee may designate from time to time by notice to the Company.

"Credit Facilities" means, with respect to the Company or its Restricted Subsidiaries, one or more debt facilities or commercial paper facilities with banks, insurance companies or other institutional lenders providing for revolving credit loans, term loans, synthetic lease financing, notes or other financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from or issue securities to such lenders against such receivables) or letters of credit or other credit facilities, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

"Currency Agreement" means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement to which the Company or any Restricted Subsidiary is a party or of which it is a beneficiary.

"Current Maturities of Funded Indebtedness" means, at any time and with respect to any item of Funded Indebtedness, the portion of such Funded Indebtedness outstanding at such time which by the terms of such Funded Indebtedness or the terms of any instrument or agreement relating thereto is due on demand or within one year from such time (whether by sinking fund, other required prepayment or final payment at maturity) and is not directly or indirectly renewable, extendible or refundable at the option of the obligor under an agreement or firm commitment in effect at such time to a date one year or more from such time.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Disqualified Stock" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable or exercisable) or upon the happening of any event (i) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise, (ii) is convertible or exchangeable for Indebtedness or Disqualified Stock or (iii) is redeemable at the option of the holder thereof, in whole or in part, in each case on or prior to the Stated Maturity of the Securities provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the Stated Maturity of the Securities shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are not more favorable to the holders of such Capital Stock than the provisions of Sections 4.06 and 4.08.

"EBITDA" for any period means the Consolidated Net Income for such period, plus the following to the extent deducted in calculating such Consolidated Net Income: (i) income tax expense of the Company and its Consolidated Restricted Subsidiaries, (ii) Consolidated Interest Expense, (iii) depreciation expense of the Company and its Consolidated Restricted Subsidiaries and (iv) amortization expense of the Company and its Consolidated Restricted Subsidiaries including amortization of debt issuance costs (excluding amortization expense attributable to a prepaid cash item that was paid in a prior period) and (v) all other non-cash charges of the Company and its Consolidated Restricted Subsidiaries (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period), in each case for such period. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and non-cash charges of, a Restricted Subsidiary of the Company shall be added to Consolidated Net Income to compute EBITDA only to the extent (and in the same proportion) that the net income of such Restricted Subsidiary was included in calculating Consolidated Net Income and only if a corresponding amount would be permitted at the date of determination to be dividended to the Company by such Restricted Subsidiary without prior approval (that has not been obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such Restricted Subsidiary or its stockholders.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Funded Indebtedness" means, with respect to any Person, all Indebtedness of such Person that is reflected on the face of the Consolidated balance sheet of the Company and the Restricted Subsidiaries which by its terms or by the terms of any instrument or agreement relating thereto matures, or which is otherwise payable or unpaid, one year or more from, or is directly or indirectly renewable or extendible at the option of the obligor in respect thereof to a date one year or more (including, without limitation, an option of such obligor under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of one year or more) from, the date of the creation thereof, provided, however, that Funded Indebtedness shall include, as at any date of determination, Current Maturities of Funded Indebtedness.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time, including those set forth in (i) the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants, (ii) statements and pronouncements of the Financial Accounting Standards Board, (iii) such other statements by such other entity as approved by a significant segment of the accounting profession and (iv) the rules and regulations of the SEC governing the inclusion of financial statements (including pro forma financial statements) in periodic reports required to be filed pursuant to Section 13 of the Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the SEC. All ratios and computations based on GAAP contained in this Indenture shall be computed in conformity with GAAP.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply

funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep- well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning. The term "Guarantor" shall mean any Person Guaranteeing any obligation.

"Hedging Obligations" of any Person means the obligations of such Person under any Interest Rate Agreement or Currency Agreement.

"Holder" or "Securityholder" means the Person in whose name a Security is registered on the Registrar's books.

"Incur" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary. The term "Incurrence" when used as a noun shall have a correlative meaning. Neither the accretion of principal of a non-interest bearing or other discount security nor the accrual of interest (or the addition of accrued interest to principal) shall be deemed to be an Incurrence of Indebtedness.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication),

(i) the principal of and premium (if any) in respect of indebtedness of such Person for borrowed money;

(ii) the principal of and premium (if any) in respect of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(iii) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto);

(iv) all obligations of such Person to pay the deferred and unpaid purchase price of property or services (except Trade Payables), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto or the completion of such services;

(v) all Capitalized Lease Obligations;

(vi) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any Subsidiary of such Person, any Preferred Stock (but excluding, in each case, any accrued dividends);

(vii) to the extent not otherwise included in this definition, Hedging Obligations of such Person;

(viii) all obligations of the type referred to in clauses (i) through

(ii) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee; or

(ix) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided, however, that the amount of Indebtedness of such Person shall be the lesser of (A) the fair market value of such asset at such date of determination and (B) the amount of such Indebtedness of such other Persons;

provided, however, that Indebtedness shall not include obligations arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of day-light overdrafts) drawn against insufficient funds in the ordinary course of business unless such obligations are not extinguished within three Business Days of incurrence. The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date.

"Indebtedness/Total Capital Ratio" means, as of any date, the quotient expressed as a percentage of (i) Balance Sheet Indebtedness divided by (ii) the sum of Funded Indebtedness plus Consolidated Net Worth, in each case determined on a Consolidated basis in accordance with GAAP.

"Indenture" means this Indenture as amended or supplemented from time to time.

"Insurance Subsidiary" means any Restricted Subsidiary, whether now owned or hereafter acquired, that is authorized or admitted to carry on or transact the business of selling, issuing or underwriting insurance or reinsurance, in any state.

"Interest Rate Agreement" means with respect to any Person any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement as to which such Person is party or is a beneficiary.

"Investment" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender) or other extension of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by

such Person. For purposes of the definition of "Unrestricted Subsidiary" and Section 4.04, (i) "Investment" shall include the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of any Subsidiary of the Company at the time that such Subsidiary is designated an Unrestricted Subsidiary; provided, however, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Company shall be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary in an amount (if positive) equal to (x) the Company's "Investment" in such Subsidiary at the time of such redesignation less (y) the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of such Subsidiary at the time of such redesignation; and (ii) any property transferred to or from an Unrestricted Subsidiary shall be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors.

"Investment Securities" means securities invested in by the Insurance Subsidiaries in the ordinary course of their insurance business.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"Moody's" means Moody's Investor Service, Inc. and its successors.

"Moody's Rating" means, as at any date, the financial strength rating of a specific Person or group of Persons as most recently published by Moody's.

"NAIC" means the National Association of Insurance Commissioners or any successor.

"Net Available Cash" from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of (i) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all Federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability under GAAP, as a consequence of such Asset Disposition, (ii) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be repaid out of the proceeds from such Asset Disposition, (iii) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Disposition and (iv) appropriate amounts to be provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed of in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

"Net Cash Proceeds", with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Non-Recourse Debt" shall mean Indebtedness (i) as to which neither the Company nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable (as a Guarantor or otherwise) or (c) constitutes the lender; (ii) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness (other than the Securities) of the Company or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity; and (iii) as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of the Company or any of its Restricted Subsidiaries.

"Officer" means the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the President, any Vice President, the Treasurer or the Secretary of the Company.

"Officers' Certificate" means a certificate signed by two Officers.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

"Parent" means ACE Limited, a limited liability company formed under the laws of the Cayman Islands.

"Permitted Investment" means an Investment by the Company or any Restricted Subsidiary in (i) the Company, a Restricted Subsidiary or a Person that will, upon the making of such Investment, become a Restricted Subsidiary; provided, however, that the primary business of such Restricted Subsidiary is a Related Business; (ii) another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Restricted Subsidiary; provided, however, that such Person's primary business is a Related Business; (iii) Temporary Cash Investments; (iv) receivables (other than receivables referred to in any other clauses of this definition) owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances; (v) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business; (vi) loans or advances to employees made in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary; (vii) stock, obligations or securities

received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments or in bankruptcy proceedings, (viii) any Person to the extent such Investment represents the non-cash portion of the consideration received for an Asset Disposition or other disposition of assets that was made pursuant to and in compliance with Section 4.06, (ix) Investments by the Insurance Subsidiaries in Investment Securities made in accordance with applicable insurance investment laws and the investment guidelines established by the Company's Board of Directors from time to time, (x) any Investment (other than Investments by Insurance Subsidiaries) existing on the Closing Date or made pursuant to legally binding written commitments in existence on the Closing Date; (xi) Investments in Interest Rate Agreements or Currency Agreements otherwise permitted under the Indenture; (xii) receivables (including, but not limited to, accrued investment income, premiums in process of collection and reinsurance recoverables on paid and unpaid losses) owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business; (xiii) deposits established in connection or under insurance and reinsurance contracts; (xiv) Strategic Investments having an aggregate fair market value, taken together with all other Investments made pursuant to this clause (xiv) that are at that time outstanding, not to exceed 15% of Total Assets at the time of such Investment (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value); and (xv) additional Investments having an aggregate fair market value, taken together with all other Investments made pursuant to this clause (xv) that are at that time outstanding, not to exceed 10% of Total Assets at the time of such Investment (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value).

"Permitted Liens" means, with respect to any Person, (a) pledges or deposits by such Person under worker's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness), including insurance and reinsurance contracts, or with or for the benefit of regulatory authorities, insureds or reinsureds, or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits of cash or United States government bonds to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent, in each case Incurred in the ordinary course of business; (b) Liens imposed by law, such as carriers', warehousemen's and mechanics' Liens, in each case for sums not yet due or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person shall then be proceeding with an appeal or other proceedings for review; (c) Liens for taxes or other governmental charges not yet due or payable or subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings; (d) Liens in favor of issuers of surety bonds or letters of credit issued pursuant to the request of and for the account of such Person in the ordinary course of its business; provided, however, that such letters of credit do not constitute Indebtedness; (e) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not Incurred in connection with

Indebtedness and which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person; (f) Liens securing Indebtedness Incurred to finance the construction, purchase or lease of, or repairs, improvements or additions to, property of such Person; provided, however, that the Lien may not extend to any other property owned by such Person or any of its Subsidiaries at the time the Lien is Incurred, and the Indebtedness (other than any interest thereon) secured by the Lien may not be Incurred more than 180 days after the later of the acquisition, completion of construction, repair, improvement, addition or commencement of full operation of the property subject to the Lien; (g) Liens existing on the Closing Date; (h) Liens on property or shares of Capital Stock of another Person at the time such other Person becomes a Subsidiary of such Person; provided, however, that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such other Person becoming such a Subsidiary; provided further, however, that such Liens may not extend to any other property owned by such Person or any of its Subsidiaries; (i) Liens on property at the time such Person or any of its Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into such Person or a Subsidiary of such Person; provided, however, that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such acquisition; provided further, however, that the Liens may not extend to any other property owned by such Person or any of its Subsidiaries; (j) Liens securing Indebtedness or other obligations of a Subsidiary of such Person owing to such Person or a wholly owned Subsidiary of such Person; (k) Liens securing Hedging Obligations so long as such Hedging Obligations relate to Indebtedness that is, and is permitted to be under this Indenture, secured by a Lien on the same property securing such Hedging Obligations; (l) Liens to secure any Refinancing (or successive Refinancings) as a whole, or in part, of any Indebtedness secured by any Lien referred to in the foregoing clauses (f), (g), (h) and (i); provided, however, that (x) such new Lien shall be limited to all or part of the same property that secured the original Lien (plus improvements to or on such property) and (y) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of (A) the outstanding principal amount or, if greater, committed amount of the Indebtedness described under clauses (f), (g), (h) or (i) at the time the original Lien became a Permitted Lien under this Indenture and (B) an amount necessary to pay any fees and expenses, including premiums, related to such Refinancing; and (m) Liens Incurred in the ordinary course of business of such Person with respect to obligations that do not exceed \$5,000,000 at any one time outstanding and that (a) do not secure Indebtedness, (b) are not Incurred in connection with the borrowing of money or the obtaining of advances or credit, and (c) do not in the aggregate materially detract from the value of the property or materially impair the use thereof in the operation of business by such Person. For purposes of this definition, the term "Indebtedness" shall be deemed to include interest on such Indebtedness.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock", as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"principal" of a Security means the principal of the Security plus the premium, if any, payable on the Security that is due or overdue or is to become due at the relevant time.

"Purchase Money Indebtedness" means Indebtedness (i) consisting of the deferred purchase price of an asset, conditional sale obligations, obligations under any title retention agreement and other purchase money obligations, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed, and (ii) incurred to finance the acquisition by the Company or a Restricted Subsidiary of such asset, including additions and improvements; provided, however, that such Indebtedness is incurred within 180 days after the acquisition by the Company or such Restricted Subsidiary of such asset.

"Qualified Subordinated Debt" means any subordinated loan made to the Company or any Restricted Subsidiary by, and at all time held by, the Parent or ACE Insurance that

(i) by its terms (A) does not (including upon the happening of any event) mature and is not (including upon the happening of any event) mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder, in whole or in part, and does not include any provision requiring prepayment or repurchase by the Company or any of its Restricted Subsidiaries (including upon the happening of any event), in each case prior to the date that is 91 days after the final maturity date of the Securities, (B) does not (including upon the happening of any event) require or provide for the payment, in cash or otherwise, of interest or any other amounts prior to its stated maturity (provided that interest may accrue while such loan is outstanding and any interest may be satisfied at any time by the issue to the holders thereof of further Qualified Subordinated Debt or by adding accrued interest to principal), (C) does not provide (including upon the happening of any event) for the acceleration of its maturity (other than following the winding up or bankruptcy of the Company, but only if the maturity of the Securities has been accelerated) or the exercise of remedies prior to the date that is 91 days after the final maturity date of the Securities, (D) is not secured by a Lien on any assets of the Company or any of its Restricted Subsidiaries and is not Guaranteed by any Subsidiary of the Company, (E) is not transferable by the holder thereof except to the Company, (F) does not (including upon the happening of any event) restrict the payment of amounts due in respect of the Securities or compliance by the Company with its obligations under the Securities and the Indenture, and (G) is not (including upon the happening of any event) mandatorily convertible or exchangeable, or convertible or exchangeable at the option of the holder, in whole or in part, prior to the date that is 91 days after the final maturity date of the Securities other than into or for common equity of the Company, and

(ii) is contractually subordinated (pursuant to a binding agreement with the Trustee for the benefit of the Holders) and junior in right of payment to the prior payment in full in cash of all obligations of the Company under the Securities and the Indenture (including principal, interest, and premium (if any)) such that (A) the Company shall make no payment in respect of such loan (whether in cash, securities or otherwise, except as permitted by clause (i) (B)) and may not acquire, purchase, prepay or redeem such loan, except as permitted by Section 4.04(a) until the prior payment in full in cash of all

obligations in respect of the Securities and the Indenture, (B) upon any total or partial liquidation, dissolution or winding up of the Company or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Company or its property, the Securityholders will be entitled to receive payment in full in cash of the obligations under the Indenture and the Securities before the holder of such loan will be entitled to receive any payment in respect of such loan, (C) such loan may not be amended such that it would cease to qualify as Qualified Subordinated Debt until the date that is 91 days after the prior payment in full in cash of all obligations in respect of the Securities and the Indenture, and (D) the holder of such loan shall assign any rights to vote, including by way of proxy, in a bankruptcy, insolvency or similar proceeding to the Trustee.

"Redemption Price" has the meaning set forth in paragraph 5 of the Securities.

"Reference Swap Transaction" means the transaction described in Exhibit C attached hereto.

"Reference Swap Transaction Value" means, as of any day, (i) an amount (which may be positive or negative) determined in good faith on such day by The Chase Manhattan Bank to be the present mark-to-market value of the Reference Swap Transaction, based on its mid-market quotation for transactions on substantially the same terms as the Reference Swap Transaction, (ii) divided by the aggregate principal amount of all Securities outstanding on such day, expressed as a percentage. If the amount in clause (i) in the preceding sentence is (a) a positive number, it is subtracted from the Base Redemption Price or (b) a negative number, it is added to the Base Redemption Price. Mark-to-market value shall be determined from the perspective of the Fixed Rate Payer (as defined in Exhibit C).

"Refinance" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "Refinanced" and "Refinancing" shall have correlative meanings.

"Refinancing Indebtedness" means Indebtedness that is Incurred to refund, refinance, replace, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) any Indebtedness of the Company or any Restricted Subsidiary existing on the date of this Indenture or Incurred in compliance with this Indenture including Indebtedness of the Company that Refinances Refinancing Indebtedness; provided, however, that (i) the Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced, (ii) the Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced, (iii) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being Refinanced (plus any premiums, accrued interest, fees and expenses) and (iv) if the Indebtedness being refinanced is subordinated in right of payment to the Securities, such Refinancing Indebtedness is subordinated in right of payment to the Securities at least to the same extent as the Indebtedness being Refinanced;

provided further, however, that Refinancing Indebtedness shall not include (x) Indebtedness of a Restricted Subsidiary that Refinances Indebtedness of the Company or (y) Indebtedness of the Company or a Restricted Subsidiary that Refinances Indebtedness of an Unrestricted Subsidiary.

"Related Business" means any business related, ancillary or complementary to the businesses of the Company and the Restricted Subsidiaries on the Closing Date.

"Restricted Subsidiary" means any Subsidiary of the Company other than an Unrestricted Subsidiary.

"Sale/Leaseback Transaction" means an arrangement relating to property now owned or hereafter acquired by the Company or a Restricted Subsidiary whereby the Company or a Restricted Subsidiary transfers such property to a Person and the Company or such Restricted Subsidiary leases it from such Person, other than leases between the Company and a Wholly Owned Subsidiary or between Wholly Owned Subsidiaries.

"SEC" means the Securities and Exchange Commission.

"Secured Indebtedness" means any Indebtedness of the Company secured by a Lien. "Secured Indebtedness" of a Subsidiary Guarantor has a correlative meaning.

"Securities" means the Securities issued under this Indenture.

"Securities Act" means the Securities Act of 1933, as amended.

"S&P" means Standard & Poor's Ratings Service, a division of the McGraw Hill Companies, Inc., and its successors.

"S&P Rating" means, as at any date, the financial strength rating of a specific Person or group of Persons as most recently published by S&P.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency beyond the control of the issuer unless such contingency has occurred).

"Strategic Investment" means an Investment in any Person (other than an Unrestricted Subsidiary of the Company) whose primary business is a Related Business and such Investment is determined in good faith by the Board of Directors (or senior officers of the Company to whom the Board of Directors has delegated the authority to make such a determination), whose determination shall be conclusive and evidenced by a Board resolution (or Officer's Certificate delivered to the Trustee), to promote or significantly benefit the business of the Company and its Restricted Subsidiaries on the date of such Investment.

"Subordinated Loan Agreement" means the subordinated loan agreement dated as of the Closing Date among the Company, ACE Insurance, and the Trustee.

"Subordinated Obligation" means any Indebtedness of the Company (whether outstanding on the Closing Date or thereafter Incurred), including Qualified Subordinated Debt, that is subordinate or junior in right of payment to the Securities pursuant to a written agreement. "Subordinated Obligation" of a Subsidiary Guarantor has a correlative meaning.

"Subsidiary" of any Person means any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person, (ii) such Person and one or more Subsidiaries of such Person or (iii) one or more Subsidiaries of such Person.

"Subsidiary Guarantee" means each Guarantee of the obligations with respect to the Securities issued by a Subsidiary of the Company pursuant to the terms of this Indenture.

"Subsidiary Guarantor" means any Subsidiary that has issued a Subsidiary Guarantee. As of the date hereof, there are no Subsidiary Guarantors.

"Temporary Cash Investments" means any of the following: (i) direct obligations of the United States of America or any agency thereof or obligations Guaranteed by the United States of America or any agency thereof maturing within 360 days of the date of acquisition thereof, (ii) time deposit accounts, certificates of deposit and money market deposits maturing within 360 days of the date of acquisition thereof issued by a bank or trust company that is organized under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America having capital, surplus and undivided profits aggregating in excess of \$50,000,000 (or the foreign currency equivalent thereof) and whose long-term debt is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act), (iii) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (i) above entered into with a bank meeting the qualifications described in clause (ii) above, (iv) commercial paper, maturing not more than 270 days after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P, (v) investments in securities with maturities of 360 days or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or "A" by Moody's Investors Service, Inc. and (vi) funds that do not utilize Indebtedness in order to make investments and that invest solely in any of the Investments described in clauses (i) through (v) above.

"Total Assets" means, at any time, the total Consolidated assets of the Company and its Restricted Subsidiaries at such time.

"Trade Payables" means, with respect to any Person, any accounts payable or any indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person arising in the ordinary course of business in connection with the acquisition of goods or services.

"Trustee" means the party named as such in this Indenture until a successor replaces it and, thereafter, means the successor.

"Trust Officer" means when used with respect to the Trustee any officer within the Corporate Trust Office, including any Vice President, Managing Director, Assistant Vice President, Secretary, Assistant Secretary, Treasurer or Assistant Treasurer, Senior Trust Officer, Trust Officer or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer's knowledge and familiarity with the particular subject.

"Uniform Commercial Code" means the New York Uniform Commercial Code as in effect from time to time.

"Unrestricted Subsidiary" means (i) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided below and (ii) any Subsidiary of an Unrestricted Subsidiary. The Board of Directors may designate any Subsidiary of the Company (including any newly acquired or newly formed Subsidiary of the Company) to be an Unrestricted Subsidiary unless such Subsidiary or any of its Subsidiaries owns any Capital Stock or Indebtedness of, or owns or holds any Lien on any property of, the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated; provided, however, that either (A) the Subsidiary to be so designated has total consolidated assets of \$1,000 or less or (B) if such Subsidiary has Consolidated assets greater than \$1,000, then such designation would be permitted under Section 4.04. The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided, however, that immediately after giving effect to such designation (x) the Company could Incur \$1.00 of additional Indebtedness under Section 4.03(a) and (y) no Default shall have occurred and be continuing. Any such designation of a Subsidiary as a Restricted Subsidiary or Unrestricted Subsidiary by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the issuer's option.

"Voting Stock" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to

the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"Wholly Owned Subsidiary" means a Restricted Subsidiary of the Company all the Capital Stock of which (other than directors' qualifying shares) is owned by the Company or another Wholly Owned Subsidiary.

SECTION 1.02. Other Definitions.

Term -----	Defined in Section -----
"Affiliate Transaction".....	4.07
"Bankruptcy Law".....	6.01
"covenant defeasance option".....	8.01(b)
"Custodian".....	6.01
"Definitive Securities".....	2.09
"Event of Default".....	6.01
"legal defeasance option".....	8.01(b)
"Legal Holiday".....	11.08
"Offer".....	4.06(b)
"Offer Amount".....	4.06(c)(2)
"Offer Period".....	4.06(c)(2)
"Notice of Default".....	6.01
"Paying Agent".....	2.03
"protected purchaser".....	2.07
"Registrar".....	2.03
"Successor Company".....	5.01

SECTION 1.03. Trust Indenture Act. On the date hereof, the parties agree that this Indenture is not subject to the mandatory provisions of the TIA and that each provision of the TIA which imposes obligations on the Company under the TIA are not applicable.

SECTION 1.04. Rules of Construction. Unless the context otherwise requires:

- (1) a term has the meaning assigned to it;
- (2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;
- (3) "or" is not exclusive;
- (4) "including" means including without limitation;
- (5) words in the singular include the plural and words in the plural include the singular;

(6) unsecured Indebtedness shall not be deemed to be subordinate or junior to Secured Indebtedness merely by virtue of its nature as unsecured Indebtedness;

(7) the principal amount of any non-interest bearing or other discount security at any date shall be the principal amount thereof that would be shown on a balance sheet of the issuer dated such date prepared in accordance with GAAP;

(8) the principal amount of any Preferred Stock shall be (i) the maximum liquidation value of such Preferred Stock or (ii) the maximum mandatory redemption or mandatory repurchase price with respect to such Preferred Stock, whichever is greater.

## **ARTICLE 2**

### **THE SECURITIES**

SECTION 2.01. Form and Dating. Provisions relating to the Securities are set forth in Appendix A which is hereby incorporated in and expressly made a part of this Indenture. The Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A hereto, which is hereby incorporated in and expressly made a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule, agreements to which the Company or any Subsidiary Guarantor is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Company). Each Security shall be dated the date of its authentication. The Securities shall be issuable only in registered form without interest coupons and only in denominations of \$1,000 and integral multiples thereof.

SECTION 2.02. Execution and Authentication. One or more Officers shall sign the Securities for the Company by manual or facsimile signature.

If an Officer whose signature is on a Security no longer holds that office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless.

A Security shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Security. The signature shall be conclusive evidence that the Security has been authenticated under this Indenture.

The Trustee shall authenticate and make available for delivery Securities as set forth in Appendix A.

The Trustee may appoint an authenticating agent reasonably acceptable to the Company to authenticate the Securities. Any such appointment shall be evidenced by an instrument signed by a Trust Officer, a copy of which shall be furnished to the Company. Unless limited by the terms of such appointment, an authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as any Registrar, Paying Agent or agent for service of notices and demands.

SECTION 2.03. Registrar, Paying Agent and Calculation Agent. The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange (the "Registrar") and an office or agency where Securities may be presented for payment (the "Paying Agent"). The Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may have one or more co-registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent, and the term "Registrar" includes any co-registrars. The Company initially appoints the Trustee as (i) Registrar and Paying Agent in connection with the Securities and (ii) the Securities Custodian (as defined in Appendix A) with respect to any Global Securities (as defined in Appendix A).

The Company shall enter into an appropriate agency agreement with any Registrar, Paying Agent and Calculation Agent not a party to this Indenture. The agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall notify in writing the Trustee of the name and address of any such agent. If the Company fails to maintain a Registrar, Paying Agent or Calculation Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.07. The Company or any of its domestically organized Wholly Owned Subsidiaries may act as Paying Agent or Registrar. Any Calculation Agent shall either be the Trustee or any U.S. bank, trust company or investment bank with combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition.

The Company may remove any Registrar or Paying Agent upon written notice to such Registrar or Paying Agent and to the Trustee; provided, however, that no such removal shall become effective until (1) acceptance of an appointment by a successor as evidenced by an appropriate agreement entered into by the Company and such successor Registrar or Paying Agent, as the case may be, and delivered to the Trustee or (2) notification to the Trustee that the Trustee shall serve as Registrar or Paying Agent until the appointment of a successor in accordance with clause (1) above. The Registrar, Paying Agent or Calculation Agent may resign at any time upon written notice; provided, however, that no such resignation shall become effective until (1) acceptance of an appointment by a successor as evidenced by an appropriate agreement entered into by the Company and such successor agent, as the case may be, and delivered to the Trustee or (2) notification to the Trustee that the Trustee shall serve as Registrar, Paying Agent or Calculation Agent until the appointment of a successor in accordance with clause (1) above.

SECTION 2.04. Paying Agent To Hold Money in Trust. Prior to each due date of the principal and interest on any Security, the Company shall deposit with the Paying Agent (or if the Company or a Subsidiary is acting as Paying Agent, segregate and hold in trust for the benefit of the Persons entitled thereto) a sum sufficient to pay such principal and interest when so becoming due. The Company shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust for the benefit of Securityholders or the Trustee all money held by the Paying Agent for the payment of principal of or interest on the Securities and shall notify the Trustee of any Default by the Company in making any such payment. If the Company or a Subsidiary of the Company acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed

by the Paying Agent. Upon complying with this Section, the Paying Agent shall have no further liability for the money delivered to the Trustee.

**SECTION 2.05. Securityholder Lists.** The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Trustee is not the Registrar, the Company shall furnish, or cause the Registrar to furnish, to the Trustee, in writing at least five Business Days before each interest payment date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Securityholders.

**SECTION 2.06. Transfer and Exchange.** The Securities shall be issued in registered form and shall be transferable only upon the surrender of a Security for registration of transfer and in compliance with Appendix A. When a Security is presented to the Registrar with a request to register a transfer, the Registrar shall register the transfer as requested if the requirements of Section 8-401(a)(1) of the Uniform Commercial Code are met. When Securities are presented to the Registrar with a request to exchange them for an equal principal amount of Securities of other denominations, the Registrar shall make the exchange as requested if the same requirements are met. To permit registration of transfers and exchanges, the Company shall execute and the Trustee shall authenticate Securities at the Registrar's request. The Company may require payment of a sum sufficient to pay all taxes, assessments or other governmental charges in connection with any transfer or exchange pursuant to this Section. The Company shall not be required to make and the Registrar need not register transfers or exchanges of Securities selected for redemption (except, in the case of Securities to be redeemed in part, the portion thereof not to be redeemed) or any Securities for a period of 15 days before a selection of Securities to be redeemed.

Prior to the due presentation for registration of transfer of any Security, the Company, the Subsidiary Guarantors, the Trustee, the Paying Agent, and the Registrar may deem and treat the Person in whose name a Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and interest, if any, on such Security and for all other purposes whatsoever, whether or not such Security is overdue, and none of the Company, any Subsidiary Guarantor, the Trustee, the Paying Agent, or the Registrar shall be affected by notice to the contrary.

Any Holder of a Global Security shall, by acceptance of such Global Security, agree that transfers of beneficial interest in such Global Security may be effected only through a book-entry system maintained by (i) the Holder of such Global Security (or its agent) or (ii) any Holder of a beneficial interest in such Global Security, and that ownership of a beneficial interest in such Global Security shall be required to be reflected in a book entry.

All Securities issued upon any transfer or exchange pursuant to the terms of this Indenture will evidence the same debt and will be entitled to the same benefits under this Indenture as the Securities surrendered upon such transfer or exchange.

SECTION 2.07. Replacement Securities. If a mutilated Security is surrendered to the Registrar or if the Holder of a Security claims that the Security has been lost, destroyed or wrongfully taken, the Company shall issue and the Trustee shall authenticate a replacement Security if the requirements of

Section 8-405 of the Uniform Commercial Code are met, such that the Holder (i) satisfies the Company or the Trustee within a reasonable time after he has notice of such loss, destruction or wrongful taking and the Registrar does not register a transfer prior to receiving such notification, (ii) makes such request to the Company or the Trustee prior to the Security being acquired by a protected purchaser as defined in Section 8-303 of the Uniform Commercial Code (a "protected purchaser") and (iii) satisfies any other reasonable requirements of the Trustee. If required by the Trustee or the Company, such Holder shall furnish an indemnity bond sufficient, in their respective judgment, to protect the Company, the Trustee, the Paying Agent and the Registrar from any loss that any of them may suffer if a Security is replaced. The Company and the Trustee may charge the Holder for their expenses in replacing a Security. In the event any such mutilated, lost, destroyed or wrongfully taken Security has become or is about to become due and payable, the Company in its discretion may pay such Security instead of issuing a new Security in replacement thereof.

Every replacement Security is an additional obligation of the Company.

The provisions of this Section 2.07 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, lost, destroyed or wrongfully taken Securities.

SECTION 2.08. Outstanding Securities. Securities outstanding at any time are all Securities authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation and those described in this Section as not outstanding. Subject to Section 11.06, a Security does not cease to be outstanding because the Company or an Affiliate of the Company holds the Security.

If a Security is replaced pursuant to Section 2.07, it ceases to be outstanding unless the Trustee and the Company receive proof satisfactory to them that the replaced Security is held by a protected purchaser.

If the Paying Agent segregates and holds in trust, in accordance with this Indenture, on a redemption date or maturity date money sufficient to pay all principal and interest payable on that date with respect to the Securities (or portions thereof) to be redeemed or maturing, as the case may be, then on and after that date such Securities (or portions thereof) cease to be outstanding and interest on them ceases to accrue.

SECTION 2.09. Temporary Securities. In the event that Definitive Securities (as defined in Appendix A) are to be issued under the terms of this Indenture, until such Definitive Securities are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Securities. Temporary Securities shall be substantially in the form of Definitive Securities but may have variations that the Company considers appropriate for temporary Securities. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate Definitive

Securities and deliver them in exchange for temporary Securities upon surrender of such temporary Securities at the office or agency of the Company, without charge to the Holder.

SECTION 2.10. Cancellation. The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Securities surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall cancel all Securities surrendered for registration of transfer, exchange, payment or cancellation and deliver canceled Securities to the Company pursuant to written direction by an Officer. The Company may not issue new Securities to replace Securities it has redeemed, paid or delivered to the Trustee for cancellation. The Trustee shall not authenticate Securities in place of canceled Securities other than pursuant to the terms of this Indenture.

SECTION 2.11. Defaulted Interest. If the Company defaults in a payment of interest on the Securities, the Company shall pay the defaulted interest (plus interest on such defaulted interest to the extent lawful) in any lawful manner. The Company may pay the defaulted interest to the Persons who are Securityholders on a subsequent special record date. The Company shall fix or cause to be fixed any such special record date and payment date to the reasonable satisfaction of the Trustee and shall promptly mail or cause to be mailed to each Securityholder a notice that states the special record date, the payment date and the amount of defaulted interest to be paid.

SECTION 2.12. CUSIP Numbers. The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use) and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided, however, that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers.

### **ARTICLE 3**

#### **REDEMPTION**

SECTION 3.01. Notices to Trustee. If the Company elects to redeem Securities pursuant to paragraph 5 of the Securities, it shall notify the Trustee in writing of the redemption date and the principal amount of Securities to be redeemed.

The Company shall give each notice to the Trustee provided for in this Section at least 60 days before the redemption date unless the Trustee consents to a shorter period (which consent shall not be unreasonably withheld). Such notice shall be accompanied by an Officers' Certificate and an Opinion of Counsel from the Company to the effect that such redemption will comply with the conditions herein. If fewer than all the Securities are to be redeemed, the record date relating to such redemption shall be selected by the Company and given to the Trustee, which record date shall be not fewer than 15 days after the date of notice to the Trustee. Any such notice may be canceled at any time prior to notice of such redemption being mailed to any Holder and shall thereby be void and of no effect.

SECTION 3.02. Selection of Securities To Be Redeemed. If fewer than all the Securities are to be redeemed, the Trustee shall select the Securities to be redeemed pro rata or by lot or by a method that complies with applicable legal and securities exchange requirements, if any, and that the Trustee in its sole discretion shall deem to be fair and appropriate and in accordance with methods generally used at the time of selection by fiduciaries in similar circumstances. The Trustee shall make the selection from outstanding Securities not previously called for redemption. The Trustee may select for redemption portions of the principal of Securities that have denominations larger than \$1,000. Securities and portions of them the Trustee selects shall be in amounts of \$1,000 or a whole multiple of \$1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption. The Trustee shall notify the Company promptly of the Securities or portions of Securities to be redeemed.

SECTION 3.03. Notice of Redemption. At least 10 days but not more than 60 days before a date for redemption of Securities, the Company shall mail a notice of redemption by first-class mail to each Holder of Securities to be redeemed at such Holder's registered address.

The notice shall identify the Securities to be redeemed and shall state:

- (1) the redemption date;
- (2) the redemption price and the amount of accrued interest to the redemption date;
- (3) the name and address of the Paying Agent;
- (4) that Securities called for redemption must be surrendered to the Paying Agent to collect the redemption price;
- (5) if fewer than all the outstanding Securities are to be redeemed, the certificate numbers and principal amounts of the particular Securities to be redeemed;
- (6) that, unless the Company defaults in making such redemption payment or the Paying Agent is prohibited from making such payment pursuant to the terms of this Indenture, interest on Securities (or portion thereof) called for redemption ceases to accrue on and after the redemption date;
- (7) the CUSIP number, if any, printed on the Securities being redeemed; and
- (8) that no representation is made as to the correctness or accuracy of the CUSIP number, if any, listed in such notice or printed on the Securities.

At the Company's written request, the Trustee shall give the notice of redemption in the Company's name and at the Company's expense. In such event, the Company shall provide the Trustee with the information required by this Section.

SECTION 3.04. Effect of Notice of Redemption. Once notice of redemption is mailed, Securities called for redemption become due and payable on the redemption date and at the redemption price stated in the notice. Upon surrender to the Paying Agent, such Securities shall be paid at the redemption price stated in the notice, plus accrued interest, if any, to the redemption date; provided, however, that if the redemption date is after a regular record date and on or prior to the interest payment date, the accrued interest shall be payable to the Securityholder of the redeemed Securities registered on the relevant record date. Failure to give notice or any defect in the notice to any Holder shall not affect the validity of the notice to any other Holder.

SECTION 3.05. Deposit of Redemption Price. Prior to 10:00 a.m. on the redemption date, the Company shall deposit with the Paying Agent (or, if the Company or a Subsidiary is the Paying Agent, shall segregate and hold in trust) money sufficient to pay the redemption price of and accrued interest on all Securities to be redeemed on that date other than Securities or portions of Securities called for redemption that have been delivered by the Company to the Trustee for cancellation.

SECTION 3.06. Securities Redeemed in Part. Upon surrender of a Security that is redeemed in part, the Company shall execute and the Trustee shall authenticate for the Holder (at the Company's expense) a new Security equal in principal amount to the unredeemed portion of the Security surrendered.

## **ARTICLE 4**

### **COVENANTS**

SECTION 4.01. Payment of Securities. The Company shall promptly pay the principal of and interest on the Securities on the dates and in the manner provided in the Securities and in this Indenture. Principal and interest shall be considered paid on the date due if on such date the Trustee or the Paying Agent holds in accordance with this Indenture money sufficient to pay all principal and interest then due and the Trustee or the Paying Agent, as the case may be, is not prohibited from paying such money to the Securityholders on that date pursuant to the terms of this Indenture.

The Company shall pay interest on overdue principal at the rate specified therefor in the Securities, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

SECTION 4.02. Certain Reports and Certificates. At any time while any Securities are outstanding:

(a) Within 90 days after the end of each fiscal year, the Company shall provide to the Trustee and Securityholders a Consolidated balance sheet of the Company and the Restricted Subsidiaries as of the end of such fiscal year and the related Consolidated statements of income, stockholders' equity and cash flow of the Company and the Restricted Subsidiaries for such fiscal year, setting forth in each case in comparative form the Consolidated figures for the previous

fiscal year, all in reasonable detail and accompanied by (i) a report thereon of independent certified public accountants of recognized national standing selected by the Company stating that such Consolidated financial statements fairly present the Consolidated financial position of the Company and the Restricted Subsidiaries as of the date indicated and their results of operations and cash flows for the periods indicated in conformity with GAAP (except as otherwise stated therein) and that the examination by such accountants in connection with such Consolidated financial statements has been made in accordance with generally accepted auditing standards and (ii) a management's discussion and analysis of financial condition and results of operations substantially as would be required to be included in an annual report on Form 10-K if the Company were subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act;

(b) within 45 days after the end of each fiscal quarter (other than the last fiscal quarter of any fiscal year) the Company shall provide to the Trustee and Securityholders an unaudited Consolidated balance sheet of the Company and the Restricted Subsidiaries as of the end of such quarter and the related unaudited Consolidated statements of income, stockholders' equity and cash flow for such quarter and the portion of the fiscal year ended at the end of such quarter, setting forth in each case in comparative form the Consolidated figures for the corresponding periods of the prior fiscal year, all in reasonable detail and certified by the Company's chief financial officer as fairly presenting the Consolidated financial condition of the Company and the Restricted Subsidiaries as of the dates indicated, and their Consolidated results of operations and cash flows for the periods indicated, in conformity with GAAP, subject to normal year-end adjustments and the absence of footnotes;

(c) The Company and the Subsidiary Guarantors shall furnish to the Holders and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act;

(d) The Company shall deliver to the Trustee, the Calculation Agent and the Securityholders, no later than the 45th day following the last day of each fiscal quarter, a certificate signed by two Officers of the Company (the "Quarterly Certificate") in the form attached hereto as Exhibit D setting forth the following information: (i) the calculation of the Company's Indebtedness/Total Capital Ratio as of the last day of such preceding fiscal quarter, measured in accordance with GAAP on a Consolidated basis, (ii) the current S&P Rating or Moody's Rating for each ACE USA Insurance Group as of the date of such Quarterly Certificate, and (iii) based upon the calculation and rating set forth respectively in (i) and (ii) above, the applicable interest rate in effect for the next Pricing Period; and

(e) If, following delivery of a Quarterly Certificate during any fiscal quarter pursuant to Section 4.02(d) and before the last day of such fiscal quarter, any ACE USA Insurance Group is notified of any change in its S&P Rating or Moody's Rating, the Company shall deliver to the Trustee, the Calculation Agent and the Securityholders a certificate signed by two Officers of the Company notifying the Trustee of such change in the S&P Rating or Moody's Rating for such ACE USA Insurance Group (the "Ratings Certificate"), which certificate shall be in the form of Exhibit E attached hereto and shall be delivered within 3 days of such ACE USA Insurance Group being notified by S&P or Moody's of the same. Such Ratings Certificate shall set forth the

applicable interest rate in effect for the next Pricing Period taking into account such change in the S&P Rating or Moody's Rating.

SECTION 4.03. Limitation on Indebtedness.

(a) The Company shall not, and shall not permit any Restricted Subsidiary to, Incur, directly or indirectly, any Indebtedness; provided, however, that the Company may Incur Indebtedness if after giving pro forma effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, the Consolidated Coverage Ratio would be greater than 1.2 to 1.

(b) Notwithstanding Section 4.03(a), the Company and its Restricted Subsidiaries may Incur the following Indebtedness:

(i) working capital Indebtedness of the Company or any Restricted Subsidiary under any revolving credit facility in an aggregate principal amount not to exceed \$10,000,000 at any time outstanding;

(ii) Indebtedness of the Company owed to and held by any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owed to and held by the Company or any Restricted Subsidiary; provided, however, that (i) any subsequent issuance or transfer of any Capital Stock or any other event that results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of any such Indebtedness (except to the Company or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the issuer thereof and

(ii) if the Company is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full of all obligations with respect to the Securities;

(iii) Indebtedness (A) represented by the Securities and the Subsidiary Guarantees (if any), (B) consisting of Refinancing Indebtedness Incurred in respect of any Indebtedness described in this clause (iii) (including Indebtedness Refinancing Refinancing Indebtedness) or Section 4.03(a) and (C) of the Company under the terms of the Subordinated Loan Agreement, as in effect on the date hereof (without regard to any amendments, supplements or other modifications not permitted by Section 4.17);

(iv) (A) Indebtedness of a Restricted Subsidiary Incurred and outstanding on or prior to the date on which such Restricted Subsidiary was acquired by the Company (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Subsidiary or was otherwise acquired by the Company); provided, however, that on the date that such Restricted Subsidiary is acquired by the Company, the Company would have been able to Incur \$1.00 of additional Indebtedness pursuant to Section 4.03(a) after giving effect to the Incurrence of such Indebtedness pursuant to this clause (iv) and (B) Refinancing Indebtedness Incurred by a Restricted Subsidiary in respect of Indebtedness Incurred by such Restricted Subsidiary pursuant to this clause (iv);

(v) Indebtedness (A) of any Restricted Subsidiary evidenced by letters of credit or performance, surety or appeal bonds (and related reimbursement obligations) provided in the ordinary course of such Restricted Subsidiary's insurance and reinsurance business, and (B) under Interest Rate Agreements or Currency Agreements entered into for bona fide hedging purposes of the Company in the ordinary course of business; provided, however, that any such Interest Rate Agreements or Currency Agreements do not increase the Indebtedness of the Company outstanding at any time other than as a result of fluctuations in interest rates or by reason of fees, indemnities and compensation payable thereunder;

(vi) Purchase Money Indebtedness and Capitalized Lease Obligations, and Refinancing Indebtedness with respect thereto, in an aggregate principal amount not in excess of \$3,000,000 at any time outstanding;

(vii) Indebtedness of the Company (other than Indebtedness permitted to be Incurred pursuant to Section 4.03(a) or any other clause of this Section 4.03(b)) in an aggregate principal amount at any time outstanding not to exceed \$3,000,000;

(viii) Indebtedness of the Company, to the extent that the net proceeds thereof are promptly deposited to defease all of the Securities as provided in Article 8;

(ix)(A) Guarantees of the Securities and (B) Guarantees of Indebtedness of the Company by any Restricted Subsidiary, in the case of (B) if the Restricted Subsidiary or the Company, respectively, is permitted to Incur such Indebtedness hereunder, provided that simultaneously with any such Guarantee of Indebtedness by any Restricted Subsidiary, a Subsidiary Guarantee shall be made to each Holder and to the Trustee in accordance with Section 4.11 and Article 10 hereof;

(x) Non-Recourse Debt of any Unrestricted Subsidiary; provided, however, that if any such Non-Recourse Debt ceases to be Non-Recourse Debt of an Unrestricted Subsidiary, such event shall be deemed to constitute an Incurrence of Indebtedness by a Restricted Subsidiary of the Company that was not permitted by this clause (x); and

(xi) Qualified Subordinated Debt of the Company; provided, however, that if any such Indebtedness ceases to be Qualified Subordinated Debt, such event shall be deemed to constitute an Incurrence of Indebtedness by the Company that was not permitted by this clause (xi).

(c) Notwithstanding the foregoing, the Company shall not, and shall not permit any Restricted Subsidiary to Incur any Indebtedness pursuant to Section 4.03(b) above if the proceeds thereof are used, directly or indirectly, to repay, prepay, redeem, defease, retire, refund or refinance any Subordinated Obligations unless such Indebtedness shall be subordinated to the Securities to at least the same extent as such Subordinated Obligations.

(d) Notwithstanding any other provision of this Section 4.03, the maximum amount of Indebtedness that the Company or any Restricted Subsidiary may Incur pursuant to this

Section shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rates of currencies. For purposes of determining the outstanding principal amount of any particular Indebtedness Incurred pursuant to this Section 4.03, (i) Indebtedness permitted by this Section 4.03 need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this Section permitting such Indebtedness and (ii) in the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in this Section, the Company, in its sole discretion, shall classify such Indebtedness and only be required to include the amount of such Indebtedness in one of such clauses.

SECTION 4.04. Limitation on Restricted Payments. (a) The Company shall not, and shall not permit any Restricted Subsidiary, directly or indirectly, to (i) declare or pay any dividend or make any distribution on or in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving the Company) or similar payment to the direct or indirect holders of its Capital Stock except dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock) and except dividends or distributions payable to the Company or another Restricted Subsidiary (and, if such Restricted Subsidiary has shareholders other than the Company or other Restricted Subsidiaries, to its other shareholders on a pro rata basis), (ii) purchase, redeem, retire or otherwise acquire for value any Capital Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or another Restricted Subsidiary (except in the case of the Company or any Restricted Subsidiary acquiring (1) all of the remaining Capital Stock of any Restricted Subsidiary listed on Schedule 4.04 not owned by the Company or any Restricted Subsidiary or (2) Capital Stock of a Restricted Subsidiary pursuant to an agreement listed on Schedule 4.04), (iii) purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment any Subordinated Obligations (other than the purchase, repurchase or other acquisition of Subordinated Obligations (other than Qualified Subordinated Debt) purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition), or (iv) make any Investment (other than a Permitted Investment) in any Person (any such dividend, distribution, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Investment being herein referred to as a "Restricted Payment") if at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

- (1) a Default shall have occurred and be continuing (or would result therefrom);
- (2) the Company could not Incur at least \$1.00 of additional Indebtedness under Section 4.03(a); or
- (3) the aggregate amount of such Restricted Payment and all other Restricted Payments (the amount so expended, if other than in cash, to be determined in good faith by the Board of Directors, whose determination shall be conclusive and evidenced by a resolution of the Board of Directors) declared or made subsequent to the Closing Date would exceed the sum of:

(A) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from the beginning of the fiscal quarter during which the Closing Date occurs to the end of the most recent fiscal quarter ending at least 45 days prior to the date of such Restricted Payment and for which financial statements are available (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit);

(B) the aggregate Net Cash Proceeds received by the Company from the issue or sale of its Capital Stock (other than Disqualified Stock) subsequent to the Closing Date (other than an issuance or sale to (x) a Subsidiary of the Company or (y) an employee stock ownership plan or other trust established by the Company or any of its Subsidiaries);

(C) the amount by which Indebtedness of the Company or its Restricted Subsidiaries is reduced on the Company's balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company subsequent to the Closing Date) of any Indebtedness of the Company or its Restricted Subsidiaries convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash or the fair market value of other property distributed by the Company or any Restricted Subsidiary upon such conversion or exchange); and

(D) the amount equal to the net reduction in Investments in Unrestricted Subsidiaries resulting from (i) payments of dividends, repayments of the principal of loans or advances or other transfers of assets to the Company or any Restricted Subsidiary from Unrestricted Subsidiaries or (ii) the redesignation of Unrestricted Subsidiaries as Restricted Subsidiaries (valued in each case as provided in the definition of "Investment") not to exceed, in the case of any Unrestricted Subsidiary, the amount of Investments previously made by the Company or any Restricted Subsidiary in such Unrestricted Subsidiary, which amount was included in the calculation of the amount of Restricted Payments.

(b) The provisions of Section 4.04(a) shall not prohibit:

(i) any Restricted Payment made by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company or an employee stock ownership plan or other trust established by the Company or any of its Subsidiaries); provided, however, that (A) such Restricted Payment shall be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale applied in the manner set forth in this clause (i) shall be excluded from the calculation of amounts under clause (3)(B) of Section 4.04(a);

(ii) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations (other than Qualified Subordinated Debt) of the Company made by exchange for, or out of the proceeds of the substantially

concurrent sale of, Indebtedness of the Company that is permitted to be Incurred pursuant to Section 4.03; provided, however, that such purchase repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments;

(iii) any purchase or redemption of Subordinated Obligations (other than Qualified Subordinated Debt) from Net Available Cash to the extent permitted by Section 4.06; provided, however, that such purchase or redemption shall be excluded in the calculation of the amount of Restricted Payments;

(iv) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with Section 4.04(a); provided, however, that such dividend shall be included (without duplication) in the calculation of the amount of Restricted Payments;

(v) the repurchase or other acquisition of shares of, or options to purchase shares of, common stock of the Company or any of its Subsidiaries from employees, former employees, directors or former directors of the Company or any of its Subsidiaries (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such common stock; provided, however, that the aggregate amount of such repurchases shall not exceed \$500,000 in any calendar year; provided further, however, that such repurchases and other acquisitions shall be excluded in the calculation of the amount of Restricted Payments; or

(vi) Restricted Payments in an aggregate amount not in excess of \$5,000,000.

**SECTION 4.05. Limitation on Restrictions on Distributions from Restricted Subsidiaries.** The Company shall not, and shall not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (i) pay dividends or make any other distributions on its Capital Stock or pay any Indebtedness or other obligations owed to the Company, (ii) make any loans or advances to the Company or (iii) transfer any of its property or assets to the Company, except:

(1) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Closing Date;

(2) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by such Restricted Subsidiary prior to the date on which such Restricted Subsidiary was acquired by the Company (other than Indebtedness Incurred as consideration in, in contemplation of, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary

became a Restricted Subsidiary or was otherwise acquired by the Company) and outstanding on such date;

(3) any encumbrance or restriction pursuant to an agreement effecting a Refinancing of Indebtedness Incurred pursuant to an agreement referred to in clause (1) or (2) of this Section 4.05 or this clause (3) or contained in any amendment to an agreement referred to in clause (1) or (2) of this

Section 4.05 or this clause (3); provided, however, that the encumbrances and restrictions contained in any such refinancing agreement or amendment are no less favorable to the Securityholders than the encumbrances and restrictions contained in such predecessor agreements;

(4) in the case of clause (iii), any encumbrance or restriction (A) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, (B) that is or was created by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by this Indenture or (C) contained in security agreements securing Indebtedness of a Restricted Subsidiary to the extent such encumbrance or restriction restricts the transfer of the property subject to such security agreements;

(5) with respect to a Restricted Subsidiary, any restriction imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition; and

(6) any encumbrance or restriction imposed after the Closing Date by any applicable insurance or any other law or regulation or imposed by order of or agreement with any governmental authority; provided, however, that the Company and its Subsidiaries have used all reasonable efforts to have any such order or agreement diminished or removed by the relevant governmental authority with authority to effect such diminishing or removal and to obtain any exemptive order from the relevant governmental authority with authority to issue, or effect the issuance of, such an exemptive order with respect to any such encumbrance or restriction to the extent such an exemptive order is reasonably suitable under applicable laws and regulations.

**SECTION 4.06. Limitation on Sales of Assets and Subsidiary Stock.** (a) The Company shall not, and shall not permit any Restricted Subsidiary to, make any Asset Disposition unless (i) the Company or such Restricted Subsidiary receives consideration (including by way of relief from, or by any other Person assuming sole responsibility for, any liabilities, contingent or otherwise) at the time of such Asset Disposition at least equal to the fair market value (as determined in good faith by the Company's Board of Directors) of the shares and assets subject to such Asset Disposition, (ii) at least 75% of the consideration thereof received by the Company or such Restricted Subsidiary is in the form of cash and (iii) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company (or such Restricted Subsidiary, as the case may be) (A) first, within 360 days after the later of the date of such Asset Disposition or the receipt of such Net Available Cash, to, at the Company's or such Restricted

subsidiary's option, (1) prepay, repay, redeem or purchase unsubordinated Indebtedness of the Company or Indebtedness (other than any Disqualified Stock) of a Restricted Subsidiary (in each case other than Indebtedness owed to the Company or an Affiliate of the Company) or (2) reinvest in Additional Assets (including by means of an Investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by the Company or another Restricted Subsidiary); (B) second, to the extent of the balance of such Net Available Cash after application in accordance with clauses (A) and (B), to make an Offer to purchase Securities pursuant to and subject to the conditions of Section 4.06(b), provided, however, that if the Company elects (or is required by the terms of any unsubordinated Indebtedness), such Offer may be made ratably to purchase the Securities and other unsubordinated Indebtedness of the Company, and (C) third, to the extent of the balance of such Net Available Cash after application in accordance with clauses (A), (B) and (C), to (x) acquire Additional Assets (other than Indebtedness and Capital Stock) or (y) prepay, repay or purchase Indebtedness of the Company (other than Indebtedness owed to an Affiliate of the Company and other than Disqualified Stock of the Company) or Indebtedness of any Restricted Subsidiary (other than Indebtedness owed to the Company or an Affiliate of the Company), in each case described in this clause (C) within 450 days from the receipt of such Net Available Cash or, if the Company has made an Offer pursuant to Section 4.06(b), six months from the date such Offer is consummated; provided, however, that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to clause (A), (B) or (C) above, the Company or such Restricted Subsidiary shall permanently retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased. Notwithstanding the foregoing provisions of this Section 4.06, the Company and the Restricted Subsidiaries shall not be required to apply any Net Available Cash in accordance with this Section 4.06(a) except to the extent that the aggregate Net Available Cash from all Asset Dispositions that is not applied in accordance with this Section 4.06(a) exceeds \$10,000,000. For the purposes of this Section 4.06, the following are deemed to be cash: (x) the assumption of unsubordinated Indebtedness of the Company (other than Disqualified Stock of the Company) or any Restricted Subsidiary and the release of the Company or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition and (y) securities received by the Company or any Restricted Subsidiary from the transferee that are converted by the Company or such Restricted Subsidiary into cash within 60 days of the issuance thereof.

(b) In the event of an Asset Disposition that requires the purchase of Securities (and other unsubordinated Indebtedness) pursuant to Section 4.06(a)(iii)(B), the Company shall be required to purchase Securities (and other unsubordinated Indebtedness) tendered pursuant to an offer by the Company for the Securities (and other unsubordinated Indebtedness) (the "Offer") at a purchase price of 100% of their principal amount plus accrued and unpaid interest, if any, to the date of purchase in accordance with the procedures (including prorationing in the event of oversubscription) set forth in Section 4.06(c). If the aggregate purchase price of Securities (and other unsubordinated Indebtedness) tendered pursuant to the Offer is less than the Net Available Cash allotted to the purchase of the Securities (and other unsubordinated Indebtedness), the Company shall apply the remaining Net Available Cash in accordance with Section 4.06(a)(iii)(C). The Company shall not be required to make an Offer for Securities (and other unsubordinated Indebtedness) pursuant to this Section 4.06 if the Net Available Cash

available therefor (after application of the proceeds as provided in clause (A) of Section 4.06(a)(iii)) is less than \$2,500,000 for any particular Asset Disposition (which lesser amount shall be carried forward for purposes of determining whether an Offer is required with respect to the Net Available Cash from any subsequent Asset Disposition).

(c) (1) Promptly, and in any event within 10 days after the Company becomes obligated to make an Offer, the Company shall be obligated to deliver to the Trustee and send, by first-class mail to each Holder, a written notice stating that the Holder may elect to have his Securities purchased by the Company either in whole or in part (subject to prorationing as hereinafter described in the event the Offer is oversubscribed) in integral multiples of \$1,000 of principal amount, at the applicable purchase price. The notice shall specify a purchase date not less than 30 days nor more than 60 days after the date of such notice (the "Purchase Date") and shall contain such information concerning the business of the Company which the Company in good faith believes will enable such Holders to make an informed decision (which at a minimum shall include (i) the most recent annual and quarterly financial statements and management's discussion and analysis of financial condition and results of operation required to be delivered to the Securityholders pursuant to Section 4.02, (ii) a description of material developments in the Company's business subsequent to the date of the latest of such financial statements, and (iii) if material, appropriate pro forma financial information) and all instructions and materials necessary to tender Securities pursuant to the Offer, together with the address referred to in clause (3).

(2) Not later than the date upon which written notice of an Offer is delivered to the Trustee as provided above, the Company shall deliver to the Trustee an Officers' Certificate as to (i) the amount of the Offer (the "Offer Amount"), (ii) the allocation of the Net Available Cash from the Asset Dispositions pursuant to which such Offer is being made and (iii) the compliance of such allocation with the provisions of Section 4.06 (a). On such date, the Company shall also irrevocably deposit with the Trustee or with a paying agent (or, if the Company is acting as its own paying agent, segregate and hold in trust) an amount equal to the Offer Amount to be invested in Temporary Cash Investments and to be held for payment in accordance with the provisions of this Section. Upon the expiration of the period for which the Offer remains open (the "Offer Period"), the Company shall deliver to the Trustee for cancellation the Securities or portions thereof that have been properly tendered to and are to be accepted by the Company. The Trustee (or the Paying Agent, if not the Trustee) shall, on the date of purchase, mail or deliver payment to each tendering Holder in the amount of the purchase price. In the event that the aggregate purchase price of the Securities (and other unsubordinated Indebtedness) delivered by the Company to the Trustee is less than the Offer Amount applicable to the Securities (and other unsubordinated Indebtedness), the Trustee shall deliver the excess to the Company immediately after the expiration of the Offer Period for application in accordance with this Section 4.06.

(3) Holders electing to have a Security purchased shall be required to surrender the Security, with an appropriate form duly completed, to the Company at the address specified in the notice at least three Business Days prior to the Purchase Date. Holders shall be entitled to withdraw their election if the Trustee or the Company receives not later than one Business Day prior to the Purchase Date, a telegram, telex, facsimile transmission or letter setting

forth the name of the Holder, the principal amount of the Security which was delivered by the Holder for purchase and a statement that such Holder is withdrawing his election to have such Security purchased. If at the expiration of the Offer Period the aggregate principal amount of Securities (and other unsubordinated Indebtedness) included in the Offer surrendered by holders thereof exceeds the Offer Amount, the Company shall select the Securities (and other unsubordinated Indebtedness) to be purchased on a pro rata basis (with such adjustments as may be deemed appropriate by the Company so that only Securities (and other unsubordinated Indebtedness) in denominations of \$1,000, or integral multiples thereof, shall be purchased). Holders whose Securities are purchased only in part will be issued new Securities equal in principal amount to the unpurchased portion of the Securities surrendered.

(4) At the time the Company delivers Securities to the Trustee which are to be accepted for purchase, the Company shall also deliver an Officers' Certificate stating that such Securities are to be accepted by the Company pursuant to and in accordance with the terms of this Section. A Security shall be deemed to have been accepted for purchase at the time the Trustee, directly or through an agent, mails or delivers payment therefor to the surrendering Holder.

(d) The Company shall comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Securities pursuant to this Section. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Section, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section by virtue thereof.

#### SECTION 4.07. Limitation on Transactions with Affiliates.

(a) The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, enter into or conduct any transaction (including, the purchase, sale, lease or exchange of any property employee compensation arrangements or the rendering of any service) with any Affiliate of the Company (an "Affiliate Transaction") on terms (i) that are less favorable to the Company or such Restricted Subsidiary, as the case may be, than those that could be obtained at the time of such transaction in arm's-length dealings with a Person who is not such an Affiliate, (ii) if such Affiliate Transaction involves an aggregate amount in excess of \$3,000,000, (1) are set forth in writing and (2) have been approved by a majority of the members of the Board of Directors having no personal stake in such Affiliate Transaction and (iii) if such Affiliate Transaction involves an amount in excess of \$15,000,000 have been determined by a nationally recognized appraisal or investment banking firm to be fair, from a financial standpoint, to the Company and its Restricted Subsidiaries; provided that clause (iii) shall not apply to reinsurance transactions with any Affiliate of the Company in the ordinary course of business.

(b) The provisions of Section 4.07(a) shall not prohibit (i) any Restricted Payment permitted to be paid pursuant to Section 4.04, (ii) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options and stock ownership plans approved by the Board of Directors, (iii) the grant of stock options or similar rights to employees and directors of the Company

pursuant to plans approved by the Board of Directors, (iv) loans or advances to employees in the ordinary course of business in accordance with past practices of the Company, (v) the payment of reasonable fees to directors of the Company and its Subsidiaries who are not employees of the Company or its Subsidiaries or  
(vi) any transaction between the Company and a Restricted Subsidiary or between Restricted Subsidiaries.

#### SECTION 4.08. Change of Control.

(a) Upon a Change of Control, each Holder shall have the right to require that the Company repurchase all or any part of such Holder's Securities at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), in accordance with the terms contemplated in Section 4.08(b); provided, however, that notwithstanding the occurrence of a Change in Control, the Company shall not be obligated to purchase the Securities pursuant to this Section 4.08 in the event that it has exercised its right to redeem all the Securities under paragraph 5 of the Securities. In the event that at the time of such Change of Control the terms of any Bank Indebtedness restrict or prohibit the repurchase of Securities pursuant to this Section 4.08, then prior to the mailing of the notice to Holders provided for in Section 4.08(b) below but in any event within 30 days following any Change of Control, the Company shall (i) repay in full all Bank Indebtedness or offer to repay in full all Bank Indebtedness and repay the Bank Indebtedness of each lender who has accepted such offer or (ii) obtain the requisite consent under the agreements governing the Bank Indebtedness to permit the repurchase of the Securities as provided for in Section 4.08(b).

(b) Within 30 days following any Change of Control (except as provided in the proviso to the first sentence of Section 4.08(a)), the Company shall mail a notice to each Holder with a copy to the Trustee (the "Change of Control Offer") stating:

(1) that a Change of Control has occurred and that such Holder has the right to require the Company to purchase such Holder's Securities at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date);

(2) the circumstances and relevant facts and financial information regarding such Change of Control;

(3) the repurchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and

(4) the instructions determined by the Company, consistent with this Section, that a Holder must follow in order to have its Securities purchased.

(c) Holders electing to have a Security purchased shall be required to surrender the Security, with an appropriate form duly completed, to the Company at the address specified in

the notice at least three Business Days prior to the purchase date. Holders shall be entitled to withdraw their election if the Trustee or the Company receives not later than one Business Day prior to the purchase date a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Security which was delivered for purchase by the Holder and a statement that such Holder is withdrawing his election to have such Security purchased.

(d) On the purchase date, all Securities purchased by the Company under this Section shall be delivered to the Trustee for cancellation, and the Company shall pay the purchase price plus accrued and unpaid interest, if any, to the Holders entitled thereto.

(e) Notwithstanding the foregoing provisions of this Section, the Company will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in Section 4.08(b) applicable to a Change of Control Offer made by the Company and purchases all Securities validly tendered and not withdrawn under such Change of Control Offer.

(f) The Company shall comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Securities pursuant to this Section. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Section, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section by virtue thereof.

SECTION 4.09. Compliance Certificate. The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company an Officers' Certificate stating that in the course of the performance by the signers of their duties as Officers of the Company they would normally have knowledge of any Default and whether or not the signers know of any Default that occurred during such period. If they do, the certificate shall describe the Default, its status and what action the Company is taking or proposes to take with respect thereto.

SECTION 4.10. Further Instruments and Acts. Upon request of the Trustee, the Company shall execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture.

SECTION 4.11. Future Subsidiary Guarantors. The Company shall cause each Restricted Subsidiary (other than a Subsidiary Guarantor) not to Guarantee any Indebtedness of the Company, unless such Restricted Subsidiary, simultaneously therewith, becomes a Subsidiary Guarantor, and executes and delivers to the Trustee a supplemental indenture substantially in the form of Exhibit B pursuant to which such Restricted Subsidiary will Guarantee payment of the Securities. Concurrently with the execution and delivery of such supplemental indenture, the Company shall deliver to the Trustee an Opinion of Counsel and an Officers' Certificate to the effect that such supplemental indenture has been duly authorized, executed and delivered by such Subsidiary and that, subject to the application of bankruptcy, insolvency, moratorium, fraudulent conveyance or transfer and other similar laws relating to creditors' rights generally and to the

principles of equity, whether considered in a proceeding at law or in equity, the Subsidiary Guarantee of such Subsidiary Guarantor is a legal, valid and binding obligation of such Subsidiary Guarantor, enforceable against such Subsidiary Guarantor in accordance with its terms. Each Subsidiary Guarantee shall be limited to an amount not to exceed the maximum amount that can be Guaranteed by that Restricted Subsidiary without rendering the Subsidiary Guarantee, as it relates to such Restricted Subsidiary, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

SECTION 4.12. Limitation on Lines of Business. The Company shall not, and shall not permit any Restricted Subsidiary to, engage in any business, other than a Related Business.

SECTION 4.13. Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries. The Company shall not sell or otherwise dispose of any shares of Capital Stock of a Restricted Subsidiary, and shall not permit any Restricted Subsidiary, directly or indirectly, to issue or sell or otherwise dispose of any shares of its Capital Stock except: (i) to the Company or a Wholly Owned Subsidiary; (ii) if, immediately after giving effect to such issuance, sale or other disposition, neither the Company nor any of its Subsidiaries own any Capital Stock of such Restricted Subsidiary or (iii) if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any Investment in such Person remaining after giving effect thereto would have been permitted to be made under Section 4.04 if made on the date of such issuance, sale or other disposition. The proceeds of any sale of such Capital Stock permitted hereby shall be treated as Net Available Cash from an Asset Disposition and shall be applied in accordance with Section 4.06.

SECTION 4.14. Limitation on Liens. The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, incur or permit to exist any Lien of any nature whatsoever on any of its property or assets (including Capital Stock of a Restricted Subsidiary), whether owned at the Closing Date or thereafter acquired, other than Permitted Liens, without effectively providing that the Securities shall be secured equally and ratably with (or prior to) the obligations so secured equally and ratably with (or prior to) the obligations so secured for so long as such obligations are so secured.

SECTION 4.15. Use of Proceeds. On the Closing Date, the Company shall apply the net proceeds from the issuance of the Securities to the repayment of all amounts outstanding under the credit agreement dated as of December 11, 1997 among the Company, Parent, the Banks listed therein and Morgan Guaranty Trust Company of New York, as administrative agent, and J.P. Morgan Securities, Inc. and Mellon Bank N.A. acting as co-arrangers.

SECTION 4.16. Financial Strength Rating. The Company shall cause the ACE USA Insurance Group to maintain at all times either a S&P Rating or a Moody's Rating.

SECTION 4.17. Maintenance of Subordinated Loan Agreement. (a) The Company shall maintain in full force and effect at all times the Subordinated Loan Agreement, and shall not amend, supplement or otherwise modify (i) Section 2 of the Subordinated Loan Agreement or (ii) any other provision of the Subordinated Loan Agreement in any manner that has the effect of

decreasing the amount of the Commitment (as defined in the Subordinated Loan Agreement), increasing the interest rate or cash payment portion of the interest, changing the terms of subordination, advancing the time for payment of any payment owing under the Subordinated Loan Agreement including without limitation any principal or interest due thereunder, shortening the term of the Commitment or the Subordinated Loan Agreement or is otherwise adverse to Securityholders in any material respect.

(b) The Company shall not make any payment of principal of or interest on any loans under the Subordinated Loan Agreement, except as permitted by Section 4 thereof.

## ARTICLE 5

### **Successor Company, Etc.**

#### SECTION 5.01. When Company and Subsidiary Guarantors May Merge or Transfer **Assets**.

(a) The Company shall not consolidate with or merge with or into, or convey, transfer or lease all or substantially all its assets to, any Person, unless:

(i) the resulting, surviving or transferee Person (the "Successor Company") shall be a corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and the Successor Company (if not the Company) shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under the Securities and this Indenture;

(ii) immediately after giving effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Company or any Restricted Subsidiary as a result of such transaction as having been Incurred by the Successor Company or such Restricted Subsidiary at the time of such transaction), no Default shall have occurred and be continuing;

(iii) immediately after giving effect to such transaction, the Successor Company would be able to Incur an additional \$1.00 of Indebtedness pursuant to Section 4.03(a);

(iv) immediately after giving effect to such transaction, the Successor Company shall have Consolidated Net Worth in an amount which is not less than the Consolidated Net Worth of the Company immediately prior to such transaction; and

(v) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this Indenture.

The Successor Company shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture, but the predecessor Company in the case

of a conveyance, transfer or lease of all or substantially all its assets shall not be released from the obligation to pay the principal of and interest on the Securities.

(b) The Company shall not permit any Subsidiary Guarantor to consolidate with or merge with or into, or convey, transfer or lease, in one transaction or series of transactions, all or substantially all of its assets to any Person unless: (i) the resulting, surviving or transferee Person (if not such Subsidiary Guarantor) shall be a Person organized and existing under the laws of the jurisdiction under which such Subsidiary was organized or under the laws of the United States of America, or any State hereof or the District of Columbia, and such Person shall expressly assume, by an amendment to this Indenture, in a form acceptable to the Trustee, all the obligations of such Subsidiary Guarantor, if any, under its Subsidiary Guarantee; (ii) immediately after giving effect to such transaction or transactions on a pro forma basis (and treating any Indebtedness which becomes an obligation of the resulting, surviving or transferee Person as a result of such transaction as having been issued by such Person at the time of such transaction), no Default shall have occurred and be continuing; and (iii) the Company delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such amendment to this Indenture, if any, complies with this Indenture.

(c) Notwithstanding the foregoing clauses (iii) and (iv) of paragraph (a) above, (i) any Restricted Subsidiary may consolidate with, merge into or transfer all or part of its properties and assets to the Company and (ii) the Company may merge with an Affiliate incorporated solely for the purpose of reincorporating the Company in another jurisdiction to realize tax or other benefits.

## **ARTICLE 6**

### **Defaults And Remedies**

SECTION 6.01. Events of Default. An "Event of Default" occurs if:

(1) the Company defaults in any payment of interest on any Security when the same becomes due and payable, and such default continues for a period of 30 days;

(2) the Company (i) defaults in the payment of the principal of any Security when the same becomes due and payable at its Stated Maturity, upon redemption, upon declaration or otherwise, or (ii) fails to redeem or purchase Securities when required pursuant to this Indenture or the Securities;

(3) the Company or any Subsidiary Guarantor fails to comply with Section 5.01;

(4) the Company or any Subsidiary Guarantor fails to comply with Section 4.02, 4.03, 4.04, 4.05, 4.06, 4.07, 4.08, 4.11, 4.12, 4.13, 4.14, 4.15 or 4.17 (other than a failure to purchase Securities when required under Section 4.06 or 4.08) and such failure continues for 30 days after the notice specified below;

- (5) the Company or any Subsidiary Guarantor fails to comply with any of its agreements in the Securities or this Indenture (other than those referred to in (1), (2), (3) or (4) above) and such failure continues for 60 days after the notice specified below;
- (6) Indebtedness of the Company or any Restricted Subsidiary is not paid within any applicable grace period after final maturity or the acceleration by the holders thereof because of a default and the total amount of such Indebtedness unpaid or accelerated exceeds \$10.0 million or its foreign currency equivalent at the time and such failure continues for 10 days after the notice specified below;
- (7) the Company or any Restricted Subsidiary pursuant to or within the meaning of any Bankruptcy Law:
- (A) commences a voluntary case;
  - (B) consents to the entry of an order for relief against it in an involuntary case;
  - (C) consents to the appointment of a Custodian of it or for any substantial part of its property; or
  - (D) makes a general assignment for the benefit of its creditors; or takes any comparable action under any foreign laws relating to insolvency;
- (8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:
- (A) is for relief against the Company or any Restricted Subsidiary in an involuntary case;
  - (B) appoints a Custodian of the Company or any Restricted Subsidiary or for any substantial part of its property; or
  - (C) orders the winding up or liquidation of the Company or any Restricted Subsidiary;
- or any similar relief is granted under any foreign laws and the order or decree remains unstayed and in effect for 60 days;
- (9) any judgment or decree for the payment of money in excess of \$10.0 million or its foreign currency equivalent at the time is entered against the Company or any Restricted Subsidiary and is not discharged, waived or stayed and either (A) an enforcement proceeding has been commenced by any creditor upon such judgment or decree or (B) there is a period of 60 days following the entry of such judgment or decree during which such judgment or decree is not discharged, waived or the execution thereof stayed;

(10) any Subsidiary Guarantee shall cease to be in full force and effect (except as contemplated by the terms thereof) or any Subsidiary Guarantor or Person acting by or on behalf of such Subsidiary Guarantor shall deny or disaffirm its obligations under this Indenture or any Subsidiary Guarantee and such Default continues for 10 days after the notice specified below; or

(11) any failure of the Company to comply with its covenants and obligations under the Subordinated Loan Agreement and such failure continues for 30 days after the notice specified below.

The foregoing shall constitute Events of Default whatever the reason for any such Event of Default and whether it is voluntary or involuntary or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body.

The term "Bankruptcy Law" means Title 11, United States Code, or any similar Federal or state law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

A Default under clause (4), (5), (6) or (11) above is not an Event of Default until the Trustee or the Holders of at least 25% in principal amount of the outstanding Securities notify the Company of the Default and the Company does not cure such Default within the time specified after receipt of such notice. Such notice must specify the Default, demand that it be remedied and state that such notice is a "Notice of Default" (a "Notice of Default"). Upon receipt by the Trustee of written notice of a Default under clause (4), (5), (6) or (11) above from the Company or any Securityholder, or upon any Trust Officer obtaining actual knowledge of such event, the Trustee shall send a Notice of Default to the Company.

The Company shall deliver to the Trustee, within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any Event of Default under clause (3), (7) or (8) and any event which with the giving of notice or the lapse of time would become an Event of Default under any other clause of this Section 6.01, its status and what action the Company is taking or proposes to take with respect thereto.

**SECTION 6.02. Acceleration.** If an Event of Default (other than an Event of Default specified in Section 6.01(7) or (8) with respect to the Company) occurs and is continuing, the Trustee by notice to the Company, or the Holders of at least 25% in principal amount of the outstanding Securities by notice to the Company, may declare the principal of and accrued but unpaid interest on all the Securities to be due and payable. Upon such a declaration, such principal and interest shall be due and payable immediately. If an Event of Default specified in Section 6.01(7) or (8) with respect to the Company occurs, the principal of and interest on all the Securities shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Securityholders. The Holders of a majority in principal amount of the Securities by written notice to the Trustee may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of principal or interest

that has become due solely because of acceleration. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

SECTION 6.03. Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of or interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture. In addition, if an Event of Default occurs and is continuing, the Trustee will, unless otherwise directed by written request by the Holders of a majority in principal amount of the outstanding Securities, request subordinated loans to be made by the lender under the Subordinated Loan Agreement to be applied as specified in Section 6.10.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

SECTION 6.04. Waiver of Past Defaults. The Holders of a majority in principal amount of the Securities by notice to the Trustee may waive an existing Default and its consequences except (i) a Default in the payment of the principal of or interest on a Security, (ii) a Default arising from the failure to redeem or purchase any Security when required pursuant to the terms of this Indenture or (iii) a Default in respect of a provision that under Section 9.02 cannot be amended without the consent of each Securityholder affected. When a Default is waived, it is deemed cured, but no such waiver shall extend to any subsequent or other Default or impair any consequent right.

SECTION 6.05. Control by Majority. The Holders of a majority in principal amount of the Securities may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 7.01, that the Trustee or any Trust Officer determines is unduly prejudicial to the rights of other Securityholders or would involve the Trustee in personal liability; provided, however, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. Prior to taking any action hereunder, the Trustee shall be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

SECTION 6.06. Limitation on Suits. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no Securityholder may pursue any remedy with respect to this Indenture or the Securities unless:

- (1) the Holder gives to the Trustee written notice stating that an Event of Default is continuing;
- (2) the Holders of at least 25% in principal amount of the Securities make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer to the Trustee reasonable security or indemnity against any loss, liability or expense;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of security or indemnity; and

(5) the Holders of a majority in principal amount of the Securities do not give the Trustee a direction inconsistent with the request during such 60-day period.

A Securityholder may not use this Indenture to prejudice the rights of another Securityholder or to obtain a preference or priority over another Securityholder.

**SECTION 6.07. Rights of Holders to Receive Payment.** Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of principal of and liquidated damages and interest on the Securities held by such Holder, on or after the respective due dates expressed in the Securities, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

**SECTION 6.08. Collection Suit by Trustee.** If an Event of Default specified in Section 6.01(1) or (2) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount then due and owing (together with interest on any unpaid interest to the extent lawful) and the amounts provided for in Section 7.07.

**SECTION 6.09. Trustee May File Proofs of Claim.** The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Securityholders allowed in any judicial proceedings relative to the Company, any Subsidiary or Subsidiary Guarantor, their creditors or their property and, unless prohibited by law or applicable regulations, may vote on behalf of the Holders in any election of a trustee in bankruptcy or other Person performing similar functions, and any Custodian in any such judicial proceeding is hereby authorized by each Holder to make payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and its counsel, and any other amounts due the Trustee under Section 7.07.

**SECTION 6.10. Priorities.** If the Trustee collects any money or property pursuant to this Article 6, it shall pay out the money or property in the following order:

**FIRST:** to the Trustee for amounts due under Section 7.07;

**SECOND:** to Securityholders for amounts due and unpaid on the Securities for principal and interest, ratably, and any liquidated damages without preference or priority of any kind, according to the amounts due and payable on the Securities for principal, any liquidated damages and interest, respectively; and

THIRD: to the Company.

The Trustee may fix a record date and payment date for any payment to Securityholders pursuant to this Section. At least 15 days before such record date, the Trustee shall mail to each Securityholder and the Company a notice that states the record date, the payment date and amount to be paid.

SECTION 6.11. Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in principal amount of the Securities.

SECTION 6.12. Waiver of Stay or Extension Laws. Neither the Company nor any Subsidiary Guarantor (to the extent it may lawfully do so) shall at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company and each Subsidiary Guarantor (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and shall not hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

## ARTICLE 7

### Trustee

SECTION 7.01. Duties of Trustee. (a) If an Event of Default has occurred and is continuing of which a Trust Officer has actual knowledge, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements

of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(1) this paragraph does not limit the effect of paragraph (b) of this Section;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b) and (c) of this Section.

(e) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company.

(f) Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(g) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or indemnity satisfactory to it against such risk or liability is not reasonably assured to it.

(h) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

(i) In the event that the Trustee is also acting as Calculation Agent, Paying Agent, Transfer Agent, Registrar or Securities Custodian hereunder, the protections of this Article 7 shall also be afforded to the Paying Agent, Transfer Agent, Registrar or Securities Custodian hereunder.

#### SECTION 7.02. Rights of Trustee.

(a) The Trustee may conclusively rely on any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require and shall be entitled to receive an Officers' Certificate or an Opinion of Counsel. The Trustee shall not be liable for

any action it takes or omits to take in good faith in reliance on the Officers' Certificate or Opinion of Counsel.

- (c) The Trustee may execute any of the trusts or powers hereunder or perform any duties either directly or by or through agents, attorneys, custodians or nominees and shall not be responsible for the misconduct or negligence of any agent, attorney, custodian or nominee appointed with due care.
- (d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided, however, that the Trustee's conduct does not constitute willful misconduct or negligence.
- (e) The Trustee may consult with counsel, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Securities shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.
- (f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, debenture, note or other paper or document unless requested in writing to do so by the Holders of not less than a majority in principal amount of the Securities at the time outstanding, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney.
- (g) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Securityholders pursuant to this Indenture, unless such Securityholders shall have offered to the Trustee security or indemnity satisfactory to it against the cost, expenses (including reasonable legal fees and expenses) and liabilities that might be incurred by it in compliance with such request or direction.
- (h) The Trustee shall not be charged with knowledge of an Event of Default unless a Trust Officer obtains actual knowledge of such event or the Trustee receives written notice of such event from the Company or any Securityholder.

**SECTION 7.03. Individual Rights of Trustee.** The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Registrar or co-paying agent may do the same with like rights. However, the Trustee must comply with Sections 7.10 and 7.11.

**SECTION 7.04. Trustee's Disclaimer.** The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Securities, it shall not be accountable for the Company's use of the proceeds from the Securities, and it shall not be responsible for any statement of the Company in this Indenture or in any document issued in

connection with the sale of the Securities or in the Securities other than the Trustee's certificate of authentication. The Trustee shall have no obligation or liability on respect of monitoring the compliance by the Company of the provisions of this Indenture.

SECTION 7.05. Notice of Defaults. If a Default occurs and is continuing and if it is actually known to any Trust Officer or the Trustee has received written notice of such event from the Company or any Securityholder, the Trustee shall mail to each Securityholder notice of the Default within the earlier of 90 days after it occurs or 30 days after it is known to a Trust Officer or the receipt of such notice, as the case may be. Except in the case of a Default in payment of principal of or interest on any Security (including payments pursuant to the mandatory redemption provisions of such Security, if any), the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interests of Securityholders.

SECTION 7.06. Reports by Trustee to Holders. As promptly as practicable after receipt, the Trustee shall mail to each Securityholder a copy of any Quarterly Certificate or Ratings Certificate which has been received by the Trustee.

SECTION 7.07. Compensation and Indemnity. The Company shall pay to the Trustee from time to time reasonable compensation for its services. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred or made by it, including costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Trustee's agents, counsel, accountants and experts. The Company and each Subsidiary Guarantor, jointly and severally shall indemnify the Trustee against any and all loss, liability or expense (including reasonable attorneys' fees and expenses) incurred by or in connection with the administration of this trust and the performance of its their duties hereunder. The Trustee shall notify the Company of any claim for which it may seek indemnity promptly upon obtaining actual knowledge thereof, provided, however, that any failure so to notify the Company shall not relieve the Company or any Subsidiary Guarantor of its indemnity obligations hereunder. The Company shall defend the claim and the indemnified party shall provide reasonable cooperation at the Company's expense in the defense. Such indemnified parties may have separate counsel and the Company and the Subsidiary Guarantors, as applicable shall pay the reasonable fees and expenses of such counsel; provided, however, that the Company shall not be required to pay such fees and expenses if it assumes such indemnified parties' defense and, in such indemnified parties' reasonable judgment, there is no conflict of interest between the Company and the Subsidiary Guarantors, as applicable, and such parties in connection with such defense. The Company need not reimburse any expense or indemnify against any loss, liability or expense incurred by an indemnified party (including the Trustee) through such party's own willful misconduct, negligence or bad faith.

To secure the Company's payment obligations in this Section, the Trustee shall have a lien prior to the Securities on all money or property held or collected by the Trustee other than money or property held in trust to pay principal of and interest and any liquidated damages on particular Securities.

The Company's payment obligations pursuant to this Section shall survive the satisfaction or discharge of this Indenture, any rejection or termination of this Indenture under any bankruptcy law or the resignation or removal of the Trustee. When the Trustee incurs expenses after the occurrence of a Default specified in Section 6.01(7) or (8) with respect to the Company, the expenses are intended to constitute expenses of administration under the Bankruptcy Law.

**SECTION 7.08. Replacement of Trustee.** The Trustee may resign at any time by so notifying the Company. The Holders of a majority in principal amount of the Securities may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee. The Company shall remove the Trustee if:

- (1) the Trustee fails to comply with Section 7.10;
- (2) the Trustee is adjudged bankrupt or insolvent;
- (3) a receiver or other public officer takes charge of the Trustee or its property; or
- (4) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns, is removed by the Company or by the Holders of a majority in principal amount of the Securities and such Holders do not reasonably promptly appoint a successor Trustee, or if a vacancy exists in the office of Trustee for any reason (the Trustee in such event being referred to herein as the retiring Trustee), the Company shall promptly appoint a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Securityholders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.07.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee or the Holders of 10% in principal amount of the Securities may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.10, any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding the replacement of the Trustee pursuant to this Section, the Company's obligations under Section 7.07 shall continue for the benefit of the retiring Trustee.

**SECTION 7.09. Successor Trustee by Merger.** If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to,

another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee.

In case at the time such successor or successors by merger, conversion or consolidation to the Trustee shall succeed to the trusts created by this Indenture any of the Securities shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Securities so authenticated; and in case at that time any of the Securities shall not have been authenticated, any successor to the Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor to the Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Securities or in this Indenture provided that the certificate of the Trustee shall have.

SECTION 7.10. Eligibility; Disqualification. Notwithstanding that the TIA does not apply to this Indenture, the Trustee shall have a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition. Notwithstanding that the TIA does not apply to this Indenture, the Trustee shall comply with TIA Section 310(b); provided, however, that there shall be excluded from the operation of TIA Section 310(b)(1) any indenture or indentures under which other securities or certificates of interest or participation in other securities of the Company are outstanding if the requirements for such exclusion set forth in TIA Section 310(b)(1) are met.

SECTION 7.11. Preferential Collection of Claims Against Company Notwithstanding that the TIA does not apply to this Indenture, the Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated.

## ARTICLE 8

### Discharge of Indenture; Defeasance

SECTION 8.01. Discharge of Liability on Securities; Defeasance. (a) When (i) the Company delivers to the Trustee all outstanding Securities (other than Securities replaced pursuant to Section 2.08) for cancellation or (ii) all outstanding Securities have become due and payable, whether at maturity or as a result of the mailing of a notice of redemption pursuant to Article 3 hereof, and the Company irrevocably deposits with the Trustee funds or U.S. Government Obligations on which payment of principal and interest when due will be sufficient to pay at maturity or upon redemption all outstanding Securities, including interest thereon to maturity or such redemption date (other than Securities replaced pursuant to Section 2.08), and if in either case the Company pays all other sums payable hereunder by the Company, then this Indenture shall, subject to Section 8.01(c), cease to be of further effect. The Trustee shall acknowledge satisfaction and discharge of this Indenture on demand of the Company accompanied by an Officers' Certificate and an Opinion of Counsel stating that all conditions precedent to such satisfaction and discharge have been complied with and at the cost and expense of the Company.

(b) Subject to Sections 8.01(c) and 8.02, the Company at any time may terminate (i) all of its and any Subsidiary Guarantor's obligations under the Securities, the Subsidiary Guarantee and this Indenture ("legal defeasance option") or (ii) its obligations under Sections 4.02, 4.03, 4.04, 4.05, 4.06, 4.07, 4.08, 4.09, 4.10, 4.11, 4.12, 4.13, 4.14, 4.15, 4.16, and 4.17 and the operation of Section 5.01(a)(iii), 5.01(a)(iv), 6.01(4), 6.01(6), 6.01(7) (with respect to Subsidiaries of the Company only), 6.01(8) (with respect to Subsidiaries of the Company only), 6.01(9), 6.01(10) and 6.01(11) ("covenant defeasance option"). The Company may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. In the event that the Company terminates all of its obligations under the Securities and this Indenture by exercising its legal defeasance option, the obligations under the Subsidiary Guarantees shall each be terminated simultaneously with the termination of such obligations.

If the Company exercises its legal defeasance option, payment of the Securities may not be accelerated because of an Event of Default. If the Company exercises its covenant defeasance option, payment of the Securities may not be accelerated because of an Event of Default specified in Section 6.01(4), 6.01(6), 6.01(7) (with respect to Subsidiaries of the Company only), 6.01(8) (with respect to Subsidiaries of the Company only), 6.01(9), 6.01(10) and 6.01(11) or because of the failure of the Company to comply with clauses (iii) and (iv) of Section 5.01 (a).

Upon satisfaction of the conditions set forth herein and upon request of the Company, the Trustee shall acknowledge in writing the discharge of those obligations that the Company terminates.

(c) Notwithstanding clauses (a) and (b) above, the Company's obligations in Sections 2.03, 2.04, 2.05, 2.06, 2.07, 2.08, 7.07, 7.08 and in this Article 8 shall survive until the Securities have been paid in full. Thereafter, the Company's obligations in Sections 7.07, 8.04 and 8.05 shall survive.

SECTION 8.02. Conditions to Defeasance. The Company may exercise its legal defeasance option or its covenant defeasance option only if:

(1) the Company irrevocably deposits in trust with the Trustee money or U.S. Government Obligations for the payment of principal, premium (if any) and interest on the Securities to maturity or redemption, as the case may be;

(2) the Company delivers to the Trustee a certificate from a nationally recognized firm of independent accountants expressing their opinion that the payments of principal and interest when due and without reinvestment on the deposited U.S. Government Obligations plus any deposited money without investment will provide cash at such times and in such amounts as will be sufficient to pay principal and interest when due on all the Securities to maturity or redemption, as the case may be;

(3) 91 days pass after the deposit is made and during the 91-day period no Default specified in Section 6.01(7) or (8) with respect to the Company occurs which is continuing at the end of the period;

(4) the deposit does not constitute a default under any other agreement binding on the Company;

(5) the Company delivers to the Trustee an Opinion of Counsel to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated investment company under the Investment Company Act of 1940;

(6) in the case of the legal defeasance option, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (i) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or (ii) since the date of this Indenture there has been a change in the applicable Federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Securityholders will not recognize income, gain or loss for Federal income tax purposes as a result of such defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred;

(7) in the case of the covenant defeasance option, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Securityholders will not recognize income, gain or loss for Federal income tax purposes as a result of such covenant defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred; and

(8) the Company delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent to the defeasance and discharge of the Securities as contemplated by this Article 8 have been complied with.

Before or after a deposit, the Company may make arrangements satisfactory to the Trustee for the redemption of Securities at a future date in accordance with Article 3.

**SECTION 8.03. Application of Trust Money.** The Trustee shall hold in trust money or U.S. Government Obligations deposited with it pursuant to this Article

8. It shall apply the deposited money and the money from U.S. Government Obligations through the Paying Agent and in accordance with this Indenture to the payment of principal of and interest on the Securities.

**SECTION 8.04. Repayment to Company.** The Trustee and the Paying Agent shall promptly turn over to the Company upon request any excess money or securities held by them at any time.

Subject to any applicable abandoned property law, the Trustee and the Paying Agent shall pay to the Company upon written request any money held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, Securityholders entitled to the money must look to the Company for payment as general creditors.

SECTION 8.05. Indemnity for Government Obligations. The Company shall pay and shall indemnify the Trustee against any tax, fee or other charge imposed on or assessed against deposited U.S. Government Obligations or the principal and interest received on such U.S. Government Obligations.

SECTION 8.06. Reinstatement. If the Trustee or Paying Agent is unable to apply any money or U.S. Government Obligations in accordance with this Article 8 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's and the Subsidiary Guarantors' obligations under this Indenture, the Subsidiary Guarantee and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to this Article 8 until such time as the Trustee or Paying Agent is permitted to apply all such money or U.S. Government Obligations in accordance with this Article 8; provided, however, that, if the Company has made any payment of interest on or principal of any Securities because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive such payment from the money or U.S. Government Obligations held by the Trustee or Paying Agent.

## **ARTICLE 9**

### **Amendments**

SECTION 9.01. Without Consent of Holders. The Company, the Subsidiary Guarantors and the Trustee may amend this Indenture or the Securities without notice to or consent of any Securityholder:

- (1) to cure any ambiguity, omission, defect or inconsistency;
- (2) to comply with Article 5;
- (3) to provide for uncertificated Securities in addition to or in place of certificated Securities; provided, however, that the uncertificated Securities are issued in registered form for purposes of Section 163(f) of the Code or in a manner such that the uncertificated Securities are described in Section 163(f)(2)(B) of the Code;
- (4) to enter into a supplemental indenture substantially in the form of Exhibit B hereto, add additional Guarantees with respect to the Securities or to secure the Securities;
- (5) to add to the covenants of the Company for the benefit of the Holders or to surrender any right or power herein conferred upon the Company;
- (6) to comply with any requirements of the SEC in connection with qualifying, or maintaining the qualification of, this Indenture under the TIA; or
- (7) to make any change that does not adversely affect the rights of any Securityholder.

After an amendment under this Section becomes effective, the Company shall mail to Securityholders a notice briefly describing such amendment. The failure to give such notice to all Securityholders, or any defect therein, shall not impair or affect the validity of an amendment under this Section.

SECTION 9.02. With Consent of Holders. The Company, the Subsidiary Guarantors and the Trustee may amend this Indenture or the Securities without notice to any Securityholder but with the written consent of the Holders of at least a majority in principal amount of the Securities then outstanding (including consents obtained in connection with a tender offer or exchange for the Securities). However, without the consent of each Securityholder affected, an amendment may not:

- (1) reduce the amount of Securities whose Holders must consent to an amendment;
- (2) reduce the rate of or extend the time for payment of interest or any liquidated damages on any Security;
- (3) reduce the principal of or extend the Stated Maturity of any Security;
- (4) reduce the premium payable upon the redemption of any Security or change the time at which any Security may be redeemed in accordance with Article 3;
- (5) make any Security payable in money other than that stated in the Security;
- (6) make any change in Section 6.04 or 6.07 or the second sentence of this Section 9.02; or
- (7) modify or affect in any manner adverse to the Holders the terms and conditions of the obligation of any Subsidiary Guarantor for the due and punctual payment of the principal of or interest on the Securities.

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

After an amendment under this Section becomes effective, the Company shall mail to Securityholders a notice briefly describing such amendment. The failure to give such notice to all Securityholders, or any defect therein, shall not impair or affect the validity of an amendment under this Section.

SECTION 9.03. Revocation and Effect of Consents and Waivers. A consent to an amendment or a waiver by a Holder of a Security shall bind the Holder and every subsequent Holder of that Security or portion of the Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent or waiver is not made on the Security. However, any such Holder or subsequent Holder may revoke the consent or waiver as to such Holder's Security or portion of the Security if the Trustee receives the notice of revocation before

the date the amendment or waiver becomes effective. After an amendment or waiver becomes effective, it shall bind every Securityholder. An amendment or waiver becomes effective once both (i) the requisite number of consents have been received by the Company or the Trustee and (ii) such amendment or waiver has been executed by the Company and the Trustee.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Securityholders entitled to give their consent or take any other action described above or required or permitted to be taken pursuant to this Indenture. If a record date is fixed, then notwithstanding the immediately preceding paragraph, those Persons who were Securityholders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to give such consent or to revoke any consent previously given or to take any such action, whether or not such Persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 120 days after such record date.

SECTION 9.04. Notation on or Exchange of Securities. If an amendment changes the terms of a Security, the Trustee may require the Holder of the Security to deliver it to the Trustee. The Trustee may place an appropriate notation on the Security regarding the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Security shall issue and the Trustee shall authenticate a new Security that reflects the changed terms. Failure to make the appropriate notation or to issue a new Security shall not affect the validity of such amendment.

SECTION 9.06. Trustee to Sign Amendments. The Trustee shall sign any amendment authorized pursuant to this Article 9 if the amendment does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may but need not sign it. In signing such amendment the Trustee shall be entitled to receive indemnity reasonably satisfactory to it and to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that (a) such amendment is authorized or permitted by this Indenture, (b) all conditions precedent to such amendment have been complied with, (c) in the case of amendment pursuant to Section 9.01 hereof that such amendment will not adversely affect the rights of any Holders, and (d) that such amendment is the legal, valid and binding obligation of the Company and the Subsidiary Guarantors enforceable against them in accordance with its terms, subject to customary exceptions, and complies with the provisions hereof.

SECTION 9.06. Payment for Consent. Neither the Company nor any Affiliate of the Company shall, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of this Indenture or the Securities unless such consideration is offered to be paid to all Holders that so consent, waive or agree to amend in the time frame set forth in solicitation documents relating to such consent, waiver or agreement.

**ARTICLE 10**

**Subsidiary Guarantees**

[Intentionally omitted unless and until added pursuant to a supplemental indenture substantially in the form of Exhibit B]

**ARTICLE 11**

**Miscellaneous**

SECTION 11.01. Trust Indenture Act Controls [Intentionally Omitted.]

SECTION 11.02. Notices. Any notice, direction, order, demand or communication shall be in writing and delivered in person or mailed by first- class mail or courier addressed as follows:

if to the Company:

ACE US Holdings, Inc.  
Six Concourse Parkway  
Suite 2500  
Atlanta, Georgia 30328  
Attn: Chief Financial Officer

if to the Trustee, the address set forth in the definition of Corporate Trust Office.

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Securityholder shall be mailed to the Securityholder at the Securityholder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 11.03. Communication by Holders with Other Holders. Whether or not this Indenture is subject to the TIA, (a) Securityholders may communicate pursuant to TIA (S) 311(b) with other Securityholders with respect to their rights under this Indenture or the Securities, and (b) the Company, the Trustee, the Registrar and anyone else shall have the protection of TIA (S) 311(c).

SECTION 11.04. Certificate and Opinion as to Conditions Precedent. Upon any written request or application by the Company to the Trustee to take or refrain from taking any action under this Indenture, the Company shall furnish to the Trustee:

- (1) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and
- (2) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

SECTION 11.05. Statements Required in Certificate or Opinion. Each certificate or opinion with respect to compliance with a covenant or condition provided for in this Indenture shall include:

- (1) a statement that the individual making such certificate or opinion has read such covenant or condition;
- (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
- (3) a statement that, in the opinion of such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (4) a statement as to whether or not, in the opinion of such individual, such covenant or condition has been complied with.

SECTION 11.06. When Securities Disregarded. In determining whether the Holders of the required principal amount of Securities have concurred in any direction, waiver or consent, Securities owned by the Company, any Subsidiary Guarantor or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any Subsidiary Guarantor shall be disregarded and deemed not to be outstanding, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Securities which the Trustee knows are so owned shall be so disregarded. Subject to the foregoing, only Securities outstanding at the time shall be considered in any such determination.

SECTION 11.07. Rules by Trustee, Paying Agent, Registrar and Calculation Agent. The Trustee may make reasonable rules for action by or a meeting of Securityholders. The Registrar, the Paying Agent and the Calculation Agent may make reasonable rules for their functions.

SECTION 11.08. Legal Holidays. A "Legal Holiday" is a Saturday, a Sunday or a day on which banking institutions are not required to be open in the State of New York, United States of

America or London, United Kingdom. If a payment date is a Legal Holiday, payment shall be made on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period. If a regular record date is a Legal Holiday, the record date shall not be affected.

**SECTION 11.09. Governing Law. THIS INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO THE CHOICE OF LAW PROVISIONS THEREOF THAT WOULD REQUIRE THE APPLICATION OF ANY OTHER LAWS).**

**SECTION 11.10. NO RECOURSE AGAINST OTHERS.** A director, officer, employee or stockholder, as such, of the Company or any Subsidiary Guarantor shall not have any liability for any obligations of the Company under the Securities or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Securities.

**SECTION 11.11. Successors.** All agreements of the Company and each Subsidiary Guarantor in this Indenture and the Securities shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

**SECTION 11.12. Multiple Originals.** The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture.

**SECTION 11.13. Table of Contents; Headings.** The table of contents, cross- reference sheet and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.

IN WITNESS WHEREOF, the parties have caused this Indenture to be duly executed as of the date first written above.

**ACE US HOLDINGS, INC.**

by \_\_\_\_\_  
Name:  
Title:

**UNITED STATES TRUST COMPANY OF  
NEW YORK, as Trustee**

by \_\_\_\_\_  
Name:  
Title:

**APPENDIX A**

**PROVISIONS RELATING TO SECURITIES**

1.0 Definitions

1.1 Definitions

For the purposes of this Appendix A the following terms shall have the meanings indicated below:

"Definitive Security" means a certificated Security (bearing the Restricted Securities Legend if the transfer of such Security is restricted by applicable law) that does not include the Global Securities Legend.

"Depository" means The Depository Trust Company, its nominees and their respective successors.

"Global Securities Legend" means the legend set forth under that caption in Exhibit A to this Indenture.

"Initial Purchaser" means Woodbourne LLC.

"Purchase Agreement" means the Purchase Agreement dated October 27, 1998, among the Company and the Initial Purchaser

"QIB" means a "qualified institutional buyer" as defined in Rule 144A.

"Restricted Securities Legend" means the legend set forth in Section 2.3(e)(i) herein.

"Rule 501" means Rule 501(a)(1), (2), (3) or (7) under the Securities Act.

"Rule 144" means Rule 144 under the Securities Act.

"Rule 144A" means Rule 144A under the Securities Act.

"Securities Act" means the Securities Act of 1933, as amended.

"Securities Custodian" means the custodian with respect to a Global Security (as appointed by the Depository) or any successor person thereto, who shall initially be the Trustee.

"Transfer Restricted Securities" means Definitive Securities and any other Securities that bear or are required to bear the Restricted Securities Legend.

1.2 Other Definitions  
-----

Term:  
-----

Defined in Section:  
-----

	"Agent Members".....	2.1(b)
	"Global Security".....	2.1(a)
2.0	The Securities	
	-----	
2.1	Form and Dating	
	-----	

The Securities issued on the date hereof will be offered and sold to the Initial Purchaser by the Company pursuant to the Purchase Agreement. Notwithstanding anything herein to the contrary, the Initial Purchaser may resell the Securities from time to time after the Closing Date only to QIBS in reliance on Rule 144A, unless the Company otherwise agrees.

(a) Definitive Securities. The Securities shall be issued initially in the form of one or more Definitive Securities in fully registered form without interest coupons.

(b) Global Securities. At the request and option of the Holder of a Definitive Security, the Securities may be exchanged for one or more permanent global Securities in definitive, fully registered form (collectively, the "Global Security") without interest coupons and bearing the Global Securities Legend and Restricted Securities Legend, which shall be deposited on behalf of the Holders of the Securities represented thereby with the Securities Custodian, and registered in the name of the Depository or a nominee of the Depository, duly executed by the Company and authenticated by the Trustee as provided in this Indenture. The aggregate principal amount of the Global Securities may from time to time be increased or decreased by adjustments made on the records of the Trustee and the Depository or its nominee as hereinafter provided. Except as provided in Section 2.3 or 2.4, owners of beneficial interests in Global Securities will not be entitled to receive physical delivery of certificated Securities.

(c) Book-Entry Provisions. This Section 2.1(c) shall apply only to a Global Security deposited with or on behalf of the Depository.

The Company shall execute and the Trustee shall, in accordance with this Section 2.1(c) and pursuant to an order of the Company, authenticate and deliver initially one or more Global Securities that (a) shall be registered in the name of the Depository for such Global Security or Global Securities or the nominee of such Depository and (b) shall be delivered by the Trustee to such Depository or pursuant to such Depository's instructions or held by the Trustee as Securities Custodian.

Members of, or participants in, the Depository ("Agent Members") shall have no rights under this Indenture with respect to any Global Security held on their behalf by the Depository or by the Trustee as Securities Custodian or under such Global Security, and the Depository may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depository or impair, as between the Depository and its Agent

Members, the operation of customary practices of such Depository governing the exercise of the rights of a holder of a beneficial interest in any Global Security.

2.2 Authentication. The Trustee shall authenticate and make available for delivery, upon a written order of the Company signed by two Officers, Securities for original issue on the date hereof in an aggregate principal amount of \$250,000,000. Such order shall specify the amount of the Securities to be authenticated and the date on which the original issue of Securities is to be authenticated. The aggregate principal amount of Securities outstanding at any time may not exceed \$250,000,000.

2.3 Transfer and Exchange. (a) Transfer and Exchange of Definitive Securities. When Definitive Securities are presented to the Registrar with a request:

(x) to register the transfer of such Definitive Securities; or

(y) to exchange such Definitive Securities for an equal principal amount of Definitive Securities of other authorized denominations,

the Registrar shall register the transfer or make the exchange as requested if its reasonable requirements for such transaction are met; provided, however, that the Definitive Securities surrendered for transfer or exchange:

(i) shall be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Company and the Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing; and

(ii) are accompanied by the following additional information and documents, as applicable:

(A) if such Definitive Securities are being delivered to the Registrar by a Holder for registration in the name of such Holder, without transfer, a certification from such Holder to that effect (in the form set forth on the reverse side of the Security); or

(B) if such Definitive Securities are being transferred to the Company, a certification to that effect (in the form set forth on the reverse side of the Security); or

(C) if such Definitive Securities are being transferred pursuant to an exemption from registration in accordance with Rule 144 under the Securities Act or in reliance upon another exemption from the registration requirements of the Securities Act, (i) a certification to that effect (in the form set forth on the reverse side of the Security) and (ii) except if such certification states that such transfer is being made pursuant to Rule 144A, if the Company so requests, an opinion of counsel or other evidence reasonably satisfactory to it as to the compliance with the restrictions set forth in the legend set forth in Section 2.3(e)(i).

(b) Restrictions on Transfer of a Definitive Security for a

**Beneficial Interest in a Global Security. A Definitive Security may not be** exchanged for a beneficial interest in a Global Security except upon satisfaction of the requirements set forth below. Upon receipt by the Trustee of a Definitive Security, duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Company and the Registrar, together with:

- (i) certification (in the form set forth on the reverse side of the Security) that such Definitive Security is being exchanged for a Global Security by or transferred to a QIB in accordance with Rule 144A; and
- (ii) written instructions directing the Trustee to make, or to direct the Securities Custodian to make, an adjustment on its books and records with respect to such Global Security to reflect an increase in the aggregate principal amount of the Securities represented by the Global Security, such instructions to contain information regarding the Depository account to be credited with such increase,

then the Trustee shall cancel such Definitive Security and cause, or direct the Securities Custodian to cause, in accordance with the standing instructions and procedures existing between the Depository and the Securities Custodian, the aggregate principal amount of Securities represented by the Global Security to be increased by the aggregate principal amount of the Definitive Security to be exchanged and shall credit or cause to be credited to the account of the Person specified in such instructions a beneficial interest in the Global Security equal to the principal amount of the Definitive Security so canceled. If no Global Securities are then outstanding and the Global Security has not been previously exchanged for certificated securities pursuant to Section 2.4, the Company shall issue and the Trustee shall authenticate, upon written order of the Company in the form of an Officers' Certificate, a new Global Security in the appropriate principal amount.

(c) Transfer and Exchange of Global Securities.

(i) The transfer and exchange of Global Securities or beneficial interests therein shall be effected through the Depository, in accordance with this Indenture (including applicable restrictions on transfer set forth herein, if any) and the procedures of the Depository therefor. A transferor of a beneficial interest in a Global Security shall deliver a written order given in accordance with the Depository's procedures containing information regarding the participant account of the Depository to be credited with a beneficial interest in such Global Security or another Global Security and such account shall be credited in accordance with such order with a beneficial interest in the applicable Global Security and the account of the Person making the transfer shall be debited by an amount equal to the beneficial interest in the Global Security being transferred.

(ii) If the proposed transfer is a transfer of a beneficial interest in one Global Security to a beneficial interest in another Global Security, the Registrar shall reflect on its books and records the date and an increase in the principal amount of the Global Security to which such interest is being transferred in an

amount equal to the principal amount of the interest to be so transferred, and the Registrar shall reflect on its books and records the date and a corresponding decrease in the principal amount of Global Security from which such interest is being transferred.

(iii) Notwithstanding any other provisions of this Appendix (other than the provisions set forth in Section 2.4), a Global Security may not be transferred as a whole except by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary.

(iv) In the event that a Global Security is exchanged for Definitive Securities pursuant to Section 2.4, such Securities may be exchanged only in accordance with such procedures as are substantially consistent with the provisions of this Section 2.3 (including the certification requirements set forth on the reverse of the Securities intended to ensure that such transfers comply with Rule 144A or such other applicable exemption from registration under the Securities Act, as the case may be) and such other procedures as may from time to time be adopted by the Company.

(e) Legend.

(i) Except as permitted by the following paragraphs (ii), (iii) or (iv), each Security certificate evidencing the Global Securities and the Definitive Securities (and all Securities issued in exchange therefor or in substitution thereof) shall bear a legend in substantially the following form (each defined term in the legend being defined as such for purposes of the legend only):

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR

ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, THE INITIAL PURCHASER (AS DEFINED IN THE INDENTURE) MAY TRANSFER THIS SECURITY ONLY PURSUANT TO CLAUSE (C), UNLESS THE COMPANY OTHERWISE AGREES. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

Each Definitive Security shall bear the following additional legend:

"IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR AND TRANSFER AGENT SUCH CERTIFICATES AND OTHER INFORMATION AS SUCH TRANSFER AGENT MAY REASONABLY REQUIRE TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS."

(ii) Upon any sale or transfer of a Transfer Restricted Security that is a Definitive Security, the Registrar shall permit the Holder thereof to exchange such Transfer Restricted Security for a Definitive Security that does not bear the legends set forth above and rescind any restriction on the transfer of such Transfer Restricted Security if the Holder certifies in writing to the Registrar that its request for such exchange was made in reliance on Rule 144 (such certification to be in the form set forth on the reverse of the Security).

(iii) Upon the lapsing of the two-year period under Rule 144(k) of a Transfer Restricted Security that is a Definitive Security, the Registrar shall permit the Holder thereof to exchange such Transfer Restricted Security for a Definitive Security that does not bear the legends set forth above.

(f) Cancellation or Adjustment of Global Security. At such time as all beneficial interests in a Global Security have either been exchanged for Definitive Securities, transferred, redeemed, repurchased or canceled, such Global Security shall be returned by the Depositary to the Trustee for cancellation or retained and canceled by the Trustee. At any time prior to such cancellation, if any beneficial interest in a Global Security is exchanged for Definitive Securities, transferred in exchange for an interest in another Global Security, redeemed, repurchased or canceled, the principal amount of Securities represented by such Global Security shall be reduced and an adjustment shall be made on the books and records of the Trustee (if it is then the Securities Custodian for such Global Security) with respect to such Global Security, by the Trustee or the Securities Custodian, to reflect such reduction.

(g) Obligations with Respect to Transfers and Exchanges of Securities.

(i) To permit registrations of transfers and exchanges, the Company shall execute and the Trustee shall authenticate, Definitive Securities and Global Securities at the Registrar's request.

(ii) No service charge shall be made for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax, assessments, or similar governmental charge payable in connection therewith (other than any such transfer taxes, assessments or similar governmental charge payable upon exchange or transfer pursuant to Sections 3.06, 4.06, 4.08 and 9.05 of this Indenture).

(iii) Prior to the due presentation for registration of transfer of any Security, the Company, the Trustee, the Paying Agent or the Registrar may deem and treat the person in whose name a Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and interest on such Security and for all other purposes whatsoever, whether or not such Security is overdue, and none of the Company, the Trustee, the Paying Agent or the Registrar shall be affected by notice to the contrary.

(iv) All Securities issued upon any transfer or exchange pursuant to the terms of this Indenture shall evidence the same debt and shall be entitled to the same benefits under this Indenture as the Securities surrendered upon such transfer or exchange.

(h) No Obligation of the Trustee.

(i) The Trustee shall have no responsibility or obligation to any beneficial owner of a Global Security, a member of, or a participant in the Depositary or any other Person with respect to the accuracy of the records of the Depositary or its nominee or of any participant or member thereof, with respect to any ownership interest in the Securities or with respect to the delivery to any participant, member, beneficial owner or other Person (other than the Depositary) of any notice (including any notice of redemption or repurchase) or the payment

of any amount, under or with respect to such Securities. All notices and communications to be given to the Holders and all payments to be made to Holders under the Securities shall be given or made only to the registered Holders (which shall be the Depository or its nominee in the case of a Global Security). The rights of beneficial owners in any Global Security shall be exercised only through the Depository subject to the applicable rules and procedures of the Depository. The Trustee may rely and shall be fully protected in relying upon information furnished by the Depository with respect to its members, participants and any beneficial owners.

(ii) The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Depository participants, members or beneficial owners in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

#### 2.4 Definitive Securities

(a) A Global Security deposited with the Depository or with the Trustee as Securities Custodian pursuant to Section 2.1 shall be transferred to the beneficial owners thereof in the form of Definitive Securities in an aggregate principal amount equal to the principal amount of such Global Security, in exchange for such Global Security, only if such transfer complies with Section 2.3 and (i) the Depository notifies the Company that it is unwilling or unable to continue as a Depository for such Global Security or if at any time the Depository ceases to be a "clearing agency" registered under the Exchange Act, and a successor depository is not appointed by the Company within 90 days of such notice, or (ii) an Event of Default has occurred and is continuing or (iii) the Company, in its sole discretion, notifies the Trustee in writing that it elects to cause the issuance of certificated Securities under this Indenture.

(b) Any Global Security that is transferable to the beneficial owners thereof pursuant to this Section 2.4 shall be surrendered by the Depository to the Trustee, to be so transferred, in whole or from time to time in part, without charge, and the Trustee shall authenticate and deliver, upon such transfer of each portion of such Global Security, an equal aggregate principal amount of Definitive Securities of authorized denominations. Any portion of a Global Security transferred pursuant to this Section shall be executed, authenticated and delivered only in denominations of \$1,000 and any integral multiple thereof and registered in such names as the Depository shall direct. Any certificated Initial Security in the form of a Definitive Security delivered in exchange for an interest in the Global Security shall, except as otherwise provided by Section 2.3(e), bear the Restricted Securities Legend.

(c) Subject to the provisions of Section 2.4(b), the registered Holder of a Global Security may grant proxies and otherwise authorize any Person, including Agent

Members and Persons that may hold interests through Agent Members, to take any action which a Holder is entitled to take under this Indenture or the Securities.

(d) In the event of the occurrence of any of the events specified in Section 2.4(a)(i), (ii) or (iii), the Company will promptly make available to the Trustee a reasonable supply of Definitive Securities in fully registered form without interest coupons.

**EXHIBIT A**

**FORM OF FACE OF SECURITY**

[Global Securities Legend, if applicable]

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), NEW YORK, NEW YORK, TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO., OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

[Restricted Securities Legend, if applicable]

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON IT REASONABLY

BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, THE INITIAL PURCHASER (AS DEFINED IN THE INDENTURE) MAY TRANSFER THIS SECURITY ONLY PURSUANT TO CLAUSE (C), UNLESS THE COMPANY OTHERWISE AGREES. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

Each Definitive Security shall bear the following additional legend:

"IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR AND TRANSFER AGENT SUCH CERTIFICATES AND OTHER INFORMATION AS SUCH TRANSFER AGENT MAY REASONABLY REQUIRE TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS."

No. \$ \_\_\_\_\_

**CREDIT SENSITIVE SENIOR NOTE DUE 2008**

**CUSIP No.** \_\_\_\_\_

ACE US Holdings, Inc., a Delaware corporation, promises to pay to \_\_\_\_\_, or registered assigns, the principal sum of \_\_\_\_\_ Dollars

[listed on the Schedule of Increases or Decreases in Global Security attached hereto]/1/ on October 1, 2008.

Interest Payment Dates: April 1 and October 1.

Record Dates: March 15 and September 15.

Additional provisions of this Security are set forth on the other side of this Security.

\_\_\_\_\_

/1/ Use the Schedule of Increases and Decreases language if Security is in Global Form.

IN WITNESS WHEREOF, the parties have caused this instrument to be duly executed.

**ACE US HOLDINGS, INC.,**

by

Name:

---

Title:

by

Name:

---

Title:

Dated:

**TRUSTEE'S CERTIFICATE OF  
AUTHENTICATION**

**UNITED STATES TRUST COMPANY OF  
NEW YORK,**

as Trustee, certifies  
that this is one of  
the Securities referred  
to in the Indenture.

By: \_\_\_\_\_  
Authorized Signatory

**FORM OF REVERSE SIDE OF SECURITY**

**CREDIT SENSITIVE SENIOR NOTE DUE 2008**

**1. Interest**

ACE US Holdings, Inc., a Delaware corporation (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Company"), promises to pay interest on the principal amount of this Security at the rate per annum equal to the rate set forth below in the applicable row under the applicable column for each Pricing Period:

INDEBTEDNESS/TOTAL CAPITAL RATIO OF THE COMPANY AS OF THE END OF THE SECOND PRECEDING PRICING PERIOD	S&P RATING HIGHER THAN OR EQUAL TO "A-" OR MOODY'S RATING HIGHER THAN OR EQUAL TO "A3", EACH AS OF THE LAST DAY OF THE IMMEDIATELY PRECEDING PRICING PERIOD	S&P Rating lower than "A-" OR MOODY'S RATING LOWER THAN "A3", EACH AS OF THE LAST DAY OF THE IMMEDIATELY PRECEDING PRICING PERIOD
Less than 50%	8.13%	8.63%
Greater than or equal to 50% and less than 80%	8.63%	9.13%
Greater than or equal to 80%	9.13%	9.63%

For purposes of determining the interest rate applicable under the chart above, in the event that any ACE USA Insurance Group is rated by both S&P and Moody's, then the lower of the S&P Rating or the Moody's Rating will apply. In the event that more than one ACE USA Insurance Group is rated by S&P and/or Moody's, then the lowest rating received by any such ACE USA Insurance Group will apply.

"Pricing Period" means any period from and including the first day of a fiscal quarter to and including the last day of such fiscal quarter.

The applicable row and applicable column for calculating the interest rate in effect for each Pricing Period will be determined by the Calculation Agent according to (i) the actual Indebtedness/Total Capital Ratio of the Company as of the end of the second preceding Pricing Period, as set forth in the Quarterly Certificate required to be delivered pursuant to Section 4.02(d) of the Indenture during the immediately preceding Pricing Period, and (ii) the S&P Rating or Moody's Rating as of the last day of the immediately preceding Pricing Period, which shall be determined based upon the ratings set forth in such Quarterly Certificate or, if delivered after such Quarterly Certificate, the last Rating Certificate delivered during such immediately preceding Pricing Period. The Calculation Agent may assume that the ratings as of the last day

of any Pricing Period are equal to those set forth in the Quarterly Certificate or in the most recent Rating Certificate delivered during such period, as the case may be.

Notwithstanding the foregoing, (i) the interest rate applicable during the period from the Closing Date until the end of the Pricing Period during which the Closing Date occurs shall be equal to 8.63% per annum, and (ii) if no Quarterly Certificate is delivered to the Trustee during any Pricing Period showing the Indebtedness/Total Capital Ratio of the Company and either the S&P Rating or Moody's Rating for the ACE USA Insurance Group, the interest rate applicable during the immediately succeeding Pricing Period shall be equal to that rate set forth in the box corresponding to the row for Indebtedness/Total Capital Ratio greater than or equal to 80% and the column corresponding to the S&P Rating less than "A-" or the Moody's Rating less than "A3".

In the absence of manifest error, all calculations made by the Calculation Agent shall be conclusive for all purposes and binding on the Company, the Subsidiary Guarantor and the Securityholders. The Calculation Agent shall cause the applicable rate of interest determined by it to be notified to the Paying Agent as soon as practicable after such determination, but in no event later than the second Business Day of each Calculation Period. Upon request of any Securityholder, the Calculation Agent shall provide the interest rate in effect with respect to the Securities from time to time.

The Company shall pay interest semiannually on April 1 and October 1 of each year, commencing April 1, 1999. Interest on the Securities shall accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the Closing Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months; accordingly, interest for each Pricing Period shall be computed on the basis of three 30-day months. The Company shall pay interest on overdue principal at the rate borne by the Securities plus 1% per annum, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

## 2. Method of Payment

The Company shall pay interest on the Securities (except defaulted interest) to the Persons who are registered Holders of Securities at the close of business on the March 15 or September 15 next preceding the interest payment date even if Securities are canceled after the record date and on or before the interest payment date. Holders must surrender Securities to a Paying Agent to collect principal payments. The Company shall pay principal, premium, liquidated damages and interest in money of the United States of America that at the time of payment is legal tender for payment of public and private debts. Payments in respect of the Securities represented by a Global Security (including principal, premium, liquidated damages and interest) shall be made by wire transfer of immediately available funds to the accounts specified by The Depository Trust Company. The Company will make all payments in respect of a certificated Security (including principal, premium and interest), by mailing a check to the registered address of each Holder thereof; provided, however, that payments on the Securities may also be made, in the case of a Holder of at least \$5,000,000 aggregate principal amount of Securities, by wire transfer to a U.S. dollar account maintained by the payee with a bank in the United States if such Holder elects payment by wire transfer by giving written notice to the

Trustee or the Paying Agent to such effect designating such account no later than 30 days immediately preceding the relevant due date for payment (or such other date as the Trustee may accept in its discretion).

### 3. Paying Agent and Registrar

Initially, United States Trust Company of New York (the "Trustee"), will act as Paying Agent and Registrar. The Company may appoint and change any Paying Agent, Registrar or co-registrar without notice. The Company or any of its domestically incorporated Wholly Owned Subsidiaries may act as Paying Agent, Registrar or co-registrar.

### 4. Indenture

The Company issued the Securities under an Indenture dated as of October 27, 1998 (the "Indenture"), among the Company and the Trustee. The terms of the Securities include those stated in the Indenture. Terms defined in the Indenture and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all terms and provisions of the Indenture, and Securityholders are referred to the Indenture for a statement of such terms and provisions.

The Securities are senior unsecured obligations of the Company limited to \$250,000,000 aggregate principal amount at any one time outstanding (subject to Sections 2.01 and 2.08 of the Indenture). This Security is one of the Securities referred to in the Indenture issued in an aggregate principal amount of \$250,000,000. The Indenture imposes certain limitations on the ability of the Company and its Restricted Subsidiaries to, among other things, make certain Investments and other Restricted Payments, pay dividends and other distributions, incur Indebtedness, enter into consensual restrictions upon the payment of certain dividends and distributions by such Restricted Subsidiaries, issue or sell shares of capital stock of such Restricted Subsidiaries, enter into or permit certain transactions with Affiliates, create or incur Liens and make asset sales. The Indenture also imposes limitations on the ability of the Company to consolidate or merge with or into any other Person or convey, transfer or lease all or substantially all of the property of the Company.

Under the circumstances set forth in Section 4.11 of the Indenture, certain Restricted Subsidiaries of the Company will be required to become Subsidiary Guarantors and jointly and severally unconditionally guarantee the Guaranteed Obligations pursuant to the terms of the Indenture.

### 5. Optional Redemption

The Securities shall be redeemable at the option of the Company, at any time and from time to time, in whole or in part, on not less than 10 nor more than 60 days prior notice, at the following base redemption prices (expressed as percentages of principal amount) (the "Base Redemption Price"), plus accrued and unpaid interest (if any) to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), plus the Reference Swap Transaction Value allocable to such Securities

(collectively, the "Redemption Price"), if redeemed during the 12-month period commencing on October 1 (or, with respect to 1998, the Closing Date) of the years set forth below:

YEAR	BASE REDEMPTION PRICE
1998	107.10%
1999	106.30%
2000	105.70%
2001	105.20%
2002	104.50%
2003	104.00%
2004	103.20%
2005	102.50%
2006	101.70%
2007	100.90%

#### 6. Sinking Fund

The Securities are not subject to any sinking fund.

#### 7. Notice of Redemption

Notice of redemption will be mailed by first-class mail at least 10 days but not more than 60 days before the redemption date to each Holder of Securities to be redeemed at his or her registered address. Securities in denominations larger than \$1,000 may be redeemed in part but only in whole multiples of \$1,000. If money sufficient to pay the redemption price of and accrued and unpaid interest on all Securities (or portions thereof) to be redeemed on the redemption date is deposited with the Paying Agent on or before the redemption date and certain other conditions are satisfied, on and after such date interest ceases to accrue on such Securities (or such portions thereof) called for redemption.

#### 8. Repurchase of Securities at the Option of Holders upon Change of Control

Upon a Change of Control, any Holder of Securities will have the right, subject to certain conditions specified in the Indenture, to cause the Company to repurchase all or any part of the Securities of such Holder at a purchase price equal to 101% of the principal amount of the Securities to be repurchased plus accrued and unpaid interest, if any, to the date of repurchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date that is on or prior to the date of purchase) as provided in, and subject to the terms of, the Indenture.

#### 9. Denominations; Transfer; Exchange

The Securities are in registered form without coupons in denominations of \$1,000 and whole multiples of \$1,000. A Holder may transfer or exchange Securities in accordance with the

Indenture. Upon any transfer or exchange, the Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes required by law or permitted by the Indenture. The Registrar need not register the transfer of or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or to transfer or exchange any Securities for a period of 15 days prior to a selection of Securities to be redeemed.

#### 10. Persons Deemed Owners

The registered Holder of this Security may be treated as the owner of it for all purposes.

#### 11. Unclaimed Money

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Company at its written request unless an abandoned property law designates another Person. After any such payment, Holders entitled to the money must look only to the Company and not to the Trustee for payment.

#### 12. Discharge and Defeasance

Subject to certain conditions, the Company at any time may terminate some of or all its obligations under the Securities and the Indenture if the Company deposits with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Securities to redemption or maturity, as the case may be.

#### 13. Amendment, Waiver

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended without prior notice to any Securityholder but with the written consent of the Holders of at least a majority in aggregate principal amount of the outstanding Securities and (ii) any default or noncompliance with any provision may be waived with the written consent of the Holders of at least a majority in principal amount of the outstanding Securities. Subject to certain exceptions set forth in the Indenture, without the consent of any Holder of Securities, the Company and the Trustee may amend the Indenture or the Securities (i) to cure any ambiguity, omission, defect or inconsistency; (ii) to comply with Article 5 of the Indenture; (iii) to provide for uncertificated Securities in addition to or in place of certificated Securities; (iv) to add Subsidiary Guarantees with respect to the Securities; (v) to secure the Securities; (vi) to add additional covenants or to surrender rights and powers conferred on the Company; or (vii) to make any change that does not adversely affect the rights of any Securityholder.

#### 14. Defaults and Remedies

If an Event of Default occurs (other than an Event of Default relating to certain events of bankruptcy, insolvency or reorganization of the Company) and is continuing, the Trustee or the Holders of at least 25% in principal amount of the outstanding Securities may declare the principal of and accrued but unpaid interest on all the Securities to be due and payable. If an Event of Default relating to certain events of bankruptcy, insolvency or reorganization of the

Company occurs, the principal of and interest on all the Securities shall become immediately due and payable without any declaration or other act on the part of the Trustee or any Holders. Under certain circumstances, the Holders of a majority in principal amount of the outstanding Securities may rescind any such acceleration with respect to the Securities and its consequences.

If an Event of Default occurs and is continuing, the Trustee shall be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no Holder may pursue any remedy with respect to the Indenture or the Securities unless (i) such Holder has previously given the Trustee notice that an Event of Default is continuing, (ii) Holders of at least 25% in principal amount of the outstanding Securities have requested the Trustee in writing to pursue the remedy, (iii) such Holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense, (iv) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity and (v) the Holders of a majority in principal amount of the outstanding Securities have not given the Trustee a direction inconsistent with such request within such 60-day period. Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding Securities are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee shall be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

#### 15. Trustee Dealings with the Company

The Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

#### 16. No Recourse Against Others

A director, officer, employee or stockholder, as such, of the Company or any Subsidiary Guarantor shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

#### 17. Authentication

This Security shall not be valid until an authorized signatory of the Trustee (or an authenticating agent) manually signs the certificate of authentication on the other side of this Security.

## 18. Abbreviations

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).

19. *Governing Law* THIS SECURITY AND THE INDENTURE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO THE CHOICE OF LAW PROVISIONS THEREOF THAT WOULD REQUIRE THE APPLICATION OF ANY OTHER LAWS).

THE COMPANY WILL FURNISH TO ANY HOLDER OF SECURITIES UPON WRITTEN REQUEST AND WITHOUT CHARGE TO THE HOLDER A COPY OF THE INDENTURE WHICH HAS IN IT THE TEXT OF THIS SECURITY.

**ASSIGNMENT FORM**

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint \_\_\_\_\_ agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

---

Date: \_\_\_\_\_ Your Signature: \_\_\_\_\_

---

Sign exactly as your name appears on the other side of this Security.

**Signature Guarantee:**

**CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR REGISTRATION OF  
TRANSFER RESTRICTED SECURITIES**

This certificate relates to \$\_\_\_\_\_ principal amount of Securities held in (check applicable space) \_\_\_\_ book-entry or \_\_\_\_ definitive form by the undersigned.

The undersigned (check one box below):

has requested the Trustee by written order to deliver in exchange for its beneficial interest in the Global Security held by the Depository a Security or Securities in definitive, registered form of authorized denominations and an aggregate principal amount equal to its beneficial interest in such Global Security (or the portion thereof indicated above);

has requested the Trustee by written order to exchange or register the transfer of a Security or Securities.

In connection with any transfer of any of the Securities evidenced by this certificate occurring prior to the expiration of the period referred to in Rule 144(k) under the Securities Act, the undersigned confirms that such Securities are being transferred in accordance with its terms:

**CHECK ONE BOX BELOW**

- (1)  to the Company; or
- (2)  pursuant to an effective registration statement under the Securities Act of 1933; or
- (3)  inside the United States to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933) that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that such transfer is being made in reliance on Rule 144A, in each case pursuant to and in compliance with Rule 144A under the Securities Act of 1933; or
- (4)  pursuant to another available exemption from registration provided by Rule 144 under or any other provision of the Securities Act of 1933.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Securities evidenced by this certificate in the name of any Person other than the registered holder thereof; provided, however, that if box (4) is checked, the Trustee may require, prior to registering any such transfer of the Securities, such legal opinions, certifications and other information as the Company has reasonably requested to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933.

\_\_\_\_\_  
Your Signature

Signature Guarantee:

Date: \_\_\_\_\_  
Signature must be guaranteed  
by a participant in a recognized  
signature guaranty medallion  
program or other signature  
guarantor acceptable to the  
Trustee

\_\_\_\_\_  
Signature of Signature Guarantee

**TO BE COMPLETED BY PURCHASER IF (3) ABOVE IS CHECKED.**

The undersigned represents and warrants that it is purchasing this Security for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act of 1933, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Date: \_\_\_\_\_

\_\_\_\_\_  
NOTICE: To be executed by  
an executive

[TO BE ATTACHED TO GLOBAL SECURITIES]

**SCHEDULE OF INCREASES OR DECREASES IN GLOBAL SECURITY**

The initial principal amount of this Global Security is \$\_\_\_\_. The following increases or decreases in this Global Security have been made:

Date of Exchange	Amount of decrease in Principal Amount of this Global Security	Amount of increase in Principal Amount of this Global Security	Principal amount of this Global Security following such decrease or increase	Signature of authorized signatory of Trustee or Securities Custodian
------------------	--	--	--	--

**OPTION OF HOLDER TO ELECT PURCHASE**

IF YOU WANT TO ELECT TO HAVE THIS SECURITY PURCHASED BY THE COMPANY PURSUANT TO SECTION 4.06 (ASSET SALE) OR 4.08 (CHANGE OF CONTROL) OF THE INDENTURE, CHECK THE BOX:

ASSET SALE  CHANGE OF CONTROL

**IF YOU WANT TO ELECT TO HAVE ONLY PART OF THIS SECURITY PURCHASED BY THE**

**COMPANY PURSUANT TO SECTION 4.06 OR 4.08 OF THE INDENTURE, STATE THE AMOUNT:**

**\$ DATE:** \_\_\_\_\_ **YOUR SIGNATURE:** \_\_\_\_\_  
(SIGN EXACTLY AS YOUR NAME APPEARS ON THE OTHER SIDE OF THE SECURITY)

**SIGNATURE GUARANTEE:** \_\_\_\_\_  
SIGNATURE MUST BE GUARANTEED BY A PARTICIPANT IN A RECOGNIZED SIGNATURE GUARANTY MEDALLION PROGRAM OR OTHER SIGNATURE GUARANTOR ACCEPTABLE TO THE TRUSTEE

**EXHIBIT B**

**FORM OF SUPPLEMENTAL INDENTURE**

SUPPLEMENTAL INDENTURE, among [GUARANTOR] (the "New Guarantor"), a subsidiary of ACE US Holdings, Inc. (or its successor), a Delaware corporation (the "Company"), [EXISTING GUARANTORS] and UNITED STATES TRUST COMPANY OF NEW YORK, as trustee under the indenture referred to below (the "Trustee").

**WITNESSETH:**

WHEREAS the Company [and each of the OLD GUARANTORS (the "Existing Guarantors")] has heretofore executed and delivered to the Trustee an Indenture (the "Indenture") dated as of October 27, 1998, providing for the issuance of an aggregate principal amount of up to \$250,000,000 of Credit Sensitive Senior Notes due 2008 (the "Securities");

WHEREAS Section 4.11 of the Indenture provides that under certain circumstances the Company is required to cause the New Guarantor to execute and deliver to the Trustee a supplemental indenture pursuant to which the New Guarantor shall unconditionally guarantee all the Company's obligations under the Securities pursuant to a Subsidiary Guarantee on the terms and conditions set forth herein; and

WHEREAS pursuant to Section 9.01 of the Indenture, the Trustee, the Company and the Existing Guarantors are authorized to execute and deliver this Supplemental Indenture;

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the New Guarantor, the Company, the Existing Guarantors and the Trustee mutually covenant and agree for the equal and ratable benefit of the holders of the Securities as follows:

1. Agreement to Guarantee. [Article 10 of the Indenture, as set forth in Annex 1 hereto, is hereby added to the Indenture.]/2/ The New Guarantor hereby agrees, jointly and severally with all the Existing Guarantors, to unconditionally guarantee the Company's obligations under the Securities and to be bound by all other applicable provisions of the Indenture and the Securities.

2. Ratification of Indenture; Supplemental Indentures Part of Indenture.

Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every holder of Securities heretofore or hereafter authenticated and delivered shall be bound hereby.

---

/2/ Include only in first supplemental indenture executed pursuant to Section 4.11.

3. Governing Law. THIS SUPPLEMENTAL INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO THE CHOICE OF LAW PROVISIONS THEREOF THAT WOULD REQUIRE THE APPLICATION OF ANY OTHER LAWS).

4. Trustee Makes No Representation. The Trustee makes no representation as to the validity or sufficiency of this Supplemental Indenture.

5. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

6. Effect of Headings. The Section Headings herein are for convenience only and shall not effect the construction thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

**[NEW GUARANTOR],**

by

Name:

\_\_\_\_\_

Title:

**ACE US HOLDINGS, INC.**

by

Name:

\_\_\_\_\_

Title:

**[EXISTING GUARANTORS],**

by

Name:

\_\_\_\_\_

Title

**UNITED STATES TRUST COMPANY OF  
NEW YORK, as Trustee,**

by: \_\_\_\_\_ Name:

Title:

3

## ANNEX 1

SECTION 10.01. Subsidiary Guarantees. Each Subsidiary Guarantor hereby jointly and severally unconditionally and irrevocably guarantees, as a primary obligor and not merely as a surety, to each Holder and to the Trustee and its successors and assigns (a) the full and punctual payment of principal of and interest on the Securities when due, whether at Stated Maturity, by acceleration, by redemption, upon repurchase or otherwise, and all other monetary obligations of the Company under this Indenture (including obligations to the Trustee) and the Securities and (b) the full and punctual performance within applicable grace periods of all other obligations of the Company whether for expenses, indemnification or otherwise under this Indenture and the Securities (all the foregoing being hereinafter collectively called the "Guaranteed Obligations"). Each Subsidiary Guarantor further agrees that the Guaranteed Obligations may be extended or renewed, in whole or in part, without notice or further assent from each such Subsidiary Guarantor, and that each such Subsidiary Guarantor shall remain bound under this Article 10 notwithstanding any extension or renewal of any Guaranteed Obligation.

Each Subsidiary Guarantor waives presentation to, demand of, payment from and protest to the Company of any of the Guaranteed Obligations and also waives notice of protest for nonpayment. Each Subsidiary Guarantor waives notice of any default under the Securities or the Guaranteed Obligations. The obligations of each Subsidiary Guarantor hereunder shall not be affected by (a) the failure of any Holder or the Trustee to assert any claim or demand or to enforce any right or remedy against the Company or any other Person under this Indenture, the Securities or any other agreement or otherwise; (b) any extension or renewal of any thereof, (c) any rescission, waiver, amendment or modification of any of the terms or provisions of this Indenture, the Securities or any other agreement; (d) the release of any security held by any Holder or the Trustee for the Guaranteed Obligations or any of them; (e) the failure of any Holder or Trustee to exercise any right or remedy against any other guarantor of the Guaranteed Obligations; or (f) any change in the ownership of such Subsidiary Guarantor, except as provided in Section 10.02(b).

Each Subsidiary Guarantor hereby waives any right to which it may be entitled to have its obligations hereunder divided among the Subsidiary Guarantors, such that such Subsidiary Guarantor's obligations would be less than the full amount claimed. Each Subsidiary Guarantor hereby waives any right to which it may be entitled to have the assets of the Company first be used and depleted as payment of the Company's or such Subsidiary Guarantor's obligations hereunder prior to any amounts being claimed from or paid by such Subsidiary Guarantor hereunder. Each Subsidiary Guarantor hereby waives any right to which it may be entitled to require that the Company be sued prior to an action being initiated against such Subsidiary Guarantor.

Each Subsidiary Guarantor further agrees that its Subsidiary Guarantee herein constitutes a guarantee of payment, performance and compliance when due (and not a guarantee of collection) and waives any right to require that any resort be had by any Holder or the Trustee to any security held for payment of the Guaranteed Obligations.

Except as expressly set forth in Sections 8.01(b), 10.02 and 10.06, the obligations of each Subsidiary Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense of setoff, counterclaim, recoupment or termination whatsoever or by reason of the invalidity, illegality or unenforceability of the Guaranteed Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Subsidiary Guarantor herein shall not be discharged or impaired or otherwise affected by the failure of any Holder or the Trustee to assert any claim or demand or to enforce any remedy under this Indenture, the Securities or any other agreement, by any waiver or modification of any thereof, by any default, failure or delay, willful or otherwise, in the performance of the obligations, or by any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of any Subsidiary Guarantor or would otherwise operate as a discharge of any Subsidiary Guarantor as a matter of law or equity.

Each Subsidiary Guarantor agrees that its Subsidiary Guarantee shall remain in full force and effect until payment in full of all the Guaranteed Obligations. Each Subsidiary Guarantor further agrees that its Subsidiary Guarantee herein shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of or interest on any Guaranteed Obligation is rescinded or must otherwise be restored by any Holder or the Trustee upon the bankruptcy or reorganization of the Company or otherwise.

In furtherance of the foregoing and not in limitation of any other right which any Holder or the Trustee has at law or in equity against any Subsidiary Guarantor by virtue hereof, upon the failure of the Company to pay the principal of or interest on any Guaranteed Obligation when and as the same shall become due, whether at maturity, by acceleration, by redemption or otherwise, or to perform or comply with any other Guaranteed Obligation, each Subsidiary Guarantor hereby promises to and shall, upon receipt of written demand by the Trustee, forthwith pay, or cause to be paid, in cash, to the Holders or the Trustee an amount equal to the sum of (i) the unpaid principal amount of such Guaranteed Obligations, (ii) accrued and unpaid interest on such Guaranteed Obligations (but only to the extent not prohibited by law) and (iii) all other monetary obligations of the Company to the Holders and the Trustee.

Each Subsidiary Guarantor agrees that, as between it, on the one hand, and the Holders and the Trustee, on the other hand, (x) the maturity of the Guaranteed Obligations guaranteed hereby may be accelerated as provided in Article 6 for the purposes of any Subsidiary Guarantee herein, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Guaranteed Obligations guaranteed hereby, and (y) in the event of any declaration of acceleration of such Guaranteed Obligations as provided in Article 6, such Guaranteed Obligations (whether or not due and payable) shall forthwith become due and payable by such Subsidiary Guarantor for the purposes of this Section 10.01.

Each Subsidiary Guarantor also agrees to pay any and all costs and expenses (including reasonable attorneys' fees and expenses) incurred by the Trustee or any Holder in enforcing any rights under this Section 10.01.

Upon request of the Trustee, each Subsidiary Guarantor shall execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture.

SECTION 10.02. Limitation on Liability. (a) Any term or provision of this Indenture to the contrary notwithstanding, the maximum aggregate amount of the Guaranteed Obligations guaranteed hereunder by any Subsidiary Guarantor shall not exceed the maximum amount that can be hereby guaranteed without rendering this Indenture, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

(b) This Subsidiary Guarantee as to any Subsidiary Guarantor shall terminate and be of no further force or effect and such Subsidiary Guarantor shall be deemed to be released from all obligations under this Article 10 upon (i) the merger or consolidation of such Subsidiary Guarantor with or into any Person other than the Company or a Subsidiary or Affiliate of the Company where such Subsidiary Guarantor is not the surviving entity of such consolidation or merger or (ii) the sale by the Company or any Subsidiary of the Company (or any pledgee of the Company) of the Capital Stock of such Subsidiary Guarantor, where, after such sale, such Subsidiary Guarantor is no longer a Subsidiary of the Company; provided, however, that each such merger, consolidation or sale (or, in the case of a sale by such a pledgee, the disposition of the proceeds of such sale) shall comply with Section 4.06 and Section 5.01(b). At the request of the Company, the Trustee shall execute and deliver an appropriate instrument evidencing such release.

SECTION 10.03. Successors and Assigns. This Article 10 shall be binding upon each Subsidiary Guarantor and its successors and assigns and shall inure to the benefit of the successors and assigns of the Trustee and the Holders and, in the event of any transfer or assignment of rights by any Holder or the Trustee, the rights and privileges conferred upon that party in this Indenture and in the Securities shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions of this Indenture.

SECTION 10.04. No Waiver. Neither a failure nor a delay on the part of either the Trustee or the Holders in exercising any right, power or privilege under this Article 10 shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any right, power or privilege. The rights, remedies and benefits of the Trustee and the Holders herein expressly specified are cumulative and not exclusive of any other rights, remedies or benefits which either may have under this Article 10 at law, in equity, by statute or otherwise.

SECTION 10.05. Modification. No modification, amendment or waiver of any provision of this Article 10, nor the consent to any departure by any Subsidiary Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Trustee, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on any Subsidiary Guarantor in any case shall entitle such Subsidiary Guarantor to any other or further notice or demand in the same, similar or other circumstances.

SECTION 10.06. Execution of Supplemental Indenture for Future Subsidiary Guarantors. Each Subsidiary which is required to become a Subsidiary Guarantor pursuant to Section 4.11 shall promptly execute and deliver to the Trustee a supplemental indenture in the form of Exhibit B hereto pursuant to which such Subsidiary shall become a Subsidiary Guarantor under this Article 10 and shall guarantee the Guaranteed Obligations.

**EXHIBIT D**

**ACE US HOLDINGS, INC.**

**FORM OF  
QUARTERLY CERTIFICATE  
TO THE TRUSTEE AND CALCULATION AGENT**

We, \_\_\_\_\_ and \_\_\_\_\_, the \_\_\_\_\_ and \_\_\_\_\_, respectively, of ACE US Holdings, Inc., a Delaware corporation (the "Company"), do hereby certify on behalf of the Company pursuant to Section 4.02(d) of the Indenture (the "Indenture") for the Company's Credit Sensitive Senior Notes due 2008 (the "Securities") between the Company and United States Trust Company of New York, as Trustee (the "Trustee"), that the following information is true and correct as of the date hereof :

(i) The Company's Indebtedness/Total Capital Ratio as of the last day of the fiscal quarter most recently ended, measured in accordance with GAAP on a Consolidated basis was \_\_\_%, calculated as follows:

(1) Balance Sheet Indebtedness as of \_\_\_\_\_: \$ \_\_\_\_\_

(2) Funded Indebtedness as of \_\_\_\_\_: \$ \_\_\_\_\_

(3) Consolidated Net Worth as of \_\_\_\_\_: \$ \_\_\_\_\_

Indebtedness/Total Capital Ratio ((1)/((2)+(3))): \_\_\_\_\_

(ii) The current S&P Ratings and Moody's Ratings for each ACE USA Insurance Group as of the date of this Certificate are: [set forth ratings for each such group].

(iii) Based upon the calculation and rating set forth respectively in (i) and (ii) above, the applicable interest rate in effect for the Pricing Period beginning \_\_\_\_\_ and ending \_\_\_\_\_ will be \_\_\_\_\_.

Capitalized terms used but not defined herein shall have their respective meanings as set forth in the Indenture and the Securities.

[Signature on following page]

IN WITNESS WHEREOF, the undersigned have executed and delivered this certificate on behalf of Company.

**Dated:** \_\_, \_\_\_\_ **ACE US HOLDINGS, INC.**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**EXHIBIT E**

**ACE US HOLDINGS, INC.**

**FORM OF  
RATINGS CERTIFICATE  
TO THE TRUSTEE TO THE TRUSTEE AND CALCULATION AGENT**

We, \_\_\_\_\_ and \_\_\_\_\_, the \_\_\_\_\_ and \_\_\_\_\_, respectively, of ACE US Holdings, Inc., a Delaware corporation (the "Company"), do hereby certify on behalf of the Company pursuant to Section 4.02(e) of the Indenture (the "Indenture") for the Company's Credit Sensitive Senior Notes due 2008 (the "Securities") between the Company and United States Trust Company of New York, as Trustee (the "Trustee"), that the following information is true and correct as of the date hereof :

(i) The current S&P Ratings and Moody's Ratings for each ACE USA Insurance Group as of the date of this Certificate are: [set forth ratings for each such group].

(ii) Taking into account the rating set forth in (i) above and the Indebtedness/Total Capital Ratio set forth in the Quarterly Certificate most recently delivered pursuant to Section 4.02(d) of the Indenture, the applicable interest rate in effect for the Pricing Period beginning \_\_\_\_\_ and ending \_\_\_\_\_ is \_\_\_\_\_.

Capitalized terms used but not defined herein shall have their respective meanings as set forth in the Indenture and the Securities.

[Signature on following page]

IN WITNESS WHEREOF, the undersigned have executed and delivered this certificate on behalf of Company.

**Dated:** \_\_, \_\_\_\_ **ACE US HOLDINGS, INC.**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

## Selected Financial Data

The following table sets forth selected consolidated financial data of the Company as of and for each of the years in the five year period ended September 30, 1998. These selected financial and other data should be read in conjunction with the consolidated financial statements and related notes and with "Management's Discussion and Analysis of Results and Operations and Financial Condition" presented on pages 39 to 74 and 18 to 38 respectively, of this annual report. On July 9, 1998, the Company completed the acquisition of Tarquin Limited which was accounted for on a pooling-of-interests basis. All prior financial information presented has been restated to include the results of operations and financial position of the combined entities. On March 2, 1998, the Company effected a three-for-one split of the Company's Ordinary Shares. All share and per share data has been adjusted, where necessary, to reflect the stock split.

	For the years ended September 30				
	1998	1997	1996	1995	1994
	(in thousands except share and per share data and selected other data)				
Operations data:					
Net premiums written	\$ 880,973	\$ 780,773	\$ 781,884	\$ 644,880	\$ 385,926
===== Net premiums earned	894,303	805,372	755,840	473,133	391,117
Net investment income	324,254	252,440	213,701	184,041	142,677
Net realized gain on investments	188,385	127,702	56,229	50,765	3,717
Losses and loss expenses/1/	616,892	486,140	620,277	366,322	620,556
Acquisition costs					
and administration expenses	271,566	153,486	138,343	81,976	63,459
Amortization of goodwill	12,834	7,325	1,507	(437)	(826)
Interest expense	25,459	11,667	10,481	6,036	--
Income taxes	20,040	25,181	26,543	7,673	--
----- Net income (loss)/1/	\$ 660,151	\$ 602,728	\$ 327,619	\$ 247,360	\$ (45,678)
===== Earnings (loss) per share/1/	\$ 2.96	\$ 2.69	\$ 2.00	\$ 1.59	\$ (0.32)
===== Weighted average shares outstanding-diluted	69,281,176	186,809,023	163,768,894	155,505,028	144,607,635
Cash dividends per share	\$0.34	\$0.27	\$0.21	\$0.17	\$0.14
Balance sheet data (at end of period):					
Total investments and cash	\$ 6,201,074	\$ 4,787,916	\$ 4,342,791	\$ 3,225,786	\$ 2,538,321
Total assets	8,788,753	5,647,596	5,077,780	3,514,946	2,632,361
Net unpaid losses and loss expenses/1/	2,678,341	2,006,873	1,892,302	1,452,299	1,160,392
Total shareholders' equity/1/	3,714,270	2,785,155	2,367,063	1,524,123	1,088,745
Book value per share/1/	\$ 19.19	\$ 15.46	\$ 12.53	\$ 9.98	\$ 7.65
Fully diluted book value per share/1/	\$ 19.14	\$ 15.40	\$ 12.46	\$ 9.96	\$ 7.65

Selected other data:	1998	1997	1996	1995	1994
Loss and loss expense ratio/1/	57.8%	60.4%	58.8%	77.4%	133.1%
Underwriting and administrative expense ratio	30.4%	19.0%	18.3%	17.2%	16.0%
Combined ratio/1/	88.2%	79.4%	87.1%	94.6%	149.1%
Loss reserves to capital and surplus ratio/2/	72.1%	72.1%	79.9%	95.3%	106.6%
Ratio of net premiums written to capital and surplus	0.24:1	0.28:1	0.33:1	0.36:1	0.35:1

/1/At June 30, 1994, the Company increased its then existing reserves relating to breast implant claims. Although the reserve increase was partially satisfied by an allocation from existing IBNR, it also required an increase in the Company's total reserve for unpaid losses and loss expenses at June 30, 1994 of \$200 million (see "Management's Discussion and Analysis--Breast Implant Litigation").

/2/The earnings per share amounts prior to 1998 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, Earnings Per Share. For further discussion of earnings per share and the impact of Statement No. 128, see the notes to the consolidated financial statements beginning on page 48.

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

The following is a discussion of the Company's financial condition, results of operations, liquidity and capital resources. This discussion should be read in conjunction with the consolidated financial statements, and related notes thereto, presented on pages 39 to 74 of this annual report.

On March 2, 1998, the Company effected a three-for-one split of the Company's Ordinary Shares. All share and per share data has been adjusted, where necessary, to reflect the stock split.

### **General**

ACE Limited ("ACE") is a holding company which, through its Bermuda-based operating subsidiaries, A.C.E. Insurance Company, Ltd. ("ACE Bermuda"), Corporate Officers & Directors Assurance Ltd. ("CODA"), Tempest Reinsurance Company Limited ("Tempest Re") and CAT Limited ("CAT") and its Dublin, Ireland based subsidiaries, ACE Bermuda Company Europe Limited and ACE Reinsurance Company Europe Limited provides a broad range of insurance and reinsurance products to a diverse group of international clients. Through its U.S. based subsidiary, ACE USA, Inc. (formerly Westchester Speciality Group, Inc.) ("ACE USA"), the Company provides insurance products to a broad range of clients in the United States. In addition, since 1996 the Company has provided funds at Lloyd's, primarily in the form of letters of credit, to support underwriting capacity for Lloyd's syndicates managed by Lloyd's managing agencies which are indirect wholly owned subsidiaries of ACE. Underwriting capacity is the maximum amount of gross premiums that a syndicate at Lloyd's can underwrite in a given year of account. Unless the context otherwise indicates, the term "Company" refers to one or more of ACE and its consolidated subsidiaries. The operations of the Company in the Lloyd's market are collectively referred to herein as "ACE Global Markets".

On January 2, 1998, the Company completed the acquisition of ACE USA, through its newly-created U.S. holding company, ACE US Holdings, Inc. ("ACE US"). Under the terms of the acquisition agreement, the Company purchased all of the outstanding capital stock of ACE USA for aggregate cash consideration of \$338 million. In connection with the acquisition, National Indemnity, a subsidiary of Berkshire Hathaway, provided \$750 million (75 percent quota share of \$1 billion) of reinsurance protection to ACE USA with respect to their loss reserves for the 1996 and prior accident years (see "Liquidity and Capital Resources"). ACE USA, through its insurance subsidiaries, provides commercial property, umbrella liability, specialty program business, warranty, errors and omissions, directors and officers liability coverages as well as a captive management reinsurance facility.

On March 11, 1998, the Company announced the formation of a joint venture, ACE Capital Re Limited, with Capital Re Corporation ("Capital Re"). ACE Capital Re Limited, a Bermuda-domiciled insurance company, writes both traditional and custom-designed programs covering financial guaranty, mortgage guaranty and a broad range of financial risks. Operations are underwritten and managed in Bermuda by a joint venture managing agency, ACE Capital Re Managers Ltd. The Company and Capital Re each have a 50 percent economic interest in ACE Capital Re Limited and ACE Capital Re Managers Ltd.

On April 1, 1998, the Company completed the acquisition of CAT Limited ("CAT"), a privately held, Bermuda-based property catastrophe reinsurer. Under the terms of the acquisition agreement, the Company purchased all of the outstanding capital stock of CAT, for cash consideration of approximately \$641 million. CAT is being integrated with ACE's existing property catastrophe subsidiary, Tempest Re, and going forward the combined property catastrophe reinsurance operations will operate under the Tempest Re name.

On July 9, 1998, the Company completed the acquisition of Tarquin Limited ("Tarquin"), a UK-based holding company which owns Lloyd's managing agency Charman Underwriting Agencies Ltd. ("Charman") and Tarquin Underwriting Limited, its corporate capital provider. The Charman managed syndicates, 488 and 2488, are leading international underwriters of short-tail marine, aviation, political risk and specialty property-casualty insurance and reinsurance.

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

The Company will continue to evaluate potential new product lines and other opportunities in the insurance and reinsurance markets. In addition, the Company regularly evaluates potential acquisitions of other companies and businesses and holds discussions with potential acquisition candidates. As a general rule, the Company publicly announces such acquisitions only after a definitive agreement has been reached.

**Safe Harbor Disclosure**

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Any written or oral statements made by or on behalf of the Company may include forward-looking statements which reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other factors (which are described in more detail elsewhere in documents filed by the Company with the Securities and Exchange Commission) include, but are not limited to, (i) uncertainties relating to government and regulatory policies (such as subjecting the Company to insurance regulation or taxation in additional jurisdictions), (ii) the occurrence of catastrophic events with a frequency or severity exceeding the Company's estimates, (iii) the legal environment, (iv) the uncertainties of the reserving process, (v) loss of the services of any of the Company's executive officers, (vi) changing rates of inflation and other economic conditions, (vii) losses due to foreign currency exchange rate fluctuations, (viii) ability to collect reinsurance recoverables, (ix) the competitive environment in which the Company operates, (x) the impact of mergers and acquisitions, (xi) the impact of Year 2000 related issues, (xii) developments in global financial markets which could affect the Company's investment portfolio, and (xiii) risks associated with the introduction of new products and services. The words "believe", "anticipate", "project", "plan", "expect", "intend", "will likely result" or "will continue" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Results of Operations - Years ended September 30, 1998, 1997 and 1996**

As previously noted, the Company completed the acquisition of Tarquin on July 9, 1998. This acquisition has been accounted for as a pooling-of-interests and thus, information for all years presented has been restated to reflect the results of the combined companies. Included in the results of fiscal 1998, 1997 and 1996 are certain non-recurring and transaction related expenses (hereinafter referred to as the "non-recurring expenses") amounting to \$46.6 million, \$6.1 million and \$5.0 million, respectively. These expenses include interest expense and payments to employees as well as transaction costs including legal, accounting and investment banking fees.

**Net Income**

	1998	1997 (IN MILLIONS)	1996
Income excluding net realized gains on investments and non-recurring expenses.....	\$418.4	\$381.1	\$277.4
Non-recurring expenses (net of income taxes).....	(46.6)	(6.1)	(5.0)
Net realized gains on investments.....	188.4	127.7	55.2
	-----	-----	-----
Net income.....	\$560.2	\$502.7	\$327.6
	=====	=====	=====

For the year ended September 30, 1998, income excluding net realized gains on investments and non-recurring expenses increased by \$37.3 million or 9.8 percent, compared with fiscal 1997. This increase is predominantly the result of the inclusion of the results of ACE USA following its acquisition on January 2, 1998 and the inclusion of the results of CAT following its acquisition on April 1, 1998.

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

During 1997, the Company experienced strong growth in income from insurance operations and net investment income. The increase was partially offset by an increase in general and administrative expenses. In fiscal 1997, Tempest Re contributed \$119.8 million to income excluding net realized gains on investments and non-recurring expenses compared to \$23.8 million for 1996. A full year of operations for Tempest Re is included in the results for fiscal 1997 versus one quarter of operations in 1996 as Tempest Re was purchased on July 1, 1996.

**Premiums**

	1998	Percentage Change	1997	Percentage Change	1996
	-----	-----	-----	-----	-----
	(In millions)				
Gross premiums written:					
ACE Bermuda (including CODA)	\$ 521.6	(0.3)%	\$523.2	(10.0)%	\$581.6
ACE Global Markets	436.3	37.9	316.5	29.9	243.6
Tempest Re (including CAT)	124.1	3.8	119.6	243.7	34.8
ACE USA	160.2	-	-	-	-
	-----		-----		-----
	\$1,242.2	29.5%	\$959.3	12.0%	\$860.0
	=====		=====		=====
Net premiums written:					
ACE Bermuda (including CODA)	\$ 396.9	(11.3)%	\$447.6	(17.6)%	\$543.2
ACE Global Markets	312.0	37.6	226.8	11.2	203.9
Tempest Re (including CAT)	93.6	(18.8)	115.3	231.3	34.8
ACE USA	78.5	-	-	-	-
	-----		-----		-----
	\$ 881.0	11.6%	\$789.7	1.0%	\$781.9
	=====		=====		=====
Net premiums earned:					
ACE Bermuda (including CODA)	\$ 393.5	(17.0)%	\$474.3	(11.9)%	\$538.1
ACE Global Markets	278.3	34.4	207.1	13.8	182.0
Tempest Re (including CAT)	151.7	22.4	123.9	247.1	35.7
ACE USA	70.8	-	-	-	-
	-----		-----		-----
	\$ 894.3	11.1%	\$805.3	6.6%	\$755.8
	=====		=====		=====

During 1998 and 1997, most insurance markets faced significant competitive pressures as a result of relatively low loss activity and excess capital in these markets. This has resulted in continuing price pressure in most insurance and reinsurance lines. However, the Company's ability to make strategic acquisitions, increase its participation on the syndicates in Lloyd's managed by the Company, develop new and expand existing product lines and maintain a high level of policy renewals on existing business, while maintaining its focus on underwriting and pricing discipline, has resulted in increases in gross and net premiums written and net premiums earned for the years ended September 30, 1998 and 1997.

During 1998, gross premiums written increased to \$1,242.2 million compared with \$959.3 million in 1997, an increase of \$282.9 million. The growth in gross premiums written is mainly a result of the inclusion of nine months of premiums from ACE USA and six months of premiums from CAT, following their acquisitions on January 2, 1998 and April 1, 1998, respectively. The growth is also due to the increased participation in the Lloyd's syndicates managed by the Company.

As previously noted, the Company continues to face competitive pressures in most of the markets in which it operates. Gross premiums written by ACE Bermuda decreased by \$1.6 million compared with 1997. Within ACE Bermuda, increased premium volume resulted from new business in financial lines, increased activity in the satellite line and contributions from the joint ventures in which ACE Bermuda participates. These increases were offset by continuing declines in the excess liability and directors and officers lines of business. The decline in excess liability premiums is mainly the result of the non-renewal of several accounts due to soft market conditions and reduced premiums from pricing changes. Increases in attachment points and decreases in limits provided have resulted in decreased premiums but have led to a reduction in the Company's exposure and an improved risk profile. The decline in the directors and officers gross premiums is primarily a result of the continuing competitive pressures in this market.

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

Market conditions remain very competitive in the property catastrophe reinsurance business as rates continue to decline in the absence of major loss activity over the last several years. Tempest Re and CAT experienced continuing price pressures during the year (although CAT was not acquired until April 1, 1998), including their January 1998 renewals which is their largest renewal period. Tempest Re did not renew several of its accounts due to inadequate pricing. While the combined Tempest Re and CAT operations recorded gross premiums written of \$124.1 million compared to \$119.6 million for Tempest Re alone in 1997, each company on an individual basis showed declines in gross written premiums compared to the 1997 year.

ACE Global Markets continues to experience competitive conditions in the Lloyd's market where rates continue to soften in most lines of business. This has affected the writing of new business. In addition, the Company managed syndicates have declined certain renewal business where prices or policy terms were not considered adequate. However, as already noted, the Company's gross premiums written have increased this year as a result of the Company's increased participation in these syndicates.

ACE USA has also been impacted by significant competitive market forces during the year. During this period, ACE USA has focused on maintaining its underwriting and pricing discipline as well as developing its new product divisions which were introduced during the year.

The Company expects that the current competitive market conditions will continue and does not believe that recent loss activity in certain markets in which the Company operates will significantly affect insurance and reinsurance prices in the near term.

Gross premiums written increased by \$99.3 million to \$959.3 million in 1997 from \$860.0 million in 1996. The growth in gross premiums written is primarily attributable to the inclusion of a full year of premiums for Tempest Re and the increased participation in the Lloyd's syndicates managed by the Company. As Tempest Re was purchased on July 1, 1996, the 1996 comparative only includes three months of Tempest Re premiums. Tempest Re's gross premiums written for 1997 are down by approximately 17 percent compared to their full year 1996 premiums primarily due to rate reductions, increasing attachment points and some cancellations due to pricing. The Company's portion of gross premiums written by the Lloyd's syndicates in which the Company participates increased as a result of the Company's increased participation in these syndicates. Satellite, aviation, excess property and financial lines also contributed to the increase. These increases in gross premiums written were offset by declines in excess liability and directors and officers liability gross premiums written. The decline in excess liability premiums is mainly the result of continuing competitive pressures in that market which have adversely affected the pricing of the excess liability business. This market pressure has caused ACE Bermuda, in certain instances, to increase its average attachment points, lower its average policy limits or decline business, which has had the effect of reducing the Company's exposure and improving its risk profile. Directors and officers liability premiums declined as a result of continuing competitive conditions.

Net premiums written increased by \$91.3 million to \$881.0 million in 1998 compared with \$789.7 million in 1997. This increase, as with the increase in gross premiums written, is the result of increases in the Company's participation in the Lloyd's syndicates managed by ACE Global Markets as well as the contributions of ACE USA and CAT during the year. Net premiums written in ACE Bermuda decreased from \$447.6 million in 1997 to \$396.9 million in 1998. This decline is primarily the result of continuing declines in directors and officers liability and excess liability premiums, as described above in the discussion of gross premiums written, offset somewhat by growth in net premiums written from the satellite and financial lines divisions and in the joint ventures business written by ACE Bermuda.

Net premiums written were also affected by an increase in the use of reinsurance during 1998, predominantly in ACE Bermuda. In particular, during the second quarter, the excess liability division of ACE Bermuda purchased a 25 percent quota share reinsurance treaty and also put in place an excess of loss treaty that limits the retained risk on a single occurrence to \$100 million. In addition, during 1998, the satellite division of ACE Bermuda and Tempest Re each purchased additional reinsurance to cover catastrophic events.

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

Net premiums written increased in 1997 to \$789.7 million compared to \$781.9 million for 1996. The inclusion of a full year of net premiums written for Tempest Re, the increased participation in the Lloyd's syndicates managed by the Company and growth in excess property premiums contributed to the increase in net premiums written. These increases were partially offset by declines in excess liability and directors and officers liability premiums as discussed above.

A portion of the decline in net premiums written is also the result of the Company's use of reinsurance for the satellite and financial lines product lines in 1997. Net premiums written for Tempest Re were also reduced as a result of the purchase of a modest amount of retrocessional cover during 1997.

For the year ended September 30, 1998, net premiums earned increased by \$89.0 million to \$894.3 million compared with \$805.3 million last year, an increase of 11.1 percent. This increase was a result of the contributions from ACE USA and CAT during the year following their acquisitions as well as an increase in net premiums earned resulting from the Company's participation in the Lloyd's syndicates under management. This increase was partially offset by declines in net premiums earned in ACE Bermuda as a result of declines in net premiums written.

For 1997, net premiums earned increased by \$49.5 million to \$805.3 million from \$755.8 million in 1996. The growth in net premiums earned was primarily the result of the inclusion of a full year of premiums earned for Tempest Re in 1997 compared to three months in 1996 and the Company's increased participation in the Lloyd's syndicates managed by the Company. At ACE Bermuda, aviation, excess property and financial lines also experienced growth during the year. These increases were offset by declines in excess liability, directors and officers liability and satellite premiums earned.

**Net Investment Income**

	1998	Percentage Change	1997 (in millions)	Percentage Change	1996
Net investment income.....	\$324.3	27.9%	\$253.4	18.6%	\$213.7

Net investment income increased by \$70.9 million or 27.9 percent in 1998 compared with 1997. This increase is primarily due to an increase in the investable asset base resulting from the inclusion of the ACE USA and CAT portfolios in the current year as well as positive cash flows from operations and the reinvestment of funds generated by the portfolio. Consistent with the overall decline in U.S. interest rates during the year, the average yield earned on the investment portfolio in 1998 was down when compared with the yield generated in 1997.

The average yield earned on the investment portfolio in 1997 was down slightly compared to the yield generated in 1996. This is largely due to the fact that during the first quarter of fiscal 1997 the Company increased the equity exposure of the externally managed investment portfolio to 20 percent from 15 percent. The remainder of the portfolio is comprised of fixed maturity securities. Despite the decreases in yield, net investment income increased by \$39.7 million in 1997 compared to 1996 primarily as a result of a larger investable asset base. The increase in the investable asset base in 1997 and 1996 was due to positive cash flows from insurance operations, the reinvestment of funds generated by the portfolio and the fact that the consolidated investment portfolio included the Tempest Re portfolio for the entire period of fiscal 1997 and for three months during fiscal 1996.

**Net Realized Gains (Losses) on Investments**

	1998	1997 (in millions)	1996
Fixed maturities and short-term investments.....	\$ 58.3	\$ 58.7	\$14.4
Equity securities.....	168.5	38.1	15.8
Financial futures and option contracts.....	(9.3)	57.1	26.7
Currency.....	(29.1)	(26.2)	(1.7)
	-----	-----	-----
	\$188.4	\$127.7	\$55.2
	=====	=====	=====

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

The Company's investment strategy takes a long-term view and the portfolio is actively managed to maximize total return within certain specific guidelines which minimize risk. The portfolio is reported at fair value. The effect of market movements on the investment portfolio will directly impact net realized gains (losses) on investments when securities are sold. Changes in unrealized gains and losses, which result from the revaluation of securities held, are reported as a separate component of shareholders' equity.

The Company uses foreign currency forward and option contracts to minimize the effect of fluctuating foreign currencies on the value of non-U.S. dollar holdings. The contracts used are not designated as specific hedges and therefore, realized and unrealized gains and losses recognized on these contracts are recorded as a component of net realized gains (losses) on investments in the period in which the fluctuations occur, together with net foreign currency gains and losses recognized when non-U.S. dollar securities are sold (for further discussion see "Market Sensitive Instruments and Risk Management").

Sales proceeds for fixed maturity securities were generally higher than their amortized costs during 1998 and 1997 which resulted in net realized gains on sale of fixed maturities and short-term investments of \$58.3 million in 1998 and \$58.7 million in 1997.

The liquidation of two domestic stock portfolios and the sale of a portion of the non-U.S. dollar equity securities held during the year, contributed significantly to net realized gains on sales of equity securities of \$168.5 million in fiscal 1998. This compares with net realized gains on sales of equity securities of \$38.1 million in 1997 and \$15.8 million in 1996.

Realized gains or losses on financial futures and option contracts are generated from U.S. Treasury futures contracts and from equity index futures contracts held in the synthetic equity fund. Gains and losses on these instruments are closely linked to fluctuations in the U.S. Treasury and equity markets and therefore, realized gains would be expected during periods of broad market improvements while losses are realized during periods of market declines. Net realized losses in financial futures and option contracts of \$9.3 million in 1998 arose from net movements on fixed income and equity index futures contracts held during the year. Net realized gains on financial futures and option contracts of \$57.1 million recorded in 1997 were primarily generated by the equity index futures contracts held, as a result of the rise in the S&P 500 Stock Index of nearly 40 percent during the fiscal year. The realized gains of \$26.7 million in 1996 were generated from U.S. Treasury futures contracts and from the equity index futures contracts held in the synthetic equity fund as a result of broad market improvements during the year.

Currency losses were \$29.1 million in 1998 compared with currency losses of \$26.2 million in 1997 and losses of \$1.7 million for 1996. Currency markets generally suffered declines against the U.S. dollar during 1998 and 1997. During 1998, the Company eliminated its 5 percent strategic allocation to non-U.S. dollar fixed income securities. The Company maintained its 7 percent allocation to non-U.S. dollar equities which it added in 1997. At September 30, 1998 there were unrealized currency losses of \$2.1 million on securities held in the portfolio compared to \$20.0 million as at September 30, 1997. Unrealized currency losses are reflected in net unrealized appreciation on investments in shareholders' equity.

The Company's externally managed investment portfolio contains certain market sensitive instruments which may be adversely effected by changes in interest rates and foreign currency exchange rates (for further discussion see "Market Sensitive Instruments and Risk Management").

**Combined Ratio**

	1998	1997	1996
Loss and loss expense ratio.....	57.8%	60.4%	68.8%
Underwriting and administrative expense ratio.....	30.4%	19.0%	18.3%
Combined ratio.....	88.2%	79.4%	87.1%

The underwriting results of a property and casualty insurer are discussed frequently by reference to its loss and loss expense ratio, underwriting and administrative expense ratio and combined ratio. Each ratio is derived by dividing the relevant expense amounts by net premiums earned. The combined ratio is the sum of the loss and loss expense ratio and the underwriting and the administrative expense ratio. A combined ratio under 100 percent indicates underwriting profits and a

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

combined ratio exceeding 100 percent indicates underwriting losses. Property catastrophe reinsurance companies generally expect to have overall lower combined ratios as compared with other reinsurance companies with long-tail exposures.

Several aspects of the Company's operations, including the low frequency and high severity of losses in the high excess layers in certain lines of business in which the Company provides insurance and reinsurance, complicate the actuarial reserving techniques utilized by the Company. Management believes, however, that the Company's reserves for unpaid losses and loss expenses are adequate to cover the ultimate cost of losses and loss expenses incurred through September 30, 1998. Since such reserves are necessarily based on estimates, future developments may result in ultimate losses and loss expenses significantly greater or less than such amounts (see "Breast Implant Litigation").

**Losses and Loss Expenses**

	1998	Percentage Change	1997	Percentage Change	1996
	-----				
	(in millions)				
Losses and loss expenses.....	\$516.9	6.3%	\$486.1	(6.6)%	\$520.3
	=====				

Losses and loss expenses have increased for the year ended September 30, 1998 compared to 1997 due to the inclusion of losses and loss expenses from ACE USA and CAT since their acquisition as well as the Company's increased participation in the Lloyd's syndicates under management. However, the loss and loss expense ratio has decreased to 57.8 percent in 1998 compared with 60.4 percent in 1997. This decrease is the result of the changing mix of premiums written and earned by the Company, highlighted by the inclusion of ACE USA and CAT in this fiscal year whose loss ratios are lower than the Company's traditional book of business.

For the year ended September 30, 1997, the loss and loss expense ratio was 60.4 percent compared with 68.8 percent in 1996. This ratio was favorably impacted by the results of Tempest Re.

**Underwriting and Administrative Expenses**

	1998	Percentage Change	1997	Percentage Change	1996
	-----				
	(in millions)				
Underwriting and administrative expenses.....	\$271.6	76.9%	\$153.5	11.0%	\$138.3
	=====				

Underwriting and administrative expenses have increased for the year ended September 30, 1998 compared to 1997 primarily due to the inclusion of the non-recurring expenses previously described as well as the inclusion of underwriting and administrative expenses from ACE USA and CAT since their acquisition. The increase is also partly due to the increased underwriting and administrative expenses generated by the Company's increased participation in Lloyd's. The underwriting and administrative expense ratio also increased in the year from 19.0 percent in 1997 to 30.4 percent in 1998. Again, this increase is due primarily to the inclusion of the non-recurring expenses. Excluding the non-recurring expenses, the underwriting and administrative expense ratio would have been 25.0 percent compared to 18.3 percent in 1997. The remaining increase is primarily due to the costs associated with the Company's increased participation in the Lloyd's market and the inclusion of administrative costs from ACE USA. The underwriting and administrative expense ratio in ACE USA and ACE Global Markets is generally higher than the Company's traditional book of business and thus contributed to the increase in the underwriting and administrative expense ratio.

The underwriting and administrative expense ratio increased to 19.0 percent in 1997 compared to 18.3 percent in 1996. This increase is due to an increase in administrative expenses in 1997 over 1996, which is partially offset by a decrease in acquisition costs. The increase in administrative expenses is primarily due to the increased cost base resulting from the strategic diversification by the Company over the past two years, including the acquisitions of Tempest Re, the Lloyd's managing agencies as well as the development of the newer insurance lines and products.

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

**LIQUIDITY AND CAPITAL RESOURCES**

As a holding company, ACE's assets consist primarily of the stock of its subsidiaries as well as other investments. In addition to investment income, its cash flows currently depend primarily on dividends or other statutorily permissible payments from its Bermuda-based operating subsidiaries (the "Bermuda subsidiaries"). There are currently no legal restrictions on the payment of dividends from retained earnings by the Bermuda subsidiaries as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid-in capital of each of the Bermuda subsidiaries. However, the payment of dividends or other statutorily permissible distributions by the Bermuda subsidiaries is subject to the need to maintain shareholder's equity at a level adequate to support the level of insurance and reinsurance operations. ACE received a dividend of \$115 million from Tempest Re in December 1997 and a dividend of \$250 million from ACE Bermuda in April 1998.

At September 30, 1998, ACE US Holdings, Inc. ("ACE US") and ACE Global Markets had shareholder's equity of approximately \$115 million and \$225 million, respectively. The payment of any dividends from the Company's UK subsidiaries would be subject to applicable United Kingdom insurance law including those promulgated by the Society of Lloyd's. Under various U.S. insurance laws to which ACE US's insurance subsidiaries are subject, ACE US's insurance subsidiaries may pay a dividend only from earned surplus subject to the maintenance of a minimum capital requirement, without prior regulatory approval. No dividends were received from ACE US or ACE Global Markets during fiscal 1998 and the Company does not anticipate receiving dividends from them during fiscal 1999.

The Company's consolidated sources of funds consist primarily of net premiums written, investment income, and proceeds from sales and maturities of investments. Funds are used primarily to pay claims, operating expenses and dividends and for the purchase of investments and for share repurchases.

The Company's insurance and reinsurance operations provide liquidity in that premiums are normally received substantially in advance of the time claims are paid. For the years ended September 30, 1998, 1997 and 1996, the Company's consolidated net cash flows from operating activities were \$66.8 million, \$423.5 million and \$724.1 million respectively. Cash flows are affected by claim payments, which due to the nature of the Company's operations, may comprise large loss payments on a limited number of claims and therefore can fluctuate significantly from year to year. The irregular timing of these loss payments, for which the source of cash can be from operations, available net credit facilities or routine sales of investments, can create significant variations in cash flows from operations between periods. Total loss and loss expense payments amounted to \$583.8 million, \$421.9 million and \$115.0 million in fiscal 1998, 1997 and 1996, respectively.

The Company maintains loss reserves for the estimated unpaid ultimate liability for losses and loss expenses under the terms of its policies and agreements. The reserve for unpaid losses and loss expenses of \$3.7 billion at September 30, 1998, includes \$1.4 billion of case and loss expense reserves. While the Company believes that its reserve for unpaid losses and loss expenses at September 30, 1998 is adequate, future developments may result in ultimate losses and loss expenses significantly greater or less than the reserve provided. A number of the Company's insureds have given notice of claims relating to breast implants or components or raw material thereof that had been produced and/or sold by such insureds. The Company has made certain payments to policyholders with respect to these claims. However, the Company does not have adequate data upon which to anticipate the timing of future payments relating to these liabilities.

At September 30, 1998, total investments and cash amounted to approximately \$6.2 billion, compared with \$4.8 billion at September 30, 1997. The increase in total cash and investments of \$1.4 billion since September 30, 1997 is primarily the result of the inclusion of the ACE USA and CAT investment portfolios following the acquisitions of these companies by ACE during the current fiscal year. The Company's investment portfolio is structured to provide a high level of liquidity to meet insurance related or other obligations. The consolidated investment portfolio is externally managed by independent professional investment managers and is invested in high quality investment grade marketable fixed income and equity securities, the majority of which trade in active, liquid markets. The Company believes that its cash balances, cash flow from

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

operations, routine sales of investments and the liquidity provided by its credit facilities (discussed below) are adequate to allow the Company to pay claims within the time periods required under its policies.

In December 1997, the Company arranged certain syndicated credit facilities. J.P. Morgan Securities, Inc. and Mellon Bank N.A. acted as co-arrangers in the arranging, structuring and syndication of these credit facilities. Each facility requires that the Company and/or certain of its subsidiaries comply with specific covenants, including a consolidated tangible net worth covenant and a maximum leverage covenant. The facilities provide:

. A \$200 million 364 day revolving credit facility and a \$200 million five year revolving credit facility which together make up a combined \$400 million committed, unsecured syndicated revolving credit facility. At September 30, 1998, the five-year revolving credit facility has a \$150 million letter of credit ("LOC") sub-limit (increased from \$50 million during September 1998). As discussed below, the Company drew down \$385 million on the revolving credit facilities to finance the acquisition of CAT Limited on April 1, 1998. The debt was subsequently repaid from a portion of the proceeds from the sale of 16.5 million new Ordinary Shares of the Company (discussed below).

. A syndicated fully secured five year LOC facility totaling approximately 154 million (\$262 million) which was used to fulfill the requirements of Lloyd's to support underwriting capacity on Lloyd's syndicates in which the Company participates. Certain assets totalling approximately \$300 million are pledged as security for this facility.

. A syndicated \$250 million seven year amortizing term loan facility, which was used on January 2, 1998 to partially finance the acquisition of ACE USA. The interest rate on the term loan was LIBOR plus an applicable spread. As of September 30, 1998, \$250 million was outstanding under this facility. The average interest rate for the period January 2, 1998 through October 5, 1998 was 6.24 percent.

On October 27, 1998, ACE US refinanced the outstanding \$250 million term loan with the proceeds from the issuance of \$250 million in aggregate principal amount of unsecured credit sensitive senior notes maturing in October 2008. Interest payments, based on the initial fixed rate coupon on these notes of 8.63 percent, are due semi-annually in arrears. Total interest expense to be recorded by ACE US including amortized fees and hedging costs, will initially be \$23.3 million per year. The indenture related to these notes include certain restrictive covenants applicable to ACE US. The senior notes are callable subject to certain breakage costs, however, ACE US has no current intention of calling the debt. Simultaneously, the Company has entered into a notional \$250 million credit default swap transaction that has the economic effect of reducing the cost of debt to the consolidated group, excluding fees and expenses, to 6.47 percent for 10 years. Certain assets totalling approximately \$90 million are pledged as security in connection with the swap transaction. In the event that the Company terminates the credit default swap prematurely, the Company would be liable for certain transaction costs. However, the Company has no current intention of terminating the swap. The swap counter-party is a major financial institution with a long-term S&P Senior Debt Rating of AA- and the Company does not anticipate non-performance.

The Company also maintains an unsecured, syndicated revolving credit facility in the amount of \$72.5 million. This facility was put in place by CAT prior to its acquisition by the Company and in September 1998, was assigned to Tempest Re. At September 30, 1998, no amounts have been drawn down under this facility. The facility requires that Tempest Re comply with specific covenants.

On November 27, 1998, the Company arranged a new syndicated partially secured five year LOC facility in the amount of 270 million (approximately \$450 million) to fulfill the requirements of Lloyd's for the 1999 year of account. This new facility was arranged by Citibank N.A., with ING Barings and Barclays Bank PLC acting as co-arrangers, and will replace the facility arranged in December 1997. This new LOC facility requires that the Company continue to maintain certain covenants, including a minimum consolidated tangible net worth covenant and a maximum leverage covenant. Certain assets totalling approximately \$201 million are pledged as partial security for this facility, replacing the security pledged in connection with the December 1997 facility.

On November 13, 1997, the Board of Directors approved a special resolution to split each outstanding Ordinary Share of the Company into three Ordinary Shares. The stock split was voted on and approved by the shareholders of the Company on February 6, 1998. The record date for determining those shareholders entitled to receive certificates representing additional

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

shares pursuant to the Stock Split was as of close of business on February 17, 1998. Certificates representing the additional shares of stock were mailed on March 2, 1998.

The Board of Directors had authorized the repurchase from time to time of the Company's Ordinary Shares in open market and private purchase transactions. On May 9, 1997 the Board of Directors terminated the then existing share repurchase program and authorized a new share program for up to \$300 million of the Company's Ordinary Shares. During the first two quarters of fiscal 1998, the Company repurchased 3,521,100 Ordinary Shares under the share repurchase program for an aggregate cost of \$107.6 million. No shares were repurchased after March 31, 1998. On July 6, 1998 the Executive Committee of the Board of Directors rescinded all existing authorizations for the repurchase of the Company's Ordinary Shares. During 1997, the Company repurchased 9,093,000 Ordinary Shares under share repurchase programs for an aggregate cost of approximately \$182.6 million.

On October 18, 1997 and January 16, 1998, the Company paid quarterly dividends of 7.33 cents and 8 cents per share, respectively to shareholders of record on September 30, 1997 and December 13, 1997. The Company paid quarterly dividends on April 18, 1998 and July 17, 1998 of 8 cents and 9 cents per share, respectively to shareholders of record on March 31, 1998 and June 30, 1998. On October 16, 1998, the Board of Directors paid a quarterly dividend of 9 cents per share to shareholders of record on September 30, 1998. On November 13, 1998, the Board of Directors declared a quarterly dividend of 9 cents per share payable on January 15, 1999 to shareholders of record on December 15, 1998. The declaration and payment of future dividends is at the discretion of the Board of Directors and will be dependent upon the profits and financial requirements of the Company and other factors, including legal restrictions on the payment of dividends and such other factors as the Board of Directors deems relevant.

On January 2, 1998, the Company completed the acquisition of ACE USA, through its newly-created U.S. holding company, ACE US, for an aggregate cash consideration of \$338 million. ACE US was capitalized by ACE Limited with \$75 million and received \$35 million from an inter-company loan. ACE US financed the acquisition of ACE USA with \$250 million of bank debt (see discussion of syndicated credit facilities above) and the remaining \$88 million came from available funds.

On April 1, 1998, the Company completed the acquisition of CAT for an aggregate cash consideration of approximately \$641 million. The acquisition was financed with \$385 million of short-term bank debt (see discussion of credit facilities above) and the remainder from available funds.

On April 14, 1998, the Company sold 16.5 million Ordinary Shares for net proceeds of approximately \$606 million after deducting expenses related to the offering. A portion of the proceeds were used to repay \$385.0 million of indebtedness incurred by the Company in connection with the acquisition of CAT on April 1, 1998. The remaining proceeds were added to the Company's investment portfolio to be used for general corporate purposes, which may include acquisitions.

On July 9, 1998, the Company completed the acquisition of Tarquin and issued approximately 14.3 million Ordinary Shares to the shareholders of Tarquin. The acquisition was accounted for on a pooling-of-interests basis and, as a result, the consolidated financial statements of the Company have been restated to include the historical shareholders' equity and results of operations of Tarquin for all periods presented.

Fully diluted net asset value per share was \$19.14 at September 30, 1998, compared with \$15.40 at September 30, 1997.

Changes in shareholders' equity for the years ended September 30, 1998 and 1997 were as follows:

	1998	1997
	-----	
	(in millions)	
Balance, beginning of year.....	\$2,785	\$2,367
Net income.....	560	503
Change in net unrealized appreciation (depreciation) on investments.....	(69)	135
Repurchase of Ordinary Shares.....	(108)	(183)
Dividends declared.....	(60)	(45)
Value of Ordinary Shares issued in share offering.....	606	-
Other.....	-	8
	-----	-----
Balance, end of year.....	\$3,714	\$2,785
	=====	=====

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

The Company's financial condition, results of operations and cash flow are influenced by both internal and external forces. Claims settlements, premium levels and investment returns may be impacted by changing rates of inflation and other economic conditions. In many cases, significant periods of time, ranging up to several years or more, may elapse between the occurrence of an insured loss, the reporting of the loss to the Company and the settlement of the Company's liability for that loss. The liquidity of its investment portfolio, cash flows and the line of credit are, in management's opinion, adequate to meet the Company's expected cash requirements.

**Breast Implant Litigation**

A number of the Company's insureds have given notice of claims relating to breast implants or components or raw material thereof that had been produced and/or sold by such insureds. Lawsuits, including class actions, involving thousands of implant recipients have been filed in both state and federal courts throughout the United States. Most of the federal cases have been consolidated pursuant to the rules for Multidistrict Litigation to a Federal District Court in Alabama, although cases are in the process of being transferred back to federal courts or remanded to state courts.

On May 15, 1995, the Dow Corning Corporation, one of the major defendants, filed for protection under Chapter 11 of the U.S. Bankruptcy Code and claims against Dow Corning remain stayed subject to the Bankruptcy Code.

On October 1, 1995, negotiators for three of the major defendants agreed on the essential elements of an individual settlement plan for U.S. claimants with at least one implant from any of those manufacturers ("the Settlement"). In general, under the Settlement, the amounts payable to individual participants, and the manufacturers' obligations to make those payments, would not be affected by the number of participants electing to opt out from the new plan. Also, in general, the compensation would be fixed and not affected by the number of participants, and the manufacturers would not have a right to walk away because of the amount of claims payable. Finally, each settling defendant agreed to be responsible only for cases in which its implant was identified, and not for a percentage of all cases. By November 13, 1995, the Settlement was approved by the three major defendants. In addition, two other defendants became part of the Settlement, although certain of their settlement terms are different and more restricted than the plan offered by the original three defendants. On December 22, 1995, the multidistrict litigation judge approved the Settlement and the materials for giving notice to claimants.

Beginning in mid-January, 1996, the three major defendants have each made payments to a court-established fund for use in making payments under the Settlement. The Settlement Claims Office had reported that as of October 31, 1997, it has sent out Notification of Status Letters to more than 360,000 non-opt-out domestic implant recipients who had registered with the Settlement Claims Office. Distribution has begun on payments to claimants relating to other implants since all appeals on the Settlement have been dismissed. In addition, the multidistrict litigation judge has approved the detailed terms of a settlement program being offered by the three major defendants to eligible foreign claimants. Approximately 32,500 domestic registrants exercised opt-out rights after receiving their status letters. Previously, approximately 19,000 other domestic implant recipients had exercised opt-out rights in 1994 and/or before receiving status letters.

Although the Company has underwritten the coverage for a number of the defendant companies including four of the companies involved in the Settlement, the Company anticipates that insurance coverage issued prior to the time the Company issued policies will be available for a portion of the defendants' liability. In addition, the Company's policies only apply when the underlying liability insurance policies or per occurrence retentions are exhausted.

Declaratory judgment lawsuits, involving four of the Company's insureds, have been filed seeking guidance on the appropriate trigger for their insurance coverage. None of the insureds have named the Company in such lawsuits, although other insurers and third parties have sought to involve the Company in those lawsuits. To date, one court has stayed a lawsuit against the Company by other insurers; two courts have dismissed actions by other insurers against the Company. Another court in Texas has ruled against the Company's arguments that the court should dismiss the claims by other insurers and certain doctors attempting to bring the Company into coverage litigation there. On appeal in the Texas lawsuit, the appellate court affirmed the lower court's order refusing to dismiss the claims against the Company; further appellate review in the

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

Texas Supreme Court is pending. In addition, further efforts are contemplated to stay or dismiss the doctor's claims against the Company in the Texas lawsuit.

At June 30, 1994, the Company increased its then existing reserves relating to breast implant claims. Although the reserve increase was partially satisfied by an allocation from existing IBNR, it also required an increase in the Company's total reserve for unpaid losses and loss expenses at June 30, 1994 of \$200 million. The increase in reserves was based on information made available in the pending lawsuits and information from the Company's insureds and was predicated upon an allocation between coverage provided before and after the end of 1985 (when the Company commenced underwriting operations). No additional reserves relating to breast implant claims have been added since June 30, 1994.

The Company continually evaluates its reserves in light of developing information and in light of discussions and negotiations with its insureds. The Company has made payments to date of approximately \$370 million with respect to breast implant claims. These payments were included in previous reserves and are consistent with the Company's belief that its reserves are adequate. While the Company is unable, at this time, to determine whether additional reserves, which could have a material adverse effect upon the financial condition, results of operations and cash flows of the Company, may be necessary in the future, the Company believes that its reserves for unpaid losses and loss expenses, including those arising from breast implant claims, are adequate as at September 30, 1998.

### **Market Sensitive Instruments and Risk Management**

In accordance with the Securities and Exchange Commission's Financial Reporting Release No. 48, the following analysis presents hypothetical losses in cash flows, earnings and fair values of derivative instruments and other market sensitive instruments used in the Company's portfolio as at September 30, 1998. The Company uses investment derivative instruments such as futures, options and foreign currency forward and option contracts for duration management and management of foreign currency exposures. These instruments are sensitive to changes in interest rates and foreign currency exchange rates. The portfolio includes other market sensitive instruments which are subject to changes in market values, with changes in interest rates.

### **Duration Management and Market Exposure Management**

The Company uses financial futures and option contracts for the purpose of managing certain investment portfolio exposures. Futures contracts are not recognized in the financial statements as assets or liabilities and any changes in fair value of these instruments due to changes in market interest rates would be recognized in the statement of operations as realized gains or losses in accordance with the Company's accounting policy. Option contracts are utilized in the portfolio for the purposes of duration management and to provide protection against any unexpected shifts in interest rates. At September 30, 1998, the fair value of the option contracts held and written was \$1,517,000 and \$(677,000) respectively, compared with \$178,000 and \$(222,000) at September 30, 1997. The market value of mortgage-backed securities, another category of market sensitive instruments, was \$1,752 million, or approximately 30 percent of the total investment portfolio, compared with \$1,342 million or 31 percent at September 30, 1997. Mortgage-backed securities include pass through mortgage bonds and collateralized mortgage obligations.

The aggregate hypothetical loss generated from an immediate adverse parallel shift in the treasury yield curve of 100 basis points would be a decrease in total return of 4.2 percent which equates to a decrease in market value of approximately \$230 million on a portfolio valued at \$5.7 billion at September 30, 1998. An immediate time horizon was used as this presents the worse case scenario.

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

**Impact of the Year 2000 Issue**

**General**

The management of ACE Limited, recognizing that the Year 2000 problem, if left untreated, could have a material effect on the Company's business, results of operations or financial condition, has in progress a project to address this issue. It is the expectation of ACE's management that this project will reduce the impact of the Year 2000 problem to an immaterial level, although not all risks can be eliminated.

The Year 2000 problem stems from the inability, in some cases, of computer programs and embedded microchips to correctly process certain data. The problem is most evident because dates which fall in the year 2000 and in later years may not be properly distinguished from those which fell in the corresponding years of the present century.

Although all ACE group companies had individually taken steps earlier towards alleviating the Year 2000 problem, a formal group-wide project was established in March 1998. At that time, an executive steering committee was formed to oversee the project. This committee meets on a monthly basis to review progress and take corrective action if necessary. In each of the ACE subsidiary companies, a senior member of the management has been appointed as Year 2000 coordinator. Each Year 2000 coordinator has responsibility for ensuring the success of that part of the Year 2000 plan relevant to its company. A detailed quarterly report on the status of the Year 2000 project is delivered to the audit committee of the Board of Directors.

A consultant who is an experienced project manager has been retained to assist the Year 2000 coordinator. In addition, certain subsidiaries have engaged external consultants to assist in monitoring their plans.

The project is substantially on schedule, though some components have been finished earlier than expected and some are taking more time than originally estimated. It is expected that by the end of 1998 all ACE group companies will be running Year 2000 compliant versions of most of the information technology systems that are critical to the business. The replacement or remedy of the remaining critical systems and some residual testing will continue during the first and possibly the second quarter of calendar year 1999.

The Company's Year 2000 project is divided into four sections: Underwriting; Information Technology; Trading Partners; and Physical Plant.

**Underwriting**

Underwriting teams within each ACE group subsidiary have considered the risks with respect to the Year 2000 problem that might be associated with underwriting their various lines of business and have developed internal guidelines which seek to minimize these risks. Compliance with these guidelines is the subject of internal audits and/or peer reviews. These guidelines are under regular review. In some cases, exclusionary language has been added to policies and in all cases there is a requirement for underwriters to consider information about our clients and potential clients that is relevant to the Year 2000 problem and, based on this to underwrite risks prudently or to decline them.

**Information Technology**

Each ACE subsidiary has a plan to ensure that all information technology components such as hardware, software and network equipment that will be in use in the Year 2000 (and beyond) for use by any business-critical function will not suffer from the Year 2000 problem. Inventories have been prepared of all such components, and appropriate action decided.

Most application software (such as insurance processing and accounting systems) which is in use within the ACE group has been supplied as packages (often tailored to meet ACE's needs) from various vendors. Several application software packages have already been replaced with Year 2000 compliant versions. Testing of these is complete in some cases, in progress for some systems and is scheduled for others. Remaining software packages will be replaced, or, in a few cases, remedied to free them of Year 2000 problems.

Testing of hardware and network components has commenced and is scheduled for completion before the end of March 1999. Testing of other software, such as operating systems and PC desktop applications is in progress or scheduled, though in a few cases we are relying on assurances from major software manufacturers that their systems will operate correctly.

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

**Trading Partners and Physical Plant**

Examples of the Company's trading partners are: insurance brokers, banks, reinsurance companies, vendors and service providers in information technology and general suppliers.

The Physical Plant section of the project focuses on items such as elevators, fire suppression systems, security systems, building management systems (which may control air-conditioning, heating and lighting systems) which may be controlled by software programs or embedded chips, and may thus fail or act unpredictably in, or after the year 2000. Furthermore, supply of electrical power and telecommunications services are considered here.

All material trading partners and those vendors and service providers connected with physical plant have been inventoried and questionnaires sent to them soliciting information about their Year 2000 readiness. Responses have not been provided in all cases, despite follow-up letters. ACE has made significant progress in assessing those responses which have been forthcoming. Some of these responses appear to give evidence of satisfactory progress and others do not. In those cases where additional follow-up fails to provide satisfactory responses, contingency plans will be drawn up in early 1999 to minimize the effect of potential failure of a Trading Partner.

**Costs**

The total cost of the Year 2000 project is not expected to be material to the Company's financial position. The total estimated cost is approximately \$4 million, of which just over \$2 million is for the information technology component of the project. Total expenditure to date on the whole project is approximately \$1 million.

**Risks**

It is not feasible to assign probabilities to many of the events associated with the Year 2000. The arrival of January 1, 2000 presents novel problems about which there is no body of evidence upon which to base statistical predictions. Furthermore, world infrastructure in areas such as telecommunications, banking, law enforcement, energy production and distribution, manufacturing, transportation and government and military systems are inextricably linked in such a manner that a small failure in one area could produce large and unexpected effects in others. Each business has a dependence upon its customers and suppliers and through them (or directly) upon many or all of the infrastructural areas noted above.

ACE management believes that the risks associated with its own information technology project component are small. For reasons noted above, it is impossible to quantify all risks associated with trading partners and physical plant. Possibly the greatest risk for the Company lies in the possibility of unpredictable events affecting insureds producing a number of claims (valid or otherwise) which, if valid, are expensive to pay, or if not, expensive in defense litigation costs.

**New Accounting Pronouncements**

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), which is effective for years beginning after December 15, 1997. SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The company will adopt the new requirements retroactively in 1999.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments of fair value. SFAS 133 is effective beginning in the first quarter of fiscal 2000. The

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

Company is currently assessing the effect of adopting this statement on its financial position and operating results, which as yet, has not been determined.

**ACE LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**

SEPTEMBER 30, 1998

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and other financial information presented in this annual report. The accompanying consolidated financial statements were prepared in accordance with generally accepted accounting principles, applying certain estimates and judgments as required.

The Company's internal controls are designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of assets. Such controls are based on established policies and procedures and are implemented by trained, skilled personnel with an appropriate segregation of duties. The Company's internal audit department performs independent audits on the Company's internal controls. The Company's policies and procedures prescribe that the Company and all its employees are to maintain the highest ethical standards and that its business practices are to be conducted in a manner, which is above reproach.

PricewaterhouseCoopers LLP, independent accountants, are retained to audit the Company's financial statements. Their accompanying report is based on audits conducted in accordance with generally accepted auditing standards, which includes the consideration of the Company's internal controls to establish a basis for reliance thereon in determining the nature, timing and extent of audit tests to be applied.

The Board of Directors exercises its responsibility for these financial statements through its Audit Committee, which consists entirely of independent non-management Board members. The Audit Committee meets periodically with the independent accountants, both privately and with management present, to review accounting, auditing, internal controls and financial reporting matters.

---

Brian Duperreault  
Chairman, President and Chief Executive  
Officer

---

Christopher Z. Marshall  
Chief Financial Officer

## **REPORT OF INDEPENDENT ACCOUNTANTS**

### **To The Board of Directors and Shareholders of ACE Limited**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of ACE Limited and its subsidiaries at September 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

### **PricewaterhouseCoopers LLP**

New York, New York  
November 4, 1998

**ACE LIMITED AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**September 30, 1998 and 1997**

	1998	1997
	-----	-----
	(in thousands of U.S. dollars)	
	(except share and per share data)	
<b>Assets</b>		
Investments and cash		
Fixed maturities available for sale, at fair value (amortized cost - \$4,910,792 and \$3,412,975)	\$5,056,807	\$3,477,046
Equity securities, at fair value (cost - \$198,447 and \$518,852)	189,717	651,556
Short-term investments, at fair value (amortized cost - \$480,236 and \$364,552)	480,190	364,432
Other investments, at fair value (cost-\$156,758 and \$78,691)	156,646	78,691
Cash	317,714	216,191
	-----	-----
Total investments and cash	6,201,074	4,787,916
Goodwill	540,355	301,953
Premiums and insurance balances receivable	377,307	239,446
Reinsurance recoverable	1,116,753	104,797
Accrued investment income	57,153	40,682
Deferred acquisition costs	76,445	51,191
Prepaid reinsurance premiums	205,022	49,299
Deferred income taxes	25,264	--
Other assets	189,380	72,312
	-----	-----
Total assets	\$8,788,753	\$5,647,596
	=====	=====
<b>Liabilities</b>		
Unpaid losses and loss expenses	\$3,737,869	\$2,111,670
Unearned premiums	773,702	510,231
Premiums received in advance	53,794	24,973
Insurance and reinsurance balances payable	75,898	11,245
Accounts payable and accrued liabilities	165,527	154,390
Dividend payable	17,693	12,436
Bank debt	250,000	--
Deferred income taxes	--	37,496
	-----	-----
Total liabilities	5,074,483	2,862,441
	-----	-----
<b>Commitments and contingencies</b>		
Shareholders' equity		
Ordinary Shares (\$0.041666667 par value, 300,000,000 shares authorized; 193,592,519 and 180,207,664 shares issued and outstanding)	8,066	7,508
Additional paid-in capital	1,765,261	1,177,954
Unearned stock grant compensation	(6,181)	(1,993)
Net unrealized appreciation on investments (net of deferred income tax)	127,845	196,655
Cumulative translation adjustment	(275)	1,568
Retained earnings	1,819,554	1,403,463
	-----	-----
Total shareholders' equity	3,714,270	2,785,155
	-----	-----
Total liabilities and shareholders' equity	\$8,788,753	\$5,647,596
	=====	=====

See accompanying notes to consolidated financial statements

**ACE LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the Years Ended September 30, 1998, 1997 and 1996**

	1998	1997	1996
	-----	-----	-----
	(in thousands of U.S. dollars, except per share data)		
<b>Revenues</b>			
Gross premiums written	\$ 1,242,159	\$ 959,349	\$ 859,989
Reinsurance premiums ceded	(361,186)	(169,576)	(78,105)
	-----	-----	-----
Net premiums written	880,973	789,773	781,884
Change in unearned premiums	13,330	15,599	(26,044)
	-----	-----	-----
Net premiums earned	894,303	805,372	755,840
Net investment income	324,254	253,440	213,701
Net realized gains on investments	188,385	127,702	55,229
	-----	-----	-----
<b>Total revenues</b>	<b>1,406,942</b>	<b>1,186,514</b>	<b>1,024,770</b>
	-----	-----	-----
<b>Expenses</b>			
Losses and loss expenses	516,892	486,140	520,277
Acquisition costs	105,654	85,762	96,518
Administrative expenses	165,912	67,724	41,825
Amortization of goodwill	12,834	7,325	1,507
Interest expense	25,459	11,657	10,481
	-----	-----	-----
<b>Total expenses</b>	<b>826,751</b>	<b>658,608</b>	<b>670,608</b>
	-----	-----	-----
Income before income taxes	580,191	527,906	354,162
Income taxes	20,040	25,181	26,543
	-----	-----	-----
<b>Net income</b>	<b>\$ 560,151</b>	<b>\$ 502,725</b>	<b>\$ 327,619</b>
	=====	=====	=====
<b>Basic earnings per share</b>	<b>\$ 3.03</b>	<b>\$ 2.73</b>	<b>\$ 2.02</b>
	=====	=====	=====
<b>Diluted earnings per share</b>	<b>\$ 2.96</b>	<b>\$ 2.69</b>	<b>\$ 2.00</b>
	=====	=====	=====

See accompanying notes to consolidated financial statements

ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended September 30, 1998, 1997 and 1996

	1998	1997	1996
	----- (in thousands of U.S. dollars) -----		
Ordinary Shares			
Balance--beginning of year, as previously reported	\$ 7,508	\$ 7,868	\$ 5,764
Pooling-of-interests with Tarquin	-	-	597
	-----	-----	-----
Balance--beginning of year, as restated	7,508	7,868	6,361
Shares issued in Tempest transactions	-	-	1,666
Ordinary Shares issued	688	-	-
Issued under Employee Stock Purchase Plan (ESPP)	1	1	-
Issued under Stock Appreciation Right (SAR) Plan	-	9	-
Exercise of stock options	16	8	-
Repurchase of shares	(147)	(378)	(159)
	-----	-----	-----
Balance--end of year	8,066	7,508	7,868
	-----	-----	-----
Additional paid-in capital			
Balance--beginning of year, as previously reported	1,177,954	1,231,324	548,513
Pooling-of-interests with Tarquin	-	-	75,130
	-----	-----	-----
Balance--beginning of year, as restated	1,177,954	1,231,324	623,643
Shares issued in Tempest transactions	-	-	620,552
Options issued in Tempest transactions	-	-	12,124
Ordinary Shares used	605,211	-	-
Cancellation of restricted stock awards	-	(87)	-
Issued under ESPP	954	228	-
Issued under SAR Plan	-	3,919	-
Exercise of stock options	4,225	2,182	27
Repurchase of Ordinary Shares	(23,083)	(59,612)	(25,022)
	-----	-----	-----
Balance--end of year	1,765,261	1,177,954	1,231,324
	-----	-----	-----
Unearned stock grant compensation			
Balance--beginning of year	(1,993)	(1,299)	(1,796)
Stock grants awarded	(8,551)	(3,244)	(708)
Stock grants forfeited	-	79	60
Amortization	4,363	2,471	1,145
	-----	-----	-----
Balance--end of year	(6,181)	(1,993)	(1,299)
	-----	-----	-----
Net unrealized appreciation (depreciation) on Investments			
Balance--beginning of year	196,655	61,281	94,694
Net appreciation (depreciation) during year	(59,528)	135,374	(33,413)
Change in deferred income taxes	(9,282)	-	-
	-----	-----	-----
Balance--end of year	127,845	196,655	61,281
	-----	-----	-----
Cumulative translation adjustments			
Balance--beginning of year, as previously reported	1,568	(560)	-
Pooling-of-interests with Tarquin	-	-	(324)
	-----	-----	-----
Balance--beginning of year, as restated	1,568	(560)	(324)
Net adjustment for year	(1,843)	2,128	(236)
	-----	-----	-----
Balance--end of year	(275)	1,568	(560)
	-----	-----	-----
Retained earnings			
Balance--beginning of year, as previously reported	1,403,463	1,068,389	795,488
Pooling-of-interests with Tarquin	-	-	9,803
	-----	-----	-----
Balance--beginning of year, as restated	1,403,463	1,068,389	805,291
Net income	560,151	502,725	327,619
Dividends declared	(59,646)	(44,993)	(31,699)
Repurchase of Ordinary Shares	(84,414)	(122,658)	(32,822)
	-----	-----	-----
Balance--of year	1,819,554	1,403,463	1,068,389
	-----	-----	-----
Total shareholders' equity	\$3,714,270	\$2,785,155	\$2,367,003

=====

=====

=====

See accompanying notes to consolidated financial statements

ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 1998, 1997 and 1996

	1998	1997	1996
	-----	-----	-----
	(in thousands of U.S. dollars)		
Cash flows from operating activities			
Net income	\$ 560,151	\$ 502,725	\$ 327,619
Adjustments to reconcile net income to net cash provided by operating activities:			
Unearned premiums	18,168	(5,731)	32,195
Unpaid losses and loss expenses, net of reinsurance Recoverables	(96,361)	114,571	405,268
Prepaid reinsurance premiums	(111,188)	(2,881)	(18,633)
Deferred income taxes	52,240	17,494	19,612
Net realized gains on investments	(188,385)	(127,702)	(55,229)
Amortization of premium/discounts	(22,530)	(6,104)	(7,847)
Amortization of goodwill	12,834	7,325	1,507
Deferred acquisition costs	(8,025)	5,122	9,274
Premiums and insurance balances receivable	(52,709)	(49,977)	(17,915)
Premiums received in advance	28,823	6,366	5,976
Insurance and reinsurance balances payable	62,153	11,245	-
Accounts payable and accrued liabilities	(145,872)	(42,078)	33,707
Other	(42,529)	(6,892)	(11,423)
	-----	-----	-----
Net cash flows from operating activities	\$ 66,770	\$ 423,483	\$ 724,111
	-----	-----	-----
Cash flows from investing activities			
Purchases of fixed maturities	(7,865,794)	(6,796,843)	(8,781,390)
Purchases of equity securities	(221,952)	(603,598)	(222,382)
Sales of fixed maturities	7,625,861	6,817,944	8,220,230
Sales of equity securities	688,261	385,552	209,350
Maturities of fixed maturities	147,093	5,000	59,830
Net realized gains (losses) on financial future contracts	(9,287)	57,076	26,678
Other investments	(60,735)	(52,080)	(2,676)
Acquisitions of subsidiaries, net of cash acquired	(967,758)	(27,098)	(49,050)
	-----	-----	-----
Net cash used for investing activities	\$ (664,311)	\$ (214,047)	\$ (539,410)
	-----	-----	-----
Cash flows from financing activities			
Repurchase of Ordinary Shares	(107,644)	(182,648)	(58,003)
Dividends paid	(54,389)	(43,028)	(27,684)
Net proceeds from issuance of Ordinary Shares	605,899	-	16,527
Proceeds from bank debt	635,000	-	-
Repayment of bank debt	(385,000)	-	-
Proceeds from exercise of options for ordinary shares	4,243	2,191	28
Proceeds from shares issued under Employee Stock Purchase Plan	955	-	-
Proceeds from shares issued under Stock Appreciation Rights Plan	-	4,156	-
	-----	-----	-----
Net cash from (used for) financing activities	\$ 699,064	\$ (219,329)	\$ (69,132)
	-----	-----	-----
Net increase (decrease) in cash	101,523	(9,893)	115,569
Cash -- beginning of year	216,191	226,084	110,515
	-----	-----	-----
Cash -- end of year	\$ 317,714	\$ 216,191	\$ 226,084
	=====	=====	=====
Supplemental cash flow information			
Taxes paid (received)	\$ (48,848)	\$ 3,975	\$ 67
Interest paid	\$ 41,513	\$ 5,700	\$ 5,139

See accompanying notes to consolidated financial statements

## ACE LIMITED AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Organization

ACE Limited ("ACE") is a holding company incorporated with limited liability under the Cayman Islands Companies Law and maintains its principal business office in Bermuda. The Company, through its Bermuda-based operating subsidiaries, A.C.E. Insurance Company, Ltd. ("ACE Bermuda"), Corporate Officers & Directors Assurance Ltd. ("CODA"), Tempest Reinsurance Company Limited ("Tempest Re") and CAT Limited ("CAT") and its Dublin, Ireland based subsidiaries ACE Bermuda Company Europe Limited ("AICE") and ACE Reinsurance Company Europe Limited ("ARCE") provides insurance and reinsurance for a diverse group of international clients. Through its U.S. based subsidiary, ACE USA, Inc. (formerly Westchester Specialty Group, Inc.) ("ACE USA"), the Company provides insurance to a broad range of clients in the United States. In addition, the Company provides funds at Lloyd's to support underwriting by Lloyd's syndicates managed by Lloyd's managing agencies, which are indirect wholly owned subsidiaries of ACE. Unless the context otherwise indicates, the term "Company" refers to one or more of ACE and its consolidated subsidiaries. The operations of the Company in the Lloyd's market are collectively referred to herein as "ACE Global Markets".

#### 2. Operations

##### a) ACE Bermuda

ACE Bermuda primarily writes excess liability insurance, directors and officers liability insurance, satellite insurance, aviation insurance, excess property insurance and financial lines products. In addition, through certain joint ventures, ACE Bermuda writes financial guaranty and political risk insurance. At September 30, 1998 approximately 66 percent of the written premiums in ACE Bermuda with respect to these lines of business came from North America with approximately 14 percent coming from the United Kingdom and continental Europe and approximately 20 percent from other countries.

Two insurance brokers produced approximately 54 percent, 59 percent and 42 percent of the insurance business for ACE Bermuda in 1998, 1997 and 1996, respectively.

##### b) Tempest Re

The Company's reinsurance activities are principally conducted through Tempest Re, which was acquired in July 1996. On April 1, 1998, ACE Limited purchased CAT Limited, another Bermuda based property catastrophe reinsurer. Underwriting operations are being combined with the group's existing catastrophe reinsurance subsidiary, Tempest Re, and going forward the combined entity will operate under the Tempest Re name. Tempest Re underwrites property catastrophe reinsurance on a worldwide basis. For the year ended September 30, 1998, approximately 79 percent of Tempest Re's written premiums came from the United States, approximately 9 percent came from United Kingdom, 5 percent from Australia and New Zealand and 7 percent from other countries.

Three reinsurance brokers produced approximately 63 percent, 56 percent and 44 percent of Tempest Re's reinsurance business for the years ended September 30, 1998 and 1997 and the ten month period ended September 30, 1996.

##### c) ACE Global Markets

The Company, through corporate subsidiaries, participates in the underwriting of Lloyd's syndicates managed by Methuen Underwriting Limited, ACE London Aviation Limited, ACE London Underwriting Limited and Charman Underwriting Agencies Ltd. ("Charman") by providing funds at Lloyd's, primarily in the form of a letter of credit, supporting underwriting capacity. The syndicates in which the Company participates underwrite aviation, marine and non-marine risks.

## ACE LIMITED AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

#### 2. Operations (cont'd.)

##### d) ACE USA

ACE USA, through its insurance subsidiaries, Westchester Fire Insurance Company, Westchester Surplus Lines Insurance Company and Industrial Underwriters Insurance Company writes property and casualty insurance, primarily within the commercial specialty lines market to a broad range of clients in the US. These subsidiaries specialize in providing property, umbrella and excess casualty coverages. Premiums are written throughout the US mainly through a network of US wholesale brokers. During 1998, ACE USA expanded its products offering and has commenced writing specialty program business, warranty, errors and omissions, directors and officers coverages and also set up a captive management reinsurance facility.

#### 3. Significant accounting policies

##### a) Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company and its subsidiaries. The Company accounted for the acquisition of Tarquin on a pooling-of-interests basis and accordingly, the Company's financial statements have been restated to include the results of Tarquin for all periods presented. The Company records its proportionate share of the results of the Lloyd's syndicates in which it participates. All significant intercompany balances and transactions have been eliminated. Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

##### b) Investments

The Company's investments are considered to be "available for sale" under the definition included in the Financial Accounting Standard Board's ("FASB") Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities". Except for certain "other investments" where there is no quoted market value, the Company's investment portfolio is reported at fair value, being the quoted market price of these securities provided by either independent pricing services, or when such prices are not available, by reference to broker or underwriter bid indications. Realized gains or losses on sales of investments are determined on a first-in, first-out basis and include adjustments to the net realizable value of investments for declines in value that are considered to be other than temporary. Unrealized gains and losses are reported as a separate component of shareholders' equity.

Short-term investments comprise securities due to mature within one year of date of issue.

A portion of the other investments comprise investments in entities for which there is no quoted market value. In such cases, the investments are carried at no more than original cost which is considered to be fair value.

The Company utilizes financial futures and option contracts and foreign currency forward and option contracts for the purpose of managing certain investment portfolio exposures (see note 8(a) for additional discussion of the objectives and strategies employed). Futures contracts are not recognized as assets or liabilities in the accompanying consolidated financial statements. Changes in the market value of futures contracts produce daily cash flows, which are included in net realized gains or losses on investments in the statements of operations. Collateral held by brokers equal to a percentage of the total value of open futures contracts is included in short-term investments.

Option contracts that are designated as hedges of securities are marked-to-market. Unrealized gains and losses on forward currency and option contracts which are designated as specific hedges are recognized in the financial statements as a component of shareholders' equity. Gains and losses resulting from currency fluctuations on transactions which are not designated as specific hedges against any single security or group of securities are recognized as a component of income in the period in which the fluctuations occur. Premiums paid or received on option contracts that have expired, been closed out or exercised, are recognized as realized gains and losses on investments in the statements of operations.

## ACE LIMITED AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

#### 3. Significant accounting policies (cont'd.)

##### b) Investments (cont'd)

Net investment income includes interest and dividend income together with amortization of market premiums and discounts and is net of investment management and custody fees. For mortgage-backed securities, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognized in current income.

##### c) Premiums

Premiums are generally recognized as written upon inception of the policy. For multi-year policies written which are payable in annual installments, due to the ability of the insured/reinsured to commute or cancel coverage within the term of the policy, only the annual premium is included as written at policy inception. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term.

Premiums written are primarily earned on a daily pro rata basis over the terms of the policies to which they relate. Accordingly, unearned premiums represent the portion of premiums written which is applicable to the unexpired portion of the policies in force. Premium estimates for retrospectively rated policies are recognized within the periods in which the related losses are incurred.

Property catastrophe reinsurance premiums written are estimated based on information provided by ceding companies. The information used in establishing these estimates is reviewed and subsequent adjustments are recorded in the period in which they are determined. These premiums are earned over the terms of the related reinsurance contracts.

##### d) Earnings per share

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share". SFAS 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Basic earnings per share are calculated utilizing weighted average shares outstanding and exclude any dilutive effects of options, warrants and convertible securities. Diluted earnings per share include the effect of dilutive securities outstanding. All earnings per share amounts for all periods presented, where necessary, have been restated to conform to the SFAS 128 requirements.

##### e) Acquisition costs

Acquisition costs, consisting primarily of commissions, are deferred and amortized over the period in which the related premiums are earned. Deferred acquisition costs are reviewed to determine that they do not exceed recoverable amounts after considering investment income.

##### f) Losses and loss expenses

A reserve is established for the estimated unpaid losses and loss expenses of the Company under the terms of, and with respect to, its policies and agreements. The methods of determining such estimates and establishing the resulting reserve are reviewed continuously and any adjustments are reflected in operations in the period in which they become known. Future developments may result in losses and loss expenses significantly greater or less than the reserve provided.

##### g) Goodwill

Goodwill represents the excess of the cost of acquisitions over the tangible net assets acquired. The Company amortizes goodwill recorded in connection with its business combinations on a straight-line basis over the estimated useful lives which range from twenty-five to forty years.

## ACE LIMITED AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

#### 3. Significant accounting policies (cont'd.)

##### h) Reinsurance

In the ordinary course of business, the Company's insurance subsidiaries assume and cede reinsurance with other insurance companies. These arrangements provide greater diversification of business and minimize the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve the Company of its obligation to its insureds.

Reinsurance recoverables include the balances due from reinsurance companies for paid and unpaid losses and loss expenses that will be recovered from reinsurers, based on contracts in force. A reserve for uncollectible reinsurance has been determined based upon a review of the financial condition of the reinsurers and an assessment of other available information.

Prepaid reinsurance premiums represent the portion of premiums ceded to reinsurers applicable to the unexpired terms of the reinsurance contracts in force.

##### i) Translation of foreign currencies

Financial statements of subsidiaries expressed in foreign currencies are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation" ("SFAS 52"). Under SFAS 52, functional currency assets and liabilities are translated into U.S. dollars generally using period end rates of exchange and the related translation adjustments are recorded as a separate component of shareholders' equity. Functional currencies are generally the currencies of the local operating environment. Statement of operations amounts expressed in functional currencies are translated using average exchange rates. Gains and losses resulting from foreign currency transactions are recorded in current income.

##### j) Accounting estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include property and casualty loss and loss expense reserves and estimated premiums for situations where the Company has not received ceding company reports. Actual results may differ from these estimates.

##### k) Income taxes

Income taxes have been provided in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes" on those operations which are subject to income taxes (see note 12). Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Company's assets and liabilities. Such temporary differences are primarily due to the tax basis discount on unpaid losses, adjustment for unearned premiums, uncollectible reinsurance, and tax benefits of net operating loss carryforwards. Additionally, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not, that all or some portion of the benefits related to deferred tax assets will not be realized.

##### l) Stock split

On March 2, 1998, the Company effected a three for one split of the Company's Ordinary Shares. The par value of the Company's Ordinary Shares and all per share data presented in the consolidated financial statements and the notes thereto have been retroactively adjusted to reflect the effects of the stock split.

## ACE LIMITED AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

#### 3. Significant accounting policies (cont'd.)

##### m) Cash flow information

Purchases and sales or maturities of short-term investments are recorded net for purposes of the statements of cash flows and are included with fixed maturities.

##### n) New accounting pronouncements

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), which is effective for years beginning after December 15, 1997. SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company will adopt the new requirements retroactively in 1999.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 is effective beginning in the first quarter of fiscal 2000. The Company is currently assessing the effect of adopting this statement on its financial position and operating results, which as yet, has not been determined.

#### 4. Acquisitions

On March 27, 1996, the Company acquired a controlling interest in Methuen Group Limited ("Methuen"), the holding company for Methuen Underwriting Limited ("MUL"), a leading Lloyd's managing agency. This acquisition has been recorded using the purchase method of accounting and accordingly, the accompanying consolidated financial statements include the results of Methuen since March 27, 1996, the date of acquisition. On November 26, 1996, the Company, also acquired the remaining interest in Methuen. The acquisition of the remaining interest has been recorded using the purchase method of accounting.

On July 1, 1996, the Company completed the acquisition of Tempest Re, a leading Bermuda-based property catastrophe reinsurer (the "Tempest Re Acquisition"). Under the terms of the Agreement and Plan of Amalgamation, Tempest Re shares outstanding at the time of the acquisition were cancelled and converted into the right to receive 39,999,741 Ordinary Shares of the Company. These shares were capitalized at a value of \$15 5/9 per share, which was determined in accordance with the EITF 95-19 consensus that deals with the value of equity securities issued to effect a purchase combination. In addition, options to acquire Tempest Re shares were converted into 1,338,267 Company options at a total cost of \$12.1 million. The total value of the acquisition amounted to \$638.7 million, which includes the value of the shares and options issued as well as other transaction expenses, which amounted to \$4.4 million. This acquisition has been recorded using the purchase method of accounting and accordingly, the accompanying consolidated financial statements include the results of Tempest Re since July 1, 1996, the date of acquisition.

On November 26, 1996, the Company acquired Ockham Worldwide Holdings plc which subsequently changed its name to ACE London Holdings Ltd. ("ACE London"). The acquisition has been recorded using the purchase method of accounting and accordingly, the accompanying consolidated financial statements include the results of ACE London since November 26, 1996, the date of acquisition.

On January 2, 1998, the Company completed the acquisition of ACE USA, through its newly-created U.S. holding company, ACE US Holdings, Inc ("ACE US"). Under the terms of the agreement, the Company purchased all of the outstanding capital stock of ACE USA for aggregate cash consideration of \$338 million.

**ACE LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)**

4. Acquisitions (cont'd.)

In connection with the acquisition, National Indemnity, a subsidiary of Berkshire Hathaway, has provided \$750 million (75 percent quota share of \$1 billion) of reinsurance protection to ACE USA with respect to its loss reserves for the 1996 and prior accident years. The Company financed the transaction with \$250 million of bank debt (see note 8c Credit Facilities) and the remainder with available cash. The acquisition was recorded using the purchase method of accounting. Under this method, the total purchase price is allocated to the acquired assets and liabilities based on their fair values and accordingly, the consolidated financial statements of the company include the results of ACE USA and its subsidiaries from January 2, 1998, the date of acquisition (see note 15 for pro forma financial information with respect to the ACE USA acquisition).

On April 1, 1998, the Company completed the acquisition of CAT, a privately held, Bermuda-based property catastrophe reinsurer, for an aggregate cash consideration of approximately \$641 million. The acquisition was financed with \$385 million of short-term bank debt (see note 8c - Credit Facilities) and the remainder from available cash. The acquisition was recorded using the purchase method of accounting. The total purchase price is allocated to the acquired assets and liabilities based on their fair values and accordingly, the consolidated financial statements of the Company include the results of CAT from April 1, 1998, the date of acquisition (see note 15 for pro forma financial information with respect to the CAT acquisition). Approximately \$224 million of goodwill was generated as a result of the acquisition.

On July 9, 1998, the Company completed the acquisition of Tarquin Limited ("Tarquin"), a UK-based holding company which owns Lloyd's managing agency Charman Underwriting Ltd. ("Charman") and Tarquin Underwriting Limited, its corporate capital provider. The Charman managed syndicates, 488 and 2488, are leading international underwriters of short-tail marine, aviation, political risk and specialty property-casualty insurance and reinsurance. Under the terms of the acquisition, the Company issued approximately 14.3 million Ordinary Shares to the shareholders of Tarquin. The acquisition has been accounted for on a pooling-of-interests basis. Accordingly, all prior period consolidated financial statements presented have been restated to include the combined results of operations, financial position and cash flows of Tarquin as though it had always been a part of the Company.

Prior to the acquisition, Tarquin's fiscal year ended on December 31. In recording the business combination, Tarquin's prior period financial statements have been restated to conform with the Company's fiscal year end. Certain reclassifications were also made to the Tarquin financial statements to conform to the Company's presentations.

The results of operations for the separate companies and the combined amounts presented in the consolidated financial statements for the years ended September 30, 1998, 1997 and 1996 are as follows:

	1998	1997	1996
	-----	-----	-----
	(in thousands)		
Total Revenues			
ACE	\$1,246,794	\$1,010,643	\$ 848,998
Tarquin	160,148	175,871	175,772
	-----	-----	-----
Total Revenue	\$1,406,942	\$1,186,514	\$1,024,770
	=====	=====	=====
Net Income			
ACE	\$ 554,672	\$ 461,354	\$ 289,733
Tarquin	5,479	41,371	37,886
	-----	-----	-----
Net Income	\$ 560,151	\$ 502,725	\$ 327,619
	=====	=====	=====

Included in the results of fiscal 1998, 1997 and 1996 are certain non-recurring and transaction related expenses (hereinafter referred to as the "non-recurring expenses") amounting to \$46.6 million, \$6.1 million and \$5.0 million, respectively. These expenses include interest expense and payments to employees as well as transaction costs including legal, accounting and investment banking fees.

The Company will continue to evaluate potential new product lines and other opportunities in the insurance and reinsurance markets. In addition, the Company regularly evaluates potential acquisitions of other companies and businesses and holds discussions with potential acquisition candidates. As a general rule, the Company publicly announces such acquisitions only after a definitive agreement has been reached.

ACE LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

5. Investments

a) Fixed maturities

The fair values and amortized costs of fixed maturities at September 30, 1998 and 1997 are as follows:

	1998		1997	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(in thousands)			
U.S. Treasury and agency	\$ 796,535	\$ 771,678	\$ 565,003	\$ 548,328
Non-U.S. governments	126,998	122,233	198,126	196,799
Corporate securities	2,339,786	2,265,755	1,342,767	1,314,635
Mortgage-backed securities	1,751,769	1,710,591	1,370,647	1,352,710
States, municipalities and Political subdivisions	41,719	40,535	503	503
Fixed maturities	\$5,056,807	\$4,910,792	\$3,477,046	\$3,412,975

The gross unrealized gains and losses related to fixed maturities at September 30, 1998 and 1997 are as follows:

	1998		1997	
	Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Gains	Gross Unrealized Losses
	(in thousands)			
U.S. Treasury and agency	\$ 25,211	\$ (354)	\$17,769	\$ (1,094)
Non-U.S. governments	5,447	(682)	4,051	(2,724)
Corporate securities	77,711	(3,680)	30,309	(2,177)
Mortgage-backed securities	43,742	(2,564)	21,691	(3,754)
States, municipalities and political subdivisions	1,335	(151)	-	-
	\$153,446	\$ (7,431)	\$73,820	\$ (9,749)

Mortgage-backed securities issued by U.S. government agencies are combined with all other mortgage derivatives held and are included in the category "mortgage-backed securities". Approximately 79 percent of the total mortgage holdings at September 30, 1998 and 67 percent at September 30, 1997 are represented by investments in GNMA, FNMA and FHLMC bonds. The remainder of the mortgage exposure consists of CMO's (Collateralized Mortgage Obligations) and non-government mortgage-backed securities, the majority of which provide a planned structure for principal and interest payments and carry a "AAA" rating by the major credit rating agencies. Fixed maturities at September 30, 1998, by contractual maturity, are shown below. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

**ACE LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)**

5. Investments (cont'd.)

a) Fixed maturities (cont'd.)

	Fair Value	Amortized Cost
Maturity period -----	-----	-----
	(in thousands)	
Less than 1 year	\$ 237,277	\$ 239,589
1 - 5 years	1,314,027	1,287,270
5 - 10 years	735,258	712,422
Greater than 10 years	1,018,479	960,920
	-----	-----
	3,305,041	3,200,201
 Mortgage-backed securities	 1,751,766	 1,710,591
	-----	-----
 Total fixed maturities	 \$5,056,807	 \$4,910,792
	=====	=====

b) Equity Securities

The gross unrealized gains and losses on equity securities at September 30, 1998 and 1997 are as follows:

	1998	1997
	-----	-----
	(in thousands)	
Equity securities -- cost	\$198,447	\$518,852
Gross unrealized gains	457	152,621
Gross unrealized losses	(9,187)	(19,917)
	-----	-----
 Equity securities -- fair value	 \$189,717	 \$651,556
	=====	=====

**ACE LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)**

5. Investments (cont'd.)

c) Net realized gains and change in net unrealized appreciation (depreciation) on investments.

The analysis of net realized gains on investments and the change in net unrealized appreciation (depreciation) on investments for the years ended September 30, 1998, 1997 and 1996 is as follows:

	1998	1997	1996
	-----	-----	-----
	(in thousands)		
Fixed Maturities			
Gross realized gains	\$ 78,825	\$ 83,957	\$ 63,416
Gross realized losses	(20,512)	(25,200)	(48,963)
	-----	-----	-----
	58,313	58,757	14,453
Equity securities			
Gross realized gains	210,512	70,453	39,768
Gross realized losses	(42,037)	(32,379)	(23,985)
	-----	-----	-----
	168,475	38,074	15,783
Currency losses	(29,116)	(26,204)	(1,685)
Financial futures and option contract-net realized (losses) gains	(9,287)	57,075	26,678
	-----	-----	-----
Net realized gains on investments	188,385	127,702	55,229
	-----	-----	-----
Change in net unrealized appreciation (depreciation) on investments			
Fixed maturities	81,944	68,397	(56,226)
Equity securities	(141,434)	67,097	22,813
Short-term investments	74	(120)	-
Other investments	(112)	-	-
Deferred income taxes	(9,282)	-	-
	-----	-----	-----
Change in net unrealized appreciation (depreciation) on investments	(68,810)	135,374	(33,413)
	-----	-----	-----
Total net realized gains and change in net unrealized appreciation (depreciation) on investments	\$ 119,575	\$263,076	\$ 21,816
	=====	=====	=====

d) Net investment income

Net investment income for the years ended September 30, 1998, 1997 and 1996 was derived from the following sources:

	1998	1997	1996
	-----	-----	-----
	(in thousands)		
Fixed maturities and short-term investments	\$325,308	\$251,570	\$217,149
Equity securities	5,920	7,385	2,029
Other investments	2,954	2,300	1,840
Other	1,853	2,364	156
	-----	-----	-----
Gross investment income	336,035	263,619	221,174
Investment expenses	(11,781)	(10,179)	(7,473)
	-----	-----	-----
Net investment income	\$324,254	\$253,440	\$213,701
	=====	=====	=====

ACE LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

5. Investments (cont'd.)

e) Securities on deposit

Fixed maturity securities carried at fair value and cash totalling \$141 million at September 30, 1998 were on deposit with various regulatory authorities to comply with various state (U.S.) and Lloyd's (UK) requirements.

6. Losses and loss expenses

The reserve for unpaid losses and loss expenses represents estimated ultimate losses and loss expenses less paid losses and loss expenses and is comprised of the following at September 30, 1998 and 1997:

	1998	1997
	-----	-----
	(in thousands)	
Case and loss expense reserves	\$1,406,358	\$ 995,262
IBNR loss reserves	2,331,511	1,116,408
	-----	-----
Total unpaid losses and loss expenses	\$3,737,869	\$2,111,670
	=====	=====

The Company uses statistical and actuarial methods to reasonably estimate ultimate expected losses and loss expenses using the Company's loss development history, data obtained from underwriting applications, actuarial evaluations and, in the case of excess liability reserves, research of large liability losses. In many cases, significant periods of time, ranging up to several years or more, may lapse between the occurrence of an insured loss, the reporting of the loss to the Company and the settlement of the Company's liability for the loss. During the loss settlement period, additional facts regarding individual claims and trends usually will become known. As these become apparent, case reserves may be adjusted by allocation from IBNR loss reserves without any change in the overall reserve. In addition, application of the statistical and actuarial methods may require the adjustment of the overall reserves from time to time.

The reconciliation of unpaid losses and loss expenses for the years ended September 30, 1998, 1997 and 1996 is as follows:

	1998	1997	1996
	-----	-----	-----
	(in thousands)		
Gross unpaid losses and loss expenses at beginning of year	\$2,111,670	\$1,977,680	\$1,455,342
Reinsurance recoverable	(104,797)	(85,378)	(3,043)
	-----	-----	-----
Net unpaid losses and loss expenses at beginning of year	2,006,873	1,892,302	1,452,299
Unpaid losses and loss expenses assumed in respect of acquired companies	731,949	-	34,735
Unpaid losses and loss expenses assumed in respect of reinsurance business acquired	6,403	50,326	-
	-----	-----	-----
Total	2,745,225	1,942,628	1,487,034
	-----	-----	-----
Losses and loss expenses incurred in respect of losses occurring in:			
Current year	534,021	486,140	520,277
Prior years	(17,129)	-	-
	-----	-----	-----
Total	516,892	486,140	520,277
	-----	-----	-----
Losses and loss expenses paid in respect of losses occurring in:			
Current year	246,354	63,182	41,602
Prior years	337,422	358,713	73,407
	-----	-----	-----
Total	583,776	421,895	115,009
	-----	-----	-----
Net unpaid losses and loss expenses at end of year	2,678,341	2,006,873	1,892,302
Reinsurance recoverable on unpaid losses	1,059,528	104,797	85,378
	-----	-----	-----

Gross unpaid losses and loss expenses at end of year

\$3,737,869  
=====

\$2,111,670  
=====

\$1,977,680  
=====

**ACE LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)**

6. Losses and loss expenses (cont'd)

The Company has considered asbestos and environmental claims and claims expenses in establishing the liability for unpaid losses and loss expenses. The estimation of ultimate losses arising from asbestos and environmental exposures has presented a challenge because traditional actuarial reserving methods, which primarily rely on historical experience, are inadequate for such estimation. The problem of estimating reserves for asbestos and environmental exposures resulted in the development of reserving methods which incorporate new sources of data with historical experience. The Company believes that the reserves carried for these claims are adequate based on known facts and current law.

The following table presents selected data on asbestos and environmental claims and claims expenses as at September 30, 1998.

	Gross -----	Net ---
	(in thousands)	
Asbestos	\$114,032	\$ 46,201
Environmental	104,113	70,140
	-----	-----
	\$218,145	\$116,341
	=====	=====

During the nine month period to September 30, 1998 (since the acquisition of ACE USA), the Company has made payments with respect to latent claims of \$11.2 million. For calendar 1997, 1996 and 1995, ACE USA made average annual claim payments of \$9.8 million.

A number of the Company's insureds have given notice of claims relating to breast implants or components or raw material thereof that had been produced and/or sold by such insureds. Lawsuits including class actions, involving thousands of implant recipients have been filed in both state and federal courts throughout the United States. Most of the federal cases have been consolidated pursuant to the rules for Multidistrict Litigation to a Federal District Court in Alabama, although cases are in the process of being transferred back to federal courts or remanded in state courts.

On May 15, 1995, the Dow Corning Corporation, a significant defendant, filed for protection under Chapter 11 of the U.S. Bankruptcy Code and claims against Dow Corning remain stayed subject to the Bankruptcy Code.

On October 1, 1995, negotiators for three of the major defendants agreed on the essential elements of an individual settlement plan for U.S. claimants with at least one implant from any of those manufacturers ("the Settlement"). In general, under the Settlement, the amounts payable to individual participants, and the manufacturers' obligations to make those payments, would not be affected by the number of claimants electing to opt out from the new plan. Also, in general, the compensation would be fixed and not affected by the number of participants, and the manufacturers would not have a right to walk away because of the amount of claims payable. Finally, each settling defendant agreed to be responsible only for cases in which its implant was identified, and not for a percentage of all cases.

By November 13, 1995, the Settlement was approved by the three major defendants. In addition, two other defendants became part of the Settlement, although certain of their settlement terms are different and more restricted than the plan offered by the original three defendants.

On December 22, 1995, the multidistrict litigation judge approved the Settlement and the materials for giving notice to claimants. Beginning in mid-January, 1996, the three major defendants have each made payments to a court-established fund for use in making payments under the Settlement. The Settlement Claims Office had reported that as of October 31, 1997, it has sent out Notification of Status Letters to more than 360,000 non-opt-out domestic implant recipients who had registered with the Settlement Claims Office. Distribution has begun on payments to claimants relating to other implants since all appeals on the Settlement have been dismissed. In addition, the multidistrict litigation judge has approved the detailed terms of a settlement program being offered by the three major defendants to eligible foreign claimants. Approximately 32,500 domestic registrants exercised opt-out rights after receiving their status letters. Previously, approximately 19,000 other domestic implant recipients had exercised opt-out rights in 1994 and/or before receiving status letters.

ACE LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

6. Losses and loss expenses (cont'd)

At June 30, 1994, the Company increased its then existing reserves relating to breast implant claims. Although the reserve increase was partially satisfied by an allocation from existing IBNR, it also required an increase in the Company's total reserve for unpaid losses and loss expenses at June 30, 1994 of \$200 million. The increase in reserves was based on information made available in conjunction with the lawsuits and information made available from the Company's insureds and was predicated upon an allocation between coverage provided before and after the end of 1985 (when the Company commenced underwriting operations). No additional reserves relating to breast implant claims have been added since June 30, 1994.

The Company continually evaluates its reserves in light of developing information and in light of discussions and negotiations with its insureds. The Company has made payments to date of approximately \$370 million with respect to breast implant claims. These payments were included in previous reserves and are consistent with the Company's belief that its reserves are adequate. While the Company is unable at this time to determine whether additional reserves, which could have a material adverse effect upon the financial condition, results of operations and cash flows of the Company, may be necessary in the future, the Company believes that its reserves for unpaid losses and loss expenses including those arising from breast implant claims are adequate as at September 30, 1998.

7. Reinsurance

The Company purchases reinsurance to manage various exposures including catastrophic risks. Although reinsurance agreements contractually obligate the Company's reinsurers to reimburse it for the agreed upon portion of its gross paid losses, they do not discharge the primary liability of the Company. The amounts for net premiums written and net premiums earned in the statements of operations are net of reinsurance. Direct, assumed and ceded amounts for these items for the years ended September 30, 1998, 1997 and 1996 are as follows:

	1998 -----	1997 ----- (in thousands)	1996 -----
Premiums written			
Direct	\$ 864,529	\$ 849,328	\$ 825,365
Assumed	377,630	110,021	34,624
Ceded	(361,186)	(169,576)	(78,105)
	-----	-----	-----
Net	\$ 880,973 =====	\$ 789,773 =====	\$ 781,884 =====
Premiums earned			
Direct	\$ 875,154	\$ 754,577	\$ 734,888
Assumed	303,586	121,842	40,601
Ceded	(284,437)	(71,047)	(19,649)
	-----	-----	-----
Net	\$ 894,303 =====	\$ 805,372 =====	\$ 755,840 =====

The Company's provision for reinsurance recoverables at September 30, 1998 and September 30, 1997 are as follows:

	1998 -----	1997 -----
	(in thousands)	
Reinsurance recoverable on paid losses and loss expenses	\$ 57,225	\$ --
Reinsurance recoverable on unpaid losses and loss expenses	1,143,121	104,797
Provision for uncollectable balances on unpaid losses and loss expenses	(83,593)	--
	-----	-----
Reinsurance recoverable	\$ 1,116,753 =====	\$ 104,797 =====

**ACE LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)**

8. Commitments and contingencies

a) Financial instruments with off-balance sheet risk

The Company's investment guidelines permit, subject to specific approval, investments in derivative instruments such as futures, options and foreign currency forward contracts for purposes other than trading. Their use is limited to yield enhancement, duration management, foreign currency exposure management or to obtain an exposure to a particular financial market.

(i) Foreign currency exposure management

The Company uses foreign currency forward and option contracts to minimize the effect of fluctuating foreign currencies on the value of non-U.S dollar securities currently held in the portfolio. Approximately \$178 million is invested in non-U.S. dollar fixed maturity and equity securities. The forward currency contracts purchased are not specifically identifiable against any single security or group of securities denominated in those currencies and therefore do not qualify as hedges for financial reporting purposes. All contract gains and losses, realized and unrealized, are reflected in the statements of operations. At September 30, 1998, no foreign currency forward contract had a maturity of more than six months. The table below summarizes the notional amounts, the current fair values and the unrealized gain or loss of the Company's foreign currency forward contracts as at September 30, 1998.

	Contractual/ Notional Amount	Fair Value	Unrealized Gain/(Loss)
	-----	-----	-----
		(in thousands)	
Forward contracts	\$ 50	\$ (735)	\$ (785)

The fair value of the forward contracts represents the estimated cost to the Company at September 30, 1998, of obtaining the specified currency to meet the obligation of the contracts. The unrealized loss is a measure of the net exposure to the Company of its use of forward contracts after any netting agreements given current rates of exchange.

The credit risk associated with the above derivative financial instruments relates to the potential for non-performance by counterparties. Non-performance is not anticipated; however, in order to minimize the risk of loss, management monitors the creditworthiness of its counterparties. For forward contracts, the counterparties are principally banks which must meet certain criteria according to the Company's investment guidelines.

(ii) Duration management and market exposure

**Futures**

A portion of the Company's investment portfolio is managed as synthetic equity funds, whereby equity index futures contracts are held in an amount equal to the market value of an underlying portfolio comprised of short-term investments and fixed maturities. This creates an equity market exposure equal in value to the total amount of funds invested in this strategy. Each index futures contract held by the Company is rolled over quarterly into a new contract with a later maturity, thereby maintaining a constant equity market exposure. The value of the funds invested in this strategy was \$633 million and \$286 million at September 30, 1998 and 1997, respectively.

Exchange traded bond and note futures contracts may be used in fixed maturity portfolios as substitutes for ownership of the physical bonds and notes without significantly increasing the risk in the portfolio. Investments in financial futures contracts may be made only to the extent that there are assets under management, not otherwise committed.

**ACE LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)**

8. Commitments and contingencies (cont'd.)

a) Financial instruments with off-balance sheet risk (cont'd.)

(ii) Duration management and market exposure (cont'd.)

Futures contracts give the holder the right and obligation to participate in market movements, determined by the index or underlying security on which the futures contract is based. Settlement is made daily in cash by an amount equal to the change in value of the futures contract times a multiplier that scales the size of the contract. The contract amounts of \$1,041 million and \$380 million reflect the net extent of involvement the Company had in these financial instruments at September 30, 1998 and 1997, respectively.

**Options**

Option contracts may be used in the portfolio as protection against unexpected shifts in interest rates, which would thereby affect the duration of the fixed maturity portfolio. By using options in the portfolio, the overall interest rate sensitivity of the account can be reduced. An option contract conveys to the holder the right, but not the obligation, to purchase or sell a specified amount or value of an underlying security at a fixed price. The price of an option is influenced by the underlying security, expected volatility, time to expiration and supply and demand.

For long option positions, the maximum loss is the premium paid for the option. To minimize the risk of non-performance, all brokers and dealers used as counterparties must be approved. Additional performance assurance is required where deemed necessary. The maximum credit exposure is represented by the fair value of the options held. For short option positions, the potential loss is the same as having taken a position in the underlying security. Short call options are backed in the portfolio with the underlying, or highly correlated, securities and short put options are to be backed by uncommitted cash for the in-the-money portion.

Summarized below are the notional amounts, the current fair values and the unrealized gains of the options in the portfolio as at September 30, 1998.

	Contractual/ Notional Amount -----	Fair Value ----- (in thousands)	Unrealized Gain/ (Loss) -----
Options held	\$ 735,200	\$ 1,517	\$ 926
Options written	(121,000)	(677)	(303)

The fair value of the options represents the market price of the options at September 30, 1998. The unrealized gain represents the difference between the fair value and the premium paid (received). The notional amounts summarized in the above tables are not representative of amounts exchanged by parties and, therefore, do not measure the exposure to the Company of its use of derivatives.

b) Concentrations of credit risk

The investment portfolio is managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single issue and issuers. The Company believes that there are no significant concentrations of credit risk associated with its investments.

## ACE LIMITED AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

#### 8. Commitments and contingencies (cont'd.)

##### c) Credit Facilities

In December 1997, the Company arranged certain syndicated credit facilities. J.P. Morgan Securities, Inc. and Mellon Bank N.A. acted as co-arrangers in the arranging, structuring and syndication of these credit facilities. Each facility requires that the Company and/or certain of its subsidiaries comply with specific covenants, including a consolidated tangible net worth covenant and a maximum leverage covenant. The facilities provide:

. A \$200 million 364 day revolving credit facility and a \$200 million five year revolving credit facility which together make up a combined \$400 million committed, unsecured syndicated revolving credit facility. At September 30, 1998, the five-year revolving credit facility has a \$150 million letter of credit ("LOC") sub-limit (increased from \$50 million during September 1998). As discussed below, the Company drew down \$385 million on the revolving credit facility to finance the acquisition of CAT Limited on April 1, 1998. The debt was subsequently repaid from a portion of the proceeds from the sale of 16.5 million new Ordinary Shares of the Company (discussed below).

. A syndicated fully secured five year LOC facility totaling approximately 154 million (\$262 million) which is used to fulfill the requirements of Lloyd's to support underwriting capacity on Lloyd's syndicates in which the Company participates.

. A syndicated \$250 million seven year amortizing term loan facility, which was used on January 2, 1998 to partially finance the acquisition of ACE USA. The interest rate on the term loan was LIBOR plus an applicable spread. As of September 30, 1998, \$250 million was outstanding under this facility. The average interest rate for the period January 2, 1998 through October 5, 1998 was 6.24 percent.

On October 27, 1998, ACE US Holdings, Inc. ("ACE US") refinanced the outstanding \$250 million term loan with the proceeds from the issuance of \$250 million in aggregate principal amount of unsecured credit sensitive senior notes maturing in October 2008. Interest payments, based on the initial fixed rate coupon on these notes of 8.63 percent, are due semi-annually in arrears. The indenture related to these notes includes certain restrictive covenants applicable to ACE US. The senior notes are callable subject to certain breakage costs, however, ACE US has no current intention of calling the debt. Simultaneously, the Company has entered into a notional \$250 million credit default swap transaction that has the economic effect of reducing the cost of debt to the consolidated group, excluding fees and expenses, to 6.47 percent for 10 years. Certain assets totaling approximately \$90 million are pledged as security in connection with the swap transaction. In the event that the Company terminates the credit default swap prematurely, the Company would be liable for certain transaction costs. However, the Company has no current intention of terminating the swap. The swap counter-party is a major financial institution with a long-term S&P Senior Debt Rating of AA- and the Company does not anticipate non-performance.

Tempest Re is not an admitted reinsurer in the United States. Accordingly, the terms of certain reinsurance contracts require Tempest Re to provide letters of credit ("LOCs") to Tempest Re's clients in respect of reported claims. Tempest Re has facilities for the issuance of LOCs of up to \$50 million. At September 30, 1998, LOCs outstanding amounted to \$15.2 million. Investments with a market value of \$17.5 million were pledged as collateral for these LOCs. The Company also maintains an unsecured, syndicated revolving credit facility in the amount of \$72.5 million. This facility was put in place by CAT prior to its acquisition by the Company and in September 1998, was assigned to Tempest Re. At September 30, 1998, no amounts have been drawn down under this facility.

**ACE LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)**

8. Commitments and contingencies (cont'd.)

d) Lease commitments

The Company rents office space in The ACE Building in Hamilton, Bermuda under a lease which expires in 2000, with one five year renewal option. The ACE Building is 40 percent owned by the Company through a joint venture agreement. During 1994, the Company financed the cost of an addition to The ACE Building and entered into a supplemental lease for the additional space for 14 years effective October 1, 1994. The cost of the addition is being amortized as rent expense over the period of the lease. The Company also rents additional office space in Hamilton, Bermuda under two separate non-cancelable leases which expire in 2001 and 2003. Tempest Re leases office space in Hamilton, Bermuda under a non-cancelable lease expiring in 2003 with a three year renewal option. ACE Global Markets leases office space in London, England for its principal offices, under two leases that expire in 2008. ACE USA leases office space in Georgia, USA for its principal offices under a lease that expires in 2002. ACE USA also leases additional office space in California, USA under a lease that expires in 2004. ACE USA also leases office space in New York, USA under a lease that expires in 2009. Total rent expense was approximately \$4.8 million in 1998, \$4.9 million in 1997 and \$2.5 million in 1996.

Future minimum lease payments under the leases are expected to be as follows (in thousands):

Year ending September 30, 1999	\$ 7,625
2000	9,749
2001	8,467
2002	6,893
2003	5,945
Later years	33,339
	-----
Total minimum future lease commitments	\$72,018
	=====

9. Shareholders' Equity

a) Shares issued and outstanding

Following is a table of changes in Ordinary Shares issued and outstanding for fiscal 1998, 1997 and 1996:

	Ordinary Shares
Balance at September 30, 1995--as previously reported	138,333,555
Adjustment for pooling-of-interests	14,328,010
	-----
Balance at September 30, 1995--as restated	152,661,565
Shares issued in Tempest Re acquisition	39,999,741
Repurchase of shares	(3,805,800)
Exercise of stock options	3,000
Cancellation of non-vested restricted stock	(18,231)
	-----
Balance at September 30, 1996	188,840,275
Shares issued under Employee Stock Purchase Plan	29,403
Shares issued under SAR Replacement Plan	184,092
Repurchase of shares	(9,093,000)
Exercise of stock options	254,394
Cancellation of non-vested restricted stock	(7,500)
	-----
Balance at September 30, 1997	180,207,664
Shares issued	16,500,000
Shares issued under Employee Stock Purchase Plan	27,517
Repurchase of shares	(3,521,100)
Exercise of stock options	378,438
	-----
Balance at September 30, 1998	193,592,519
	=====

On April 14, 1998, the Company sold 16.5 million Ordinary Shares for net proceeds of approximately \$606 million.

ACE LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

9. Shareholders' Equity (cont'd.)

b) Share repurchases

The Board of Directors had authorized the repurchase from time to time of the Company's Ordinary Shares in open market and private purchase transactions. On May 9, 1997 the Board of Directors terminated the then existing share repurchase program and authorized a new share program for up to \$300 million of the Company's Ordinary Shares. During the first two quarters of fiscal 1998, the Company repurchased 3,521,100 Ordinary Shares under the share repurchase program for an aggregate cost of \$107.6 million. No shares were repurchased after March 31, 1998. On July 6, 1998 the Executive Committee of the Board of Directors rescinded all existing authorizations for the repurchase of the Company's Ordinary Shares. During 1997, the Company repurchased 9,093,000 Ordinary Shares under share repurchase programs for an aggregate cost of \$182.6 million.

c) General restrictions

The holders of the Ordinary Shares are entitled to receive dividends and are allowed one vote per share provided that, if the controlled shares of any shareholder constitute 10 percent or more of the outstanding Ordinary Shares of the Company, only a fraction of the vote will be allowed so as not to exceed 10 percent. Generally, the Company's directors have absolute discretion to decline to register any transfer of shares. All transfers are subject to the restriction that they may not increase to 10 percent or higher the proportion of issued Ordinary Shares owned by any shareholder.

d) Dividends declared

Dividends declared amounted to \$0.34, \$0.27 and \$0.21 per Ordinary Share for fiscal 1998, 1997 and 1996, respectively.

e) Options

(i) Options outstanding

Following is a summary of options issued and outstanding for 1998, 1997 and 1996.

	Year of Expiration	Average Exercise Price	Options for Ordinary Shares
	-----	-----	-----
Balance at September 30, 1995			2,056,500
Options granted	2004-2005	\$12.47	1,227,600
Options issued to holders of Tempest options	2004-2005	\$ 7.90	1,338,267
Options exercised	2003	\$ 9.17	(3,000)
Options forfeited	2003-2004	\$ 8.55	(105,000)
			-----
Balance at September 30, 1996			4,514,367
Options granted	2006-2007	\$19.74	2,231,550
Options issued under SAR Plan	2002-2003	\$21.33	950,400
Options exercised	2003-2004	\$ 9.33	(254,394)
Options forfeited	2003-2007	\$10.09	(307,500)
			-----
Balance at September 30, 1997			7,134,423
Options granted	2007-2008	\$31.64	2,489,900
Options exercised	2003-2007	\$11.21	(378,438)
Options forfeited	2006-2008	\$27.51	(261,155)
			-----
Balance at September 30, 1998			8,984,730
			=====

Of the outstanding options at September 30, 1998, 5,148,264 were vested.

ACE LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

9. Shareholders' Equity (cont'd.)

e) Options (cont'd.)

(ii) SFAS 123 Pro Forma disclosures

In October 1995, FASB issued Statement of Financial Accounting Standards No.

123 "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 establishes accounting and reporting standards for stock-based employee compensation plans which include stock option and stock purchase plans. SFAS 123 provides employers a choice: adopt SFAS 123 accounting standards for all stock compensation arrangements which requires the recognition of compensation expense for the fair value of virtually all stock compensation awards; or continue to account for stock options and other forms of stock compensation under Accounting Principles Board Opinion No. 25 ("APB 25"), while also providing the disclosure required under SFAS 123. The Company continues to account for stock-based compensation plans under APB 25. The following table outlines the Company's net income and earnings per share had the compensation cost been determined in accordance with the fair value method recommended in SFAS 123.

	1998	1997
	-----	-----
	(in thousands, except per share data)	
Net Income		
As reported	\$560,151	\$502,725
Pro Forma	\$550,894	\$495,556
Diluted earnings per share		
As reported	\$ 2.96	\$ 2.69
Pro Forma	\$ 2.91	\$ 2.65

The fair value of the options issued is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants in 1998 and 1997, respectively: dividend yield of 1.41 percent and 1.45 percent; expected volatility 24.9 percent and 26.2 percent; risk free interest rate of 5.61 percent and 5.92 percent and an expected life of 4.0 years and 3.5 years.

10. Employee benefit plans

a) Pension plans

Substantially all of the Company's employees are covered by defined contribution pension plans which are non-contributory. Contributions are based on a percentage of eligible compensation. Pension expenses amounted to \$5 million, \$2.2 million and \$1.7 million for 1998, 1997 and 1996, respectively.

b) Options and Stock Appreciation Rights

In February 1996, shareholders of the Company approved the ACE Limited 1995 Long-Term Incentive Plan (the "Incentive Plan") which incorporates stock options, stock appreciation rights, restricted stock awards and stock purchase programs. There are 6,900,000 Ordinary Shares of the Company available for award under this Incentive Plan. Prior to the adoption of the Incentive Plan, the Company adopted the Equity Linked Incentive Plan, which incorporated both a Stock Appreciation Rights Plan ("SAR Plan") and a Stock Option Plan ("Option Plan") which will continue to run off. Under the Option Plan, generally, options expire ten years after the award date and are subject to a vesting period of four years. Stock options granted under the Incentive Plan may be exercised for Ordinary Shares of the Company upon vesting. Under the Incentive Plan, generally, options expire ten years after the award date and vest in equal portions over three years. During 1998, 2,489,900 options were issued under the Incentive Plan. During 1997, 2,231,550 options were issued under the Incentive Plan. In addition, 950,400 options were issued under the SAR Plan. During 1996, 1,227,600 options were issued under the Incentive Plan and 1,338,267 options were issued with respect to the Tempest Re acquisition (see note 9 (e)).

## ACE LIMITED AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

#### 10. Employee benefit plans (cont'd.)

##### b) Options and Stock Appreciation Rights (Cont'd.)

With respect to the SAR plan, certain stock appreciation rights were forfeited in return for cash during 1997. All remaining stock appreciation rights were exercised in return for options and cash and/or shares of the Company under the terms of the Replacement Plan which was implemented in 1997 pursuant to the Equity Linked Incentive Plan. Total expenses incurred during 1997 relating to the SAR plan, including those incurred under the Replacement Plan, amounted to \$5,500,000. In 1996, compensation expense of \$6,023,000 was recorded. The SAR Plan entitled participants to the right to receive cash equal to the appreciation in value, as provided for in the plan, of the rights represented by the grant. Rights vested over a period of up to six years from the date of grant. Participants were entitled to receive cash payments equal to the amount of dividends paid on an equivalent number of shares. Compensation expense was accrued and recorded based on the change in the value of the stock appreciation rights during the year and the applicable vesting period.

##### c) Employee Stock Purchase Plan

In February 1996, shareholders of the Company approved the ACE Limited Employee Stock Purchase Plan. Participation in the plan is available to all eligible employees. Maximum annual purchases by participants are limited to the number of whole shares that can be purchased by an amount equal to 10 percent of the participant's compensation or \$25,000, whichever is less. Participants may purchase shares at a purchase price equal to 85 percent of the closing market price of the Company's shares on the last day of each subscription period. Subscription periods run for six months. With respect to the year ending September 30, 1998, 27,517 shares were subscribed for, resulting in an expense of \$143,000 to the Company.

##### d) Restricted stock awards

During 1998, 264,000 restricted Ordinary Shares were awarded to officers of the Company and its subsidiaries. These shares vest at various dates through November 2002. In addition, 14,952 restricted Ordinary Shares were awarded to outside directors of the Company under the terms of the 1995 Outside Directors Plan ("the Plan"). These shares vest in February 1999.

During fiscal 1997, 149,175 restricted Ordinary Shares were awarded to officers of the Company and its subsidiaries. These shares vest at various dates through November 1999. Also, during fiscal 1997, 15,084 restricted Ordinary Shares were awarded to outside directors of the Company under the terms of the Plan. These shares vested in February 1998. Also during 1997, 7,500 restricted Ordinary Shares were forfeited due to resignations by officers of the Company and its subsidiaries. During 1996, 27,000 restricted Ordinary Shares were awarded to an officer of the Company. These shares vest at various dates up to July 1999. Also during 1996, 20,202 restricted Ordinary Shares were awarded to outside directors of the Company under the terms of the Plan. These shares vested in February 1997. All non-vested restricted Ordinary Shares issued to directors prior to approval of the plan, in February 1996, were canceled upon approval of the Plan. Subsequently, two directors resigned resulting in the forfeiture of their restricted Ordinary Shares awards. All restricted stock awards contain restrictions relating to, among other things, transferability and forfeiture under certain circumstances.

At the time of grant the market value of the shares awarded under these grants is recorded as unearned stock grant compensation and is presented as a separate component of shareholders' equity. The unearned compensation is charged to operations over the vesting period.

**ACE LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)**

**11. Earnings per share**

The following table sets forth the computation of basic and diluted earnings per share for the years ended September 30, 1998, 1997 and 1996.

	1998 -----	1997 ----- (in thousands, except share and per share data)	1996 -----
Numerator:			
Net Income	\$ 560,151	\$ 502,725	\$ 327,619
Denominator:			
Denominator for basic earnings per share - Weighted average share outstanding	185,130,479	184,148,641	162,153,091
Effect of dilutive securities	4,150,696 -----	2,660,382 -----	1,615,803 -----
Denominator for diluted earnings per share - Adjusted weighted average shares outstanding and assumed conversions	189,281,175 =====	186,809,023 =====	163,768,894 =====
Basic earnings per share	\$ 3.03 =====	\$ 2.73 =====	\$ 2.02 =====
Diluted earnings per share	\$ 2.96 =====	\$ 2.69 =====	\$ 2.00 =====

**12. Taxation**

Under current Cayman Islands law, the Company is not required to pay any taxes on its income or capital gains. The Company has received an undertaking that, in the event of any taxes being imposed, the Company will be exempt from taxation in the Cayman Islands until the year 2013. Under current Bermuda law, the Company and its Bermuda subsidiaries are not required to pay any taxes on their income or capital gains. The Company and its Bermuda subsidiaries will be exempt from taxation in Bermuda until March 2016.

Income from the Company's operations at Lloyd's are subject to United Kingdom corporation taxes. ACE USA is subject to income taxes imposed by U.S. authorities.

The provision for income taxes detailed below represents the Company's estimate of tax liability in respect of the Company's operations at Lloyd's and at ACE USA and is calculated at rates equal to the statutory income tax rate in each jurisdiction.

The income tax provision for the years ended September 30, 1998, 1997 and 1996 as follows:

	1998 -----	1997 ----- (in thousands)	1996 -----
Current tax expense	\$ 3,265	\$ 8,451	\$ 14,547
Deferred tax expense	16,775 -----	16,730 -----	11,996 -----
Provision for income taxes	\$ 20,040 =====	\$ 25,181 =====	\$ 26,543 =====

**ACE LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)**

12. Taxation (Cont'd.)

The components of the net deferred tax asset and net deferred tax liability as of September 30, 1998 and 1997 is a follows:

	1998	1997
	-----	-----
	(in thousands)	
Deferred tax assets		
Loss reserve discount	\$ 50,581	\$ --
Unearned premium adjustment	3,874	--
Uncollectable reinsurance	5,185	--
Other	49,646	3,012
	-----	-----
Total deferred tax assets	109,286	3,012
	-----	-----
Deferred tax liabilities		
Deferred policy acquisition costs	3,741	--
Unrealized appreciation of investments	9,282	--
Other	43,696	40,508
	-----	-----
Total deferred tax liabilities	56,719	40,508
	-----	-----
Valuation allowance	27,303	--
	-----	-----
Net deferred tax asset (liability)	\$ 25,264	\$ (37,496)
	=====	=====

13. Statutory financial data

Under the Bermuda Insurance Act 1978, (as amended by the Insurance Amendment Act 1995) and Related Regulations the Company's Bermuda-based insurance and reinsurance subsidiaries ("the Bermuda subsidiaries") are required to file an annual Statutory Financial Return and Statutory Financial Statements and to maintain certain measures of solvency and liquidity during each year. Statutory capital and surplus of the Bermuda subsidiaries was \$2,785 million, \$2,265 million and \$1,885 million at September 30, 1998, 1997 and 1996 and statutory net income was \$592 million, \$489 million and \$301 million for 1998, 1997 and 1996, respectively. Statutory capital and surplus and statutory net income include the results of Tempest from July 1, 1996, and CAT from April 1, 1998, the dates of acquisition by the Company. The principal difference between statutory capital and surplus and statutory net income of the Bermuda subsidiaries and shareholders' equity and net income of the Bermuda subsidiaries computed in accordance with GAAP relates to deferred acquisition costs of the subsidiaries and goodwill.

There are no statutory restrictions on the payment of dividends from retained earnings by any of the Bermuda subsidiaries as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid-in capital of each of the Bermuda subsidiaries.

The Company's US Insurance Subsidiaries are subject to various state statutory and regulatory restrictions that limit the amount of dividends that may be paid without prior approval from regulatory authorities. These restrictions differ by state, but are generally based on calculations incorporating statutory surplus, statutory net income, and/or investment income. The US Insurance Subsidiaries' combined statutory surplus amounted to \$252 million at September 30, 1998. The combined statutory net result of the US Insurance Subsidiaries was a loss of \$98 million for the nine months ended September 30, 1998.

The payment of any dividends from the Company's UK subsidiaries would be subject to applicable UK insurance law including those promulgated by the Society of Lloyd's.

ACE LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

14. Condensed unaudited quarterly financial data

1998	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----
	(in thousands, except per share data)			
Adjusted for pooling-of-interests				
Net premiums earned	\$205,330	\$221,475	\$246,350	\$221,148
Net investment income	63,672	78,283	93,011	89,288
Net realized gains (losses) on investments	27,493	145,616	69,448	(54,172)
	-----	-----	-----	-----
Total revenues	\$296,495	\$445,374	\$408,809	\$256,264
	=====	=====	=====	=====
Losses and loss expenses	\$122,255	\$129,780	\$146,233	\$118,624
	=====	=====	=====	=====
Net income	\$122,210	\$247,901	\$176,528	\$ 13,512
	=====	=====	=====	=====
Diluted Earnings per share	\$ 0.72	\$ 1.48	\$ 0.96	\$ 0.07
	=====	=====	=====	=====
As originally reported				
Net premiums earned	\$167,821	\$184,746	\$213,126	\$221,148
Net investment income	58,413	73,129	88,151	89,288
Net realized gains (losses) on investments	27,492	145,616	68,791	(54,172)
	-----	-----	-----	-----
Total revenues	\$253,726	\$403,491	\$370,068	\$256,264
	=====	=====	=====	=====
Losses and loss expenses	\$109,161	\$116,265	\$134,305	\$118,624
	=====	=====	=====	=====
Net income	\$112,816	\$236,205	\$171,463	\$ 13,512
	=====	=====	=====	=====
Diluted Earnings per share	\$ 0.67	\$ 1.41	\$ 0.95	\$ 0.07
	=====	=====	=====	=====
 1997				
	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----
	(in thousands, except per share data)			
Adjusted for pooling-of-interests				
Net premiums earned	\$206,919	\$199,150	\$202,965	\$196,338
Net investment income	62,867	61,160	64,303	65,110
Net realized gains (losses) on investments	41,580	(2,480)	45,788	\$ 42,814
	-----	-----	-----	-----
Total revenue	\$311,366	\$257,830	\$313,056	\$304,262
	=====	=====	=====	=====
Losses and loss expenses	\$123,019	\$117,350	\$123,900	\$121,871
	=====	=====	=====	=====
Net income	\$138,443	\$ 87,676	\$139,915	\$136,691
	=====	=====	=====	=====
Diluted Earnings per share	\$ 0.72	\$ 0.46	\$ 0.76	\$ 0.74
	=====	=====	=====	=====
As originally reported				
Net premiums earned	\$164,400	\$158,641	\$163,605	\$158,192
Net investment income	59,738	58,094	59,545	60,446
Net realized gains (losses) on investments	41,723	(2,339)	45,786	42,812
	-----	-----	-----	-----
Total revenues	\$265,861	\$214,396	\$268,936	\$261,450
	=====	=====	=====	=====
Losses and loss expenses	\$110,150	\$105,290	\$111,380	\$109,121
	=====	=====	=====	=====
Net income	\$125,741	\$ 77,949	\$130,038	\$127,626
	=====	=====	=====	=====
Diluted Earnings per share	\$ 0.71	\$ 0.45	\$ 0.77	\$ 0.75
	=====	=====	=====	=====

ACE LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

15. Condensed unaudited pro forma information relating to the acquisitions of ACE USA and CAT

The following pro forma information assumes the acquisitions occurred at the beginning of each year presented. The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the acquisition been consummated at the beginning of each year presented, nor is it necessarily indicative of future operating results.

	1998	1997
	-----	-----
	(in thousands, except per share data)	
Pro forma:		
Net premiums earned	\$ 988,847	\$ 1,054,060
Net Investment income	337,603	308,836
Net income	581,310	448,791
Diluted earnings per share	\$ 3.07	\$ 2.40

## Subsidiaries of the Registrant

Name -----	Jurisdiction of Organization -----	Percentage Ownership -----
A.C.E. Insurance Company, Ltd.	Bermuda	100%
ACE London Group Limited	United Kingdom	100%
ACE Capital Limited	United Kingdom	100%
ACE Capital III Limited	United Kingdom	100%
ACE Capital IV Limited	United Kingdom	100%
ACE London Holdings Ltd.	United Kingdom	100%
ACE Capital II Ltd.	United Kingdom	100%
ACE London Investments Limited	United Kingdom	100%
ACE London Aviation Limited	United Kingdom	100%
ACE London Underwriting Limited	United Kingdom	100%
ACE Underwriting Services Limited	United Kingdom	100%
ACE London Services Limited	United Kingdom	100%
ACE Staff Corporate Member Limited	United Kingdom	100%
Methuen Group Limited	United Kingdom	100%
Methuen Holdings Limited	United Kingdom	100%
Methuen Europe Limited	United Kingdom	100%
Methuen Investments Limited	United Kingdom	100%
Methuen Limited	United Kingdom	100%
Methuen Services Limited	United Kingdom	100%
Methuen Systems Limited	United Kingdom	100%
Methuen Underwriting Limited	United Kingdom	100%
Underwriting Systems Limited	United Kingdom	100%
ACE Reinsurance Company Europe Ltd.	Ireland	100%
ACE Insurance Company Europe Ltd.	Ireland	100%
Corporate Officers & Directors Assurance Ltd.	Bermuda	100%
Oasis Real Estate Co. Ltd.	Bermuda	100%
Scarborough Property Holdings, Ltd.	Bermuda	40%
Tripair Partnership	Bermuda	100%
ACE Insurance Management Ltd.	Bermuda	100%
ACE Realty Holdings Ltd.	Bermuda	100%
ACE Services Ltd.	Cayman Islands	100%
ACE US Holdings, Inc.	USA (Delaware)	100%
ACE Strategic Advisors Inc.	USA (Delaware)	100%
ACE USA, Inc.	USA (Delaware)	100%
Industrial Excess & Insurance Brokers	USA (California)	100%
Industrial Underwriters Insurance Co.	USA (Texas)	100%
CRC Creditor Resources Canada Limited	Canada (British Columbia)	60%
Rhea International Marketing (L), Inc.	Malaysia	60%
Westchester Fire Insurance Company	USA (New York)	100%
Westchester Surplus Lines Insurance Co.	USA (Georgia)	100%
Westchester Specialty Insurance Services Inc.	USA (Nevada)	100%
Oasis Insurance Services Ltd.	Bermuda	100%
Oasis Investments Limited	Bermuda	100%
Oasis Personnel Limited	Cayman Islands	100%
Tarquin	United Kingdom	100%
ACE Capital V Limited	United Kingdom	100%
Charman Group Limited	United Kingdom	100%
Charman Underwriting Agencies Limited	United Kingdom	100%
Charman Trustees Limited	United Kingdom	100%
Tempest Reinsurance Company Limited	Bermuda	100%
CAT Limited	Bermuda	100%
Hamilton Services Limited	Bermuda	100%

**Exhibit 23.1****CONSENT OF INDEPENDENT ACCOUNTANTS**

We consent to the incorporation by reference in (i) this annual report on Form 10-K; (ii) Registration Statements on Form S8 (Nos. 333-1404, 333-1402, 333-1400, 33-86146, 333-4301) and (iii) Registration Statement on Form S3 (No. 333-60985) of our report dated November 4, 1998 on our audits of the consolidated financial statements of ACE Limited as of September 30, 1998 and 1997, and for each of the three years in the period ended September 30, 1998, from page 43 of the 1998 Annual Report to Shareholders of ACE Limited.

New York, New York  
December 17, 1998 PricewaterhouseCoopers LLP

**ARTICLE 7**

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ACE LIMITED 1998 CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	SEP 30 1998
PERIOD START	OCT 01 1997
PERIOD END	SEP 30 1998
DEBT HELD FOR SALE	5,056,807
DEBT CARRYING VALUE	0
DEBT MARKET VALUE	0
EQUITIES	189,717
MORTGAGE	0
REAL ESTATE	0
TOTAL INVEST	5,883,360
CASH	317,714
RECOVER REINSURE	57,225
DEFERRED ACQUISITION	76,445
TOTAL ASSETS	8,788,753
POLICY LOSSES	3,737,869
UNEARNED PREMIUMS	773,702
POLICY OTHER	129,692
POLICY HOLDER FUNDS	0
NOTES PAYABLE	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	8,066
OTHER SE	3,706,204
TOTAL LIABILITY AND EQUITY	8,788,753
PREMIUMS	894,303
INVESTMENT INCOME	324,254
INVESTMENT GAINS	188,385
OTHER INCOME	0
BENEFITS	516,892
UNDERWRITING AMORTIZATION	105,654
UNDERWRITING OTHER	0
INCOME PRETAX	580,191
INCOME TAX	20,040
INCOME CONTINUING	560,151
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	560,151
EPS PRIMARY	3.03
EPS DILUTED	2.96
RESERVE OPEN	2,745,225
PROVISION CURRENT	534,021
PROVISION PRIOR	(17,129)
PAYMENTS CURRENT	246,354
PAYMENTS PRIOR	337,422
RESERVE CLOSE	2,678,341
CUMULATIVE DEFICIENCY	0

**SUMMARY OF TAXATION OF ACE, ITS SUBSIDIARIES AND ITS SHAREHOLDERS**

The following summary of (i) the taxation of ACE and its subsidiaries and (ii) the taxation of ACE shareholders is based upon current law. Legislative, judicial or administrative changes may be forthcoming that could be retroactive and could affect this summary. The tax treatment of any particular shareholder may vary depending on such shareholder's particular tax situation or status. The following summary is for general information only and does not purport to be a complete analysis or listing of all tax considerations that might be applicable to ACE and its subsidiaries or a holder of ACE Ordinary Shares, including persons who may be subject to special tax rules (e.g. tax exempt entities or dealers in securities) or shareholders who are not U.S. persons. A U.S. person who holds ACE Ordinary Shares as capital assets will be referred to herein as a "U.S. ACE Shareholder." Each prospective shareholder is urged to consult his or its own tax advisors as to the particular tax consequences to such shareholder of owning ACE Ordinary Shares.

**Taxation of ACE and its Subsidiaries**

Bermuda. CODA, ACE Insurance, Tempest Re and CAT have received from the Minister of Finance of Bermuda an assurance under The Exempted Undertakings Tax Protection Act, 1966 of Bermuda, to the effect that in the event of there being enacted in Bermuda any legislation imposing 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 shall not be applicable to ("the Bermuda Insurance Subsidiaries") or to any of their operations or the shares, debentures or other obligations of the Bermuda Insurance Subsidiaries until March 28, 2016. This assurance does not prevent the application of any such tax or duty to such persons as are ordinarily resident in Bermuda, nor does it prevent the application of any tax payable in accordance with the provisions of the Land Tax Act 1967 of Bermuda or otherwise payable in relation to the property leased to the Bermuda Insurance Subsidiaries." ACE, as a permit company under the Companies Act 1981 of Bermuda (the "Bermuda Act"), has received similar assurances which are effective until March 28, 2016. The Bermuda Insurance Subsidiaries under current rates, pay annual Bermuda government and business fees. ACE also pays certain annual Bermuda government fees. In addition, all entities employing individuals in Bermuda are required to pay a payroll tax to the Bermuda Government. For the fiscal year ended September 30, 1996, ACE paid approximately \$776,000 in payroll tax. Currently there is no Bermuda withholding tax on dividends paid by the Bermuda Insurance Subsidiaries.

Cayman Islands. Under current Cayman Islands law, ACE is not obligated to pay any taxes in the Cayman Islands on its income or gains. ACE has received an undertaking from the Governor-in-Council of the Cayman Islands pursuant to the provisions of the Tax Concessions Law, as amended, that until the year 2005 (i) no subsequently enacted law imposing any tax on profits, income, gains or appreciations shall apply to ACE and (ii) no such tax and no tax in the nature of an estate duty or an inheritance tax shall be payable on any shares, debentures or other obligations of ACE. The Cayman Islands currently imposes stamp duties on certain categories of documents; however, the current operations of ACE do not involve the payment of stamp duties in any material amount. The Cayman Islands currently imposes an annual corporate fee upon all exempted companies; at current rates ACE pays fees of approximately \$1,750 per annum.

United Kingdom. The effect of taxation on the Company as a result of its operations in the Lloyd's Market are set out on pages 21-22 of the Form 10-K. Although ACE has a representative office in London, ACE has been advised that it is not deemed to be doing insurance business in the United Kingdom and therefore is subject only to minimal tax in the United Kingdom.

United States. Except as provided below with respect to ACE's corporate subsidiaries that are Lloyd's corporate members, ACE USA and its US insurance subsidiaries, ACE and its subsidiaries do not conduct business within the United States and thus are not subject to net income tax imposed by the United States. However, because definitive identification of activities which constitute being engaged in a trade or business in the United States is not provided by the Code, regulations or court decisions, there can be no assurance that the IRS will not contend successfully that ACE or one or more of its subsidiaries is engaged in a trade or business in the United States. A foreign corporation deemed to be so engaged would be subject to U.S. income tax, as well as the branch profits tax, on its income which is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under the permanent establishment provision of the Bermuda Treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a domestic corporation, except that a foreign corporation can anticipate an allowance of deductions and credits only if it files a U.S. income tax return. Under regulations, the foreign corporation would be entitled to deductions and credits only if the return is filed timely under rules set forth therein. ACE and its subsidiaries have in the past and expect to continue filing protective tax returns to ensure that it and its subsidiaries would be entitled to deductions and credits if they are considered to be engaged in a U.S. trade or business. The highest federal tax rates currently are 35% for a corporation's effectively connected income and 30% for the branch profits tax. The branch profits tax is imposed on effectively connected net income after subtracting the regular corporate tax and making certain other adjustments and on interest paid or deemed paid from the U.S. branch to persons outside the United States. Pursuant to a Closing Agreement between Lloyd's and the IRS, ACE's corporate subsidiaries that is a Lloyd's corporate members are treated as engaged in business in the United States and subject to net income tax in the United States on their U.S. source income.

Under the Bermuda Treaty, the Bermuda Insurance Subsidiaries are subject to U.S. income tax on any income found to be effectively connected with a U.S. trade or business only if that trade or business is conducted through a permanent establishment in the United States. No regulations interpreting the Bermuda Treaty have been issued. While there can be no assurances, ACE does not believe the Bermuda Insurance Subsidiaries has a permanent establishment in the United States. Neither the Bermuda Insurance Subsidiaries would be entitled to the benefits of the Bermuda Treaty if (i) less than 50% of such subsidiary's stock were beneficially owned, directly or indirectly, by Bermuda residents or U.S. citizens or residents, or (ii) such subsidiary's income were used in substantial part to make disproportionate distributions to, or to meet certain liabilities of, persons who are not Bermuda residents or U.S. citizens or residents. While there can be no assurances, ACE believes that no exception to Bermuda Treaty benefits will apply after the Amalgamation.

Foreign corporations not engaged in a trade or business in the United States are nonetheless subject to U.S. income tax on certain "fixed or

determinable annual or periodic gains, profits and income" derived from sources within the United States as enumerated in Section 881(a) of the Code (such as dividends and certain interest on investments). The amount of such taxes paid by ACE has not exceeded \$1.7 million in any fiscal year.

Effect of the Amalgamation. ACE believes that the Amalgamation will not cause ACE or its existing subsidiaries to be subject to tax in the Cayman Islands, Bermuda or the United States (except to the very limited extent noted above that they are currently subject to tax in those jurisdictions), and it is expected that the ACE Reinsurance Subsidiary will be taxed in a manner similar to ACE's other subsidiaries. Accordingly, the foregoing description of the tax treatment of ACE and its operating subsidiaries by Bermuda, the Cayman Islands, the United Kingdom and the United States should remain unchanged after the Effective Time and should, where applicable, apply equally to the ACE Reinsurance Subsidiary.

### **Taxation of ACE Shareholders**

Cayman Islands. Dividends paid by ACE are not subject to Cayman Islands withholding tax.

Bermuda. Under current Bermuda law, there is no Bermuda income tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the respective shareholders of ACE with respect to an investment in ACE Ordinary Shares.

United States--Taxation of dividends. Subject to the discussion below relating to the potential application of the "controlled foreign corporation" and "passive foreign investment company" rules, cash distributions made with respect to ACE Ordinary Shares will constitute dividends for U.S. federal income tax purposes to the extent paid out of current or accumulated E&P of ACE. U.S. ACE Shareholders generally will be subject to U.S. federal income tax on the receipt of such dividends. Generally, such dividends will not be eligible for the corporate dividends received deduction. To the extent that a distribution exceeds E&P, it will be treated first as a return of the U.S. ACE Shareholder's basis to the extent thereof, and then as gain from the sale of a capital asset.

United States--Classification as a controlled foreign corporation. Under Section 951(a) of the Code, each "U.S. 10% shareholder" (as defined below) that, on the last day of foreign corporation's taxable year, owns, directly or indirectly through a foreign entity, shares of a foreign corporation that is a "controlled foreign corporation" ("CFC") for an uninterrupted period of 30 days or more during any taxable year must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC's "subpart F income" for such year, even if the subpart F income is not distributed. In addition, the U.S. 10% shareholders of a CFC may be deemed to receive taxable distributions to the extent the CFC increases the amount of its earnings that are invested in certain specified types of U.S. property. "Subpart F income" includes, inter alia, (i) "foreign personal holding company income", such as interest, dividends, and other types of passive investment income and (ii) "insurance income," which is defined to include any income (including underwriting and investment income) that is attributable to the issuing (or reinsuring) of any insurance or annuity contract in connection with property in, liability arising out of activity in, or in connection with the lives or health of residents of, a country other than the country under the laws of which the CFC is created or organized, and which (subject to certain modifications) would be taxed under the

insurance company provision of the Code if such income were the income of a domestic insurance company ("Subpart F Insurance Income"). A recent legislative change expands the definition of insurance income that is not treated as "Subpart F income" to include income from certain non-U.S. insurance companies that are regulated in the country where they are organized and are entitled to issue insurance policies to persons in that country. However, Subpart F income does not include any income from sources within the U.S. which is effectively connected with the conduct of a trade or business within the U.S. and not exempted or subject to a reduced rate of tax by applicable treaty. Therefore, all of ACE's income, and all income of ACE's operating subsidiaries that is not attributable to a permanent establishment in the U.S., is expected to be Subpart F income.

Under Section 951(b) of the Code, any U.S. Person who owns, directly or indirectly through foreign entities, or is considered to own (by application of the rules of constructive ownership set forth in Code Section 958(b), generally applying to family members, partnerships, estates, trusts or 10% controlled corporations) 10% or more of the total combined voting power of all classes of stock of a foreign corporation will be considered to be a "U.S. 10% shareholder." In general, a foreign corporation is treated as a CFC only if its U.S. 10% shareholders collectively own more than 50% of the total combined voting power or total value of the corporation's stock on any day (the "50% Test"). However, for purposes only of taking into account Subpart F Insurance Income, a foreign corporation will be treated as a CFC if (i) more than 25% of the total combined voting power or total value of its stock is owned by U.S. 10% shareholders and (ii) the gross amount of premiums or other consideration in respect of risks outside its country of incorporation exceeds 75% of the gross amount of all premiums or other consideration in respect of all risks (the "25% Test"). It is anticipated that the gross premiums of each of the insurance subsidiaries of ACE in respect of Subpart F Insurance Income will exceed 75% of its gross premiums in respect of all risks so that the 25% Test, rather than the 50% Test, will be applicable with respect to its Subpart F Insurance Income. However, the 50% test will continue to apply to ACE itself.

After the Amalgamation, all the capital stock of ACE Insurance, CODA, and the ACE Reinsurance Subsidiary will be owned directly or indirectly by ACE. In determining the U.S. 10% shareholders of ACE Insurance, CODA, or the ACE Reinsurance Subsidiary, U.S. Persons who are shareholders of ACE are considered as owning proportionately the stock of ACE Insurance, CODA, and the ACE Reinsurance Subsidiary. After the Amalgamation, U.S. Persons who own, directly, indirectly or by attribution under the rules of Section 958(b) of the Code, more than 10% in value of the stock of ACE will not own more than 25% of the total combined voting power or value of the stock of ACE. As a result, none of ACE Insurance, CODA, or the ACE Reinsurance Subsidiary, will be a CFC under the 25% Test. However, depending on the future ownership of ACE stock, any U.S. Person who subsequently acquires 10% or more of the stock of ACE may be required to include their share of the Subpart F income of ACE and its subsidiaries in their U.S. taxable income. It is not expected that ACE itself would ever be a CFC under the 50% test, so U.S. persons are not expected to have to include any of ACE's Subpart F income in their U.S. taxable income.

United States--RPII companies. A different definition of "controlled foreign corporation" is applicable in the case of a foreign corporation which earns related person insurance income ("RPII"). RPII is defined in Code Section 953(c)(2) as any "insurance income" (as defined above) attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a "U.S. shareholder" of the foreign corporation or a "related person" to such a shareholder. For purposes only of taking into account RPII, and subject to the exceptions described below, an insurance subsidiary of ACE will be treated as a CFC if its "RPII shareholders" (as defined below) collectively own, directly, indirectly, or by attribution under Code Section

958(b), 25% or more of the total combined voting power or value of such subsidiary's stock on any day during a fiscal year. If an insurance subsidiary of ACE is a CFC under the special RPII rules for an uninterrupted period of at least 30 days during any fiscal year, a U.S. Person who owns, directly or indirectly through foreign entities, shares of shares of such subsidiary on the last day of such fiscal year must include in its gross income for U.S. federal income tax purposes its allocable share of RPII for the entire taxable year, subject to certain modifications. For purposes of inclusion of RPII from an insurance subsidiary of ACE in the income of U.S. Persons who own ACE Ordinary Shares, unless an exception applies, the term "RPII shareholder" includes all U.S. Persons who own, directly or indirectly through foreign entities, any amount (rather than 10% or more) of the ACE Ordinary Shares. Generally, the term "related person" for purposes of the RPII rules means someone who controls or is controlled by the RPII shareholder or someone who is controlled by the same person or persons which control the RPII shareholder. Control is measured by either more than 50% in value or more than 50% in voting power of stock, with respect to corporations, or more than 50% of the beneficial interests, with respect to partnerships, trusts, or estates, applying constructive ownership principles similar to the rules of Section 958 of the Code. The term "related persons" also includes, with respect to insurance policies covering liability arising from services performed as a director, officer or employee of a corporation or a partner or employee of a partnership, the person performing such services and the entity for which the services are performed.

The above RPII rules do not apply if (A) direct and indirect insureds and persons related to such insureds, whether or not U.S. persons, are treated as owning less than 20% of the voting power and less than 20% of the value of the stock of ACE's insurance company subsidiaries, or (B) the RPII of each of ACE's insurance subsidiaries, determined on a gross basis, is less than 20% of each such subsidiary's gross insurance income for the taxable year. ACE believes that the RPII income of each of ACE Insurance and CODA has been, and should be for the foreseeable future, less than 20% of such subsidiary's gross insurance income for the taxable year and, based in part on information provided by Tempest, it is expected that the ACE Reinsurance Subsidiary's RPII income will constitute less than 20% of its gross insurance income for future taxable years. As a consequence, the special RPII rules should not apply, and U.S. Persons owning ACE Ordinary Shares should not be required to include in gross income any RPII income under the special RPII rules. The IRS may assert, however, that ACE's reinsurance subsidiaries indirectly reinsure shareholders of ACE. ACE does not expect any of its subsidiaries to enter into reinsurance arrangements where the ultimate risk insured is that of a holder of ACE Ordinary Shares that is a U.S. person or person related to such a U.S. person at a level which would cause any subsidiary to have RPII income of 20% or more of its gross insurance income. However, unless final Treasury Regulations under Code Section 953 provide that this rule would apply only if the reinsured entity is fronting for another party, it may be difficult for ACE to obtain and, if requested of ACE or a shareholder by the IRS, provide shareholders with enough information to document and be certain that each of ACE's subsidiaries providing significant reinsurance have satisfied the 20% test. ACE believes that it is unlikely that enough of the underlying reinsured parties will own sufficient ACE Ordinary Shares to cause the RPII income of any of ACE's subsidiaries to be 20% or more of their gross insurance income and ACE will endeavor to avoid failing the 20% test. However, the ultimate application of the RPII rules and the proof that will be required to establish compliance thereunder is uncertain and each prospective investor should consult their own tax advisor with respect to this issue.

United States--Passive foreign investment companies. Code Sections 1291 through 1298 contain special rules applicable to foreign corporations that are "passive foreign investment companies" ("PFIC's"). In general, a foreign corporation will be a PFIC if 75% or more of its gross income constitutes "passive income" (the "75% Income Test") or 50% or more of its assets produce, or are held for the production of, passive income (the "50% Asset Test"). If ACE were to be characterized as a PFIC, its U.S. shareholders would have to make an election (a "QEF Election") to be taxable currently on their pro-rata shares of earnings of ACE whether or not such earnings were distributed, or would have to make an election to market their shares of ACE at the end of each tax year, or they would be subject to a special tax and an interest charge at the time of the sale of, or receipt of an "excess distribution" with respect to, their shares, and a portion of any gain may be re-characterized as ordinary income, which for an individual would be taxed at the highest marginal rate of 39.6%.

In general, a shareholder receives an "excess distribution" if the amount of the distribution is more than 125% of the average distribution with respect to the stock during the three preceding taxable years (or shorter period during which the taxpayer held the stock). In general, the special tax and interest charges are based on the value of the tax deferral of the taxes that are deemed due during the period the U.S. shareholder owned the shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the shares was taxed in equal portions throughout the holder's period of ownership at the highest marginal tax rate. The interest charge is computed using the applicable rate imposed on underpayments of U.S. federal income tax for such period. In general, if a U.S. Person owns stock in a foreign corporation during any taxable year in which such corporation is a PFIC and such shareholder does not make a QEF Election, the stock will be treated as stock in a PFIC for all subsequent years.

For the above purposes, "passive income" is defined to include income of a kind that would be characterized as foreign personal holding company income under Code Section 954(c), and generally includes interest, dividends, annuities and other investment income. The PFIC statutory provisions contain and express exception for income "derived in the active conduct of an insurance business by a corporation which is predominantly engaged in an insurance business . . ." "This exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income. Thus, to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business, it may be treated as passive income for purposes of the PFIC rules. The PFIC statutory provisions also contain a look-through rule that states that, for purposes of determining whether a foreign corporation is a PFIC, such foreign corporation shall be treated as if it "received directly its proportionate share of the income . . ." and as if it "held its proportionate share of the assets . . ." of any other corporation in which it owns at least 25% of the value of the stock.

In ACE's view each of its direct and indirect insurance subsidiaries (including the ACE Reinsurance Subsidiary, after the Effective Time) is predominantly engaged in an insurance business and does not have financial reserves in excess of the reasonable needs of its insurance business. Under the look-through rule, ACE would be deemed to own its proportionate share of the assets and to have received its proportionate share of the income of ACE Insurance, CODA, and the ACE Reinsurance Subsidiary for purposes of the 75% Income and 50% Assets Test. However, no regulations interpreting the substantive PFIC provisions have yet been issued. Therefore, substantial uncertainty exists with respect to their application or their possible retroactivity. Each U.S.

Person who holds ACE Ordinary Shares should consult his tax advisor as to the possible effects of these rules.

**Information Reporting.** Every U.S. Person who "controls" a foreign corporation by owning directly or by attribution more than 50% of the total value of shares of all classes of stock of such corporation, for an uninterrupted period of 30 days or more during a fiscal year of that corporation, must file IRS Form 5471 with its U.S. income tax return. However, the IRS has the authority to, and does require, any U.S. Person treated as a U.S. 10% shareholder or RPII shareholder of a CFC that owns shares directly or indirectly through a foreign entity to file a Form 5471. In addition, U.S. Persons who own more than 5% in value of the outstanding stock of ACE or its subsidiaries at any time during a taxable year are required in certain circumstances to file Form 5471 even if neither corporation is a CFC. A tax-exempt organization that is treated as a U.S. 10% shareholder or a RPII shareholder for any purpose under subpart F will be required to file a Form 5471 in the circumstances described above. Failure to file Form 5471 may result in penalties.

**Dispositions of ACE Ordinary Shares.** Subject to the discussion elsewhere relating to the potential application of the CFC and PFIC rules, gain or loss realized by a U.S. ACE Shareholder on the sale, exchange or other disposition of ACE Ordinary Shares will be includible in gross income as capital gain or loss in an amount equal to the difference between such holder's basis in the ACE Ordinary Shares and the amount realized on the sale, exchange or other disposition. If a U.S. ACE Shareholder's holding period for the ACE Ordinary Shares is more than one year, any gain will be subject to the U.S. federal income tax at a current maximum marginal rate of 20% for individuals and 35% for corporations.

earnings and profits during the period that the shareholder held the shares (with certain adjustments). Code Section 953(c)(7) generally provides that

Section 1248 also will apply to the sale or exchange of shares by a U.S. shareholder in a foreign corporation that earns RPII and is characterized as a CFC under the RPII rules if the foreign corporation would be taxed as an insurance company if it were a domestic corporation, regardless of whether the shareholder is a 10% shareholder or whether RPII constitutes 20% or more of the corporation's gross insurance income.

ACE believes, based on the advice of counsel, that Code Section 1248 will not apply to dispositions of ACE Ordinary Shares, so long as ACE is not a CFC, because ACE is not directly engaged in the insurance business. There can be no assurance, however, that the IRS will interpret proposed regulations under Code

Section 953 in this manner or that the Treasury Department will not amend the proposed regulations under Section 953 or other regulations to provide that

Section 1248 will apply to dispositions of shares in a corporation such as ACE which is engaged in the insurance business directly or indirectly through its subsidiaries. If the IRS or Treasury Department were to take such action ACE would notify shareholders that Code Section 1248 will apply to dispositions of Common Shares.

**Foreign Tax Credit.** Because it is anticipated that U.S. Persons will own a majority of ACE's shares after the Amalgamation and because a substantial part of the insurance business of ACE's subsidiaries includes the insurance of U.S. risks only a portion of the RPII and Subpart F inclusions (if any) and dividends paid by ACE (including any gain from the sale of ACE Ordinary Shares that is treated as a dividend under Code Section 1248) will be treated as foreign source

income for purposes of computing a shareholder's U.S. foreign tax credit limitation. Except in the case of U.S. 10% shareholders it is likely that all of the RPII and Subpart F inclusions (if any) and dividends that are foreign source income will constitute either "passive" or "financial services" income for foreign tax credit limitation purposes. Thus, it may not be possible for certain U.S. shareholders to utilize excess foreign tax credits to reduce U.S. tax on such income.

Other. Dividends paid by ACE to U.S. corporate shareholders will not be eligible for the dividends received deduction provided by Code Section 243.

Except as discussed below with respect to backup withholding, dividends paid by ACE will not be subject to a U.S. withholding, tax.

Information reporting to the IRS by paying agents and custodians located in the U.S. will be required with respect to payments of dividends (if any) on the ACE Ordinary Shares to U.S. Persons or to paying agents or custodians located in the U.S. In addition, a holder of ACE Ordinary Shares may be subject to backup withholding at the rate of 31% with respect to dividends paid by such persons, unless such holder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact; or (b) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. The backup withholding tax is not an additional tax and may be credited against a holder's regular Federal income tax liability.

Sales of ACE Ordinary Shares through brokers by certain U.S. Persons also may be subject to backup withholding. Sales by corporations, certain tax-exempt entities, individual retirement plans, REITs, certain financial institutions, and other "exempt recipients" as defined in applicable Treasury regulations currently are not subject to backup withholding. Holders of ACE Ordinary Shares should consult their own tax advisors regarding the possible applicability of the backup withholding rules to sales of their ACE Ordinary Shares.

The foregoing discussion (including and subject to the matters and qualifications set forth in such summary) is based on current law and is for general information only. The tax treatment of a holder of ACE Ordinary Shares for U.S. federal income, state, local or non-U.S. tax purposes may vary depending on the holder's particular tax situation. Legislative, judicial or administrative changes or interpretations may be forthcoming that could be retroactive and could affect the tax consequences to holders of ACE Ordinary Shares. **PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES TO THEM OF**

**OWNING THE ACE ORDINARY SHARES.**

---

**End of Filing**

Powered By **EDGAR**  
Online

**© 2005 | EDGAR Online, Inc.**