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ACE LTD

FORM 10-Q
(Quarterly Report)

Filed 08/12/05 for the Period Ending 06/30/05

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

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ACE LTD

FORM 10-Q
(Quarterly Report)

Filed 8/12/2005 For Period Ending 6/30/2005

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2005

OR

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

For the Transition Period from __________to __________

Commission File No. 1-11778 I.R.S. Employer Identification No. 98-0091805

ACE LIMITED

(Incorporated in the Cayman Islands)
ACE Global Headquarters
17 Woodbourne Avenue
Hamilton HM 08
Bermuda

Telephone 441-295-5200

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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☑ NO ☐

Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

YES ☑ NO ☐

The number of registrant’s Ordinary Shares ($0.041666667 par value) outstanding as of August 5, 2005 was 288,362,473.

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ACE LIMITED

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ACE LIMITED
PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30 2005	December 31 2004
	(Unaudited)	(Restated)
	(in millions of U.S. dollars, except share and per share data)	
Assets		
Investments		
Fixed maturities available for sale, at fair value (amortized cost - $20,825 and $22,422)	$ 21,136	$ 22,891
Fixed maturities held to maturity, at amortized cost (fair value - $3,207)	3,151	—
Equity securities, at fair value (cost - $1,213 and $1,061)	1,380	1,265
Short-term investments, at fair value (amortized cost - $2,476 and $2,163)	2,476	2,163
Other investments (cost - $562 and $551)	628	606
Total investments	28,771	26,925
Cash	651	498
Securities lending collateral	958	1,059
Accrued investment income	318	309
Insurance and reinsurance balances receivable	3,728	3,255
Accounts and notes receivable	205	196
Reinsurance recoverable	14,428	14,882
Deferred policy acquisition costs	990	944
Prepaid reinsurance premiums	1,434	1,355
Funds withheld	303	339
Value of reinsurance business assumed	269	273
Goodwill	2,703	2,700
Deferred tax assets	1,134	1,173
Investments in partially-owned insurance companies (cost - $781 and $755)	832	796
Other assets	1,399	1,479
Total assets	$ 58,123	$ 56,183
Liabilities		
Unpaid losses and loss expenses	$ 32,101	$ 31,483
Unearned premiums	6,457	5,983
Future policy benefits for life and annuity contracts	517	509
Funds withheld	138	142
Insurance and reinsurance balances payable	2,438	2,337
Deposit liabilities	347	343
Securities lending payable	958	1,059
Payable for securities purchased	785	507
Accounts payable, accrued expenses and other liabilities	1,409	1,508
Dividends payable	66	60
Short-term debt	147	146
Long-term debt	1,849	1,849
Trust preferred securities	412	412
Total liabilities	47,624	46,338
Commitments and contingencies Shareholders' equity		
Preferred Shares ($1.00 par value, 2,300,000 shares authorized, issued and outstanding)	2	2
Ordinary Shares ($0.041666667 par value, 500,000,000 shares authorized; 288,073,439 and 284,478,525 shares issued and outstanding)	12	12
Additional paid-in capital	5,029	4,905
Unearned stock grant compensation	(101)	(57)
Retained earnings	5,005	4,249
Deferred compensation obligation	12	12

Accumulated other comprehensive income	552	734
Ordinary Shares issued to employee trust	(12)	(12)
Total shareholders’ equity	10,499	9,845
Total liabilities and shareholders’ equity	$ 58,123	$ 56,183

See accompanying notes to the interim consolidated financial statements

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ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the three and six months ended June 30, 2005 and 2004
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars, except per share data)			
Revenues				
Gross premiums written	$ 4,213	$ 4,042	$ 8,756	$ 8,460
Reinsurance premiums ceded	(1,304)	(1,181)	(2,481)	(2,379)
Net premiums written	2,909	2,861	6,275	6,081
Change in unearned premiums	12	(79)	(477)	(711)
Net premiums earned	2,921	2,782	5,798	5,370
Net investment income	305	243	590	485
Net realized gains (losses)	32	42	18	99
Total revenues	3,258	3,067	6,406	5,954
Expenses				
Losses and loss expenses	1,844	1,726	3,633	3,255
Life and annuity benefits	37	44	72	86
Policy acquisition costs	429	396	817	761
Administrative expenses	316	304	652	622
Interest expense	43	46	85	90
Other (income) expense	(6)	(1)	(11)	16
Total expenses	2,663	2,515	5,248	4,830
Income before income tax	595	552	1,158	1,124
Income tax expense	128	129	254	253
Net income	$ 467	$ 423	$ 904	$ 871
Other comprehensive income				
Net unrealized appreciation (depreciation) on investments				
Unrealized appreciation (depreciation) arising during the period	247	(634)	(54)	(392)
Reclassification adjustment for net realized (gains) losses included in net income	(56)	(83)	(104)	(144)
Amortization of net unrealized (gains) losses related to transferred securities	(2)	—	(2)	—
	189	(717)	(160)	(536)
Cumulative translation adjustments	(68)	(24)	(79)	(22)
Minimum pension liability	4	1	6	—
Other comprehensive income (loss), before income tax	125	(740)	(233)	(558)
Income tax benefit (expense) related to other comprehensive income items	(21)	180	51	138
Other comprehensive income (loss)	104	(560)	(182)	(420)
Comprehensive income (loss)	$ 571	$ (137)	$ 722	$ 451
Basic earnings per share	$ 1.61	$ 1.47	$ 3.11	$ 3.04
Diluted earnings per share	$ 1.58	$ 1.44	$ 3.06	$ 2.98

See accompanying notes to the interim consolidated financial statements

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ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the six months ended June 30, 2005 and 2004
(Unaudited)

	2005	2004 (Restated)
	(in millions of U.S. dollars)	
Preferred Shares		
Balance – beginning and end of period	$ 2	$ 2
Ordinary Shares		
Balance – beginning and end of period	12	12
Additional paid-in capital		
Balance – beginning of period	4,905	4,767
Net shares issued under employee stock-based compensation plans	60	45
Exercise of stock options	60	61
Ordinary Shares issued under Employee Stock Purchase Plan	4	4
Other	—	6
Balance – end of period	5,029	4,883
Unearned stock grant compensation		
Balance – beginning of period	(57)	(45)
Net issuance of restricted stock under employee stock-based compensation plans	(72)	(57)
Amortization	28	18
Balance – end of period	(101)	(84)
Retained earnings		
Balance – beginning of period	4,249	3,374
Net income	904	871
Dividends declared on Ordinary Shares	(126)	(113)
Dividends declared on Preferred Shares	(22)	(22)
Balance – end of period	5,005	4,110
Deferred compensation obligation		
Balance – beginning of period	12	17
Increase (decrease) to obligation	—	(5)
Balance – end of period	$ 12	$ 12

See accompanying notes to the interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (cont'd)
For the six months ended June 30, 2005 and 2004
(Unaudited)

	2005	2004 (Restated)
	(in millions of U.S. dollars)	
Accumulated other comprehensive income		
Net unrealized appreciation (depreciation) on investments		
Balance – beginning of period	$ 634	$ 684
Change in period	(160)	(536)
Income tax benefit	25	122
Balance – end of period	499	270
Minimum pension liability		
Balance – beginning of period	(64)	(36)
Change in period	6	—
Income tax expense	(1)	—
Balance – end of period	(59)	(36)
Cumulative translation adjustment		
Balance – beginning of period	164	65
Change in period	(79)	(22)
Income tax benefit	27	16
Balance – end of period	112	59
Accumulated other comprehensive income	552	293
Ordinary Shares issued to employee trust		
Balance – beginning of period	(12)	(17)
(Increase) decrease in Ordinary Shares	—	5
Balance – end of period	(12)	(12)
Total shareholders' equity	$ 10,499	$ 9,216

See accompanying notes to the interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2005 and 2004
(Unaudited)

	2005	2004 (Restated)
	(in millions of U.S. dollars)	
Cash flows from operating activities		
Net income	$ 904	$ 871
Adjustments to reconcile net income to net cash flows from operating activities:		
Net realized (gains) losses	(18)	(99)
Amortization of premium/discounts on fixed maturities	54	54
Deferred income taxes	90	147
Unpaid losses and loss expenses	1,465	1,556
Unearned premiums	584	1,025
Future policy benefits for life and annuity contracts	8	13
Insurance and reinsurance balances payable	120	465
Accounts payable, accrued expenses and other liabilities	(52)	14
Insurance and reinsurance balances receivable	(551)	(768)
Reinsurance recoverable	(259)	(458)
Deferred policy acquisition costs	(59)	(149)
Prepaid reinsurance premiums	(110)	(289)
Funds withheld, net	32	(94)
Value of reinsurance business assumed	4	25
Other	94	(49)
Net cash flows from operating activities	2,306	2,264
Cash flows used for investing activities		
Purchases of fixed maturities available for sale	(14,219)	(13,712)
Purchases of equity securities	(343)	(821)
Sales of fixed maturities available for sale	12,261	10,614
Sales of equity securities	212	441
Maturities of fixed maturities held to maturity	73	—
Net proceeds from (payments made on) the settlement of investment derivatives	(43)	15
Sale of subsidiary (net of cash sold of $82 million)	—	953
Other	3	(94)
Net cash flows used for investing activities	(2,056)	(2,604)
Cash flows from (used for) financing activities		
Dividends paid on Ordinary Shares	(120)	(107)
Dividends paid on Preferred Shares	(22)	(22)
Net proceeds from issuance of long-term debt	—	500
Net proceeds from short-term debt	1	—
Proceeds from exercise of options for Ordinary Shares	60	61
Proceeds from Ordinary Shares issued under ESPP	4	4
Net cash flows from (used for) financing activities	(77)	436
Effect of foreign currency rate changes on cash and cash equivalents	(20)	5
Net increase in cash	153	101
Cash – beginning of period	498	559
Cash – end of period	$ 651	$ 660

See accompanying notes to the interim consolidated financial statements

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ACE LIMITED AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

ACE Limited (ACE or the Company) is a holding company incorporated with limited liability under the Cayman Islands Companies Law and maintains its business office in Bermuda. The Company, through its various subsidiaries, provides a broad range of insurance and reinsurance products to insureds worldwide. ACE operates through four business segments: Insurance – North American, Insurance – Overseas General, Global Reinsurance and Financial Services. These segments are described in Note 14.

The interim unaudited consolidated financial statements, which include the accounts of the Company and its subsidiaries, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and, in the opinion of management, reflect all adjustments (consisting of normally recurring accruals) necessary for a fair presentation of results for such periods. All significant intercompany accounts and transactions have been eliminated. Certain items in the prior year financial statements have been reclassified to conform to the current year presentation. The results of operations and cash flows for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the consolidated financial statements, and related notes thereto, included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2004.

On April 28, 2004, the Company sold 65.3 percent of its financial and mortgage guaranty reinsurance and insurance businesses through the initial public offering (IPO) of 49 million common shares of Assured Guaranty Ltd. (Assured Guaranty). Subsequent to the completion of the IPO, the Company beneficially owns 26 million common shares or 34.7 percent of Assured Guaranty's outstanding common shares and, accordingly, no longer consolidates its interest in the Assured Guaranty companies. The retained interest is accounted for using the equity method of accounting with the Company's carrying value of its investment reflected in "Investments in partially-owned insurance companies" within the consolidated balance sheet and the proportionate share of earnings reflected in "Other (income) expense" within the consolidated statement of operations.

ACE has restated its financial statements for the years ended December 31, 2004, 2003, 2002, 2001, and 2000, each of the quarters in the years 2003 and 2004, and the quarter ended March 31, 2005. The primary purpose of the restatement is to correct the accounting treatment for eight finite risk transactions. ACE has also included in the restatement correction of certain unrelated errors, previously identified but considered to be of an immaterial nature. For additional information see Note 15 to the accompanying Consolidated Financial Statements and our Annual Report on Form 10-K/A for the year ended December 31, 2004 (Note 3 to the Consolidated Financial Statements) for a discussion of the restatement and a reconciliation of previously reported amounts to the restated amounts. All amounts included herein for the prior periods have been adjusted to reflect the restatement.

2. Significant accounting policies

a) Investments

Securities classified as held to maturity are securities that the Company has the ability and intent to hold to maturity or redemption and are carried at amortized cost less declines in value that are deemed other than temporary. Changes in the market value of the held to maturity securities, except for declines that are other than temporary, are not reflected in the Company's financial statements. All other debt and equity securities are classified as available for sale and are carried at fair value. Transfers of securities to the held to maturity portfolio are recorded at fair value at the date of transfer. The unrealized appreciation (depreciation) for securities transferred from available for sale to held to maturity are included in accumulated other comprehensive income or loss and amortized into earnings over the remaining life of the security as an adjustment to yield in a manner consistent with the amortization or accretion of premium or discount on the associated security.

b) Stock-based compensation

The Company accounts for stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). No compensation expense for stock options is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant.

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ACE LIMITED AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table outlines the Company's net income available to holders of Ordinary Shares and diluted earnings per share for the periods indicated had the compensation cost been determined in accordance with the fair value method recommended in Statement of Financial Accounting Standards (FAS) No. 123, "Accounting for Stock-Based Compensation" (FAS 123).

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars, except per share data)			
Net income available to holders of Ordinary Shares:				
As reported	$ 456	$ 412	$ 882	$ 849
Add: Stock-based compensation expense included in reported net income, net of income tax	13	14	22	24
Deduct: Compensation expense, net of income tax	17	21	29	42
Pro forma	$ 452	$ 405	$ 875	$ 831
Basic earnings per share:				
As reported	$ 1.61	$ 1.47	$3.11	$ 3.04
Pro forma	$ 1.59	$ 1.45	$3.08	$ 2.97
Diluted earnings per share:				
As reported	$ 1.58	$ 1.44	$3.06	$ 2.98
Pro forma	$ 1.57	$ 1.42	$3.04	$ 2.92

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 for the periods indicated:

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Dividend yield	2.07%	1.75%	1.89%	1.75%
Expected volatility	22.36%	27.09%	22.36%	26.77%
Risk free interest rate	3.49%	3.23%	3.88%	2.73%
Forfeiture rate	5%	5%	5%	5%
Expected life	4 years	5 years	4 years	4 years

c) New accounting pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued FAS 123R "Share-Based Payment – a revision of FAS 123" that supersedes APB 25, Accounting for Stock Issued to Employees. This statement requires all companies to measure and record compensation cost for all share-based payment awards (including employee stock options) at grant-date fair value. In accordance with APB 25, the Company has not recognized compensation expense for employee stock options in net income because the exercise price equaled the market value of the underlying common stock on the grant date. In addition, the Company has not recognized expenses related to its employee stock purchase plan. Upon adopting FAS 123R, the Company will be required to expense employee stock options and its employee stock purchase plan. On April 14, 2005, the SEC delayed the required effective date of FAS 123R for public companies. FAS 123R is now effective for public companies for annual, rather than interim, periods that begin after June 15, 2005. Accordingly, the Company has decided to delay its adoption of FAS 123R to January 1, 2006.

In adopting FAS 123R, the Company will apply the modified-prospective transition method. Under this method, the Company will recognize compensation costs for all share-based payments granted, modified, or settled after January 1, 2006, as well as for any awards that were granted prior to January 1, 2006 for which the requisite service has not been provided as of January 1, 2006 (i.e., unvested awards). Unvested awards are to be expensed consistent with the valuation used in previous disclosures of the pro forma effect of FAS 123. As described in Note 2(b) above, the Company uses the Black-Scholes option-pricing model to disclose the pro forma effect of FAS 123. With respect to awards granted after the adoption of FAS 123R, the Company is evaluating alternative models and assumptions to be used to determine the fair value of stock compensation. Accordingly, the ultimate amount of expense to be recognized in connection with the adoption of FAS 123R

ACE LIMITED AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

is dependent on the model and related assumptions used to determine the fair value of the options awarded as well as the actual number of employee stock options to be awarded in the future. Assuming the number of options granted for the period July 1, 2005 through December 31, 2006 is consistent with grants of the past two years, the Company estimates pre-tax stock compensation expense related to the adoption of FAS 123R will range from $18 million to $22 million for the year ended December 31, 2006.

3. Investments

Gross unrealized loss

The following table summarizes, for all securities in an unrealized loss position at June 30, 2005, the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position.

	0 - 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in millions of U.S. dollars)					
U.S. Treasury and agency	$ 1,483	$ 6	$ 34	$ 2	$ 1,517	$ 8
Foreign	1,785	11	5	—	1,790	11
Corporate securities	5,456	35	17	—	5,473	35
Mortgage-backed securities	2,846	15	41	1	2,887	16
States, municipalities and political subdivisions	141	1	—	—	141	1
Total fixed maturities	11,711	68	97	3	11,808	71
Equities	639	21	—	—	639	21
Other investments	19	1	—	—	19	1
Total	$ 12,369	$ 90	$ 97	$ 3	$ 12,466	$ 93

4. Goodwill

All goodwill recognized in the Company's consolidated balance sheet is assigned to one or more reporting units and each unit is tested for impairment annually. During the first quarter of 2005, the Company completed the sale of a wholly-owned service company which, at the time of the sale, was carrying goodwill of $4 million on their financial statements. In addition, goodwill increased by $7 million during the quarter ended June 30, 2005 due to the acquisition of the remaining 49 percent minority interest in a company which is now owned 100 percent by the Company. The following table details the movement in goodwill by segment for the six months ended June 30, 2005.

	Insurance – North American	Insurance – Overseas General	Global Reinsurance	ACE Consolidated
	(in millions of U.S. dollars)			
Goodwill at beginning of period (Restated)	$ 1,172	$ 1,163	$ 365	$ 2,700
Sale of subsidiary	(4)	—	—	(4)
Purchase of subsidiary	—	7	—	7
Goodwill at end of period	$ 1,168	$ 1,170	$ 365	$ 2,703

5. Unpaid losses and loss expenses

Property and casualty

The Company establishes reserves for the estimated unpaid ultimate liability for losses and loss expenses under the terms of its policies and agreements. These reserves include estimates for both claims that have been reported and for IBNR, and include estimates of expenses associated with processing and settling these claims. The process of establishing reserves for

ACE LIMITED AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

property and casualty (P&C) claims can be complex and is subject to considerable variability as it requires the use of informed estimates and judgments. The Company's estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed, or as current laws change. The Company continually evaluates its estimates of reserves in light of developing information and in light of discussions and negotiations with its insureds. While the Company believes that its reserves for unpaid losses and loss expenses at June 30, 2005 are adequate, new information or trends may lead to future developments in ultimate losses and loss expenses significantly greater or less than the reserves provided. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable, and would be reflected in the Company's results of operations in the period in which the estimates are changed.

The reconciliation of unpaid losses and loss expenses for the periods indicated is as follows:

	Six Months Ended June 30	
	2005	**2004 (Restated)**
	(in millions of U.S. dollars)	
Gross unpaid losses and loss expenses at beginning of year	$ 31,483	$ 27,083
Reinsurance recoverable on unpaid losses	(13,966)	(12,408)
Net unpaid losses and loss expenses at beginning of year	17,517	14,675
Sale of Assured Guaranty	—	(374)
Total	17,517	14,301
Net losses and loss expenses incurred in respect of losses occurring in:		
Current year	3,584	3,256
Prior year	49	(1)
Total	3,633	3,255
Net losses and loss expenses paid in respect of losses occurring in:		
Current year	(594)	(436)
Prior year	(1,808)	(1,835)
Total	(2,402)	(2,271)
Foreign currency revaluation and other	(147)	(18)
Net unpaid losses and loss expenses at end of period	18,601	15,267
Reinsurance recoverable on unpaid losses	13,500	12,885
Gross unpaid losses and loss expenses at end of period	$ 32,101	$ 28,152

Net losses and loss expenses incurred were $3.6 billion and $3.3 billion for the period ended June 30, 2005 and 2004, respectively. Net losses and loss expenses incurred for the period ended June 30, 2005 and 2004 include $49 million of adverse prior period development and $1 million of favorable prior period development, respectively.

Our loss and loss expense ratio is also impacted by prior period development. Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves first reported in previous calendar years and excludes the effect of losses from the development of earned premium from previous accident years. For purposes of analysis and disclosure, management views prior period development to be changes in the nominal value of loss estimates from period to period and excludes changes in loss estimates that do not arise from the emergence of claims, such as those related to uncollectible reinsurance, interest, or foreign currency. Accordingly, specific items excluded from prior period development include the following: gains/losses related to foreign currency translation that affect both the valuation of unpaid losses and loss expenses and losses incurred; losses recognized from the early termination or commutation of reinsurance agreements that principally relate to the time value of money; changes in the value of reinsurance business

ACE LIMITED AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

assumed reflected in losses incurred but principally related to the time value of money and losses that arise from changes in estimates of earned premiums from prior accident years. We experienced net adverse prior period development of $49 million and net favorable development of $1 million in the six months ended June 30, 2005 and 2004, respectively.

Insurance – North American incurred net adverse prior period development of $73 million and $57 million in the six months ended June 30, 2005 and 2004, respectively. The net prior period development for the six months ended June 30, 2005, was the net result of several underlying favorable and adverse movements, the most significant of which were:

- Favorable development of $61 million on lines with short-tail exposures (property, inland marine and crop hail) identified as part of our standard quarterly reserving process and arose from the better than expected emergence of actual claims relative to expectations used to establish reserves, principally related to the 2004 accident year, and to a lesser extent the 2003 accident year.
- Adverse development of $103 million on certain sub-portfolios of long-tail business, written principally during accident years 1998-2002 in our U.S. operations. In particular;
  - Excess general liability business written on major account portfolio ($38 million across accident years 1998-2001);
  - Run-off association captive assumed reinsurance business ($13 million in accident years 2001 and prior);
  - Run-off program business written with aggregate excess workers' compensation exposure ($17 million in accident years 2000-2002);
  - Voluntary and involuntary assumed business, comprising mostly workers' compensation, and including pool participations ($35 million in accident years 2004 and prior).

  The development followed completion of reserve studies that reflected higher than anticipated actual loss experience compared with the expected assumptions used to establish reserves. In the instance of the excess general liability business, the development arose following the completion of a detailed claims review that identified the need for significant case reserve changes on a small number of accounts.
- Adverse development of $15 million in the ACE Bermuda excess D&O liability book in accident year 2001 following a claims and legal review of information received during the current quarter on several previously notified claims.
- Adverse development of $19 million impacting the 2002 and 2001 accident years relating to changes in the legal and claim positions on an account that provided financial guarantee insurance to a now bankrupt facility that ran leasing pools.

The net prior period development for the six months ended June 30, 2004, was the net result of several underlying favorable and adverse movements. The adverse development was primarily driven by larger than expected future settlements on several excess D&O liability policies at ACE Bermuda, and higher than anticipated actual loss emergence on aviation and auto residual lines and in our run-off operations. This adverse development was partially offset by favorable development on short-tail lines of business including property, satellite, political risk business, technical lines, energy and crop hail.

Insurance – Overseas General incurred net favorable prior period development of $14 million and $25 million in the six months ended June 30, 2005 and 2004, respectively. The net prior period development for the six months ended June 30, 2005, was the net result of several underlying favorable and adverse movements, the most significant of which were:

- Favorable development of $69 million on short-tail property, marine, accident & health, technical and energy lines identified as part of our standard quarterly reserving process and arose from the better than expected emergence of actual claims relative to expectations used to establish the reserves, principally related to the 2004 accident year, and to a lesser extent the 2003 accident year.

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- Adverse development of $41 million on ACE's share of a consortium that reinsured U.S. workers compensation business across the 1995-1999 underwriting years. The adverse development arose following the completion in the quarter of a financial and actuarial review of updated bordereaux information received from the client.
- Adverse development of $9 million on professional indemnity and financial lines principally related to accident years 2002 and prior arose following the completion in the current quarter of a claims and actuarial review that reviewed updated claims information relative to the assumptions used to establish reserves.
- Adverse development of $7 million on discontinued lines arising from re-evaluation of ceded reinsurance on an individual claim on the 2000 accident year.

The net prior period development for the six months ended June 30, 2004, was the net result of several underlying favorable and adverse movements. The favorable development in 2004 was primarily related to property catastrophe and casualty lines and to a lesser extent, fire, technical, and energy lines in the U.K. and Europe. This was partially offset by adverse claim development on U.S. International casualty business and to a lesser extent in other casualty lines in the U.K. and Europe as well as marine and aviation business.

Global Reinsurance incurred net favorable prior period development of $3 million and $26 million in the six months ended June 30, 2005 and 2004, respectively. The net prior period development for the six months ended June 30, 2005, was the net result of several offsetting favorable and adverse movements on reserves established following catastrophe events for property and property catastrophe lines of business. These movements were identified as part of our standard quarterly reserving process and included $24 million of adverse prior period development on the third quarter 2004 storms principally related to increased loss estimates on certain previously reported claims and $20 million of miscellaneous favorable development on accident years 2004 and prior. The net prior period development for the six months ended June 30, 2004 related primarily to property, property catastrophe and other short-tail lines.

Financial services incurred net favorable prior period development of $7 million in each of the six months ended June 30, 2005 and 2004, respectively. The net prior period development for the six months ended June 30, 2005, was the net result of several underlying modest favorable and adverse movements but primarily related to a significant reduction of outstanding balances on a securitized portfolio of credit card receivables following an analysis of recent collection experience. The net prior period development for the six months ended June 30, 2004, related primarily to favorable development on a high excess of loss assumed multi-year contract and loss portfolio business, partially offset by adverse development on two assumed reinsurance contracts and on credit business.

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6. Reinsurance

a) Consolidated reinsurance

The Company purchases reinsurance to manage various exposures including catastrophe 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 premiums for the periods indicated are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2005	**2004 (Restated)**	**2005**	**2004 (Restated)**
	(in millions of U.S. dollars)			
Premiums written				
Direct	$ 3,546	$ 3,352	$ 6,868	$ 6,744
Assumed	667	690	1,888	1,716
Ceded	(1,304)	(1,181)	(2,481)	(2,379)
Net	$ 2,909	$ 2,861	$ 6,275	$ 6,081
Premiums earned				
Direct	$ 3,517	$ 3,210	$ 6,476	$ 6,260
Assumed	699	637	1,658	1,220
Ceded	(1,295)	(1,065)	(2,336)	(2,110)
Net	$ 2,921	$ 2,782	$ 5,798	$ 5,370

b) Reinsurance recoverable on ceded reinsurance

The composition of the Company's reinsurance recoverable at June 30, 2005 and December 31, 2004, is as follows:

	June 30 2005	December 31 2004 (Restated)
	(in millions of U.S. dollars)	
Reinsurance recoverable on paid losses and loss expenses	$ 1,215	$ 1,210
Bad debt reserve on paid losses and loss expenses	(300)	(309)
Reinsurance recoverable on future policy benefits	13	15
Reinsurance recoverable on unpaid losses and loss expenses	14,119	14,585
Bad debt reserve on unpaid losses and loss expenses	(619)	(619)
Net reinsurance recoverable	$14,428	$ 14,882

The Company evaluates the financial condition of its reinsurers and potential reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. The provision for uncollectible reinsurance is required principally due to the failure of reinsurers to indemnify ACE, primarily because of disputes under reinsurance contracts and insolvencies. Provisions have been established for amounts estimated to be uncollectible.

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Following is a breakdown of the Company's reinsurance recoverable on paid losses at June 30, 2005 and December 31, 2004.

Category	June 30, 2005			December 31, 2004 (Restated)		
	Amount	Bad Debt Reserve	% of Total Reserve	Amount	Bad Debt Reserve	% of Total Reserve
	(in millions of U.S. dollars)					
General collections	$ 719	$ 29	4.0%	$ 716	$ 37	5.2%
Other	496	271	54.6%	494	272	55.1%
Total	$ 1,215	$ 300	24.7%	$ 1,210	$ 309	25.5%

General collections balances represent amounts in the process of collection in the normal course of business for which the Company has no indication of dispute or credit-related issues.

The other category includes amounts recoverable that are in dispute or are from companies who are in supervision, rehabilitation or liquidation for the Brandywine Group and active operations. The Company's estimation of this reserve considers the merits of the underlying matter, the credit quality of the reinsurer and whether the Company has received collateral or other credit protections such as parental guarantees.

c) Reinsurance programs involving minimum benefit guarantees under annuity contracts

The Company reinsures various death and living benefit guarantees associated with variable annuities issued primarily in the United States. Each reinsurance treaty covers variable annuities written during a limited period, typically not exceeding two years. The Company generally receives a monthly premium during the accumulation phase of the covered annuities (in-force) based on a percentage of the underlying accumulated account values. Depending on an annuitant's age, the accumulation phase can last many years. To limit the Company's exposure under these programs, all reinsurance treaties include aggregate claim limits and many include an aggregate deductible.

The guarantees which are payable on death, referred to as guaranteed minimum death benefits (GMDBs), principally cover shortfalls between accumulated account value at the time of an annuitant's death and either i) an annuitant's total deposits; ii) an annuitant's total deposits plus a minimum annual return; or iii) the highest accumulated account value attained during any policy anniversary date. In addition, a death benefit may be based on a formula specified in the variable annuity contract that uses a percentage of the growth of the underlying contract value. Reinsurance programs covering GMDBs are accounted for pursuant to Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" (SOP 03-1).

Under reinsurance programs covering living benefit guarantees, the Company assumes the risk of guaranteed minimum income benefits (GMIBs) associated with variable annuity contracts. The GMIB risk is triggered if, at the time the contract holder elects to convert the accumulated account value to a periodic payment stream (annuitize), the accumulated account value is not sufficient to provide a guaranteed minimum level of monthly income. The Company's GMIB reinsurance product meets the definition of a derivative for accounting purposes and is therefore carried at fair value with changes in fair value recognized in income in the period of the change pursuant to FAS 133 and classified as described below. As the assuming entity, the Company is obligated to provide coverage until the expiration of the underlying annuities. Premiums received under the reinsurance treaties are classified as premium. Expected losses allocated to premiums received are classified as life and annuity benefits and valued pursuant to SOP 03-1, similar to GMDB reinsurance. Other changes in fair value, principally arising from changes in expected losses allocated to expected future premiums, are classified as realized gains (losses). As fair value generally represents the cost to exit a business and thus includes a risk margin, the Company may recognize a loss for other changes in fair value during a given period due to adverse changes in the capital markets (e.g., declining interest rates and/or declining equity markets) even when the Company continues to expect the business to be profitable. Management believes this presentation provides the most meaningful disclosure of changes in the underlying risk within the GMIB reinsurance programs for a given reporting period.

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The presentation of income and expenses relating to GMDB and GMIB reinsurance for the periods indicated are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
	(in millions of U.S. dollars)			
GMDB				
Net premiums earned	$ 16	$ 10	$ 34	$ 20
Life and annuity benefits expense	$ 12	$ 4	$ 20	$ 8
GMIB				
Net premiums earned	$ 21	$ 16	$ 42	$ 29
Life and annuity benefits expense	—	$ 5	$ 2	$ 10
Realized gains (losses)	$ 27	$ 15	$ 6	$ (10)

At June 30, 2005, reported liabilities for GMDB and GMIB reinsurance were $48 million and $25 million, respectively, compared with $31 million and $29 million, respectively, at December 31, 2004. Reported liabilities for both GMDB and GMIB reinsurance are determined using internal valuation models. Such valuations require considerable judgment and are subject to significant uncertainty. The valuation of these products is subject to fluctuations arising from, among other factors, changes in interest rates, changes in the equity markets, and changes in the allocation of the investments underlying annuitant's account value. These models and the related assumptions are continually reviewed by management and enhanced, as appropriate, based upon improvements in modeling techniques and availability of more timely information, such as market conditions and demographics of in-force annuities.

At June 30, 2005, the Company's net amount at risk from its GMDB and GMIB reinsurance programs was $403 million and $22 million, respectively. For the GMDB programs, the net amount at risk is defined as the excess, if any, of the current guaranteed value over the current account value. For the GMIB programs, the net amount at risk is defined as the excess, if any, of the present value of the minimum guaranteed annuity payments over the present value of the annuity payments assumed (under the terms of the reinsurance contract) to be available to each policyholder.

7. Commitments, contingencies and guarantees

a) Other investments

The Company invests in limited partnerships with a carrying value of $113 million included in other investments. In connection with these investments, the Company has commitments that may require funding of up to $173 million over the next several years.

b) Credit facilities

On July 1, 2005, the Company replaced two letter of credit facilities which in aggregate permitted up to $1.35 billion of LOCs with two new letter of credit facilities permitting up to $1.5 billion of LOCs. During the quarter ended June 30, 2005, the Company reduced the facility used to fulfill the requirements of Lloyd's for open years of account, from £380 million to £284 million.

c) Legal proceedings

(i) Claims and Other Litigation

The Company's insurance subsidiaries are subject to claims litigation involving disputed interpretations of policy coverages and, in some jurisdictions, direct actions by allegedly-injured persons seeking damages from policyholders. These lawsuits, involving claims on policies issued by the Company's subsidiaries which are typical to the insurance industry in general and in the normal course of business, are considered in the Company's loss and loss expense reserves which are discussed in the P&C loss reserves discussion. In addition to claims litigation, the Company and its subsidiaries are subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance policies.

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This category of business litigation typically involves, inter alia, allegations of underwriting errors or misconduct, employment claims, regulatory activity or disputes arising from business ventures. In the opinion of ACE's management, ACE's ultimate liability for these matters is not likely to have a material adverse effect on ACE's consolidated financial condition, although it is possible that the effect could be material to ACE's consolidated results of operations for an individual reporting period.

(ii) Subpoenas

On October 14, 2004, the New York Attorney General (NYAG) filed a civil suit against Marsh & McLennan Companies Inc. (Marsh), alleging that certain Marsh business practices were fraudulent and violated antitrust and securities laws. ACE was not named as a defendant in the suit, although ACE was named as one of four insurance companies whose employees participated in the practices in question. There can be no assurance that ACE will not be named in future actions brought by the NYAG or any other state attorneys general. In addition, an underwriter who is no longer employed by ACE has pleaded guilty to a misdemeanor based on these practices. ACE is cooperating and will continue to cooperate with the attorneys general.

ACE, its subsidiaries and affiliates have received numerous subpoenas, interrogatories, and civil investigative demands in connection with the pending investigations of insurance industry practices. These inquiries have been issued by a number of attorneys general, state departments of insurance, and state and federal regulatory authorities, including the NYAG, the Pennsylvania Department of Insurance, and the Securities and Exchange Commission. These inquiries seek information concerning underwriting practices and non-traditional or loss mitigation insurance products. ACE is cooperating and will continue to cooperate with such inquiries.

ACE has been conducting its own investigation that encompassed the subjects raised by the NYAG, the other state attorneys general and the SEC. The investigation has been conducted by a team from the firm of Debevoise & Plimpton LLP. The team is headed by former United States Attorney Mary Jo White and has operated under the direction of the Audit Committee of the Board of Directors. The Audit Committee of the Board of Directors has retained Cleary Gottlieb Steen & Hamilton, special outside counsel, to advise it in connection with these matters. ACE has terminated three employees, one of whom has pleaded guilty to a misdemeanor, and has suspended two other employees as a result of the internal investigation. ACE's internal investigations pertaining to underwriting practices and non-traditional or loss mitigation insurance products are essentially complete.

(iii) Business practice-related litigation

In January 2005, the Connecticut Attorney General (the CTAG) filed a civil suit against a subsidiary of ACE in Connecticut state court under the Connecticut Unfair Trade Practices Act. The CTAG's suit alleges that an ACE subsidiary made an unauthorized and undisclosed payment to a broker who placed a portfolio of state workers' compensation cases with ACE and seeks restitution to the state and payment of punitive damages. ACE believes that it has not violated any law or duty to the state and has filed a motion to dismiss the action. The State of Connecticut has not yet responded to the motion.

ACE, ACE INA Holdings, Inc. and ACE USA have been named in the following federal putative nationwide class actions brought by insurance policyholders. *Bayou Steel Corporation v. ACE INA Holdings, et al.* (Case No. 04 CV 5391 E.D. Pa) (filed November 18, 2004); *Eagle Creek, Inc. v. ACE INA Holdings, et al.* (Case No. 04 CV 5255; E.D. Pa.) (filed November 10, 2004); *Stephen Lewis vs. Marsh & McLennan Companies, Inc., et al.* (Case No. 04 CV 7847; N.D. Ill.) (filed December 6, 2004); *Opticare Health Systems, Inc. v. Marsh & McLennan Companies, Inc., et al.* (Case No. 04 CV 06954; S.D.N.Y.) (filed October 19, 2004); *Diane Preuss v. Marsh & McLennan Companies, et al.* (Case No. 04 CV 78553; N.D. Ill.) (filed December 6, 2004); *Redwood Oil Company v. Marsh & McLennan Companies, Inc.* (Case No. 05 C 0390; N.D. Ill.) (filed January 21, 2005, dismissed voluntarily by plaintiff); *Shell Vacations LLC v. Marsh & McLennan Companies, Inc., et al.* (Case No. 05 C 0270; N.D. Ill.) (filed January 14, 2005); *Edward Macuish v. Marsh & McLennan Companies, Inc., et al.* (Case No. 2005 CV 00440; N.D. Ill.) (filed January 25, 2005 and later dismissed); *Edward Macuish v. Marsh & McLennan Companies, Inc., et al.* (Case No. 2005 CV 00440; D. N.J.) (filed March 21, 2005); *David Boros v. Marsh & McLennan Companies, Inc., et al.* (Case No. C050543EDL; N.D. Calf.) (filed February 4, 2005), *Robert Mulcahy v. Arthur J. Gallagher & Co., et al.* (Case No. 2005 CV 01064; D. N.J.) (filed February 23, 2005); *Golden Gate Bridge, Highway and Transportation District vs. Marsh & McLennan Companies, Inc., et.al.* (Case No. 05-1214, D. N.J.) filed February 23, 2005); *The Prococcianti Group vs. Marsh & McLennan Companies, Inc., et. al.* (Case No. 05-1368, D. N.J.) (filed March 7, 2005); *Palm Tree Computers Systems, Inc. et al. v. ACE USA et al* .(Case No. 6:05-cv-418-ACC-JGG)(filed February 16, 2005) (Case originally filed in the Eighteenth Judicial Circuit in and for Seminole County, Florida. AIG and The Hartford removed case. Motion to remand pending); *Cellect LLC et al. v. Marsh & McLennan Companies, Inc. et al.* (Case No. 05-2255; D. N.J.) (filed April 27, 2005); *New England Regional Council of Carpenters et al. v. Marsh & McLennan Companies, Inc.*

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(Case No. 05-2256; D. N.J.) (filed April 27, 2005); *Bensley Construction, Inc. et al. v. Marsh & McLennan Companies, Inc.* (Case No. 2005-00277; D. Mass.) (filed May 20, 2005) (Case removed from state court. Motion to remand is pending). In each of these cases, the plaintiff has sued a number of other insurance entities in addition to the ACE entities. The Judicial Panel on Multidistrict Litigation (JPML) consolidated these cases, as well as other putative class actions in which no ACE entity is named as a party in the District of New Jersey.

On August 1, 2005, Plaintiffs filed two consolidated amended complaints – one concerning commercial insurance and the other concerning employee benefit plans.

- In the commercial insurance complaint, the plaintiffs named ACE Limited, ACE INA Holdings, Inc., ACE USA, Inc., ACE American Insurance Co., Illinois Union Insurance Co., and Indemnity Insurance Co. of North America. They allege that insurers, including certain ACE entities, and brokers conspired to increase premiums and allocate customers through the use of "B" quotes and contingent commissions. In addition, the complaints allege that the broker defendants received additional income by improperly placing their clients' business with insurers through related wholesale entities that act as intermediaries between the broker and insurer. Plaintiffs also allege that broker defendants tied the purchase of primary insurance with the placement of such coverage with reinsurance carriers through the broker defendants' reinsurance broker subsidiaries. In the commercial insurance consolidated complaint, plaintiffs assert the following causes of action against ACE: Federal Racketeer Influenced and Corrupt Organization Act (RICO), federal antitrust law, state antitrust law, aiding and abetting breach of fiduciary duty, and unjust enrichment.
- In the employee benefits complaint, the plaintiffs named ACE Limited, ACE USA, and Insurance Company of North America. They allege that insurers, including certain ACE entities, and brokers conspired to increase premiums and allocate customers through the use of "B" quotes and contingent commissions. In addition, the complaints allege that the broker defendants received additional income by improperly placing their clients' business with insurers through related wholesale entities that act as intermediaries between the broker and insurer. Plaintiffs also allege that defendants improperly charged communication fees, which plaintiffs claim are also known as "enrollment fees" or "service/administrative fees". Plaintiffs also allege that insurers transferred their insureds' business, with who they had direct contracts with and no broker involvement, to insurance brokers in exchange for the insurance brokers steering additional business to the insurers. Plaintiffs also allege that broker defendants tied the purchase of primary insurance with the placement of such coverage with reinsurance carriers through the broker defendants' reinsurance broker subsidiaries. In the employee benefits consolidated complaint, plaintiffs assert the following causes of action against ACE: Federal Racketeer Influenced and Corrupt Organization Act (RICO), federal antitrust law, state antitrust law, Employee Retirement Income Security Act (ERISA), aiding and abetting breach of fiduciary duty, and unjust enrichment.

In both cases, the plaintiffs have sought unspecified compensatory damages and reimbursement of expenses, including legal fees.

Illinois Union Insurance Company, an ACE subsidiary, has been named in a state court class action: *Van Emden Management Corporation v. Marsh & McLennan Companies, Inc., et al.* (Case No. 05-0066A; Superior Court of Massachusetts) (filed January 13, 2005). The allegations are similar to the allegations in the federal class actions identified above. Plaintiffs assert causes of action under Massachusetts' antitrust statute and Massachusetts' consumer protection statute. Plaintiffs also assert a conspiracy cause of action and seek an injunction. Plaintiffs have sought unspecified compensatory damages and reimbursement of expenses, including legal fees.

ACE American Insurance Co., an ACE subsidiary, has been named in a state court lawsuit in Florida: *Office Depot, Inc. v. Marsh & McLennan Companies, Inc. et al.* (Case No. 502005CA004396; Circuit Court of the 15th Judicial Circuit in Palm Beach County Florida) (filed June 22, 2005). The allegations are similar to the allegations in the federal class actions identified above. Plaintiffs assert the following causes of action against ACE American Insurance Co.: conspiracy and concerted action to aid and abet Marsh's breaches of fiduciary duties, conspiracy and concerted action to aid and abet Marsh's fraud, antitrust violation under Florida law, deceptive and unfair trade practices, unjust enrichment, civil RICO under Florida law, commercial bribery, and punitive damages. Plaintiff has sought unspecified compensatory damages and reimbursement of expenses, including legal fees.

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ACE has been named in the following four putative securities class action suits: *John Mahaney, Jr. v. ACE Limited, et al.* (Case No. 04 CV 07696; S.D.N.Y) (filed October 18, 2004); *Steven Burda v. ACE Limited, et al.* ; (Case No. 04 CV 833; S.D.N.Y.) (filed October 21, 2004); *Thomas E. Barton v. ACE Limited, et al.* ; (Case No. 04 CV 8683; S.D.N.Y.) (filed November 1, 2004); and *Friends of Ariel Center for Policy Research v. ACE Limited, et al.* (Case No. 04 CV 04907; E.D. Pa.) (filed October 19, 2004). Evan G. Greenberg, ACE's President and Chief Executive Officer, Brian Duperreault, ACE's Chairman and former Chief Executive Officer, and Philip V. Bancroft, ACE's Chief Financial Officer were also named as defendants in each of these suits. In addition, Dominic J. Frederico, ACE's former Vice Chairman and former President and Chief Operating Officer, and Christopher Z. Marshall, ACE's former Chief Financial Officer, were named as defendants in the *Burda* action. On January 3, 2005, the *Burda* and *Barton* actions were consolidated for all purposes into the *Mahaney* action. In December 2004, the defendants filed a motion with the JPML seeking consolidation of the cases for pretrial purposes in the Eastern District of Pennsylvania. The JPML granted that motion, consolidating the four cases in the Eastern District of Pennsylvania. The lead plaintiff has not been chosen in the consolidated proceeding. Nor has a consolidated complaint been filed. In the four complaints, the plaintiffs assert claims solely under Section 10(b) of the Securities Exchange Act of 1934 (the Exchange Act), Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act (control person liability). The plaintiffs allege that ACE's public statements and securities filings should have revealed that insurers, including certain ACE entities and brokers conspired to increase premiums and allocate customers through the use of "B" quotes and contingent commissions and that ACE's revenue and earnings were inflated by premiums which it may have to forfeit by fines or judgments.

ACE understands that it has been named as a defendant in a derivative suit filed in Delaware Chancery Court by shareholders of Marsh. The derivative suit seeks to recover damages for Marsh and its subsidiary, Marsh, Inc., against officers and directors of Marsh, American International Group Inc. (AIG), AIG's chief executive officer, and ACE. The suit alleges that the defendants damaged Marsh and Marsh, Inc. by participating in a bid rigging scheme and obtaining "kickbacks" in the form of contingent commissions. The suit alleges that ACE knowingly participated in the officers' and directors' breaches of fiduciary duty to Marsh, Inc. and Marsh. The plaintiff has sought unspecified compensatory damages and reimbursement of expenses, including legal fees. ACE has not been served in this action, though no assurance can be given that it will not be served.

ACE Limited and Evan Greenberg, as a former officer and director of AIG, have been named in *In re American International Group, Inc. (AIG) Derivative Litigation* , which is a shareholder derivative action brought by AIG's shareholders. The allegations against ACE concern the alleged bid rigging and contingent commission scheme as similarly alleged in the federal policyholder cases. Plaintiffs assert the following causes of action against ACE: breach of fiduciary duty and aiding and abetting breaches of fiduciary duties.

All of these suits seek compensatory damages without specifying an amount. As a result, ACE cannot at this time estimate its potential costs related to these legal matters and accordingly no liability for compensatory damages has been established in the Consolidated Financial Statements. The six months ended June 30, 2005, includes approximately $34 million of investigation related legal expenses. Additionally, as of June 30, 2005, ACE has paid and accrued over $44 million for legal related fees since the investigation began.

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8. Debt

The following table outlines the Company's debt at June 30, 2005 and December 31, 2004.

	June 30 2005	December 31 2004
	(in millions of U.S. dollars)	
Short-term debt		
Reverse Repurchase Agreements	$ 147	$ 146
	147	146
Long-term debt		
ACE INA Notes due 2006	300	300
ACE Limited Senior Notes due 2007	500	500
ACE US Holdings Senior Notes due 2008	250	250
ACE INA Subordinated Notes due 2009	200	200
ACE INA Senior Notes due 2014	499	499
ACE INA Debentures due 2029	100	100
	1,849	1,849
Trust preferred securities		
ACE INA Trust Preferred Securities due 2029	103	103
ACE INA Capital Securities due 2030	309	309
	$ 412	$ 412

a) *Short-term debt*

The Company has commercial paper programs that use revolving credit facilities as back-up facilities and provide for up to $1.2 billion in commercial paper issuance (subject to the availability of back-up facilities, which currently total $600 million) for ACE and for ACE INA. During the second quarter of 2005, the Company reduced the commercial paper programs at ACE and ACE INA from $2.8 billion to $1.2 billion, to reflect the level of back-up facilities available. At June 30, 2005, short-term debt consisted of $147 million of amounts owed to brokers under securities repurchase transactions.

9. Employee benefit plans

a) Defined benefit plans

The Company maintains non-contributory defined benefit plans that cover certain foreign employees, principally located in Europe and Asia. The Company does not provide any such plans to U.S. based employees. Benefits under these plans are based on employees' years of service and compensation during final years of service. All underlying defined benefit plans are subject to periodic actuarial valuation by qualified local actuarial firms. The Company funds the plans at the amount required by local tax and legal requirements for sponsoring a defined benefit retirement plan. The accumulated benefit obligation is compared to plan assets, both as defined in FAS No. 87, "Employers' Accounting for Pensions", and any resulting deficiency is recorded as an additional minimum liability.

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The following table details the net periodic benefit costs recognized by component for the periods indicated.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
	(in millions of U.S. dollars)			
Components of net benefit cost				
Service cost	$ 2	$ 1	$ 4	$ 3
Interest cost	5	4	10	8
Expected return on plan assets	(4)	(3)	(7)	(7)
Amortization of net actuarial loss	2	2	3	3
Net benefit cost	$ 5	$ 4	$ 10	$ 7

b) Restricted stock awards

Under the Company's long-term incentive plans, 1,722,860 and 1,544,080 restricted Ordinary Shares were awarded during the six months ended June 30, 2005 and 2004, respectively, to officers of the Company and its subsidiaries. These shares vest at various dates through 2009. In addition, during the six months ended June 30, 2005 and 2004, respectively, 24,856 and 30,361 restricted ordinary units were awarded to outside directors under the terms of the 1995 outside Directors Plan. The units issued in 2004 vested during the current year while the 2005 issuances will vest in 2006.

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 income over the vesting period using the accelerated method.

10. Other (income) expense

The following table details the components of other (income) expense as reflected in the consolidated statements of operations for the periods indicated.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Equity in net income of partially- owned companies	$ (14)	$ (15)	$ (26)	$ (17)
Minority interest expense	7	6	13	12
Compensation expense relating to IPO	—	8	—	8
Goodwill impairment	—	—	—	13
Other	1	—	2	—
Other (income) expense	$ (6)	$ (1)	$ (11)	$ 16

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11. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars, except share and per share data)			
Numerator:				
Net income	$ 467	$ 423	$ 904	$ 871
Dividends on Preferred Shares	(11)	(11)	(22)	(22)
Net income available to holders of Ordinary Shares	$ 456	$ 412	$ 882	$ 849
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares outstanding	283,972,257	280,007,156	283,595,386	279,477,772
Effect of other dilutive securities	4,478,907	5,364,008	4,577,133	5,560,172
Denominator for diluted earnings per share:				
Adjusted weighted average shares outstanding and assumed conversions	288,451,164	285,371,164	288,172,519	285,037,944
Basic earnings per share	$ 1.61	$ 1.47	$ 3.11	$ 3.04
Diluted earnings per share	$ 1.58	$ 1.44	$ 3.06	$ 2.98

12. Taxation

Under current Cayman Islands' law, the Company is not required to pay any taxes in the Cayman Islands 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. Under current Bermuda law, the Company and its Bermuda subsidiaries are not required to pay any taxes in Bermuda on their 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.

Income from the Company's operations at Lloyd's is subject to United Kingdom corporation taxes. 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 U.K. domiciled companies, will receive U.K. corporation tax credits for any U.S. income tax incurred up to the value of the equivalent U.K. corporation income tax charge on the U.S. income.

ACE Prime Holdings and its respective subsidiaries are subject to income taxes imposed by U.S. authorities and file a consolidated U.S. tax return. Should ACE Prime Holdings pay a dividend to the Company, withholding taxes will apply. Currently, however, no withholding taxes are accrued with respect to such unremitted earnings as management has no intention of subjecting these earnings to withholding tax. The cumulative amount that would be subject to withholding tax if distributed, as well as the determination of the associated tax liability are not practicable to compute, however, such amount would be material to the Company. Certain international operations of the Company are also subject to income taxes imposed by the jurisdictions in which they operate.

The Company is not subject to taxation other than as stated above. There can be no assurance that there will not be changes in applicable laws, regulations or treaties, which might require the Company to change the way it operates or become subject to taxation.

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The income tax provision for the periods indicated is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Current tax expense	$ 108	$ 37	$ 172	$ 106
Deferred tax expense	20	92	82	147
Provision for income taxes	$ 128	$ 129	$ 254	$ 253

The weighted average expected tax provision has been calculated using pre-tax accounting income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. A reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate for the periods indicated is provided below.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Expected tax provision at weighted average rate	$ 142	$ 92	$ 273	$ 214
Permanent differences				
Tax-exempt interest	(1)	(2)	(3)	(7)
American Job Creation Act	(19)	—	(27)	—
Other	3	2	6	2
Sale of Assured Guaranty	—	35	—	35
Goodwill	—	—	—	4
Net withholding taxes	3	2	5	5
Total provision for income taxes	$ 128	$ 129	$ 254	$ 253

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The components of the net deferred tax asset for the periods indicated are as follows:

	June 30 2005	December 31 2004 (Restated)
	(in millions of U.S. dollars)	
Deferred tax assets		
Loss reserve discount	$ 601	$ 607
Unearned premium reserve	158	143
Foreign tax credits	532	432
Investments	131	127
Bad debts	174	171
Net operating loss carry-forward	81	228
Other, net	72	73
Total deferred tax assets	1,749	1,781
Deferred tax liabilities		
Deferred policy acquisition costs	134	132
Unrealized appreciation on investments	110	135
Unremitted foreign earnings	284	251
Total deferred tax liabilities	528	518
Valuation allowance	87	90
Net deferred tax asset	$ 1,134	$ 1,173

The valuation allowance of $87 million at June 30, 2005 and $90 million at December 31, 2004, reflects management's assessment, based on available information, that it is more likely than not that a portion of the deferred tax asset will not be realized due to the inability of certain foreign subsidiaries to generate sufficient taxable income or the inability to utilize foreign tax credits. Adjustments to the valuation allowances are made when there is a change in management's assessment of the amount of deferred tax asset that is realizable. The $3 million reduction in the valuation allowance during the period relates to the change in the excess of tax basis over financial reporting basis of a foreign subsidiary due to currency translation adjustments .

At June 30, 2005, the Company has net operating loss carryforwards for U.S. federal income tax purposes of approximately $231 million. The net operating loss carryforwards are available to offset future U.S. federal taxable income and, if unutilized, will expire in the year 2022. In addition, the Company has a foreign tax credit carryforward in the amount of $59 million which, if unutilized, will expire in the years 2011-2015. The Company has an alternative minimum tax credit carryforward of $30.8 million which can be carried forward indefinitely.

American Jobs Creation Act of 2004

On October 22, 2004, the American Jobs Creation Act (the Act) was signed into law by the President of the United States. The Act provides for the election of a special one-time tax deduction of 85 percent of certain foreign earnings that are repatriated (as defined in the Act) under a Domestic Reinvestment Plan to its United States parent corporation in either the parent's last tax year that began before the enactment date, or the first tax year that begins during the one-year period beginning on the date of enactment. The Company expects to apply the provisions of the Act to certain of its applicable subsidiaries.

In January 2005 and May 2005, the United States Treasury issued its guidance on selected provisions of the Act and on July 21, 2005, the Tax Technical Corrections Act of 2005 was introduced (H.R. 3376 and S. 1447). Guidance issued to date provides clarification on several technical issues, with the remaining issues addressed in the proposed Technical Corrections Act.

During the three and six months ended June 30, 2005, the Company repatriated foreign earnings of approximately $325 million and $367 million, respectively, subject to Domestic Reinvestment Plans that would qualify under the Act based on

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the guidance issued to date. Of the $367 million repatriated foreign earnings to date, approximately $250 million will qualify for preferential tax treatment. For the three and six months ended June 30, 2005, the tax benefit associated with these repatriations was $19 million and $27 million, respectively, and was a result of the reduction of the net deferred tax liability associated with these repatriated earnings, based on guidance issued to date. The tax benefit recorded in the quarter ended June 30, 2005 included the tax benefit associated with distributions in that quarter, as well as adjustments to the previously recorded tax benefits based on United States Treasury guidance issued in May 2005. The tax benefit recorded to date may increase by as much as approximately $7 million if the Tax Technical Corrections Act of 2005 is passed.

Additional earnings repatriations up to the limitation under the Act of $500 million may be completed through the remainder of 2005. Based on guidance issued to date, the Company is evaluating potential additional repatriations and is not in a position to complete the evaluation or determine the total associated tax impact as a result of the Act. However, based on its analysis to date, it is possible that the Company may ultimately repatriate up to an additional $250 million up to the limitation of qualifying dividends, with an associated tax benefit of up to $44 million. The Company expects to be in a position to finalize its assessment by September 2005.

13. Information provided in connection with outstanding debt of subsidiaries

The following tables present condensed consolidating financial information at June 30, 2005 and December 31, 2004 and for the three and six months ended June 30, 2005 and 2004, for ACE Limited (the “Parent Guarantor”) and its “Subsidiary Issuer”, ACE INA Holdings, Inc. The Subsidiary Issuer is an indirect wholly-owned subsidiary of the Parent Guarantor. Investments in subsidiaries are accounted for by the Parent Guarantor under the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are reflected in the Parent Guarantor’s investment accounts and earnings. The Parent Guarantor fully and unconditionally guarantees certain of the debt of the Subsidiary Issuer.

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Condensed Consolidating Balance Sheet at June 30, 2005
(in millions of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations [(1)]	Consolidating Adjustments [(2)]	ACE Limited Consolidated
Assets					
Investments	$ 57	$ 14,803	$ 13,911	$ —	$ 28,771
Cash	14	288	349	—	651
Insurance and reinsurance balances receivable	—	2,850	878	—	3,728
Reinsurance recoverable	—	13,618	810	—	14,428
Goodwill	—	2,221	482	—	2,703
Investments in subsidiaries	11,154	—	—	(11,154)	—
Other assets	11	5,439	2,392	—	7,842
Total assets	$ 11,236	$ 39,219	$ 18,822	$ (11,154)	$ 58,123
Liabilities					
Unpaid losses and loss expenses	$ —	$ 23,776	$ 8,325	$ —	$ 32,101
Unearned premiums	—	4,811	1,646	—	6,457
Future policy benefits for life and annuity contracts	—	—	517	—	517
Due (to) from subsidiaries and affiliates, net	18	(51)	51	(18)	—
Short-term debt	—	—	147	—	147
Long-term debt	500	1,099	250	—	1,849
Trust preferred securities	—	412	—	—	412
Other liabilities	219	4,270	1,652	—	6,141
Total liabilities	737	34,317	12,588	(18)	47,624
Total shareholders' equity	10,499	4,902	6,234	(11,136)	10,499
Total liabilities and shareholders' equity	$ 11,236	$ 39,219	$ 18,822	$ (11,154)	$ 58,123

(1) Includes all other subsidiaries of ACE Limited and intercompany eliminations.

(2) Includes ACE Limited parent company eliminations.

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Condensed Consolidating Balance Sheet at December 31, 2004
(in millions of U.S. dollars)
(Restated)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	Consolidating Adjustments (2)	ACE Limited Consolidated
Assets					
Investments	$ 82	$ 14,182	$ 12,661	$ —	$ 26,925
Cash	6	116	376	—	498
Insurance and reinsurance balances receivable	—	2,508	747	—	3,255
Reinsurance recoverable	—	13,780	1,102	—	14,882
Goodwill	—	2,213	487	—	2,700
Investments in subsidiaries	10,509	—	—	(10,509)	—
Other assets	36	5,360	2,527	—	7,923
Total assets	$ 10,633	$ 38,159	$ 17,900	$ (10,509)	$ 56,183
Liabilities					
Unpaid losses and loss expenses	$ —	$ 23,259	$ 8,224	$ —	$ 31,483
Unearned premiums	—	4,448	1,535	—	5,983
Future policy benefits for life and annuity contracts	—	—	509	—	509
Due to (from)subsidiaries and affiliates, net	124	164	(164)	(124)	—
Short-term debt	—	—	146	—	146
Long-term debt	500	1,099	250	—	1,849
Trust preferred securities	—	412	—	—	412
Other liabilities	164	4,308	1,484	—	5,956
Total liabilities	788	33,690	11,984	(124)	46,338
Total shareholders’ equity	9,845	4,469	5,916	(10,385)	9,845
Total liabilities and shareholders’ equity	$ 10,633	$ 38,159	$ 17,900	$ (10,509)	$ 56,183

(1) Includes all other subsidiaries of ACE Limited and intercompany eliminations.

(2) Includes ACE Limited parent company eliminations.

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Condensed Consolidating Statement of Operations
For the three months ended June 30, 2005
(in millions of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations [1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net premiums written	$ —	$ 1,746	$ 1,163	$ —	$ 2,909
Net premiums earned	—	1,759	1,162	—	2,921
Net investment income	—	158	147	—	305
Equity in earnings of subsidiaries	558	—	—	(558)	—
Net realized gains (losses)	(52)	23	61	—	32
Losses and loss expenses	—	1,130	714	—	1,844
Life and annuity benefits	—	—	37	—	37
Policy acquisition costs and administrative expenses	33	419	293	—	745
Interest expense	6	31	6	—	43
Other (income) expense	—	1	(7)	—	(6)
Income tax expense	—	109	19	—	128
Net income	$ 467	$ 250	$ 308	$ (558)	$ 467

Condensed Consolidating Statement of Operations
For the three months ended June 30, 2004
(in millions of U.S. dollars)
(Restated)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations [1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net premiums written	$ —	$ 1,670	$ 1,191	$ —	$ 2,861
Net premiums earned	—	1,581	1,201	—	2,782
Net investment income	1	114	129	(1)	243
Equity in earnings of subsidiaries	427	—	—	(427)	—
Net realized gains (losses)	27	(8)	23	—	42
Losses and loss expenses	—	1,008	718	—	1,726
Life and annuity benefits	—	—	44	—	44
Policy acquisition costs and administrative expenses	26	366	311	(3)	700
Interest expense	6	35	6	(1)	46
Other (income) expense	—	2	(3)	—	(1)
Income tax expense	—	96	33	—	129
Net income	$ 423	$ 180	$ 244	$ (424)	$ 423

(1) Includes all other subsidiaries of ACE Limited and intercompany eliminations.
(2) Includes ACE Limited parent company eliminations.

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	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations [1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net premiums written	$ —	$ 3,738	$ 2,537	$ —	$ 6,275
Net premiums earned	—	3,437	2,361	—	5,798
Net investment income	—	300	290	—	590
Equity in earnings of subsidiaries	1,039	—	—	(1,039)	—
Net realized gains (losses)	(57)	40	35	—	18
Losses and loss expenses	—	2,203	1,430	—	3,633
Life and annuity benefits	—	—	72	—	72
Policy acquisition costs and administrative expenses	66	835	586	(18)	1,469
Interest expense	12	63	12	(2)	85
Other (income) expense	—	1	(12)	—	(11)
Income tax expense	—	212	42	—	254
Net income	$ 904	$ 463	$ 556	$ (1,019)	$ 904

Condensed Consolidating Statement of Operations
For the six months ended June 30, 2004
(in millions of U.S. dollars)
(Restated)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations [1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net premiums written	$ —	$ 3,459	$ 2,622	$ —	$ 6,081
Net premiums earned	—	2,922	2,448	—	5,370
Net investment income	6	216	267	(4)	485
Equity in earnings of subsidiaries	919	—	—	(919)	—
Net realized gains (losses)	13	27	59	—	99
Losses and loss expenses	—	1,884	1,371	—	3,255
Life and annuity benefits	—	—	86	—	86
Policy acquisition costs and administrative expenses	54	704	631	(6)	1,383
Interest expense	12	67	13	(2)	90
Other (income) expense	—	5	11	—	16
Income tax expense	1	177	75	—	253
Net income	$ 871	$ 328	$ 587	$ (915)	$ 871

(1) Includes all other subsidiaries of ACE Limited and intercompany eliminations.

(2) Includes ACE Limited parent company eliminations.

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Condensed Consolidating Statement of Cash Flows
For the six months ended June 30, 2005
(in millions of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations [(1)]	ACE Limited Consolidated
Net cash flows from operating activities	$ 24	$ 1,267	$ 1,015	$ 2,306
Cash flows used for investing activities				
Purchases of fixed maturities available for sale	24	(6,760)	(7,483)	(14,219)
Purchases of equity securities	—	(177)	(166)	(343)
Sales of fixed maturities available for sale	—	5,551	6,710	12,261
Maturities of fixed maturities held to maturity	—	—	73	73
Sales of equity securities	—	134	78	212
Net proceeds from the settlement of investment derivatives	(57)	—	14	(43)
Capitalization of subsidiaries	(100)	100	—	—
Dividends received from subsidiaries	275	—	(275)	—
Other	—	128	(125)	3
Net cash flows used for investing activities	$ 142	$ (1,024)	$ (1,174)	$ (2,056)
Cash flows from (used for) financing activities				
Dividends paid on Ordinary Shares	(120)	—	—	(120)
Dividends paid on Preferred Shares	(22)	—	—	(22)
Net proceeds from short-term debt	—	—	1	1
Proceeds from exercise of options for Ordinary Shares	60	—	—	60
Proceeds from Ordinary Shares issued under ESPP	4	—	—	4
Advances (to) from affiliates	(80)	(166)	246	—
Net cash flows from (used for) financing activities	$ (158)	$ (166)	$ 247	$ (77)
Effect of foreign currency rate changes on cash and cash equivalents	$ —	$ (14)	$ (6)	$ (20)
Net increase in cash	8	63	82	153
Cash – beginning of period	6	225	267	498
Cash – end of period	$ 14	$ 288	$ 349	$ 651

(1) Includes all other subsidiaries of ACE Limited and intercompany eliminations.

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Condensed Consolidating Statement of Cash Flows
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(in millions of U.S. dollars)
(Restated)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations [(1)]	ACE Limited Consolidated
Net cash flows from (used for) operating activities	$ 50	$ 1,244	$ 970	$ 2,264
Cash flows used for investing activities				
Purchases of fixed maturities available for sale	(54)	(5,592)	(8,066)	(13,712)
Purchases of equity securities	—	(349)	(472)	(821)
Sales of fixed maturities available for sale	21	3,600	6,993	10,614
Sales of equity securities	—	279	162	441
Net proceeds from the settlement of investment derivatives	13	—	2	15
Capitalization of subsidiaries	(540)	295	245	—
Dividends received from subsidiaries	322	—	(322)	—
Sale of subsidiary (net of cash sold)	—	—	953	953
Other	—	122	(216)	(94)
Net cash flows from (used for) investing activities	$ (238)	$ (1,645)	$ (721)	$ (2,604)
Cash flows from (used for) financing activities				
Dividends paid on Ordinary Shares	(107)	—	—	(107)
Dividends paid on Preferred Shares	(22)	—	—	(22)
Net proceeds from short-term debt	—	500	—	500
Proceeds from exercise of options for Ordinary Shares	4	—	—	4
Proceeds from Ordinary Shares issued under ESPP	61	—	—	61
Advances (to) from affiliates	271	51	(322)	—
Net cash flows from (used for) financing activities	$ 207	$ 551	$ (322)	$ 436
Effect of foreign currency rate changes on cash and cash equivalents	$ —	$ 1	$ 4	$ 5
Net increase in cash	19	151	(69)	101
Cash – beginning of period	27	165	367	559
Cash – end of period	$ 46	$ 316	$ 298	$ 660

(1) Includes all other subsidiaries of ACE Limited and intercompany eliminations.

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14. Segment information

The Company operates through four business segments: Insurance – North American, Insurance – Overseas General, Global Reinsurance and Financial Services. These segments distribute their products through various forms of brokers and agencies. Insurance - North American, Insurance - Overseas General and Global Reinsurance utilize direct marketing programs to reach clients. Additionally, Insurance - North American has formed internet distribution channels for some of its products and Global Reinsurance and Financial Services have established relationships with reinsurance intermediaries.

The Insurance – North American segment includes the operations of ACE USA, ACE Canada and ACE Bermuda, excluding the financial solutions business in both the U.S. and Bermuda, which are included in the Financial Services segment. These operations provide a broad range of property and casualty insurance and reinsurance products, including excess liability, excess property, professional lines, aerospace, accident and health coverages and claim and risk management products and services, to a diverse group of commercial and non-commercial enterprises and consumers. Subsequent to the IPO of Assured Guaranty, the title insurance business is included in the Insurance – North American segment. The operations of ACE USA also include the run-off operations, which include Brandywine, Commercial Insurance Services, residual market workers' compensation business, pools and syndicates not attributable to a single business group, the run-off of open market facilities and the run-off results of various other smaller exited lines of business. Run-off operations do not actively sell insurance products, but are responsible for the management of existing policies and related claims.

The Insurance – Overseas General segment consists of ACE International and the insurance operations of ACE Global Markets. ACE International includes ACE INA's network of indigenous insurance operations, which were acquired in 1999. The segment has four regions of operations: ACE Asia Pacific, ACE Far East, ACE Latin America and the ACE European Group, (which comprises ACE Europe, ACE INA UK Limited and the insurance operations of ACE Global Markets). ACE Global Markets provides funds at Lloyd's to support underwriting by the Lloyd's syndicates managed by Lloyd's managing agencies which are owned by the Company (including for segment purposes Lloyd's operations owned by ACE Financial Services). The reinsurance operation of ACE Global Markets is included in the Global Reinsurance segment. Companies within the Insurance – Overseas General segment write a variety of insurance products including property, casualty, professional lines (D&O and E&O), marine, energy, aviation, political risk, consumer-oriented products and A&H – principally being supplemental accident.

The Global Reinsurance segment comprises ACE Tempest Re Bermuda, ACE Tempest Re USA and ACE Tempest Re Europe. These subsidiaries provide property catastrophe, casualty and property reinsurance. Subsequent to the IPO of Assured Guaranty, the trade credit business is included in the Global Reinsurance segment. Global Reinsurance also includes the operations of ACE Tempest Life Re. The principal business of ACE Tempest Life Re is to provide reinsurance coverage to other life insurance companies.

The Financial Services segment includes the financial solutions business in the U.S. and Bermuda and the Company's share of Assured Guaranty's earnings. Prior to the IPO of Assured Guaranty, the Financial Services segment included the financial guaranty business of ACE Guaranty Corp. and ACE Capital Re International. The financial results of the transferred business are included in the results of the Financial Services segment through April 28, 2004 (the date of the sale). Commencing April 29, 2004, the Company's proportionate share of Assured Guaranty's earnings is reflected in other (income) expenses in the Financial Services segment. The financial solutions business includes insurance and reinsurance solutions to complex risks that generally cannot be adequately addressed by the traditional insurance marketplace. It consists of securitization and risk trading, finite and structured risk products, and retroactive contracts in the form of loss portfolio transfers.

Corporate and other includes ACE Limited and ACE INA Holdings (Corporate) and intercompany eliminations. In addition, included in losses and loss expenses for the six months ended June 30, 2005 are losses incurred in connection with the commutation of ceded reinsurance contracts that resulted from a differential between the consideration received from reinsurers and the related reduction of reinsurance recoverables, principally related to the time value of money. Due to the Company's initiatives to reduce reinsurance recoverable balances and thereby encourage such commutations, losses recognized in connection with the commutation of ceded reinsurance contracts are generally not considered when assessing segment performance and accordingly, are directly allocated to Corporate. Additionally, the Company does not consider the development of loss reserves related to the September 11 tragedy in assessing segment performance as these loss reserves are

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managed by Corporate. Accordingly, the effect of the related loss reserve development on net income is reported within Corporate. There were no losses related to the September 11 tragedy included in Corporate for the six months ended June 30, 2005 and 2004.

For segment reporting purposes, certain items have been presented in a different manner than in the consolidated financial statements. The following tables summarize the operations by segment for the periods indicated.

Statement of Operations by Segment
For the three months ended June 30, 2005
(in millions of U.S. dollars)

	Insurance – North American	Insurance - Overseas General	Global Reinsurance	Corporate and Other	Consolidated Property & Casualty [(1)]	Financial Services	ACE Consolidated
Gross premiums written	$ 2,344	$ 1,428	$ 369	$ —	$ 4,141	$ 15	$ 4,156
Net premiums written	1,412	1,062	363	—	2,837	15	2,852
Net premiums earned	1,319	1,081	372	—	2,772	92	2,864
Losses and loss expenses	948	610	206	10	1,774	70	1,844
Policy acquisition costs	130	217	77	—	424	1	425
Administrative expenses	111	142	16	39	308	7	315
Underwriting income (loss)	130	112	73	(49)	266	14	280
Life							
Gross premiums written	—	—	57	—	—	—	57
Net premiums written	—	—	57	—	—	—	57
Net premiums earned	—	—	57	—	—	—	57
Life and annuity benefits	—	—	37	—	—	—	37
Policy acquisition costs	—	—	4	—	—	—	4
Administrative expenses	—	—	1	—	—	—	1
Net investment income	—	—	10	—	—	—	10
Underwriting income	—	—	25	—	—	—	25
Net investment income	142	80	40	3	265	30	295
Net realized gains (losses)	14	34	33	(52)	29	3	32
Interest expense	5	—	—	38	43	—	43
Other (income) expense	1	5	1	—	7	(13)	(6)
Income tax expense (benefit)	81	48	9	(17)	121	7	128
Net income (loss)	$ 199	$ 173	$ 161	$ (119)	$ 389	$ 53	$ 467

(1) Excludes life reinsurance business.

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Statement of Operations by Segment
For the three months ended June 30, 2004
(in millions of U.S. dollars)
(Restated)

	Insurance – North American	Insurance - Overseas General	Global Reinsurance	Corporate and Other	Consolidated Property & Casualty [1]	Financial Services	ACE Consolidated
Gross premiums written	$ 2,102	$ 1,501	$ 368	$ —	$ 3,971	$ 15	$ 3,986
Net premiums written	1,330	1,098	365	—	2,793	13	2,806
Net premiums earned	1,178	1,069	347	—	2,594	134	2,728
Losses and loss expenses	836	627	173	—	1,636	90	1,726
Policy acquisition costs	112	195	74	—	381	9	390
Administrative expenses	110	139	16	29	294	9	303
Underwriting income (loss)	120	108	84	(29)	283	26	309
Life							
Gross premiums written	—	—	56	—	—	—	56
Net premiums written	—	—	55	—	—	—	55
Net premiums earned	—	—	54	—	—	—	54
Life and annuity benefits	—	—	44	—	—	—	44
Policy acquisition costs	—	—	6	—	—	—	6
Administrative expenses	—	—	1	—	—	—	1
Net investment income	—	—	8	—	—	—	8
Underwriting income	—	—	11	—	—	—	11
Net investment income	110	58	29	2	199	36	235
Net realized gains (losses)	30	3	12	29	74	(32)	42
Interest expense	5	—	—	40	45	1	46
Other (income) expense	3	4	—	(1)	6	(7)	(1)
Income tax expense (benefit)	71	60	1	(14)	118	11	129
Net income (loss)	$ 181	$ 105	$ 135	$ (23)	$ 387	$ 25	$ 423

(1) Excludes life reinsurance business.

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Statement of Operations by Segment
For the six months ended June 30, 2005
(in millions of U.S. dollars)

	Insurance – North American	Insurance - Overseas General	Global Reinsurance	Corporate and Other	Consolidated Property & Casualty [1]	Financial Services	ACE Consolidated
Gross premiums written	$ 4,494	$ 3,064	$ 905	$ —	$ 8,463	$ 178	$ 8,641
Net premiums written	2,837	2,257	890	—	5,984	176	6,160
Net premiums earned	2,604	2,169	728	—	5,501	182	5,683
Losses and loss expenses	1,840	1,220	411	9	3,480	153	3,633
Policy acquisition costs	247	409	150	—	806	3	809
Administrative expenses	222	290	31	95	638	11	649
Underwriting income (loss)	295	250	136	(104)	577	15	592
Life							
Gross premiums written	—	—	115	—	—	—	115
Net premiums written	—	—	115	—	—	—	115
Net premiums earned	—	—	115	—	—	—	115
Life and annuity benefits	—	—	72	—	—	—	72
Policy acquisition costs	—	—	8	—	—	—	8
Administrative expenses	—	—	3	—	—	—	3
Net investment income	—	—	19	—	—	—	19
Underwriting income	—	—	51	—	—	—	51
Net investment income	273	154	79	3	509	62	571
Net realized gains (losses)	3	52	11	(57)	9	9	18
Interest expense	10	—	1	74	85	—	85
Other (income) expense	1	11	2	—	14	(25)	(11)
Income tax expense (benefit)	161	100	18	(38)	241	13	254
Net income (loss)	$ 399	$ 345	$ 256	$ (194)	$ 755	$ 98	$ 904

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Statement of Operations by Segment
For the six months ended June 30, 2004
(in millions of U.S. dollars)
(Restated)

	Insurance – North American	Insurance - Overseas General	Global Reinsurance	Corporate and Other	Consolidated Property & Casualty (1)	Financial Services	ACE Consolidated
Gross premiums written	$ 4,007	$ 3,174	$ 947	$ —	$ 8,128	$ 223	$ 8,351
Net premiums written	2,541	2,276	937	—	5,754	221	5,975
Net premiums earned	2,185	2,088	679	—	4,952	313	5,265
Losses and loss expenses	1,534	1,213	333	—	3,080	175	3,255
Policy acquisition costs	212	380	138	—	730	20	750
Administrative expenses	213	277	34	62	586	34	620
Underwriting income (loss)	226	218	174	(62)	556	84	640
Life							
Gross premiums written	—	—	109	—	—	—	109
Net premiums written	—	—	106	—	—	—	106
Net premiums earned	—	—	105	—	—	—	105
Life and annuity benefits	—	—	86	—	—	—	86
Policy acquisition costs	—	—	11	—	—	—	11
Administrative expenses	—	—	2	—	—	—	2
Net investment income	—	—	16	—	—	—	16
Underwriting income	—	—	22	—	—	—	22
Net investment income (loss)	214	108	56	2	380	89	469
Net realized gains (losses)	82	27	2	15	126	(27)	99
Interest expense	10	—	—	77	87	3	90
Other (income) expense	6	7	—	(1)	12	4	16
Income tax expense (benefit)	134	111	4	(27)	222	31	253
Net income (loss)	$ 372	$ 235	$ 250	$ (94)	$ 741	$ 108	$ 871

Underwriting assets for property and casualty and financial services are reviewed in total by management for purposes of decision-making. The Company does not allocate assets to its segments. Assets are specifically identified for our life reinsurance operations and corporate holding companies, including ACE Limited and ACE INA Holdings.

The following table summarizes the identifiable assets at June 30, 2005 and December 31, 2004.

	June 30 2005	December 31 2004 (Restated)
	(in millions of U.S. dollars)	
Life reinsurance	$ 860	$ 749
Corporate	2,163	2,125
All other	55,100	53,309
Total assets	$58,123	$ 56,183

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The following tables summarize the revenues of each segment by product offering for the periods indicated.

Net premiums earned by type of premium

	Property & Casualty	Life, Accident & Health	Financial Services	ACE Consolidated
	(in millions of U.S. dollars)			
Three Months Ended June 30, 2005				
Insurance – North American	$ 1,274	45	—	1,319
Insurance – Overseas General	813	268	—	1,081
Global Reinsurance	372	57	—	429
Financial Services	—	—	92	92
	$ 2,459	370	92	2,921
Three Months Ended June 30, 2004 (Restated)				
Insurance – North American	$ 1,134	$ 44	$ —	$ 1,178
Insurance – Overseas General	822	247	—	1,069
Global Reinsurance	347	54	—	401
Financial Services	—	—	134	134
	$ 2,303	$ 345	$ 134	$ 2,782
Six Months Ended June 30, 2005				
Insurance – North American	$ 2,512	92	—	2,604
Insurance – Overseas General	1,649	520	—	2,169
Global Reinsurance	728	115	—	843
Financial Services	—	—	182	182
	$ 4,889	727	182	5,798
Six Months Ended June 30, 2004 (Restated)				
Insurance – North American	$ 2,099	$ 86	$ —	$ 2,185
Insurance – Overseas General	1,628	460	—	2,088
Global Reinsurance	679	105	—	784
Financial Services	—	—	313	313
	$ 4,406	$ 651	$ 313	$ 5,370

The following table summarizes the Company’s gross premiums written by geographic region for the periods indicated. Allocations have been made on the basis of location of risk.

Three Months Ended	North America	Europe	Australia & New Zealand	Asia Pacific	Latin America
June 30, 2005	61%	25%	2%	8%	4%
June 30, 2004 (Restated)	63%	24%	2%	7%	4%

15. Restatement of previously issued financial statements

On July 18, 2005, ACE’s Board of Directors approved management’s recommendation to correct its accounting for eight contracts pursuant to the conclusions of the independent investigation and internal review. The eight contracts consist of three reinsurance contracts purchased by ACE or a predecessor organization, three contracts sold by ACE, and two intercompany transactions. Of these, management determined that

seven did not meet applicable risk transfer requirements and should have been recorded as deposits. Each of these eight contracts originated prior to 2002. Some of these contracts involved written or oral agreements, understandings or discussions pertaining to risk expectations that were inappropriately

ACE LIMITED AND SUBSIDIARIES
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not factored into the accounting treatment at the time of origination. In certain instances, agreements of this sort reduced or eliminated the anticipated risk transfer upon which the original accounting was based and resulted in the need for correction and the restatement of prior years financial statements. Only two of such contracts were in force at December 31, 2004.

In addition to the eight contracts identified in the investigation, the Company has corrected the accounting for certain deferred compensation plans as well as certain unrelated, previously known, errors, which were considered immaterial to require a restatement, but had been corrected in the periods identified.

Pursuant to these corrections, the Company has restated its previously reported financial statements as of and for the years ended December 31, 2004, 2003, 2002, 2001, and 2000, as well as each of the quarters in the years 2004 and 2003 and the quarter ended March 31, 2005. Consequently, ACE's previously issued financial statements for these periods should no longer be relied upon. As of June 30, 2005, ACE was in compliance with all debt covenants after considering the impact of the restatement.

Reinsurance Contracts Purchased. Management has concluded that three ceded reinsurance contracts historically accounted for as reinsurance did not transfer sufficient risk at their inception. The change from reinsurance to deposit accounting for these contracts had the most significant effect on our historical financial statements relative to other corrections, comprising the majority of the change in yearly or quarterly net income related to the restatement. For the six months ended June 30, 2005, the restatement of these contracts resulted in a decrease in net income of $0.2 million. For the three and six months ended June 30, 2004, the restatement of these contracts resulted in a decrease in net income of $1.1 million and $1.6 million, respectively.

Insurance and Reinsurance Contracts Sold. Management has concluded that two insurance contracts sold by a Bermuda subsidiary and one reinsurance contract sold by an ACE USA subsidiary did not assume sufficient risk. These contracts were terminated prior to the restatement and covered periods from 1999 through the first quarter of 2004. For the three and six months ended June 30 2004, the restatement of these contracts resulted in an increase in net income of $79 thousand and $158 thousand, respectively.

Other Adjustments. The accounting for certain deferred compensation plans has been corrected in connection with the restatement. ACE has revised the original accounting for these plans from that of a fixed plan to a variable plan and has thus recognized compensation expense that had previously not been recognized. Other adjustments were also recorded in connection with the restatement that includes miscellaneous corrections previously made in ACE's financial statements, such as the write-off of certain balance sheet accounts in connection with reconciliations prepared during its internal controls effort in 2004. Through the restatement, ACE is reallocating adjustments made in previous reporting periods to their proper periods. For the three and six months ended June 30, 2004, the restatement of these items resulted in an increase in net income of $11.9 million and $12.8 million, respectively.

Effect of Restatement

The effect of the restatement on shareholders' equity is as follows:

	June 30 2004
Shareholders' equity as reported	$ 9,220
Restatement adjustments:	
Net income	10
Additional paid in capital	3
Net unrealized depreciation on investments	(6)
Cumulative translation adjustments	(6)
Cumulative effect of restatement	(5)
Shareholders' equity restated	$ 9,216

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ACE LIMITED AND SUBSIDIARIES
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The effect of the restatement on the Consolidated Financial Statements is included in the tables below. Certain items in the prior year financial statements have been reclassified to conform to the current year presentation. The cash flow was adjusted to reflect the consolidation of the trusts described above and other miscellaneous corrections.

Consolidated Balance Sheets June 30, 2004

	2004 (As Reported)	2004 (Restated)
	(in millions of U.S. dollars)	
Assets		
Investments		
Fixed maturities, at fair value	$ 19,791	$ 19,913
Equity securities, at fair value	982	981
Short-term investments, at fair value	2,541	2,561
Other investments	460	563
Total investments	23,774	24,018
Cash	663	660
Securities lending collateral	1,542	1,542
Accrued investment income	261	262
Insurance and reinsurance balances receivable	3,567	3,560
Accounts and notes receivable	195	194
Reinsurance recoverable	14,374	13,649
Deferred policy acquisition costs	969	969
Prepaid reinsurance premiums	1,652	1,518
Funds withheld	347	348
Value of reinsurance business assumed	310	310
Goodwill	2,614	2,701
Deferred tax assets	1,115	1,138
Investments in partially-owned insurance companies	756	756
Other assets	1,512	1,858
Total assets	$ 53,651	$ 53,483
Liabilities		
Unpaid losses and loss expenses	$ 28,224	$ 28,152
Unearned premiums	6,556	6,357
Future policy benefits for life and annuity contracts	505	505
Funds withheld	201	200
Insurance and reinsurance balances payable	2,280	2,349
Deposit liabilities	221	221
Securities lending collateral	1,542	1,542
Payable for securities purchased	726	726
Accounts payable, accrued expenses and other liabilities	1,234	1,273
Dividends payable	60	60
Short-term debt	546	546
Long-term debt	1,849	1,849
Trust preferred securities	487	487
Total liabilities	44,431	44,267
Commitments and contingencies		
Shareholders' equity		
Preferred Shares	2	2
Ordinary Shares	12	12
Additional paid-in capital	4,880	4,883
Unearned stock grant compensation	(84)	(84)

Retained earnings	4,105	4,110
Deferred compensation obligation	13	13
Accumulated other comprehensive income	305	293
Ordinary Shares issued to employee trust	(13)	(13)
Total shareholders' equity	9,220	9,216
Total liabilities and shareholders' equity	$ 53,651	$ 53,483

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ACE LIMITED AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Statements of Operations for the three and six months ended June 30, 2004

	Three Months		Six Months	
	As Reported	Restated	As Reported	Restated
	(in millions of U.S. dollars, except per share data)			
Revenues				
Gross premiums written	$ 4,041	$ 4,042	$ 8,456	$ 8,460
Reinsurance premiums ceded	(1,174)	(1,181)	(2,351)	(2,379)
Net premiums written	2,867	2,861	6,105	6,081
Change in unearned premiums	(78)	(79)	(717)	(711)
Net premiums earned	2,789	2,782	5,388	5,370
Net investment income	237	243	475	485
Net realized gains (losses)	42	42	100	99
Total revenues	3,068	3,067	5,963	5,954
Expenses				
Losses and loss expenses	1,724	1,726	3,267	3,255
Life and annuity benefits	44	44	86	86
Policy acquisition costs	396	396	761	761
Administrative expenses	310	304	625	622
Interest expense	47	46	90	90
Other (income) expense	6	(1)	23	16
Total expenses	2,527	2,515	4,852	4,830
Income before income tax	541	552	1,111	1,124
Income tax expense	128	129	251	253
Net income	$ 413	$ 423	$ 860	$ 871
Basic earnings per share	$ 1.43	$ 1.47	$ 2.99	$ 3.04
Diluted earnings per share	$ 1.41	$ 1.44	$ 2.94	$ 2.98

Consolidated Statements of Cash Flows for the six months ended June 30, 2004

	2004 (As Reported)	2004 (Restated)
	(in millions of U.S. dollars)	
Net cash flows from operating activities	$ 2,269	$ 2,264
Net cash flows used for investing activities	(2,614)	(2,604)
Net cash flows from financing activities	435	436
Effect of foreign currency rate changes on cash and cash equivalents	11	5
Net increase in cash	$ 101	$ 101
Cash – beginning of period	562	559
Cash – end of period	$ 663	$ 660

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our results of operations, financial condition, and liquidity and capital resources as of and for the three and six months ended June 30, 2005. Our results of operations and cash flows for any interim period are not necessarily indicative of our results for the full year. This discussion should be read in conjunction with our Consolidated Financial Statements and related notes and our Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K/A for the year ended December 31, 2004.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Any written or oral statements made by us or on our behalf may include forward-looking statements that reflect our current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks, uncertainties and assumptions about our business that could cause actual results to differ materially from such statements. These risks, uncertainties and assumptions (which are described in more detail elsewhere herein and in other documents we file with the Securities and Exchange Commission (SEC)) include but are not limited to:

- global political conditions, the occurrence of any terrorist attacks, including any nuclear, biological or chemical events, or the outbreak and effects of war, and possible business disruption or economic contraction that may result from such events;
- the ability to collect reinsurance recoverable, credit developments of reinsurers, and any delays with respect thereto and changes in the cost, quality or availability of reinsurance;
- the occurrence of catastrophic events or other insured or reinsured events with a frequency or severity exceeding our estimates;
- actual loss experience from insured or reinsured events and the timing of claim payments;
- the uncertainties of the loss-reserving and claims-settlement processes, including the difficulties associated with assessing environmental damage and asbestos-related latent injuries, the impact of aggregate-policy-coverage limits, and the impact of bankruptcy protection sought by various asbestos producers and other related businesses and the timing of loss payments;
- judicial decisions and rulings, new theories of liability, legal tactics and adverse developments in legal proceedings;
- the effects of investigations into market practices in the U.S. property and casualty ("P&C") industry and finite or non-traditional insurance products and potential exposure arising out of related regulatory proceedings or private claims;
- uncertainties relating to governmental, legislative and regulatory policies, developments, investigations and treaties, such as legislation relating to asbestos reform, the expiration or reduction of Federal reimbursement for terrorism losses currently available under the U.S. Terrorism Risk Insurance Act of 2002, or additional insurance or tax related legislation or regulation, subjecting us to regulation or taxation in additional jurisdictions, or changing capital requirements;
- the actual amount of new and renewal business, market acceptance of our products, and risks associated with the introduction of new products and services and entering new markets, including regulatory constraints on exit strategies;
- the competitive environment in which we operate, including trends in pricing or in policy terms and conditions, which may differ from our projections and changes in market conditions that could render our business strategies ineffective or obsolete;
- actions that rating agencies may take from time to time, such as changes in our claims-paying, financial strength or credit ratings;

- developments in global financial markets, including changes in interest rates, stock markets and other financial markets, and foreign currency exchange rate fluctuations, which could affect our statement of operations, investment portfolio and financing plans;
- the effects of public company bankruptcies and/or accounting restatements, as well as disclosures by and investigations of public companies relating to possible accounting irregularities, and other corporate governance issues, including the effects of such events on:
  - the capital markets;
  - the markets for directors and officers and errors and omissions insurance; and
  - claims and litigation arising out of such disclosures or practices by other companies;
- the potential impact from government-mandated insurance coverage for acts of terrorism;
- the availability of borrowings and letters of credit under our credit facilities;
- changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers;
- material differences between actual and expected assessments for guaranty funds and mandatory pooling arrangements;
- changing rates of inflation and other economic conditions;
- the amount of dividends received from subsidiaries;
- changes in loss cost trends;
- loss of the services of any of our executive officers without suitable replacements being recruited in a reasonable time frame;
- the ability of technology to perform as anticipated; and
- management's response to these factors.

The words "believe", "anticipate", "estimate", "project", "should", "plan", "expect", "intend", "hope", "will likely result" or "will continue", and variations thereof 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. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

ACE Limited (ACE) is the Bermuda-based holding company of the ACE Group of Companies, incorporated with limited liability under the Cayman Islands Companies Law. We created our business office in Bermuda in 1985 when we initially incorporated the Company and we continue to maintain our corporate headquarters in Bermuda. Through our various operating subsidiaries, we provide a broad range of insurance and reinsurance products to businesses and individuals worldwide through operations in more than 140 countries. Our long-term business strategy focuses on sustained growth in book value achieved through a combination of underwriting and investment income. By doing so, we provide value to our clients and shareholders through the utilization of our substantial capital base in the insurance and reinsurance markets.

As an insurance and reinsurance company, we generate gross revenues from two principal sources, premiums which are usually paid in advance of loss payments, and dividends and interest income earned on invested assets. Cash flow is generated from premiums collected and investment income received less paid losses and loss expenses.

Invested assets are generally held in liquid, investment grade fixed income securities of relatively short duration. We also invest a small portion of our assets in less liquid or higher risk assets in an attempt to achieve higher risk-adjusted returns. Claims payments in any short-term period are highly unpredictable due to the random nature of loss events and the timing of claims awards or settlements. The value of investments held to pay future claims is subject to market forces such as the level of interest rates, stock market volatility and credit events such as corporate defaults. The actual cost of claims is also volatile based on loss trends, inflation rates, court awards and catastrophes. We believe that our cash balances, our highly liquid investments, credit facilities and reinsurance protection provide sufficient liquidity to meet any unforeseen claim demands that might occur in the year ahead.

The insurance industry is highly competitive with many companies offering similar coverage. The rates, terms and conditions related to the products we offer have historically changed depending on the timing of the insurance cycle. During periods of excess underwriting capacity, as defined by availability of capital, competition can result in lower pricing and less favorable terms and conditions. During periods of reduced underwriting capacity, pricing and terms and conditions are generally more favorable. For the six months ended June 30, 2005, we have observed continued deterioration in market conditions and as a result, our net premiums written were stable overall and declined in several of our businesses – a reflection of our underwriting discipline.

We are actively following developments on possible legislation to move all U.S. asbestos bodily injury claims to a federal trust for compensation in accordance with an established set of medical criteria and claim values. The trust would be funded by asbestos defendants and their insurers. The current bill, as it stands, requires a number of changes in order to win our support and we are working to get those accepted in the next draft of the bill.

Insurance Industry Investigations and Related Matters

On October 14, 2004, the New York Attorney General (NYAG) filed a civil suit against Marsh & McLennan Companies Inc. (Marsh), alleging that certain Marsh business practices were fraudulent and violated antitrust and securities laws. ACE was not named as a defendant in the suit, although ACE was named as one of four insurance companies whose employees participated in the practices in question. There can be no assurance that ACE will not be named in future actions brought by the NYAG or any other state attorneys general. In addition, an underwriter who is no longer employed by ACE has pleaded guilty to a misdemeanor based on these practices. ACE is cooperating and will continue to cooperate with the attorneys general.

ACE, its subsidiaries and affiliates have received numerous subpoenas, interrogatories, and civil investigative demands in connection with the pending investigations of insurance industry practices. These inquiries have been issued by a number of attorneys general, state departments of insurance, and state and federal regulatory authorities, including the NYAG, the Pennsylvania Department of Insurance, and the Securities and Exchange Commission. These inquiries seek information concerning underwriting practices and non-traditional or loss mitigation insurance products. ACE is cooperating and will continue to cooperate with such inquiries.

ACE has been conducting its own investigation that encompassed the subjects raised by the NYAG, the other state attorneys general and the SEC. The investigation has been conducted by a team from the firm of Debevoise & Plimpton LLP. The team is headed by former United States Attorney Mary Jo White and has operated under the direction of the Audit Committee of the Board of Directors. The Audit Committee of the Board of Directors has retained Cleary Gottlieb Steen & Hamilton, special outside counsel, to advise it in connection with these matters. ACE has terminated three employees, one of whom has pleaded guilty to a misdemeanor, and has suspended two other employees as a result of the internal investigation. ACE's internal investigations pertaining to underwriting practices and non-traditional or loss mitigation insurance products are essentially complete. (See Note 15 to the accompanying Consolidated Financial Statements for further information concerning the investigation into non-traditional or loss mitigation products).

In January 2005, the Connecticut Attorney General (the CTAG) filed a civil suit against a subsidiary of ACE in Connecticut state court under the Connecticut Unfair Trade Practices Act. The CTAG's suit alleges that an ACE subsidiary made an unauthorized and undisclosed payment to a broker who placed a portfolio of state workers' compensation cases with ACE and seeks restitution to the state and payment of punitive damages. ACE believes that it has not violated any law or duty to the state and has filed a motion to dismiss the action. The State of Connecticut has not yet responded to the motion.

ACE, ACE INA Holdings, Inc. and ACE USA have been named in the following federal putative nationwide class actions brought by insurance policyholders. *Bayou Steel Corporation v. ACE INA Holdings, et al.* (Case No. 04 CV 5391 E.D. Pa) (filed November 18, 2004); *Eagle Creek, Inc. v. ACE INA Holdings, et al.* (Case No. 04 CV 5255; E.D. Pa.) (filed November 10, 2004); *Stephen Lewis vs. Marsh & McLennan Companies, Inc., et al.* (Case No. 04 CV 7847; N.D. Ill.) (filed December 6, 2004); *Opticare Health Systems, Inc. v. Marsh & McLennan Companies, Inc., et al.* (Case No. 04 CV 06954; S.D.N.Y.) (filed

October 19, 2004); *Diane Preuss v. Marsh & McLennan Companies, et al.* (Case No. 04 CV 78553; N.D. Ill.) (filed December 6, 2004); *Redwood Oil Company v. Marsh & McLennan Companies, Inc.* (Case No. 05 C 0390; N.D. Ill.) (filed January 21, 2005, dismissed voluntarily by plaintiff); *Shell Vacations LLC v. Marsh & McLennan Companies, Inc., et al.* (Case No. 05 C 0270; N.D. Ill.) (filed January 14, 2005); *Edward Macuish v. Marsh & McLennan Companies, Inc., et al.* (Case No. 2005 CV 00440; N.D. Ill.) (filed January 25, 2005 and later dismissed); *Edward Macuish v. Marsh & McLennan Companies, Inc., et al.* (Case No. 2005 CV 00440; D. N.J.) (filed March 21, 2005); *David Boros v. Marsh & McLennan Companies, Inc., et al.* (Case No. C050543EDL; N.D. Calf.) (filed February 4, 2005), *Robert Mulcahy v. Arthur J. Gallagher & Co., et al.* (Case No. 2005 CV 01064; D. N.J.) (filed February 23, 2005); *Golden Gate Bridge, Highway and Transportation District vs. Marsh & McLennan Companies, Inc., et.al.* (Case No. 05-1214, D. N.J.) filed February 23, 2005); *The Prococcianti Group vs. Marsh & McLennan Companies, Inc., et. al.* (Case No. 05-1368, D. N.J.) (filed March 7, 2005); *Palm Tree Computers Systems, Inc. et al. v. ACE USA et al* . (Case No. 6:05-cv-418-ACC-JGG)(filed February 16, 2005) (Case originally filed in the Eighteenth Judicial Circuit in and for Seminole County, Florida. AIG and The Hartford removed case. Motion to remand pending); *Cellect LLC et al. v. Marsh & McLennan Companies, Inc. et al.* (Case No. 05-2255; D. N.J.) (filed April 27, 2005); *New England Regional Council of Carpenters et al. v. Marsh & McLennan Companies, Inc.* (Case No. 05-2256; D. N.J.) (filed April 27, 2005); *Bensley Construction, Inc. et al. v. Marsh & McLennan Companies, Inc.* (Case No. 2005-00277; D. Mass.) (filed May 20, 2005) (Case removed from state court. Motion to remand is pending). In each of these cases, the plaintiff has sued a number of other insurance entities in addition to the ACE entities. The Judicial Panel on Multidistrict Litigation (JPML) consolidated these cases, as well as other putative class actions in which no ACE entity is named as a party in the District of New Jersey.

On August 1, 2005, Plaintiffs filed two consolidated amended complaints – one concerning commercial insurance and the other concerning employee benefit plans.

- In the commercial insurance complaint, the plaintiffs named ACE Limited, ACE INA Holdings, Inc., ACE USA, Inc., ACE American Insurance Co., Illinois Union Insurance Co., and Indemnity Insurance Co. of North America. They allege that insurers, including certain ACE entities, and brokers conspired to increase premiums and allocate customers through the use of “B” quotes and contingent commissions. In addition, the complaints allege that the broker defendants received additional income by improperly placing their clients’ business with insurers through related wholesale entities that act as intermediaries between the broker and insurer. Plaintiffs also allege that broker defendants tied the purchase of primary insurance with the placement of such coverage with reinsurance carriers through the broker defendants’ reinsurance broker subsidiaries. In the commercial insurance consolidated complaint, plaintiffs assert the following causes of action against ACE: Federal Racketeer Influenced and Corrupt Organization Act (RICO), federal antitrust law, state antitrust law, aiding and abetting breach of fiduciary duty, and unjust enrichment.
- In the employee benefits complaint, the plaintiffs named ACE Limited, ACE USA, and Insurance Company of North America. They allege that insurers, including certain ACE entities, and brokers conspired to increase premiums and allocate customers through the use of “B” quotes and contingent commissions. In addition, the complaints allege that the broker defendants received additional income by improperly placing their clients’ business with insurers through related wholesale entities that act as intermediaries between the broker and insurer. Plaintiffs also allege that defendants improperly charged communication fees, which plaintiffs claim are also known as “enrollment fees” or “service/administrative fees”. Plaintiffs also allege that insurers transferred their insureds’ business, with who they had direct contracts with and no broker involvement, to insurance brokers in exchange for the insurance brokers steering additional business to the insurers. Plaintiffs also allege that broker defendants tied the purchase of primary insurance with the placement of such coverage with reinsurance carriers through the broker defendants’ reinsurance broker subsidiaries. In the employee benefits consolidated complaint, plaintiffs assert the following causes of action against ACE: Federal Racketeer Influenced and Corrupt Organization Act (RICO), federal antitrust law, state antitrust law, Employee Retirement Income Security Act (ERISA), aiding and abetting breach of fiduciary duty, and unjust enrichment.

In both cases, the plaintiffs have sought unspecified compensatory damages and reimbursement of expenses, including legal fees.

Illinois Union Insurance Company, an ACE subsidiary, has been named in a state court class action: *Van Emden Management Corporation v. Marsh & McLennan Companies, Inc., et al.* (Case No. 05-0066A; Superior Court of Massachusetts) (filed January 13, 2005). The allegations are similar to the allegations in the federal class actions identified above. Plaintiffs assert causes of action under Massachusetts’ antitrust statute and Massachusetts’ consumer protection statute. Plaintiffs also assert a conspiracy cause of action and seek an injunction. Plaintiffs have sought unspecified compensatory damages and reimbursement of expenses, including legal fees.

ACE American Insurance Co., an ACE subsidiary, has been named in a state court lawsuit in Florida: *Office Depot, Inc. v. Marsh & McLennan Companies, Inc. et al.* (Case No. 502005CA004396; Circuit Court of the 15th Judicial Circuit in Palm Beach County Florida) (filed June 22, 2005). The allegations are similar to the allegations in the federal class actions identified above. Plaintiffs assert the following causes of action against ACE American Insurance Co.: conspiracy and concerted action to aid and abet Marsh's breaches of fiduciary duties, conspiracy and concerted action to aid and abet Marsh's fraud, antitrust violation under Florida law, deceptive and unfair trade practices, unjust enrichment, civil RICO under Florida law, commercial bribery, and punitive damages. Plaintiff has sought unspecified compensatory damages and reimbursement of expenses, including legal fees.

ACE has been named in the following four putative securities class action suits: *John Mahaney, Jr. v. ACE Limited, et al.* (Case No. 04 CV 07696; S.D.N.Y) (filed October 18, 2004); *Steven Burda v. ACE Limited, et al.* ; (Case No. 04 CV 833; S.D.N.Y.) (filed October 21, 2004); *Thomas E. Barton v. ACE Limited, et al.* ; (Case No. 04 CV 8683; S.D.N.Y.) (filed November 1, 2004); and *Friends of Ariel Center for Policy Research v. ACE Limited, et al.* (Case No. 04 CV 04907; E.D. Pa.) (filed October 19, 2004). Evan G. Greenberg, ACE's President and Chief Executive Officer, Brian Duperreault, ACE's Chairman and former Chief Executive Officer, and Philip V. Bancroft, ACE's Chief Financial Officer were also named as defendants in each of these suits. In addition, Dominic J. Frederico, ACE's former Vice Chairman and former President and Chief Operating Officer, and Christopher Z. Marshall, ACE's former Chief Financial Officer, were named as defendants in the *Burda* action. On January 3, 2005, the *Burda* and *Barton* actions were consolidated for all purposes into the *Mahaney* action. In December 2004, the defendants filed a motion with the JPML seeking consolidation of the cases for pretrial purposes in the Eastern District of Pennsylvania. The JPML granted that motion, consolidating the four cases in the Eastern District of Pennsylvania. The lead plaintiff has not been chosen in the consolidated proceeding. Nor has a consolidated complaint been filed. In the four complaints, the plaintiffs assert claims solely under Section 10(b) of the Securities Exchange Act of 1934 (the Exchange Act), Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act (control person liability). The plaintiffs allege that ACE's public statements and securities filings should have revealed that insurers, including certain ACE entities and brokers conspired to increase premiums and allocate customers through the use of "B" quotes and contingent commissions and that ACE's revenue and earnings were inflated by premiums which it may have to forfeit by fines or judgments.

ACE understands that it has been named as a defendant in a derivative suit filed in Delaware Chancery Court by shareholders of Marsh. The derivative suit seeks to recover damages for Marsh and its subsidiary, Marsh, Inc., against officers and directors of Marsh, American International Group Inc. (AIG), AIG's chief executive officer, and ACE. The suit alleges that the defendants damaged Marsh and Marsh, Inc. by participating in a bid rigging scheme and obtaining "kickbacks" in the form of contingent commissions. The suit alleges that ACE knowingly participated in the officers' and directors' breaches of fiduciary duty to Marsh, Inc. and Marsh. The plaintiff has sought unspecified compensatory damages and reimbursement of expenses, including legal fees. ACE has not been served in this action, though no assurance can be given that it will not be served.

ACE Limited and Evan Greenberg, as a former officer and director of AIG, have been named in *In re American International Group, Inc. (AIG) Derivative Litigation* , which is a shareholder derivative action brought by AIG's shareholders. The allegations against ACE concern the alleged bid rigging and contingent commission scheme as similarly alleged in the federal policyholder cases. Plaintiffs assert the following causes of action against ACE: breach of fiduciary duty and aiding and abetting breaches of fiduciary duties.

All of these suits seek compensatory damages without specifying an amount. As a result, ACE cannot at this time estimate its potential costs related to these legal matters and accordingly no liability for compensatory damages has been established in the Consolidated Financial Statements. The six months ended June 30, 2005, includes approximately $34 million of investigation related legal expenses. Additionally, as of June 30, 2005, ACE has paid and accrued over $44 million for legal related fees since the investigation began. In the opinion of ACE's management, ACE's ultimate liability for these matters is not likely to have a material adverse effect on ACE's consolidated financial condition, although it is possible that the effect could be material to ACE's consolidated results of operations for an individual reporting period.

Restatement of Previously Issued Financial Statements

ACE has restated its financial statements for the years ended December 31, 2004, 2003, 2002, 2001, and 2000, each of the quarters in the years 2003 and 2004, and the quarter ended March 31, 2005. The primary purpose of the restatement is to correct the accounting treatment for eight finite risk transactions. ACE has also included in the restatement correction of certain unrelated errors, previously identified but considered to be of an immaterial nature. The cumulative impact of the restatement through the first quarter of 2005 is an increase of shareholders' equity of $4 million. The cumulative effect of the

restatement for certain finite contracts as of the first quarter of 2005 is to increase shareholders' equity by approximately $16 million. The cumulative of the other unrelated corrections is to decrease shareholders' equity by approximately $12 million. For additional information see Note 15 to the accompanying Consolidated Financial Statements and our Annual Report on Form 10-K/A for the year ended December 31, 2004 (Note 3 to the Consolidated Financial Statements). All amounts included herein for the prior periods have been adjusted to reflect the restatement.

Critical Accounting Estimates

Our Consolidated Financial Statements include amounts that, either by their nature or due to requirements of accounting principles generally accepted in the U.S. (GAAP), are determined using best estimates and assumptions. While we believe that the amounts included in our Consolidated Financial Statements reflect our best judgment, actual amounts could ultimately materially differ from those currently presented in our Consolidated Financial Statements. We believe the items that require the most subjective and complex estimates are:

- unpaid losses and loss expense reserves, including asbestos reserves;
- reinsurance recoverable, including our bad debt provision;
- impairments to the carrying value of our investment portfolio;
- the valuation of deferred tax assets;
- the fair value of certain derivatives;
- the valuation of goodwill; and
- assessment of risk transfer for certain structured insurance and reinsurance contracts.

Our accounting policies for these items are of critical importance to our Consolidated Financial Statements. More information regarding our critical accounting estimates is included in the section entitled "Critical Accounting Estimates" in our Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K/A for the year ended December 31, 2004.

Sale of Financial and Mortgage Guaranty Business through Assured Guaranty Ltd.

On April 28, 2004, we sold 65.3 percent of our financial and mortgage guaranty reinsurance and insurance businesses through the initial public offering (IPO) of 49 million common shares of Assured Guaranty Ltd. (Assured Guaranty). Subsequent to the completion of the IPO, we beneficially own 26 million common shares or 34.7 percent of Assured Guaranty's outstanding common shares and, accordingly, no longer consolidate our interest in the Assured Guaranty companies. We account for our retained interest under the equity method of accounting and reflect the value of our investment in "Investments in partially-owned insurance companies" within our consolidated balance sheet and the proportionate share of earnings reflected in "Other (income) expense" within our consolidated statement of operations.

Results of Operations – Three and Six Months Ended June 30, 2005 and 2004

The discussions that follow include tables, which show both our consolidated and segment operating results for the three and six months ended June 30, 2005 and 2004. In presenting our operating results, we have discussed our performance with reference to underwriting results, which is a non-GAAP measure. We consider this measure, which may be defined differently by other companies, to be important in understanding our overall results of operations. Underwriting results are calculated by subtracting losses and loss expenses, life and annuity benefits, policy acquisition costs and administrative expenses from net premiums earned. We use underwriting results and operating ratios to monitor the results of our operations without the impact of certain factors, including investment income, other income and expenses, interest and income tax expense and net realized gains (losses). We believe the use of these measures enhance the understanding of our results of operations by highlighting the underlying profitability of our insurance business. Underwriting results should not be viewed as a substitute for measures determined in accordance with GAAP.

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Consolidated Operating Results

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Net premiums written	$ 2,909	$ 2,861	$6,275	$ 6,081
Net premiums earned	2,921	2,782	5,798	5,370
Net investment income	305	243	590	485
Net realized gains	32	42	18	99
Total revenues	$ 3,258	$ 3,067	$6,406	$ 5,954
Losses and loss expenses	1,844	1,726	3,633	3,255
Life and annuity benefits	37	44	72	86
Policy acquisition costs	429	396	817	761
Administrative expenses	316	304	652	622
Interest expense	43	46	85	90
Other (income) expense	(6)	(1)	(11)	16
Total expenses	$ 2,663	$ 2,515	$5,248	$ 4,830
Income before income tax	595	552	1,158	1,124
Income tax expense	128	129	254	253
Net income	$ 467	$ 423	$ 904	$ 871

Net premiums written, which reflect the premiums we retain after purchasing reinsurance protection, increased two percent and three percent in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. The P&C business reported increases in net premiums written of two percent and four percent in three and six months ended June 30, 2005, respectively. These increases were principally driven by growth in the U.S. casualty operations of the Insurance-North American segment, partially offset by modest declines in other segments. Our Financial Services business reported stable net premiums written in the current quarter and a decline of $45 million in the six months ended June 30, 2005.

The following table provides a consolidated breakdown of net premiums earned by line of business for the periods indicated.

	Three Months Ended June 30				Six Months Ended June 30			
	2005	% of total	2004 (Restated)	% of total	2005	% of total	2004 (Restated)	% of total
	(in millions of U.S. dollars)							
Property and all Other	$ 871	30%	$ 885	32%	$1,745	30%	$ 1,655	31%
Casualty	1,588	54%	1,418	51%	3,144	54%	2,751	51%
Personal Accident (A&H)	313	11%	291	10%	612	11%	546	10%
Total P&C	2,772	95%	2,594	93%	5,501	95%	4,952	92%
Global Re – life	57	2%	54	2%	115	2%	105	2%
Financial Services	92	3%	134	5%	182	3%	313	6%
Net premiums earned	$2,921	100%	$ 2,782	100%	$5,798	100%	$ 5,370	100%

Net premiums earned reflect the portion of net premiums written that were recorded as revenues for the period as the exposure period expires. Net premiums earned in our P&C business increased seven percent and 11 percent in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. Our Financial Services business reported decreases in net premiums earned of $42 million and $131 million in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. The change in net premiums earned for our P&C business is consistent with the growth in net premiums written. For our Financial Services segment, the decrease is primarily related to the sale of Assured Guaranty – the three and six months ended June 30, 2004, included $17 million and $104

million of net premiums earned from financial guaranty business prior to the IPO.

ACE conducts business internationally and in most major foreign currencies. The following table summarizes the approximate effect of changes in foreign currency exchange rates on the growth of P&C net premiums written and earned for the periods indicated.

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net premiums written:		
Growth in original currency	—	2.3%
Foreign exchange effect	1.6%	1.7%
Growth as reported in U.S. dollars	1.6%	4.0%
Net premiums earned:		
Growth in original currency	5.0%	9.3%
Foreign exchange effect	1.9%	1.8%
Growth as reported in U.S. dollars	6.9%	11.1%

Net investment income increased 26 percent and 22 percent in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. The growth in net investment income for the current periods was primarily due to positive operating cash flows, which have resulted in a higher overall average invested asset base.

In evaluating our P&C and Financial Services businesses we use the combined ratio, the loss and loss expense ratio, the policy acquisition cost ratio and the administrative expense ratio. We calculate these ratios by dividing the respective expense amounts by net premiums earned. We do not calculate these ratios for the life reinsurance business as we do not use these measures to monitor or manage that business. The combined ratio is determined by adding the loss and loss expense ratio, the policy acquisition cost ratio and the administrative expense ratio. A combined ratio under 100 percent indicates underwriting income, and a combined ratio exceeding 100 percent indicates underwriting losses.

The following table shows our consolidated loss and loss expense ratio, policy acquisition ratio, administrative expense ratio and combined ratio for the periods indicated.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Loss and loss expense ratio	64.4%	63.2%	63.9%	61.8%
Policy acquisition cost ratio	14.8%	14.3%	14.2%	14.2%
Administrative expense ratio	11.0%	11.2%	11.4%	11.8%
Combined ratio	90.2%	88.7%	89.5%	87.8%

Our loss and loss expense ratio increased 1.2 percentage points and 2.1 percentage points in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. The increases for the current periods were primarily due to higher loss and loss expense ratio in our Insurance – North American and Global Reinsurance segments, due to changes in business mix. The following table shows the impact of prior period development on our loss and loss expense ratio for the periods indicated.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Loss and loss expense ratio, as reported	64.4%	63.2%	63.9%	61.8%
Catastrophe losses	—	—	(0.1)%	—
Prior period development	(0.7)%	(0.8)%	(0.9)%	—
Loss and loss expense ratio, adjusted	63.7%	62.4%	62.9%	61.8%

We recorded $3 million in catastrophe losses, in the six months ended June 30, 2005 (recorded in the first quarter of 2005), compared with nil in the same period in 2004. Our loss and loss expense ratio is also impacted by prior period development. Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves first reported in previous calendar years and excludes the

effect of losses from the development of earned premium from previous

accident years. For purposes of analysis and disclosure, management views prior period development to be changes in the nominal value of loss estimates from period to period and excludes changes in loss estimates that do not arise from the emergence of claims, such as those related to uncollectible reinsurance, interest, or foreign currency. Accordingly, specific items excluded from prior period development include the following: gains/losses related to foreign currency translation that affect both the valuation of unpaid losses and loss expenses and losses incurred; losses recognized from the early termination or commutation of reinsurance agreements that principally relate to the time value of money; changes in the value of reinsurance business assumed reflected in losses incurred but principally related to the time value of money and losses that arise from changes in estimates of earned premiums from prior accident years. We experienced net adverse prior period development of $19 million and $49 million in the three and six months ended June 30, 2005, respectively. This compares with net adverse prior period development of $21 million and net favorable development of $1 million in the three and six months ended June 30, 2004, respectively. Our Segment Operating Results, below, contain further detail of the prior period development recognized in our Consolidated Financial Statements.

Policy acquisition costs include commissions, premium taxes, underwriting and other costs that vary with, and are primarily related to, the production of premium. Administrative expenses include all other operating costs. Our policy acquisition cost ratio increased in the quarter ended June 30, 2005, compared with the same quarter of 2004, primarily due to changes in business mix at ACE International. Our administrative expenses increased primarily due to approximately $34 million of legal costs accrued in the six months ended June 30, 2005, in connection with the investigations by the various attorneys general and related matters.

Interest expense decreased in the three and six months ended June 30, 2005, compared with the same periods in 2004. This was primarily due to the $75 million of Capital Re LLC preferred securities which were outstanding during the six months ended June 30, 2004, and redeemed on July 12, 2004. Additionally, interest expense was positively impacted by the issuance of $500 million of 5.875 percent notes in June 2004, which were partially used to repay the higher interest bearing $400 million ACE INA 8.2 percent notes, in August 2004.

Segment Operating Results – Three and Six Months Ended June 30, 2005 and 2004

Our business consists of four segments: Insurance – North American, Insurance – Overseas General, Global Reinsurance, and Financial Services. Our Annual Report on Form 10-K/A for the year ended December 31, 2004, includes more information on each of our segments in the section entitled, “Segment Information”, under Item 1.

Insurance - North American

The Insurance – North American segment comprises our P&C operations in the U.S., Canada and Bermuda, represented by ACE USA (including ACE Canada), ACE Westchester Specialty and ACE Bermuda.

ACE USA comprises the U.S. and Canadian operations of ACE INA, which we acquired in 1999. ACE USA operates through several insurance companies using a network of offices throughout the U.S. and Canada. These operations provide a broad range of P&C insurance and reinsurance products to a diverse group of commercial and non-commercial enterprises and consumers. These products include excess liability, excess property, workers’ compensation, general liability, automobile liability, professional lines (directors and officers (D&O) and errors and omissions (E&O)), aerospace, accident and health (A&H) coverages as well as claim and risk management products and services. The operations of ACE USA also include run-off operations, which include Brandywine Holdings Corporation (Brandywine), Commercial Insurance Services (CIS), residual market workers’ compensation business, pools and syndicates not attributable to a single business group, the run-off of open market facilities and the run-off results of various other smaller exited lines of business. Run-off operations do not actively sell insurance products, but are responsible for the management of existing policies and related claims. The Brandywine run-off operation was created in 1996 (prior to our acquisition of ACE INA) by the restructuring of INA’s U.S. operations into two separate operations, ongoing and run-off. ACE Westchester Specialty and Brandywine contain substantially all of ACE INA’s asbestos and environmental (A&E) exposures, some of which has been assumed from affiliates through reinsurance. Brandywine also contains various run-off insurance and reinsurance businesses. For more information on A&E, refer to the section entitled “Asbestos and Environmental Liabilities”.

ACE Westchester Specialty is U.S. based and specializes in the wholesale distribution of E&S property, inland marine and casualty coverage and products. ACE Westchester Specialty also provides coverage for agriculture business and specialty programs through its Program division, writing a variety of commercial coverages through program agents, including sports/leisure activities, farm and crop/hail insurance. These products are also offered to affinity groups and through binding facilities.

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ACE Bermuda writes insurance risks worldwide. ACE Bermuda provides commercial insurance products to a global client base, covering risks that are generally low in frequency and high in severity.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Net premiums written	$ 1,412	$ 1,330	$2,837	$ 2,541
Net premiums earned	1,319	1,178	2,604	2,185
Losses and loss expenses	948	836	1,840	1,534
Policy acquisition costs	130	112	247	212
Administrative expenses	111	110	222	213
Underwriting income	$ 130	$ 120	$ 295	$ 226
Net investment income	142	110	273	214
Net realized gains	14	30	3	82
Interest expense	5	5	10	10
Other expense	1	3	1	6
Income tax expense	81	71	161	134
Net income	$ 199	$ 181	$ 399	$ 372
Loss and loss expense ratio	71.9%	71.0%	70.7%	70.2%
Policy acquisition cost ratio	9.8%	9.5%	9.5%	9.7%
Administrative expense ratio	8.4%	9.4%	8.5%	9.8%
Combined ratio	90.1%	89.9%	88.7%	89.7%

Net premiums written for the Insurance – North American segment increased six percent and 12 percent in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. The increases for the current periods were primarily driven by ACE USA, on the strength of good renewal activity and new business in its risk management unit and strong production from many of its recently established casualty units.

Insurance – North American's retention ratio was 60 percent for the quarter ended June 30, 2005, compared with 63 percent for the same quarter in 2004 as retention ratios for all three components of this segment declined. ACE Westchester Specialty's retention ratio decreased due to lower retention on property and inland marine business as well as, the revised Standard Reinsurance Agreement with the U.S. government which increased crop cessions. For ACE USA the decrease in retention ratio was a result of lower retention in the run-off operations, which benefited from the commutation of a reinsurance agreement in the second quarter of 2004 on run-off warranty business. ACE Bermuda's retention ratio declined due to a quota share contract in the professional lines business which resulted in a higher cession of premiums in the current quarter. For the six months ended June 30, 2005, Insurance – North American's retention ratio was stable, compared with the same period in 2004.

The following tables provide an entity/divisional breakdown of Insurance – North American's net premiums earned for the periods indicated.

	Three Months Ended June 30				Six Months Ended June 30			
	2005	% of total	2004	% of total	2005	% of total	2004	% of total
	(in millions of U.S. dollars)							
Property and all Other	$ 334	25%	$ 350	30%	$ 654	25%	$ 627	29%
Casualty	940	71%	784	66%	1,858	71%	1,472	67%
Personal Accident (A&H)	45	4%	44	4%	92	4%	86	4%
Net premiums earned	$1,319	100%	$1,178	100%	$2,604	100%	$2,185	100%

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
	(in millions of U.S. dollars)			
ACE USA	$ 866	$ 742	$ 1,714	$ 1,392
ACE Westchester Specialty	356	326	688	580
ACE Bermuda	97	110	202	213
Net premiums earned	$ 1,319	$ 1,178	$ 2,604	$ 2,185

ACE USA's net premiums earned increased 17 percent and 23 percent in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. Following the trend of net premiums written, the increases primarily related to our risk management unit which reported growth in demand for its custom coverage solutions for large companies and national accounts. Additionally, ACE USA benefited from continued growth in new business units offering workers' compensation and medical liability coverage. The growth in net premiums earned for the current periods indicated has outpaced the growth of net premiums written, reflecting the launch of new products first offered in late 2003, expanded distribution and the more favorable rate environment experienced in 2004 and 2003.

ACE Westchester Specialty's net premiums earned for the three and six months ended June 30, 2005, increased nine percent and 19 percent, respectively, compared with the same periods in 2004. This increase primarily reflects growth in casualty business, particularly in late 2004 and early 2005, partially offset by the increased cessions discussed above.

ACE Bermuda's reported net premiums earned decreased 12 percent and five percent in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. These decreases are primarily due to continued competition for professional lines business, which has put downward pressure on rates.

Insurance – North American's loss and loss expense ratio increased in the three and six months ended June 30, 2005, compared with the same period in 2004, due to increased casualty business (which typically experiences higher loss ratios than other business) and an increase in net adverse prior period development. The following table shows the impact of prior period development on our loss and loss expense ratio for the periods indicated.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004
Loss and loss expense ratio, as reported	71.9%	71.0%	70.7%	70.2%
Prior period development	(3.9)%	(3.5)%	(2.8)%	(2.6)%
Loss and loss expense ratio, adjusted	68.0%	67.5%	67.9%	67.6%

The loss and loss expense ratios for the three and six months ended June 30, 2005, were negatively impacted by net adverse prior period development of $51 million and $73 million, respectively. The net adverse prior period development for the three and six months ended June 30, 2005, represented 0.6 percent and 0.8 percent of the segment's net unpaid loss and loss expense reserves at March 31, 2005, and December 31, 2004, respectively. For the three and six months ended June 30, 2004, net adverse prior period development was $41 million and $57 million, respectively. The net adverse prior period development for the three and six months ended June 30, 2004, represented 0.6 percent and 0.8 percent of the segment's net unpaid loss and loss expense reserves at March 31, 2004, and December 31, 2003, respectively. The net prior period development for the three months ended June 30, 2005, was the net result of several underlying favorable and adverse movements, the most significant of which were:

- Favorable development of $61 million on lines with short-tail exposures (property, inland marine and crop hail) identified as part of our standard quarterly reserving process and arose from the better than expected emergence of actual claims relative to expectations used to establish reserves, principally related to the 2004 accident year, and to a lesser extent the 2003 accident year.
- Adverse development of $103 million on certain sub-portfolios of long-tail business, written principally during accident years 1998-2002 in our U.S. operations. In particular;
    - Excess general liability business written on major account portfolio ($38 million across accident years 1998 - 2001);

- Run-off association captive assumed reinsurance business ($13 million in accident years 2001 and prior);
- Run-off program business written with aggregate excess workers' compensation exposure ($17 million in accident years 2000 to 2002);
- Voluntary and involuntary assumed business, comprising mostly workers' compensation, and including pool participations ($35 million in accident years 2004 and prior);

The development followed completion of reserve studies that reflected higher than anticipated actual loss experience compared with the expected assumptions used to establish reserves. In the instance of the excess general liability business, the development arose following the completion of a detailed claims review that identified the need for significant case reserve changes on a small number of accounts.

- Adverse development of $15 million in the ACE Bermuda excess D&O liability book in accident year 2001 following a claims and legal review of information received during the current quarter on several previously notified claims.

The net prior period development for the quarter ended June 30, 2004, was the net result of several underlying adverse and favorable movements. The adverse development was primarily driven by larger than expected future settlements on several excess D&O liability policies at ACE Bermuda, and higher than anticipated actual loss emergence in our run-off operations. This adverse development was partially offset by favorable development on short-tail lines of business including property, tech lines, energy and crop hail.

Insurance – North American's policy acquisition ratio increased in the quarter ended June 30, 2005, compared with the same quarter of 2004, primarily due to higher commission costs on crop business at ACE Westchester Specialty, partially offset by reductions in direct and contingent commissions at ACE USA. For the six months ended June 30, 2005, the policy acquisition ratio declined as the second quarter increase was offset due to lower commission expenses – a result of a shift in our business mix whereby higher-commission professional lines represented a lower proportion of our total production.

Insurance – North America's administrative expenses were stable in the three months ended June 30, 2005, compared with the same quarter in 2004 – the prior year quarter included non-recurring expenses recorded at ACE Westchester Specialty. For the six months ended June 30, 2005, the increase in administrative expenses primarily reflects higher costs associated with servicing business growth and recently established units at ACE USA and ACE Westchester Specialty, partially offset by reduced expenses at ACE Bermuda.

Insurance - Overseas General

The Insurance - Overseas General segment consists of ACE International, which comprises our network of indigenous insurance operations, and the insurance operations of ACE Global Markets, our excess and surplus lines (E&S) writer. This segment has four regions of operations: ACE Asia Pacific, ACE Far East, ACE Latin America and the ACE European Group, which comprises ACE Europe and ACE Global Markets branded business.

ACE International maintains a sales or operational presence in every major insurance market in the world. Its P&C operations are organized geographically along product lines that provide dedicated underwriting focus to customers. Property insurance products include traditional commercial fire coverage as well as energy industry-related and other technical coverages. Principal casualty products are commercial general liability and liability coverage for multi-national organizations. Through its professional lines, ACE International provides D&O and professional indemnity coverages for medium to large clients. Marine cargo and hull coverages are written in the London market as well as in marine markets throughout the world. The A&H insurance operations provide products that are designed to meet the insurance needs of individuals and groups outside of U.S. insurance markets. These products include accidental death, medical, and hospital indemnity and income protection coverages. ACE International's personal lines operations provides specialty products and services designed to meet the needs of specific target markets and include warranty, auto, homeowners and personal liability.

ACE Global Markets comprises our insurance operations within ACE European Group Limited (AEGL, formerly ACE INA UK Limited) and at Lloyd's via Syndicate 2488. ACE provides funds at Lloyd's to support underwriting by Syndicate 2488, which primarily underwrites P&C business on a global basis through Lloyd's worldwide licenses. AEGL underwrites similar classes of business through its network of UK and Continental Europe licenses, and in U.S. states where it is eligible to write E&S business. All business underwritten by ACE Global Markets is accessed through registered brokers. The main lines of business include aviation, property, energy, professional lines, marine, political risk and A&H. ACE Global Markets is an established lead underwriter on a significant portion of the risks underwritten, particularly within the aviation and marine lines of business, and hence is able to set the policy terms and conditions of many of the policies written.

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	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Net premiums written	$ 1,062	$ 1,098	$2,257	$ 2,276
Net premiums earned	1,081	1,069	2,169	2,088
Losses and loss expenses	610	627	1,220	1,213
Policy acquisition costs	217	195	409	380
Administrative expenses	142	139	290	277
Underwriting income	$ 112	$ 108	$ 250	$ 218
Net investment income	80	58	154	108
Net realized gains	34	3	52	27
Other expense	5	4	11	7
Income tax expense	48	60	100	111
Net income	$ 173	$ 105	$ 345	$ 235
Loss and loss expense ratio	56.4%	58.6%	56.2%	58.1%
Policy acquisition cost ratio	20.1%	18.3%	18.9%	18.2%
Administrative expense ratio	13.2%	13.0%	13.4%	13.3%
Combined ratio	89.7%	89.9%	88.5%	89.6%

Net premiums written for Insurance – Overseas General decreased three percent and one percent in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. Decreases in production were partially offset by gains on conversion from the weakening of the U.S. dollar against the British pound sterling and the Euro (see table below for impact of foreign exchange on net premiums written and earned).

The following two tables provide a line of business and entity/divisional breakdown of Insurance – Overseas General's net premiums earned for the periods indicated.

	Three Months Ended June 30				Six Months Ended June 30			
	2005	% of total	2004 (Restated)	% of total	2005	% of total	2004 (Restated)	% of total
	(in millions of U.S. dollars)							
Property and all Other	$ 382	35%	$ 365	34%	$ 783	36%	$ 688	33%
Casualty	431	40%	457	43%	866	40%	940	45%
Personal Accident (A&H)	268	25%	247	23%	520	24%	460	22%
Net premiums earned	$1,081	100%	$ 1,069	100%	$2,169	100%	$ 2,088	100%

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
ACE Europe	$ 476	$ 495	$ 951	$ 958
ACE Asia Pacific	138	114	272	229
ACE Far East	97	94	196	190
ACE Latin America	103	87	205	167
ACE International	814	790	1,624	1,544
ACE Global Markets	267	279	545	544

Net premiums earned	$ 1,081	$ 1,069	$ 2,169	$ 2,088

Insurance – Overseas General increased net premiums earned one percent and four percent in the three and six months ended June 30, 2005, compared with the same periods in 2004. These increases were primarily due to the depreciation of the U.S. dollar. ACE International's net premiums earned increased three percent and five percent in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. These modest increases were primarily due to the relative position of the U.S. dollar, as strong A&H growth was more than offset by lower P&C writings. ACE Europe, which accounts for approximately half of ACE International's net premiums earned, reported a decline in production, particularly in the U.K. P&C business, which is experiencing increased competitive pricing conditions which have resulted in lower rates, deterioration in terms and reduced renewal activity. ACE Latin America and ACE Asia Pacific continued to report solid growth in A&H business for the three and six months ended June 30, 2005. ACE Global Markets' net premiums earned decreased four percent and were stable in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. The decrease for the current quarter was primarily due to lower rates and a decline in new business opportunities across most of ACE Global Markets' portfolio of products, particularly within property and professional lines.

Insurance – Overseas General conducts business internationally and in most major foreign currencies. The following table summarizes the approximate effect of changes in foreign currency exchange rates on the growth of net premiums written and earned for the periods indicated.

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net premiums written:		
Growth in original currency	(6.9)%	(4.8)%
Foreign exchange effect	3.6%	4.0%
Growth as reported in U.S. dollars	(3.3)%	(0.8)%
Net premiums earned:		
Growth in original currency	(2.9)%	—
Foreign exchange effect	4.0%	3.9%
Growth as reported in U.S. dollars	1.1%	3.9%

Insurance – Overseas General's loss and loss expense ratio decreased 2.2 percentage points and 1.9 percentage points in the three and six months ended June 30, 2005, respectively, compared with the same periods of 2004, primarily due to an increase in net favorable prior period development, combined with favorable current accident year experience. The following table shows the impact of prior period development on our loss and loss expense ratio for the periods indicated.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Loss and loss expense ratio, as reported	56.4%	58.6%	56.2%	58.1%
Prior period development	1.9%	0.2%	0.6%	1.2%
Loss and loss expense ratio, adjusted	58.3%	58.8%	56.8%	59.3%

The loss and loss expense ratios for the three and six months ended June 30, 2005, benefited from net favorable prior period development of $21 million and $14 million, respectively. The net favorable prior period development for the three and six months ended June 30, 2005, represented 0.4 percent and 0.3 percent of the segment's net unpaid loss and loss expense reserves at March 31, 2005, and December 31, 2004, respectively. Net favorable prior period development was $2 million and $25 million for the three and six months ended June 30, 2004, respectively. The net favorable prior period development for the three and six months ended June 30, 2004, represented less than 0.1 percent and 0.7 percent of the segment's net unpaid loss and loss expense reserves at March 31, 2004, and December 31, 2003, respectively.

The net prior period development for the quarter ended June 30, 2005, was the net result of several underlying favorable and adverse movements, the most significant of which were:

- Favorable development of $34 million on short-tail property, marine, accident & health, technical and energy lines identified as part of our standard quarterly reserving process and arose from the better than expected emergence of actual claims relative to expectations used to establish the reserves, principally related to the 2004 accident year, and to a lesser extent the 2003 accident year.

- Adverse development of $9 million on professional indemnity and financial lines principally related to accident years 2002 and prior arose following the completion in the current quarter of a claims and actuarial review that reviewed updated claims information relative to the assumptions used to establish reserves.

The net prior period development for the quarter ended June 30, 2004, was the net result of several underlying favorable and adverse movements. The favorable development in 2004 was primarily related to fire, technical, and energy lines in the U.K. and Europe partially offset by adverse claim development on the aviation product liability line of business and favorable experience on other lines at ACE Global Markets.

The policy acquisition cost ratio for Insurance – Overseas General increased in the three and six months ended June 30, 2005, compared with the same periods of 2004, primarily due to higher commissions for the current quarter as a result of changes in business mix (increase in A&H, which typically incurs higher commission than other business) and increased commissions on certain P&C lines at ACE Europe. In addition, the quarter ended June 30, 2005, was impacted by ceded premium reinstatement costs on a large loss, reducing the earned premium base compared with the same quarter in 2004. Insurance – Overseas General administrative expenses increased three percent and five percent in the three and six months ended June 30, 2005, primarily due to the depreciation of the U.S. dollar and to a lesser extent, increased costs to support business opportunities at ACE Europe and ACE Asia Pacific. These increases in administrative expenses were partially offset by improvements at ACE Global Markets due to a decline in Lloyd’s costs – a result of our reduced capacity through Syndicate 2488.

Global Reinsurance

The Global Reinsurance segment comprises ACE Tempest Re Bermuda, ACE Tempest Re USA, and ACE Tempest Re Europe. ACE Tempest Life Re (ACE Life Re), our Bermuda-based life reinsurance operation is discussed separately. Global Reinsurance markets its reinsurance products worldwide under the ACE Tempest Re brand name and provides a broad range of coverages to a diverse range of primary P&C companies.

ACE Tempest Re Bermuda principally provides property catastrophe reinsurance globally to insurers of commercial and personal property. Property catastrophe reinsurance written on an occurrence basis protects a ceding company against an accumulation of losses covered by its issued insurance policies, arising from a common event or occurrence. ACE Tempest Re Bermuda underwrites reinsurance principally on an excess of loss basis, meaning that its exposure only arises after the ceding company’s accumulated losses have exceeded the attachment point of the reinsurance policy.

ACE Tempest Re USA acts as an underwriting agency on behalf of three of our U.S. companies. The focus of ACE Tempest Re USA has been on writing property per risk and casualty reinsurance, including marine, general aviation, surety and facultative, principally on a treaty basis, with a weighting toward casualty.

ACE Tempest Re Europe offers clients reinsurance coverage through four divisions; Lloyd’s Syndicate 2488 and ACE European Group Limited in London, ACE European Markets Reinsurance Limited in Dublin and a division in Bermuda writing aviation business on behalf of London. The London and Dublin divisions write all lines of traditional and specialty property, casualty, marine, aviation, and medical malpractice but are oriented to specialty and short-tail products.

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Property and Casualty Reinsurance

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Net premiums written	$ 363	$ 365	$ 890	$ 937
Net premiums earned	372	347	728	679
Losses and loss expenses	206	173	411	333
Policy acquisition costs	77	74	150	138
Administrative expenses	16	16	31	34
Underwriting income	$ 73	$ 84	$ 136	$ 174
Net investment income	40	29	79	56
Net realized gains (losses)	6	(3)	—	12
Interest Expense	—	—	1	—
Other (income) expense	1	—	2	—
Income tax expense	9	1	18	5
Net income	$ 109	$ 109	$ 194	$ 237
Loss and loss expense ratio	55.4%	50.0%	56.5%	49.1%
Policy acquisition cost ratio	20.7%	21.3%	20.6%	20.3%
Administrative expense ratio	4.1%	4.5%	4.2%	5.0%
Combined ratio	80.2%	75.8%	81.3%	74.4%

Global Reinsurance's net premiums written were stable and decreased five percent in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. The decrease for the six months ended June 30, 2005, was primarily driven by lower than expected January 1 renewals due to the continued downturn in market conditions for property and property catastrophe business in Bermuda and Europe. This trend was partially offset by rate improvements in Florida, following unprecedented storm activity late in 2004.

The following two tables provide a line of business and entity/divisional breakdown of Global Reinsurance's net premiums earned for the periods indicated.

	Three Months Ended June 30				Six Months Ended June 30			
	2005	% of total	2004 (Restated)	% of total	2005	% of total	2004 (Restated)	% of total
	(in millions of U.S. dollars)							
Property and all Other	$ 81	22%	$ 91	26%	$167	23%	$ 177	26%
Casualty	217	58%	177	51%	420	58%	339	50%
Property Catastrophe	74	20%	79	23%	141	19%	163	24%
Net premiums earned	$372	100%	$ 347	100%	$728	100%	$ 679	100%

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
ACE Tempest Re Europe	$ 66	$ 75	$ 142	$ 150
ACE Tempest Re USA	230	189	442	360
ACE Tempest Re Bermuda	76	83	144	169
Net premiums earned	$ 372	$ 347	$ 728	$ 679

Net premiums earned increased seven percent in the three and six months ended June 30, 2005, compared with the same periods in 2004. These increases were primarily driven by strong production written in prior periods on non-catastrophe P&C

business. Non-catastrophe P&C business has represented a growing portion of Global Reinsurance's net premiums written over the last three years, and in general, has experienced more favorable market conditions over this time period compared with catastrophe lines.

ACE Tempest Re USA, reported 22 percent and 23 percent increases in net premiums earned in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004, primarily due to casualty earnings on policies written in prior periods. ACE Tempest Re Europe reported decreases in net premiums earned of 12 percent and five percent in the three and six months ended June 30, 2005, respectively, primarily due to lower rates and reductions in renewals and new business across most lines of business. ACE Tempest Re Bermuda reported eight percent and 15 percent decreases in net premiums earned in the three and six months ended June 30, 2005, respectively. After several quarters of rate decreases, market conditions for property catastrophe business improved in the three months ended June 30, 2005, and will be reflected in net premiums earned in future periods.

The loss and loss expense ratio increased 5.4 percentage points and 7.4 percentage points in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004. These increases were primarily due to changes in mix of business (see explanation below) and a decline in net favorable prior period development. The following table shows the impact of catastrophe losses and prior period development on our loss and loss expense ratio for the periods indicated.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Loss and loss expense ratio, as reported	55.4%	50.0%	56.5%	49.1%
Catastrophe losses	—	—	(0.4)%	—
Prior period development	0.9%	3.7%	0.4%	3.8%
Loss and loss expense ratio, adjusted	56.3%	53.7%	56.5%	52.9%

Global Reinsurance recorded $3 million of net favorable prior period development in the six months ended June 30, 2005 (experienced in the current quarter), representing 0.2 percent of the segment's net unpaid loss and loss expense reserves at March 31, 2005 and December 31, 2004. In the three and six months ended June 30, 2004, we experienced net favorable prior period development of $13 million and $26 million, respectively. The net favorable prior period development for the three and six months ended June 30, 2004, represented 1.2 percent and 2.2 percent of the segment's net unpaid loss and loss expense reserves at March 31, 2004, and December 31, 2003, respectively. The net prior period development for the quarter ended June 30, 2005, was the net result of several offsetting favorable and adverse movements on reserves established following catastrophe events for property and property catastrophe lines of business. These movements were identified as part of our standard quarterly reserving process and included $7 million of adverse prior period development on the third quarter 2004 storms principally related to increased loss estimates on certain previously reported claims and $10 million of miscellaneous favorable development on accident years 2004 and prior. The net prior period development for the quarter ended June 30, 2004 related primarily to property and other short-tail lines. Global Reinsurance experienced $3 million of catastrophe losses in the six months ended June 30, 2005, related to European windstorms, compared with nil for the same period in 2004. The remaining increase in the loss and loss expense ratio was primarily related to the shift in mix of business that has resulted from growth in non-catastrophe P&C business at ACE Tempest Re USA and ACE Tempest Re Europe. Non-catastrophe P&C business typically exhibits higher loss ratios than property catastrophe business (except for periods with high catastrophe losses). Additionally, during the second quarter of 2005, ACE Tempest Re USA wrote more business on a pro-rata basis versus excess-of-loss, the latter of which typically experiences higher losses and loss expense ratios.

Administrative expenses have remained stable in the three and six months ended June 30, 2005, compared with the same periods in 2004. The administrative expense ratio decreased due to the increases in net premiums earned.

Life Reinsurance

ACE Life Re principally provides reinsurance coverage to other life insurance companies, focusing on guarantees included in certain fixed and variable annuity products. The reinsurance transactions ACE Life Re enters into typically help clients (ceding companies) to manage mortality, morbidity, lapse and/or capital market risks embedded in their books of business. Sophisticated stochastic modeling techniques are used to price reinsurance products based on robust actuarial and investment models which incorporate a number of factors. These factors include assumptions for mortality, morbidity, expenses, demographics, persistency, investment returns, macroeconomic factors such as inflation and taxation and certain regulatory factors such as reserve and surplus requirements. ACE Life Re's reinsurance treaties are non-proportional in nature, all of which incorporate some form of annual claim limit, and many of which include an aggregate claim limit as well as either an annual or aggregate claim deductible. ACE Life Re also uses modeling software to monitor, measure, and manage the aggregate exposure which is bound by limits set by senior management.

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We assess the performance of our life reinsurance business based on life underwriting income which includes net investment income.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
	(in millions of U.S. dollars)			
Net premiums written	$ 57	$ 55	$ 115	$ 106
Net premiums earned	57	54	115	105
Life and annuity benefits	37	44	72	86
Policy acquisition costs	4	6	8	11
Administrative expenses	1	1	3	2
Net investment income	10	8	19	16
Life underwriting income	25	11	51	22
Net realized (losses) gains	27	15	11	(10)
Net income	$ 52	$ 26	$ 62	$ 12

Life underwriting income improved in the three and six months ended June 30, 2005, compared with the same periods in 2004, primarily due to the decrease in life and annuity benefits, combined with the increase in net premiums earned. Life and annuity benefits declined primarily due to the decrease in group long-term disability business (discontinued in 2002), which typically incurs higher benefit ratios than other types of business and also experienced a reserve strengthening in the prior year periods. Net premiums earned increased due to higher variable annuity production, partially offset by the continued decrease in production of group long-term disability business. Higher net realized gains in the quarter ended June 30, 2005, resulted in an increase in net income for the three and six months ended June 30, 2005, compared with the same periods in 2004. The net realized gains (losses) for three and six months ended June 30, 2005 and 2004, consisted primarily of fair value adjustments on guaranteed minimum income benefits (GMIBs), which occur due to movements in interest rates and the equity markets. In addition, the fair value adjustment in the quarter ended June 30, 2005 incorporated changes in some assumptions used to calculate the fair value of the GMIB liability. The aggregate impact of these changes, which primarily related to changes in expectations of future policyholder lapse and mortality rates in various economic scenarios, was a $108 million decrease in the fair value of the GMIB liability. These changes were prompted by emerging experience and are in line with industry standards; such changes may occur periodically.

Financial Services

The Financial Services segment consists of our financial solutions business and our proportionate share of Assured Guaranty's earnings, which is 100 percent through April 28, 2004, and 34.7 percent thereafter. The financial solutions operations provide one-off insurance and reinsurance solutions to clients with unique or complex risks, which are not adequately addressed in the traditional insurance market. Each financial solutions contract is structured to meet the needs of each client. Assured Guaranty provides credit enhancement products to the municipal finance, structured finance and mortgage markets.

Certain products (principally credit protection oriented) issued by the Financial Services segment have been determined to meet the definition of a derivative under FAS 133. For more information see the section entitled "Critical Accounting Estimates - Derivatives", under Item 7 of our Annual Report on Form 10-K/A for the year ended December 31, 2004.

From April 29, 2004, our proportionate share of Assured Guaranty's earnings is reflected in "Other (income) expense" in our consolidated statement of operations. The equity in net income recorded from Assured Guaranty in the three and six months ended June 30, 2005, was $13 million and $25 million, respectively.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Net premiums written	$ 15	$ 13	$ 176	$ 221
Net premiums earned	92	134	182	313
Losses and loss expenses	70	90	153	175
Policy acquisition costs	1	9	3	20
Administrative expenses	7	9	11	34
Underwriting income	$ 14	$ 26	$ 15	$ 84
Net investment income	30	36	62	89
Net realized gains (losses)	3	(32)	9	(27)
Interest expense	—	1	—	3
Other (income) expense	(13)	(7)	(25)	4
Income tax expense	7	11	13	31
Net income	$ 53	$ 25	$ 98	$ 108
Loss and loss expense ratio	76.0%	66.1%	84.0%	55.8%
Policy acquisition cost ratio	1.4%	7.0%	1.8%	6.4%
Administrative expense ratio	6.7%	7.5%	5.7%	11.0%
Combined ratio	84.1%	80.6%	91.5%	73.2%

Financial Services' reported a modest increase in net premiums written for the current quarter and a decrease of 20 percent in six months ended June 30, 2005, compared with the same period in 2004. Net premiums written in the three and six months ended June 30, 2005 and 2004, related entirely to our financial solutions business. Premium volume in the financial solutions business can vary significantly from period to period and therefore premiums written in any one period are not indicative of premiums to be written in future periods. The decline in production for the six months ended June 30, 2005, reflects the decrease in underwriting opportunities in some lines of business and accounting for various transactions as deposits. Deposit accounting requires that consideration received be recorded in the balance sheet as opposed to gross premiums written in the income statement and any non-refundable fees are recorded in other income (expense).

The Financial Services segment reported a significant decrease in underwriting income in the three and six months ended June 30, 2005, compared with the same periods in 2004. The three and six months ended June 30, 2004, included $6 million and $50 million of underwriting income from financial guaranty business prior to the IPO, mainly driven by an especially low loss and loss expense ratio due to the settlement of one-time transactions in preparation for the IPO. In addition, the loss and loss expense ratios for the three and six months ended June 30, 2005, were positively impacted by $8 million and $7 million of net favorable prior period development, respectively. The net favorable prior period development for the three and six months ended June 30, 2005, represented 0.4 percent and 0.3 percent of the segment's net unpaid loss and loss expense reserves at March 31, 2005, and December 31, 2004, respectively. For the three and six months ended June 30, 2004, we experienced net favorable prior period development of $5 million and $7 million, respectively. The net favorable prior period development for the three and six months ended June 30, 2004, represented 0.2 percent of the segment's net unpaid loss and loss expense reserves at March 31, 2004, and December 31, 2003, respectively. The net prior period development for the quarter ended June 30, 2005, was the net result of several underlying modest favorable and adverse movements but primarily related to a significant reduction of outstanding balances on a securitized portfolio of credit card receivables following an analysis of recent collection experience. The net prior period development for the quarter ended June 30, 2004, related primarily to favorable development on a high excess of loss assumed multi-year contract partially offset by adverse development on two assumed reinsurance contracts.

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Net Investment Income

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Insurance – North American	$ 142	$ 110	$ 273	$ 214
Insurance – Overseas General	80	58	154	108
Global Reinsurance – P&C	40	29	79	56
Global Reinsurance – Life	10	8	19	16
Financial Services	30	36	62	89
Corporate and Other	3	2	3	2
Net investment income	$ 305	$ 243	$ 590	$ 485

Net investment income is influenced by a number of factors, including the amounts and timing of inward and outward cash flows, the level of interest rates, and changes in overall asset allocation. Net investment income increased 26 percent and 22 percent in the three and six months ended June 30, 2005, compared with the same periods in 2004. The increase in net investment income was primarily due to positive operating cash flows, which have resulted in a higher overall average invested asset base. The investment portfolio's average yield on fixed maturities was 4.3 percent at June 30, 2005, compared with 4.6 percent at June 30, 2004. The sale of Assured Guaranty in 2004 reduced the average invested asset base for Financial Services and resulted in declines in net investment income for that segment of 17 percent and 30 percent in the three and six months ended June 30, 2005, respectively, compared with the same periods in 2004.

Net Realized Gains (Losses)

Our investment strategy takes a long-term view, and our investment portfolio is actively managed to maximize total return within certain specific guidelines, designed to minimize risk. During the quarter ended March 31, 2005, we transferred securities that we have the ability and intent to hold to maturity or redemption from the available for sale classification to the held to maturity classification. The transfer was made at the fair value at the date of transfer (refer to the section entitled "Investments" for more information). Our held to maturity investment portfolio is reported at amortized cost. Our available for sale investment portfolio is reported at fair value. The effect of market movements on our available for sale investment portfolio impacts net income (through net realized gains (losses)) when securities are sold or when "other than temporary" impairments are recorded on invested assets. Additionally, net income is impacted through the reporting of changes in the fair value of derivatives, including financial futures, options, spread lock swaps, GMIB reinsurance, and credit-default swaps. Changes in unrealized appreciation and depreciation on available for sale securities, which result from the revaluation of securities held, are reported as a separate component of accumulated other comprehensive income in shareholders' equity.

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The following table presents our pre-tax net realized gains (losses) for the periods indicated:

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Fixed maturities and short-term investments	$ 26	$ (8)	$ 13	$ 47
Equity securities	21	40	35	68
Other investments	2	(4)	4	(11)
Currency	2	(8)	(1)	(3)
Derivatives:				
Financial futures, options, spread lock swaps and interest rate swaps	(43)	30	(43)	29
Fair value adjustment on insurance derivatives	24	(8)	10	(31)
Subtotal derivatives	(19)	22	(33)	(2)
Total net realized gains (losses)	$ 32	$ 42	$ 18	$ 99

Subject to investment guidelines approved by our Finance and Investment Committee (relating to asset classes, credit quality, and liquidity), our investment managers generally have the ability to sell securities from our available for sale investment portfolio when they determine that an alternative security with comparable risks is likely to provide a higher investment return, considering the realized gain or loss on sale and differential in future investment income. Often, sales of individual securities occur when investment managers conclude there are changes in the credit quality of a particular security or, for other reasons, market value is apt to deteriorate. Further, we may sell securities when we conclude it is prudent to reduce a concentration in a particular issuer or industry. Therefore, sales volume may increase in a volatile credit market in which credit spreads and thus the market value of fixed maturity investments are subject to significant changes in a short period of time. The interest rate environment will tend to have a limited effect on sales volume but extreme conditions could have an affect on the magnitude of realized gains or losses. For example, in a declining rate environment, the market value of securities increase, resulting in a greater likelihood of net realized gains and we would therefore tend to reduce the average duration of our fixed maturity investment portfolio. An increasing rate environment would tend to have the opposite effect. The effect of a high level of realized losses or gains for a particular period will tend to be offset by increases or decreases in investment income, respectively, in subsequent periods. From a liquidity perspective, our greatest risk is that we could be forced to sell a large volume of securities at a loss (i.e., in a high interest rate environment) to meet operating needs and are thus unable to reinvest proceeds to recoup such losses with future investment income (see section entitled “Liquidity and Capital Resources” for more information).

FAS 133 requires us to recognize all derivatives as either assets or liabilities on our consolidated balance sheet and measure them at fair value. We record the gains and losses resulting from the fair value measurement of derivatives in net realized gains (losses). We participate in derivative instruments in two principal ways as follows: i) to offer protection to others as the seller or writer of the derivative, such as our GMIB reinsurance contracts that are treated as derivatives for accounting purposes and our credit derivatives; or ii) to mitigate our own risk, principally arising from our investment holdings. We do not consider either type of transaction to be speculative. In the three and six months ended June 30, 2005, we recorded net realized losses of $19 million and $33 million, respectively, on derivative transactions. This compares with a net realized gain of $22 million and a net realized loss of $2 million, in the three and six months ended June 30, 2004, respectively. For an analysis of the effect of changes in interest rates and equity indices on the fair value of derivatives and the resulting impact on our net income, refer to Item 7A. of our Annual Report on Form 10-K/A for the year ended December 31, 2004.

With respect to our GMIB reinsurance and credit derivatives, we record a portion of the change in fair value in future policy benefits for life and annuity contracts and unpaid loss and loss expenses, respectively, representing our best estimate of loss pay-outs related to fees or premiums earned, and a portion in net realized gains (losses), representing other changes in fair value. The fair value adjustments related to GMIB reinsurance and credit derivatives included in net realized gains (losses) in the three and six months ended June 30, 2005, were net realized gains of $24 million and $10 million, respectively. The fair value adjustment included in net realized gains (losses) for the three and six months ended June 30, 2004 were net realized losses of $8 million and $31 million, respectively. The change in fair values related to GMIB reinsurance was realized gains of $27 million and $6 million in the three and six months ended June 30, 2005, respectively. This compares with a net realized gain of $15 million and a net realized loss of $10 million in the three and six months ended June 30, 2004. The gain or loss

created by the estimated fair value adjustment will rise or fall each period based on estimated market pricing and may not be an indication of ultimate claims. Fair value is defined as the amount at which an asset or liability could be bought or sold in a current transaction between willing parties. We generally plan to hold derivative financial instruments to maturity. Where we hold derivative financial instruments to maturity, these fair value adjustments would generally be expected to reverse resulting in no gain or loss over the entire term of the contract. However, in the event that we terminate a derivative contract prior to maturity, as a result of a decision to exit a line of business or for risk management purposes, the difference between the final settlement of cash inflows and outflows and financial statement accruals for premiums and losses will be reflected as premiums earned and losses incurred, respectively. Additionally, at termination, any unrealized gain or loss, previously classified as a realized gain or loss, will be reversed and classified as a realized loss or gain, respectively. The changes in the fair value of GMIBs are determined using internal valuation models. Such valuations require considerable judgment and are subject to significant uncertainty. The valuation of these products is subject to fluctuations arising from, among other factors, changes in interest rates, changes in the equity markets, and changes in the allocation of the investments underlying annuitant’s account value. These models and the related assumptions are continually reviewed by management and enhanced, as appropriate, based upon improvements in modeling techniques and availability of more timely information, such as market conditions and demographics of in-force annuities.

The net realized loss of $43 million on financial futures, options, spread lock swaps and interest rate swaps for the three and six months ended June 30, 2005, was primarily driven by losses on interest rate swaps. We recorded net realized losses of $52 million and $57 million on interest rate swaps in the three months and six months ended June 30, 2005, compared with net realized gains of $27 million and $13 million for the same periods in 2004. These instruments are designed to reduce the negative impact of increases in interest rates on our fixed maturity portfolio. For the three and six months ended June 30, 2005, we recorded a net realized gain of $5 million and a net realized loss of $1 million, respectively, on our fixed income futures contracts. For the same periods, we recorded net realized gains of $4 million and $15 million on foreign currency forward contracts. We use foreign currency forward contracts to minimize the effect of fluctuating foreign currencies on certain non-U.S. dollar holdings in our portfolio that are not specifically matching foreign currency liabilities. These contracts are not designated as specific hedges and we record all realized and unrealized gains and losses on these contracts as net realized gains (losses) in the period in which the currency values change.

We regularly review our investment portfolio for possible impairment based on criteria including economic conditions, credit loss experience and issuer-specific developments. If there is a decline in a security’s net realizable value, we must determine whether that decline is temporary or “other than temporary”. If we believe a decline in the value of a particular investment is temporary, we record it as an unrealized depreciation in our shareholders’ equity. If we believe the decline is “other than temporary”, we write down the carrying value of the investment and record a net realized loss in our statement of operations. The decision to recognize a decline in the value of a security carried at fair value as “other than temporary” rather than temporary has no impact on our book value. Once a security is identified as having a potential “other than temporary” impairment, we determine whether or not cost will ultimately be recovered and whether we have the intent and ability to hold the security until an expected recovery period, absent a significant change in facts that is expected to have a material adverse financial effect on the issuer.

The following table shows for the periods indicated, the write-downs included in net realized gains (losses) as a result of conditions which caused us to conclude the decline in fair value of the investment was “other than temporary”:

	Three Months Ended June 30		Six Months Ended June 30	
	2005	**2004 (Restated)**	**2005**	**2004 (Restated)**
	(in millions of U.S. dollars)			
Fixed maturities	$ 4	$ 3	$ 24	$ 4
Equity securities	1	2	2	3
Total write-downs included in net realized gains (losses)	$ 5	$ 5	$ 26	$ 7

The process of determining whether a decline in value is temporary or “other than temporary” requires considerable judgment and differs depending on whether or not the security is traded on a public market as well as by type of security. We review all of our fixed maturities and equity securities for potential impairment each quarter. See our Annual Report on Form 10-K/A for the year ended December 31, 2004 (Note 5 (e) to the Consolidated Financial Statements) for criteria we consider in assessing potential impairment.

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Other Income and Expense Items

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Equity in net income of partially-owned companies	$ (14)	$ (15)	$ (26)	$ (17)
Minority interest expense	7	6	13	12
Other	1	8	2	8
Goodwill impairment	—	—	—	13
Other (income) expense	$ (6)	$ (1)	$ (11)	$ 16

Other income for the three and six months ended June 30, 2005, included $13 million and $25 million, respectively, related to equity in net income of Assured Guaranty. This was partially offset by minority interest expense due to the profitability of our consolidated joint ventures. We reported a net increase in our goodwill balance of $3 million during the six months ended June 30, 2005, primarily due to our purchase of the remaining interest of a previously partially-owned subsidiary.

Investments

Our principal investment objective is to ensure that funds are available to meet our insurance and reinsurance obligations. Within this broad liquidity constraint, the purpose of our investment portfolio's structure is to maximize total return subject to specifically approved guidelines of overall asset classes, credit quality, liquidity and volatility of expected returns. Our investment portfolio is invested primarily in fixed income securities with an average credit quality of AA, as rated by the independent investment rating service S&P. The portfolio is externally managed by independent, professional investment managers. The average duration of our fixed income securities, including the effect of spread lock swaps, declined to 3.0 years at June 30, 2005, compared with 3.4 years at December 31, 2004. We estimate that a 50 basis point increase in interest rates would reduce our book value by approximately one quarter's investment income (current quarter's investment income was $305 million). Our "other investments" principally comprise direct investments, investments in investment funds and investments in limited partnerships.

Given the significant growth in our investment portfolio over the last several years, as well as our continued efforts to manage the diversification of the portfolio on an enterprise-wide basis, we have implemented a strategy to hold to maturity certain fixed maturity securities that are considered essential holdings in a diversified portfolio of our size. Because we have the intent to hold such securities to maturity, they have been reclassified from available for sale to held to maturity in our consolidated balance sheet at June 30, 2005. A transfer of such securities with a carrying value (fair value) of $3.2 billion was made during the quarter ended March 31, 2005. The unrealized appreciation (depreciation) at the date of the transfer continues to be reported in a separate component of stockholders' equity and is to be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount. The unrealized appreciation on the date of transfer was $16 million. In connection with this strategy, we use derivatives designed to reduce the negative impact of increases in interest rates on our fixed maturity portfolio.

Our debt securities include fixed-maturity securities, which are classified as either held to maturity or available for sale. Securities classified as held to maturity are securities that we have the ability and intent to hold to maturity or redemption and are carried at amortized cost. All other debt securities and our equity securities are classified as available for sale and are carried at fair value. The net unrealized appreciation (depreciation) on securities available for sale, plus the unamortized unrealized appreciation (depreciation) on debt securities transferred to the held to maturity portfolio, less related deferred income taxes, are included in accumulated other comprehensive income.

The following table shows the fair value and cost/amortized cost of our invested assets at June 30, 2005 and December 31, 2004.

	June 30, 2005		December 31, 2004 (Restated)	
	Fair Value	Cost/ Amortized Cost	Fair Value	Cost/ Amortized Cost
	(in millions of U.S. dollars)			
Fixed maturities available for sale	$21,136	$ 20,825	$22,891	$ 22,422
Fixed maturities held to maturity	3,207	3,151	—	—
Short-term investments	2,476	2,476	2,163	2,163
	26,819	26,452	25,054	24,585
Equity securities	1,380	1,213	1,265	1,061
Other investments	628	562	606	551
Total investments	$28,827	$ 28,227	$26,925	$ 26,197

We also gain exposure to equity markets through the use of derivative instruments. The combined equity exposure through both our equity portfolio and derivative instruments was valued at $1.4 billion at June 30, 2005, and December 31, 2004. The increase in the fair value of total investments of $969 million was due to positive cash flows from operations during the six months ended June 30, 2005. This increase was partially offset by unrealized depreciation of $160 million, mainly on fixed maturities, due to an overall increase in U.S. short-term interest rates during the period.

The following tables show the market value of our fixed maturities and short-term investments at June 30, 2005 and December 31, 2004. The first table lists investments according to type and the second according to S&P credit rating.

	June 30, 2005		December 31, 2004 (Restated)	
	Market Value	Percentage of Total	Market Value	Percentage of Total
	(in millions of U.S. dollars)		(in millions of U.S. dollars)	
Treasury	$ 1,704	6%	$ 1,551	7%
Agency	1,553	6%	1,547	7%
Corporate	7,555	28%	7,614	30%
Mortgage-backed securities	6,169	23%	5,034	20%
Asset-backed securities	1,444	6%	1,225	5%
Municipal	548	2%	566	2%
Non-US	5,370	20%	5,376	21%
Cash and cash equivalents	2,476	9%	2,141	8%
Total	$ 26,819	100%	$ 25,054	100%

	Market Value	Percentage of Total	Market Value	Percentage of Total
	(in millions of U.S. dollars)		(in millions of U.S. dollars)	
AAA	$ 16,205	61%	$ 13,890	55%
AA	2,198	8%	2,634	11%
A	4,295	16%	4,397	18%
BBB	1,974	7%	2,275	9%
BB	1,041	4%	774	3%
B	1,060	4%	1,041	4%
Other	46	—	43	—
Total	$ 26,819	100%	$ 25,054	100%

In accordance with our investment process, we invest in below-investment grade securities through dedicated investment portfolios managed by external investments managers that have investment professionals specifically dedicated to this asset class. At June 30, 2005, our fixed income investment portfolio included below-investment grade and non-rated securities which, in total, comprised approximately eight percent of our fixed income portfolio. We define a security as being below-investment grade if it has an S&P credit rating of BB or less. Our below investment-grade and non-rated portfolio includes approximately 790 issues, with the top 15 holdings making up approximately 11 percent of the $2.2 billion balance at June 30, 2005. The highest single exposure in this portfolio of securities is $26 million. Below-investment grade securities have different characteristics than investment grade corporate debt securities. Risk of loss from default by the borrower is greater with below-investment grade securities. Below-investment grade securities are generally unsecured and are often subordinated to other creditors of the issuer. Also, issuers of below-investment grade securities usually have higher levels of debt and are more sensitive to adverse economic conditions such as recession or increasing interest rates, than are investment grade issuers. We reduce the overall risk in the below-investment grade portfolio, as in all investments, through careful credit analysis, strict investment policy guidelines, and diversification by issuer and/or guarantor as well as by industry.

Unpaid Losses and Loss Expenses

We establish reserves for the estimated unpaid ultimate liability for losses and loss expenses under the terms of our policies and agreements. These reserves take into account estimates both for claims that have been reported and for IBNR, and include estimates of expenses associated with processing and settling claims. The table below presents a roll forward of our unpaid losses and loss expenses for the six months ended June 30, 2005.

	Gross Losses	Reinsurance Recoverable	Net Losses
	(in millions of U.S. dollars)	(Restated)	
Balance at December 31, 2004 (restated)	$31,483	$ 13,966	$17,517
Losses and loss expenses incurred	5,348	1,715	3,633
Losses and loss expenses paid	(3,917)	(1,515)	(2,402)
Other (including foreign exchange revaluation)	(813)	(666)	(147)
Balance at June 30, 2005	$32,101	$ 13,500	$18,601

The process of establishing reserves for claims can be complex and is subject to considerable variability as it requires the use of informed estimates and judgments. Our estimates and judgments may be revised as additional experience and other data become available and are reviewed; as new or improved methodologies are developed; or as current laws change. The following table shows our total reserves segregated between case reserves and IBNR reserves.

	June 30, 2005			December 31, 2004 (Restated)		
	Gross	Ceded	Net	Gross	Ceded	Net
	(in millions of U.S. dollars)					
Case reserves	$14,686	$ 6,077	$ 8,609	$14,797	$ 6,003	$ 8,794
IBNR	17,415	7,423	9,992	16,686	7,963	8,723
Total	$32,101	$13,500	$18,601	$31,483	$13,966	$17,517

During the six months ended June 30, 2005, we completed a novation of certain business that we fronted for CIGNA, which resulted in a reduction of gross and ceded reserves of approximately $600 million. The ultimate novation of this business was anticipated under our 1999 agreement that was entered into in connection with the purchase of CIGNA's P&C businesses.

We continually evaluate our reserve estimates taking into account new information and discussion and negotiation with our insureds. We estimate the ultimate loss amounts by projecting losses as of the valuation date using loss development patterns derived from historical data. In addition, a tail factor is applied to the projected loss amount to reflect further potential development beyond the period of historical record. While we believe our reserve for unpaid losses and loss expenses at June 30, 2005 is adequate, new information or trends, such as judicial action broadening the scope of coverage or expanding liability, may lead to future developments in ultimate losses and loss expenses significantly greater or less than the reserve provided, which could have a material adverse effect on future operating results. We believe, however, that our total recorded loss reserves at June 30, 2005, are unlikely to vary by more than ten percent of the recorded amounts, either positively or negatively, based on actual claims emergence over the last several years, excluding A&E development. Historically, including A&E reserve charges, our reserves have developed in excess of ten percent of recorded amounts.

Particularly significant variables for which a change in assumption could have a material effect on unpaid losses and loss expenses include, but are not limited to, the following:

Insurance - North American

Given the long reporting and paid development pattern, the tail factors used to project actual current losses to ultimate losses for claims covered by our middle market workers' compensation policies require considerable judgment that could be material to consolidated losses and loss expense reserves. Specifically, a one percent change in the tail factor could cause approximately a $46 million change, either positively or negatively, for the selected net loss and loss expense ultimate for that segment. We believe that our selected tail factors represent the most likely loss development based on historical loss payment patterns of this and other comparable long-tail lines of business as well as the current legal and economic environment. The actual tail factor could vary by several percentage points from the tail factor selected. Because tail factors are stated in terms of decimals (e.g., 1.125) and often, the actuary's choice regarding reasonably supportable tail factors range within percentages of each other, the realistic change in tail factors can be expressed in percentage points.

Our ACE Bermuda operations write predominantly high excess of loss claims made professional liability and excess liability business typically with attachment points in excess of $100 million. Claims development for this business can vary significantly for individual claims and historically could vary by as much as $50 million per claim for professional liability and $150 million per claim for excess liability depending on the nature of the loss.

Insurance – Overseas General

Certain international long tail lines, such as casualty and professional lines, are particularly susceptible to changes in loss trend and claim inflation. Heightened perceptions of tort and settlement awards around the world are increasing the demand for these products as well as contributing to the uncertainty of the reserving estimates. Our reserving methods rely heavily on loss development patterns estimated from historical data and while we attempt to adjust such factors for known changes in the current tort environment, it is possible that such factors may not entirely reflect all recent trends in tort environments. For example, a three month delay of our selected loss development patterns could increase reserve estimates on long tail casualty and professional lines by approximately $121 million.

Global Reinsurance

Typically there is inherent uncertainty around the length of paid and reporting development patterns, especially for certain casualty lines such as excess workers' compensation or general liability, which may take up to 30 years to fully develop. This uncertainty is accentuated by the need to supplement client development patterns with industry development patterns as justified by the credibility of the data. The underlying source and selection of the final development pattern can thus have a

significant impact on the selected net loss and loss expense ultimate. For example, a 10 percent slowing or quickening of the development pattern for certain long-tail lines could cause the ultimate loss derived by the reported Bornhuetter-Ferguson method to increase by as much as three percent, or $38 million.

Assumed Reinsurance

At June 30, 2005, net unpaid losses and loss expenses for the Global Reinsurance segment aggregated to $1.7 billion, consisting of $426 million of case reserves and $1.2 billion of IBNR. For the current quarter, increases in Global Reinsurance's net unpaid losses and loss expenses were partially offset by claim payments made in connection with third quarter 2004 storms.

On occasion, there will be differences between our carried loss reserves and unearned premium reserves and the amount of loss reserves and unearned premium reserves reported by the ceding companies. This is due to the fact that we only receive consistent and timely information from ceding companies with respect to case reserves. For IBNR, we use historical experience and other statistical information, depending on the type of business, to estimate the ultimate loss (see Unpaid Losses and Loss Expenses for more information). We estimate our unearned premium reserve by applying estimated earning patterns to net premiums written for each treaty based upon that treaty's coverage basis (i.e. risks attaching or losses occurring). At June 30, 2005, the case reserves reported to us by our ceding companies were $410 million, compared with the $426 million we recorded. We do, on occasion, post additional case reserves in addition to the amounts reported by our cedants when our evaluation of the ultimate value of a reported claim is different than the evaluation of that claim by our cedant.

Asbestos and Environmental Liabilities

Included in our liabilities for losses and loss expenses are amounts for asbestos and environmental claims and loss adjustment expenses. These A&E liabilities principally relate to claims arising from bodily-injury claims related to asbestos products and remediation costs associated with hazardous waste sites. The estimation of these liabilities is particularly sensitive to changes in the legal, social and economic environment. We have not assumed any such changes in setting the value of A&E reserves, which include provision for both reported and IBNR claims.

Our exposure to A&E claims principally arises out of liabilities acquired when we purchased Westchester Specialty in 1998 and the P&C business of CIGNA in 1999, with the larger exposure contained within the liabilities acquired in the CIGNA transaction. In 1996, prior to our acquisition of the P&C business of CIGNA, the Pennsylvania Insurance Commissioner approved a plan to restructure INA Financial Corporation and its subsidiaries (the "Restructuring") which included the division of Insurance Company of North America (INA) into two separate corporations: (1) an active insurance company that retained the INA name and continued to write P&C business and (2) an inactive run-off company, now called Century Indemnity Company (Century). As a result of the division, the A&E liabilities of INA were allocated to Century and extinguished, as a matter of Pennsylvania law, as liabilities of INA. As part of the Restructuring, the A&E liabilities of various U.S. affiliates of INA were reinsured to Century, and Century and certain other run-off companies housing A&E liabilities were contributed to Brandywine Holdings Corporation (Brandywine Holdings). As part of the 1999 acquisition of the P&C business of CIGNA, we acquired Brandywine Holdings and its various subsidiaries.

Incurred losses and loss expenses associated with A&E exposures have been very modest in the six months ended June 30, 2005. An internal, ground-up review of our consolidated A&E liabilities conducted during the second half of 2004 identified recent trends resulting in revised indications at that time. During this same period, a team of external actuaries performed an evaluation as to the adequacy of the reserves of Century and its two U.S. insurance subsidiaries, ACE American Reinsurance Company (ACE American Re) and Century Reinsurance Company (Century Re), both Pennsylvania insurers. The external review was conducted in accordance with the Brandywine Restructuring Order, which requires that an external actuarial review of Century's reserves be completed every two years. The studies were completed early in 2005 and adjustments were recorded as of December 31, 2004. Activity in the period since completing the studies has not indicated a need to further adjust ultimate A&E reserves. Our A&E reserves are not discounted and do not reflect any anticipated changes in the legal, social or economic environment, or any benefit from future legislative reforms.

Reinsurance and Other Considerations relating to ACE's Ultimate A&E and other Run-off Exposures

Westchester Specialty

As part of the acquisition of Westchester Specialty, National Indemnity Company (NICO) provided a 75 percent pro-rata share of $1 billion of reinsurance protection excess of the then carried loss and loss adjustment expense reserves. At June 30, 2005, the remaining unused limit under this NICO Westchester Specialty cover was $499 million.

Brandywine Run-off Entities

As part of the acquisition of the CIGNA P&C business, NICO provided $2.5 billion of reinsurance protection to Century on all Brandywine loss and loss adjustment expense reserves and on the A&E reserves of various ACE INA insurance subsidiaries reinsured by Century (in each case, including uncollectible reinsurance). The benefits of this NICO agreement (the “Brandywine NICO Agreement”) flow to the other Brandywine companies and to the ACE INA insurance subsidiaries through reinsurance agreements between those companies and Century. The Brandywine NICO Agreement was exhausted on an incurred basis with the increase in the A&E reserves in the fourth quarter of 2002.

In addition to housing a significant portion of our A&E exposure, the Brandywine operations include run-off liabilities related to various insurance and reinsurance businesses. The following companies comprise ACE’s Brandywine operations: Century, a Pennsylvania insurer, Century Re, ACE American Re, Brandywine Reinsurance Company S.A.-N.V., a Belgium insurer (Brandywine SANV), Century International Reinsurance Company Ltd., a Bermuda insurer (CIRC), and Brandywine Reinsurance Company (UK) Ltd., a U.K. insurer (BRUK). All of the Brandywine companies are direct or indirect subsidiaries of Brandywine Holdings except for BRUK, which is a direct subsidiary of ACE INA International Holdings, Ltd. (ACE INA International Holdings). BRUK’s liabilities have been ceded to Century through CIRC.

The U.S.-based ACE INA companies assumed two contractual obligations in respect of the Brandywine operations in connection with the Restructuring: a dividend retention fund obligation and a surplus maintenance obligation in the form of an aggregate excess of loss reinsurance agreement. In accordance with the Brandywine restructuring order, INA Financial Corporation established and funded a dividend retention fund (the “Dividend Retention Fund”) consisting of $50 million plus investment earnings. The full balance of the Dividend Retention Fund was contributed to Century as of December 31, 2002. To the extent future dividends are paid by INA Holdings Corporation to its parent, INA Financial Corporation, and to the extent INA Financial Corporation then pays such dividends to INA Corporation, a portion of those dividends must be withheld to replenish the principal of the Dividend Retention Fund to $50 million within five years. In the six months ended June 30, 2005, and in 2004 and 2003, no such dividends were paid, and therefore no replenishment of the Dividend Retention Fund occurred. The obligation to maintain and to replenish the Dividend Retention Fund as necessary and to the extent dividends are paid is ongoing until ACE INA receives prior written approval from the Pennsylvania Insurance Commissioner to terminate the fund.

In addition, the ACE INA insurance subsidiaries are obligated to provide insurance coverage to Century in the amount of $800 million under an aggregate excess of loss reinsurance agreement (the “Aggregate Excess of Loss Agreement”) if the statutory capital and surplus of Century falls below $25 million or if Century lacks liquid assets with which to pay claims as they become due, after giving effect to the contribution of the balance, if any, of the Dividend Retention Fund. Coverage under the Aggregate Excess of Loss Agreement was triggered as of December 31, 2002 following contribution of the balance of the Dividend Retention Fund, because Century’s capital and surplus fell below $25 million at December 31, 2002.

Effective December 31, 2004, ACE INA Holdings contributed $100 million to Century in exchange for a surplus note. After giving effect to the contribution and issuance of the surplus note, the statutory surplus of Century at March 31, 2005 (the most recently available date) was $25 million and approximately $459 million in statutory-basis losses were ceded to the Aggregate Excess of Loss Agreement. Century reports the amount ceded under the Aggregate Excess of Loss Agreement in accordance with statutory accounting principles, which differ from GAAP by, among other things, allowing Century to discount its asbestos and environmental reserves. For GAAP reporting purposes, intercompany reinsurance recoverables related to the Aggregate Excess of Loss Agreement are eliminated in consolidation. To estimate ACE’s remaining claim exposure under the Aggregate Excess of Loss Agreement under GAAP, we adjust the statutory cession to exclude the discount embedded in statutory loss reserves. At March 31, 2005, approximately $770 million in GAAP basis losses were ceded under the Aggregate Excess of Loss Agreement, leaving a remaining limit of coverage under that agreement of approximately $30 million. If the limit of coverage were to be exhausted, ACE’s results would nevertheless continue to recognize losses arising from any adverse loss reserve development of the Brandywine entities for so long as those companies remain consolidated subsidiaries of ACE.

Uncertainties Relating to ACE’s Ultimate Brandywine Exposure

In addition to the Dividend Retention Fund and Aggregate Excess of Loss Agreement commitments described above, certain ACE entities are primarily liable for asbestos, environmental and other exposures that they have reinsured to Century. Accordingly, if Century were to become insolvent and ACE were to lose control of Century, some or all of the recoverables due to these ACE companies from Century could become uncollectible, yet those ACE entities would continue to be responsible to pay claims to their insureds or reinsureds. Under such circumstances, ACE would recognize a loss in its consolidated statement of operations. As of December 31, 2004, the aggregate reinsurance balances ceded by the active ACE companies to Century were approximately $1.58 billion. At December 31, 2004, Century’s carried gross reserves (including

reserves ceded by the active ACE companies to Century) were $5.1 billion. We believe the intercompany reinsurance recoverables, which relate to liabilities payable over many years (i.e., 25 years or more), are not impaired at this time. The liabilities ceded to Century by its affiliates have in turn been ceded by Century to NICO and, as of December 31, 2004, approximately $2 billion of cover remains on a paid basis. As a result, any economic exposure there may be to adverse developments in the future is substantially less than the nominal value of the reinsurance recoverables. The impact of the transaction described below would reduce the balance due from Century to active ACE Companies by $90 million. Should Century's loss reserves experience adverse development in the future and should Century be placed into rehabilitation or liquidation, the reinsurance recoverables due to Century's affiliates would be payable only after the payment in full of all administrative expenses and direct policy liabilities. Thus, the intercompany reinsurance recoverables would be at risk to the extent of the shortage of assets remaining to pay these recoverables. As of December 31, 2004, reserves ceded by Century to the active ACE companies and other amounts owed to Century by the ACE active companies were approximately $930 million in the aggregate.

In a lawsuit filed in California state court in December 1999 (AICCO, Inc v. Insurance Company of North America, et al.) certain competitors of ACE USA challenged the validity of the Restructuring under California's Unfair Competition Law, Business and Professions Code Section 17200 (UCL). The lawsuit claims that the Restructuring is not applicable to California policyholders under the UCL because it constituted a transfer of liabilities without the consent of the policyholders. The suit also claims that the notice of the Restructuring was misleading. In November 2004, the voters of California approved Proposition 64 amending the UCL by, among other things, requiring that lawsuits brought under the UCL be brought by plaintiffs who have suffered actual injury as a result of the challenged business practice. In response to a motion to dismiss brought by ACE USA, the court ruled in February 2005 that the competitors/plaintiffs who brought this suit have not alleged actual injury as required by Proposition 64 and dismissed the suit. Plaintiffs filed a timely notice of appeal on May 5, 2005.

Pending Sale of Certain Brandywine Companies

On January 5, 2005, Century and ACE INA International Holdings entered into a Stock Purchase Agreement with Randall & Quilter Investment Holdings Limited ("R&Q"), which provides for the sale of ACE American Re, BRUK and Brandywine SANV to R&Q. Closing of the sale is subject to the satisfaction of certain conditions, including without limitation the obtaining of all necessary consents and approvals from third parties, including the Pennsylvania Insurance Department and the Financial Services Authority of the United Kingdom, and the commutation of certain affiliate reinsurance agreements. In connection with certain of these commutations, Century's assumed loss reserves would be reduced and an associated amount of coverage would become available under the Aggregate Excess of Loss Agreement. We anticipate this transaction will be completed during the fourth quarter of 2005.

We are considering potential options for the disposition of other Brandywine entities, including a possible sale of Century. There can be no assurance that any such sale or other disposition will be consummated.

Legislative Initiatives

On May 26, 2005, the Senate Judiciary Committee passed out of committee legislation to move all U.S. asbestos bodily-injury claims to a federal trust for compensation in accordance with an established set of medical criteria and claim values. The trust would be funded by asbestos defendants and their insurers. As currently proposed, ACE would be one of the insurer participants. Senate floor consideration is expected sometime in the third or fourth quarter of 2005; however, we cannot predict if any such proposed legislation will be modified or adopted.

Reinsurance

One of the ways we manage our loss exposure is through the use of reinsurance. While reinsurance agreements are designed to limit our losses from large exposures and permit recovery of a portion of direct unpaid losses, reinsurance does not relieve us of our liability to our insureds. Accordingly, the losses and loss expense reserves on our balance sheet represent our total unpaid gross losses. The reinsurance recoverable represents anticipated recoveries of a portion of those gross unpaid losses as well as amounts recoverable from reinsurers with respect to claims paid. The table below presents our net reinsurance recoverable at June 30, 2005 and December 31, 2004.

	June 30 2005	December 31 2004 (Restated)
	(in millions of U.S. dollars)	
Reinsurance recoverable on paid losses and loss expenses	$ 1,215	$ 1,210
Bad debt reserve on paid losses and loss expenses	(300)	(309)
Reinsurance recoverable on future policy benefits	13	15
Reinsurance recoverable on unpaid losses and loss expenses	14,119	14,585
Bad debt reserve on unpaid losses and loss expenses	(619)	(619)
Net reinsurance recoverable	$14,428	$ 14,882

Our reinsurance recoverable on unpaid losses and loss expenses decreased during the six months ended June 30, 2005, primarily due to the novation of approximately $600 million of reinsurance recoverable on unpaid losses and loss expenses as intended under our 1999 agreement in connection with the purchase of CIGNA’s P&C businesses.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity is a measure of a company’s ability to generate cash flows sufficient to meet short-term and long-term cash requirements of its business operations. As a holding company, ACE Limited possesses assets that consist primarily of the stock of its subsidiaries, and of other investments. In addition to net investment income, our cash flows currently depend primarily on dividends or other statutorily permissible payments. Historically, these dividends and other payments have come from our Bermuda-based operating subsidiaries, which we refer to as our Bermuda subsidiaries.

As an insurance company, one of our principal responsibilities to our clients is to ensure that we have ready access to funds to settle large unforeseen claims. Given anticipated growth in premiums and a lengthening of the average duration of our claim liabilities due to a higher proportionate growth in long-tail relative to short-tail business, we expect that positive cash flow from operations (underwriting activities and investment income) will be sufficient to cover cash outflows under most loss scenarios for 2005. To further ensure the sufficiency of funds to settle unforeseen claims, we hold a certain amount of invested assets in cash and short-term investments and maintain available credit facilities. In addition, for certain insurance, reinsurance, or deposit contracts that tend to have relatively large and reasonably predictable cash outflows, such as loss portfolio contracts, we attempt to establish dedicated portfolios of assets that are duration-matched with the related liabilities. With respect to the duration of our overall investment portfolio, we manage asset durations to both maximize return given current market conditions and provide sufficient liquidity to cover future loss payments. In a low rate environment, the overall duration of our fixed maturity investments tends to be shorter and in a high rate environment, such durations tend to be longer.

Despite our safeguards, if paid losses accelerated beyond our ability to fund such paid losses from current operating cash flows, we might need to either liquidate a portion of our investment portfolio or arrange for financing. Potential events causing such a liquidity strain could be several significant catastrophes occurring in a relatively short period of time or large scale uncollectible reinsurance recoverables on paid losses (as a result of coverage disputes, reinsurers’ credit problems or decreases in the value of collateral supporting reinsurance recoverables). Additional strain on liquidity could occur if the investments sold to fund loss payments were sold at depressed prices. Because each subsidiary focuses on a more limited number of specific product lines than is collectively available from the ACE group of companies, the mix of business tends to be less diverse at the subsidiary level. As a result, the probability of a liquidity strain, as described above, may be greater for individual subsidiaries than when liquidity is assessed on a consolidated basis. If such a liquidity strain were to occur in a subsidiary, we may be required to contribute capital to the particular subsidiary and/or curtail dividends from the subsidiary to support holding company operations.

The payments of dividends or other statutorily permissible distributions from our operating companies are subject to the laws and regulations applicable to each jurisdiction, as well as the need to maintain capital levels adequate to support the insurance and reinsurance operations, including financial strength ratings issued by independent rating agencies, which are discussed below. During the six months ended June 30, 2005, we were able to meet all of our obligations, including the payment of dividends declared on our Ordinary Shares and Preferred Shares, with our net cash flow and dividends received. Should the need arise, we generally have access to the debt markets and other available credit facilities that are discussed below.

We assess which subsidiaries to draw dividends from based on a number of factors. Considerations such as regulatory and legal restrictions as well as the subsidiary’s financial condition are paramount to the dividend decision. The legal restrictions

on the payment of dividends from retained earnings by our Bermuda subsidiaries are currently satisfied by the share capital and additional paid-in capital of each of the Bermuda subsidiaries. During the six months ended June 30, 2005, ACE Bermuda and ACE Tempest Life Reinsurance Ltd declared and paid dividends of $243 million and $32 million, respectively. During the six months ended June 30, 2004, ACE Bermuda and ACE Tempest Life Reinsurance Ltd declared and paid dividends of $172 million and $150 million, respectively. We expect that a majority of our cash inflows for the remainder of 2005 will be from our Bermuda subsidiaries.

The payment of any dividends from ACE Global Markets or its subsidiaries would be subject to applicable U.K. insurance laws and regulations including those promulgated by the Society of Lloyd's. ACE INA's U.S. insurance subsidiaries may pay dividends, without prior regulatory approval, only from earned surplus and subject to certain annual limitations and the maintenance of a minimum capital requirement. ACE INA's international subsidiaries are also subject to insurance laws and regulations particular to the countries in which the subsidiaries operate. These laws and regulations include restrictions that limit the amount of dividends payable without prior approval of regulatory insurance authorities.

ACE Limited did not receive any dividends from ACE Global Markets or ACE INA during the six months ended June 30, 2005. ACE INA issued debt to provide partial financing for the ACE INA acquisition and for other operating needs. This debt is serviced by statutorily permissible distributions by ACE INA's insurance subsidiaries to ACE INA as well as other group resources.

Our consolidated sources of funds consist primarily of net premiums written, net investment income and proceeds from sales and maturities of investments. Funds are used primarily to pay claims, operating expenses, dividends and for the purchase of investments. After satisfying our cash requirements, excess cash flows from these underwriting and investing activities are invested.

Our insurance and reinsurance operations provide liquidity in that premiums are received in advance, sometimes substantially in advance, of the time claims are paid. Generally cash flows are affected by claim payments that, due to the nature of our operations, may comprise large loss payments on a limited number of claims and which can fluctuate significantly from period to period. The irregular timing of these loss payments can create significant variations in cash flows from operations between periods.

Sources of liquidity include cash from operations, financing arrangements or routine sales of investments.

- Our consolidated net cash flows from operating activities were $2.4 billion for the six months ended June 30, 2005, compared with $2.3 billion for the same period in 2004. These amounts reflect net income for each quarter, adjusted for non-cash items and changes in working capital. Net income was relatively stable for the indicated periods. Net cash flows from operating activities in the six months ended June 30, 2005, were bolstered by increases in unearned premiums and unpaid losses and loss expenses which reflects the period of time between the writing of premium and establishment of reserves, and the earning of premium and actual claim payment. This impact on net cash flows from operating activities was partially offset by an increase in insurance and reinsurance balances receivable. Non-cash items for the six months ended June 30, 2005, reflect the impact of the novation of approximately $600 million of gross and ceded reserves, which had no impact on our net cash flows from operating activities.
- Our consolidated net cash flows used for investing activities were $2.1 billion for the six months ended June 30, 2005 compared with $2.6 billion in the same period in 2004. For the indicated periods, net cash flows used for investing activities were related principally to purchases of fixed maturities. Net purchases of fixed maturities were $2 billion in the six months ended June 30, 2005, compared with $3.1 billion in the same period in 2004.
- Our consolidated net cash flows used for financing activities were $77 million in the six months ended June 30, 2005, compared with consolidated net cash flows from financing activities of $435 million in the same period in 2004. For the indicated periods, net cash flows usage for financing activities were primarily related to dividends paid, partially offset by proceeds from exercise of options. The prior year period also included net proceeds from issuance of long-term debt of $500 million.

Although our ongoing operations continue to generate positive cash flows, our cash flows are currently impacted by a large book of loss reserves from businesses in run-off. The run-off operations generated negative operating cash flows of $60 million in the six months ended June 30, 2005, compared with $133 million in the same period in 2004, primarily due to reinsurance collections on claim payments in 2004.

Both internal and external forces influence our financial condition, results of operations and cash flows. Claim 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 lapse between the occurrence of an insured loss, the reporting of the loss to us and the settlement of the liability for that loss. We believe that our cash balances, cash flow from operations, routine sales of investments and the liquidity provided by our credit facilities, as discussed below, are adequate to meet expected cash requirements.

ACE and its subsidiaries are assigned debt and financial strength (insurance) ratings from internationally recognized rating agencies, including S&P, A.M. Best, Moody's Investors Service and Fitch IBCA. The ratings issued on our companies by these agencies are announced publicly and are available directly from the agencies. Our website, acelimited.com, also contains some information about our ratings, which can be found under the "Investor Information" tab.

Financial strength ratings represent the opinions of the rating agencies on the financial strength of a company and its capacity to meet the obligations of insurance policies. Independent ratings are one of the important factors that establish our competitive position in the insurance markets. The rating agencies consider many factors in determining the financial strength rating of an insurance company, including the relative level of statutory surplus necessary to support the business operations of the company. 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.

Debt ratings apply to short-term and long-term debt as well as preferred stock. These ratings are assessments of the likelihood that we will make timely payments of principal and interest and preferred stock dividends.

It is possible that, in the future, one or more of the rating agencies may reduce our existing ratings. If one or more of our ratings were downgraded, we could incur higher borrowing costs and our ability to access the capital markets could be impacted. In addition, our insurance and reinsurance operations could be adversely impacted by a downgrade in our financial strength ratings, including a possible reduction in demand for our products in certain markets.

Capital Resources

Capital resources consist of funds deployed or available to be deployed to support our business operations. The following table summarizes the components of our capital resources at June 30, 2005 and December 31, 2004.

	June 30 2005	December 31 2004 (Restated)
	(in millions of U.S. dollars)	
Short-term debt	$ 147	$ 146
Long-term debt	1,849	1,849
Total debt	1,996	1,995
Trust preferred securities	412	412
Preferred shares	557	557
Ordinary shareholders' equity	9,942	9,288
Total shareholders' equity	10,499	9,845
Total capitalization	$12,907	$ 12,252
Ratio of debt to total capitalization	15.5%	16.3%
Ratio of debt plus trust preferreds to total capitalization	18.7%	19.6%

We believe our financial strength provides us with the flexibility and capacity to obtain funds externally through debt or equity financing on both a short-term and long-term basis. Our ability to access the capital markets is dependent on, among other things, market conditions and our perceived financial strength. We have accessed both the debt and equity markets from time to time.

Our diluted book value per Ordinary Share increased to $34.29 at June 30, 2005, compared with $32.51 at December 31, 2004. In calculating our diluted book value per Ordinary Share, we include in the denominator, in-the-money options. The expected proceeds from the in-the-money options are included in the numerator. Shareholders' equity increased $654 million in the six months ended June 30, 2005, primarily due to net income of $904 million, partially offset by unrealized deprecation on our investment portfolio of $134 million net of income tax and dividends declared of $149 million.

On January 14, 2005, and April 14, 2005, we paid dividends of 21 cents per ordinary share to shareholders of record on December 31, 2004 and March 31, 2005, respectively. On July 14, 2005, we paid dividends of 23 cents per ordinary share to shareholders of record on June 30, 2005. We have paid dividends each quarter since we became a public company in 1993. However, the declaration, payment and value of future dividends on ordinary shares is at the discretion of our Board of Directors and will be dependent upon our profits, financial requirements and other factors, including legal restrictions on the payment of dividends and such other factors as our Board of Directors deems relevant. Dividends on the preferred shares are payable quarterly, when and if declared by our Boards of Directors, in arrears on March 1, June 1, September 1 and December 1 of each year. On March 1, 2005, and June 1, 2005, we paid a dividend of $4.875 per preferred share to shareholders of record on February 28, 2005, and May 31, 2005, respectively.

As part of our capital management program, in November 2001, our Board of Directors authorized the repurchase of any ACE issued debt or capital securities including Ordinary Shares, up to $250 million. At June 30, 2005, this authorization had not been utilized. During 2004, we filed a shelf registration statement with the SEC relating to the issuance of up to $1.5 billion of certain types of debt and equity securities. This registration became effective during the first quarter of 2005.

Credit Facilities

As our Bermuda subsidiaries are not admitted insurers and reinsurers in the U.S., the terms of certain U.S. insurance and reinsurance contracts require them to provide letters of credit (LOCs) to clients. In addition, ACE Global Markets is required to satisfy certain U.S. regulatory trust fund requirements which can be met by the issuance of LOCs. LOCs may also be used for general corporate purposes.

The following table shows our credit facilities by credit line, usage, expiry date and purpose at June 30, 2005.

	Credit Line [1]	Usage	Expiry Date
	(in millions of U.S. dollars)		
Unsecured Liquidity Facilities			
ACE Limited [2]	$ 600	$ 64	April 2007
Secured Operational LOC Facilities			
ACE Limited [3]	500	303	Sept. 2007
Other [4]	83	83	Various
Unsecured Operational LOC Facilities			
ACE Limited [5]	850	712	Sept. 2007
Unsecured Capital Facilities			
ACE Limited [6]	512	512	Dec. 2009
Total	$ 2,545	$ 1,674	

(1) Certain facilities are guaranteed by operating subsidiaries and/or ACE Limited.

(2) Commercial paper back-up facility, may also be used for LOCs.

(3) On July 1, 2005, this facility was replaced by a letter of credit permitting the issuance of up to $500 million of LOCs on a secured basis and expiring on July 1, 2010.

(4) These facilities are issued in the name of ACE European Group Limited, Lloyd's Syndicate 2488 and Century Indemnity Reinsurance Company.

(5) On July 1, 2005, this facility was replaced by a letter of credit permitting the issuance of up to $1 billion of LOCs on an unsecured basis and expiring on July 1, 2010.

(6) Supports ACE Global Markets underwriting capacity for Lloyd's Syndicate 2488-2005 capacity of £400 million (approximately $750 million). During the second quarter of 2005, this facility was reduced from £380 million to £284 million.

With the exception of the LOC facilities noted under "Other", the facilities noted above require that we maintain certain covenants, all of which have been met at June 30, 2005. These covenants include:

(i) maintenance of a minimum consolidated net worth in an amount not less than the "Minimum Amount". For the purpose of this calculation, the Minimum Amount is an amount equal to the sum of the base amount (currently $6.4 billion) plus 25 percent of consolidated net income for each fiscal quarter, ending after the date on which the current base amount became effective, plus 50 percent of any increase in consolidated net worth during the same period, attributable to the issuance of ordinary and preferred shares. The Minimum Amount is subject to an annual reset provision; and

(ii) maintenance of a maximum debt to total capitalization ratio of not greater than 0.35 to 1. Under this covenant, debt does not include trust preferred securities or mezzanine equity, except where the ratio of the sum of trust preferred securities and mezzanine equity to total capitalization is greater than 15 percent. In this circumstance, the amount greater than 15 percent would be included in the debt to total capitalization ratio.

At June 30, 2005, (a) the minimum consolidated net worth requirement under the covenant described in (i) above was $6.7 billion and our actual consolidated net worth as calculated under that covenant was $10 billion; and (b) our ratio of debt to total capitalization was 0.16 to 1.

In addition to these covenants, the ACE Global Markets capital facility requires that collateral be posted if the financial strength rating of ACE Limited falls to S&P BBB+ or lower.

Our failure to comply with the covenants under any credit facility would, subject to grace periods in the case of certain covenants, result in an event of default. This could require us to repay any outstanding borrowings or to cash collateralize letters of credit under such facility. An event of default under one or more credit facilities with outstanding credit extensions of $25 million or more would result in an event of default under all of the facilities described above.

American Jobs Creation Act of 2004

On October 22, 2004, the American Jobs Creation Act (the Act) was signed into law by the President of the United States. The Act provides for the election of a special one-time tax deduction of 85 percent of certain foreign earnings that are repatriated (as defined in the Act) under a Domestic Reinvestment Plan to its United States parent corporation in either the parent's last tax year that began before the enactment date, or the first tax year that begins during the one-year period beginning on the date of enactment. We expect to apply the provisions of the Act to certain of our applicable subsidiaries.

In January and May 2005, the United States Treasury issued its guidance on selected provisions of the Act and on July 21, 2005, the Tax Technical Corrections Act of 2005 was introduced (H.R. 3376 and S.1447). Guidance issued to date provides clarification on several technical issues, with the remaining issues addressed in the proposed Technical Corrections Act.

During the three and six months ended June 30, 2005, we repatriated foreign earnings of approximately $325 million and $367 million, respectively, subject to Domestic Reinvestment Plans that would qualify under the Act based on the guidance issued to date. Of the $367 million repatriated foreign earnings to date, approximately $250 million will qualify for preferential tax treatment. For the three and six months ended June 30, 2005, the tax benefit associated with these repatriations was $19 million and $27 million, respectively, and was a result of the reduction of the net deferred tax liability associated with these repatriated earnings, based on guidance issued to date. The tax benefit recorded in the quarter ended June 30, 2005, included the tax benefit associated with distributions in that quarter, as well as adjustments to the previously recorded tax benefits based on United States Treasury guidance issued in May 2005. The tax benefit recorded to date may increase by as much as approximately $7 million if the Tax Technical Corrections Act is passed.

Additional earnings repatriations up to the limitation under the Act of $500 million may be completed through the remainder of 2005. Based on guidance issued to date, we are evaluating potential additional repatriations and are not in a position to complete our evaluation or determine the total associated tax impact as a result of the Act. However, based on our analysis to date it is possible that we may ultimately repatriate up to an additional $250 million up to the limitation of qualifying dividends, with an associated tax benefit of up to $44 million. We expect to be in a position to finalize our assessment by September 2005.

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rule 13a-15 under the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in allowing information required to be disclosed in reports filed under the Securities and Exchange Act of 1934 to be recorded, processed, summarized and reported within time periods specified in the rules and forms of the SEC.

During the quarter ended June 30, 2005, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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ACE LIMITED
PART II OTHER INFORMATION

Item 1. Legal Proceedings

Our insurance subsidiaries are subject to claims litigation involving disputed interpretations of policy coverages and in some jurisdictions, direct actions by allegedly injured persons seeking damages from policyholders. These lawsuits involving claims on policies issued by our subsidiaries which are typical to the insurance industry in general and in the normal course of business, are considered in our loss and loss expense reserves which are discussed in the unpaid losses and loss expenses discussion. In addition to claims litigation, we and our subsidiaries are subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance policies. This category of business litigation typically involves, inter alia, allegations of underwriting errors or misconduct, employment claims, regulatory activity or disputes arising from our business ventures. While the outcomes of the business litigation involving us cannot be predicted with certainty at this point, we are disputing and will continue to dispute allegations against us that are without merit and believe that the ultimate outcomes of matters in this category of business litigation will not have a material adverse effect on our financial condition, future operating results or liquidity, although an adverse resolution of a number of these items could have a material adverse effect on our results of operations in a particular quarter or fiscal year.

Information on the Company's legal proceedings is set forth in the section entitled, "Insurance Industry Investigations and Related Matters", included under Part I, Item 2.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

This table provides information with respect to purchases by the Company of its Ordinary Shares during the three months ended June 30, 2005.

Issuer's Purchases of Equity Securities

Period	Total Number of Shares Purchased**	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan*	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan*
April 1, 2005 through April 30, 2005	—	—	—	$ 250 million
May 1, 2005 through May 31, 2005	1,312	$ 39.86	—	$ 250 million
June 1, 2005 through June 30, 2005	4,851	$ 43.51	—	$ 250 million
Total	6,163			

* As part of ACE's capital management program, in November 2001, the Company's Board of Directors authorized the repurchase of any ACE issued debt or capital securities including Ordinary Shares, up to $250 million. At June 30, 2005, this authorization had not been utilized.

** For the three months ended June 30, 2005, this column includes 1,579 shares related to the surrender to the Company of shares of Common Stock to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees and 4,584 shares related to the surrender to the Company of shares of Common Stock to satisfy the option cost on options exercised.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual General Meeting was held on May 26, 2005.

The following matters were voted on at the Annual General Meeting:

a) The following directors were elected.

	Term Expiring	Shares with Votes in Favor	Shares with Votes Against
Evan G. Greenberg	2008	252,062,758	3,133,167
John A. Krol	2008	253,253,207	1,942,718

The number of shares abstained was NIL and the number of broker non-votes was NIL.

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b) The appointment of PricewaterhouseCoopers LLP as independent registered public accountants for the Company for the year ended December 31, 2005, was ratified and approved.

The holders of 253,381,930 shares voted in favor, 1,790,654 shares voted against and 23,241 shares abstained. There were no broker non-votes

The following table lists directors whose terms of office as directors continued after the Annual General Meeting:

	Term Expiring
Michael G. Atieh	2006
Bruce L. Crockett	2006
Thomas J. Neff	2006
Robert W. Staley	2006
Gary M. Stuart	2006
Brian Duperreault	2007
Robert M. Hernandez	2007
Peter Menikoff	2007
Robert Ripp	2007
Dermot F. Smurfit	2007

Item 6. Exhibits

Exhibits

31.1 Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.

31.2 Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

32.2 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

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ACE LIMITED
SIGNATURES

Pursuant to the requirements 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

August 12, 2005	/s/ Evan G. Greenberg Evan G. Greenberg President and Chief Executive Officer
August 12, 2005	/s/ Philip V. Bancroft Philip V. Bancroft Chief Financial Officer

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ACE LIMITED
EXHIBITS

Exhibit Number	Description
	Exhibits
31.1	Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Evan G. Greenberg, certify that:

1) I have reviewed this quarterly report on Form 10-Q of ACE Limited;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date August 12, 2005

/s/ Evan G. Greenberg

Evan G. Greenberg
President and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Philip V. Bancroft, certify that:

1) I have reviewed this quarterly report on Form 10-Q of ACE Limited;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date August 12, 2005

/s/ Philip V. Bancroft
Philip V. Bancroft
Chief Financial Officer

Exhibit 32.1

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of ACE Limited (the "Corporation") hereby certifies that the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, fully complies with the applicable reporting requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a)) and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ACE Limited.

Dated: August 12, 2005

/s/ Evan G. Greenberg
Evan G. Greenberg
President and
Chief Executive Officer

Exhibit 32.2

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of ACE Limited (the "Corporation") hereby certifies that the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, fully complies with the applicable reporting requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a)) and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and

results of operations of ACE Limited.

Dated: August 12, 2005

/s/ PHILIP V. BANCROFT

Philip V. Bancroft
Chief Financial Officer

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