

CAPITAL RE CORP

Filed by
ACE LTD

FORM PRE13E3 (Initial statement (preliminary))

Filed 11/12/99

Address	1325 AVE OF THE AMERICAS 18TH FLR NEW YORK, NY 10019
Telephone	2129740100
CIK	0000829277
SIC Code	6331 - Fire, Marine, and Casualty Insurance
Industry	Insurance (Prop. & Casualty)
Sector	Financial
Fiscal Year	12/31

CAPITAL RE CORP

FORM PRE13E3
(Initial statement (preliminary))

Filed 11/12/1999

Address	1325 AVE OF THE AMERICAS 18TH FLR NEW YORK, New York 10019
Telephone	212-974-0100
CIK	0000829277
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

RULE 13E-3 TRANSACTION STATEMENT
(Pursuant to Section 13(e) of the Securities Exchange Act of 1934)

Capital Re Corporation

(Name of the Issuer)

ACE Limited
(Name of Person(s) Filing Statement)

Common Stock
par value \$0.01 per share
(Title of Class of Securities)

140432 105
(CUSIP Number of Class of Securities)

Peter N. Mear
General Counsel & Secretary
The ACE Building
30 Woodbourne Avenue
Hamilton HM 08, Bermuda
(441) 295-5200

with a copy to:

Edward S. Best
Mayer, Brown & Platt
190 South LaSalle Street
Chicago, Illinois 60603
(312) 782-0600

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications on Behalf of Persons Filing Statement)

This statement is filed in connection with (check the appropriate box):

- a. The filing of solicitation materials or an information statement subject to Regulation 14A, Regulation 14C or Rule 13e-3(c) under the Securities Act of 1934.
b. The filing of a registration statement under the Securities Act of 1933.
c. A tender offer.
d. None of the above.

Check the following box if the soliciting materials or information statement referred to in checking box (a) are preliminary copies:

Calculation of Filing Fee

Transaction Valuation*	Amount of Filing Fee
\$455,342,940	\$91,069

* Calculated in accordance with Rule 0-11 under The Securities Exchange Act of 1934, as amended, based on the aggregate market value on November 11, 1999 of the 32,024,119 shares of Capital Re Corporation common stock that may be cancelled in the Merger.

[X] Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously

paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid:	\$117,628
Form or Registration Number:	Form S-4
Filing Party:	ACE Limited
Date Filed:	September 3, 1999 and November 12, 1999.

INTRODUCTION

This Rule 13e-3 Transaction Statement (the "Statement") is being filed by ACE Limited ("Purchaser"), a public company whose stock is traded on the NYSE. Purchaser holds approximately 12% of the outstanding shares of common stock, par value \$0.01 per share (the "Shares"), of Capital Re Corporation (the "Company"). This Statement relates to a proposed merger (the "Merger") in which the Company would merge with and into a wholly owned subsidiary of Purchaser and the Shares other than those Shares held by Purchaser would be converted into 0.65 of a Purchaser ordinary share plus a cash payment equal to the difference between the market value of 0.65 of a Purchaser ordinary share and \$14.00. In no event will the cash payment be less than \$1.30, or more than \$4.68, per Share.

The following cross reference sheet is being supplied pursuant to General Instruction F to the Statement and shows the location in the Proxy Statement on Form S-4 (the "Proxy Statement") filed by the Purchaser and the Company with the Securities and Exchange Commission on September 3, 1999, of the information required to be included in response to the items of this Statement. The information set forth in the Proxy Statement, which is attached hereto as Exhibit (d)(1), is hereby expressly incorporated herein by reference and the responses to each item are qualified in their entirety by the provisions of the Proxy Statement.

Item in Schedule 13E-3	Where Located in Proxy Statement
Item 1(a).....	"The Parties" in the Summary of the Proxy Statement
	"The Special Meeting -- Record Date; Quorum; Vote Required"
Item 1(b).....	"The Special Meeting -- Record Date; Quorum; Vote Required"
Item 1(c).....	"Comparative Market Price and Dividend Information" in the Summary of the Proxy Statement
Item 1(d).....	"Dividends" in the Summary of the Proxy Statement
Item 1(e).....	*
Item 1(f).....	"Special Factors -- Background of the Merger"
Item 2(a)-(g).....	*
Item 3(a)-(b).....	"Special Factors -- Background of the Merger"
Item 4(a).....	"Special Factors" and "The Merger Agreement"
Item 4(b).....	"The Stockholder Support Agreements"
Item 5(a)-(e).....	"Special Factors -- ACE's Reasons for the Merger" and "Special Factors -- Plans or Proposals"
Item 5(f)-(g).....	"Special Factors -- Delisting and Deregistration of Capital Re Common Stock; Cessation of Capital Re Periodic Reporting"
Item 6(a)-(d).....	"Special Factors -- The Merger," "Special Factors -- Source and Amount of Funds" and "Special Factors -- Fees and Expenses"
Item 7(a).....	"Special Factors -- ACE's Reasons for the Merger," "Special Factors -- Capital Re's Reasons for the Merger; Recommendation of the Board of Directors of Capital Re" and "Special Factors -- Purpose, Alternatives, Reasons and Effects of the Merger"
Item 7(b).....	"Special Factors -- Background of the Merger"

Item 7(c).....	"Special Factors -- Accounting Treatment," "Special Factors -- Material United States Federal Income Tax Consequences" and "Special Factors -- Purpose, Alternatives, Reasons and Effects of the Merger"
Item 7(d).....	"Special Factors"
Item 8(a)-(b).....	"Special Factors -- Capital Re's Reasons for the Merger; Recommendation of Board of Directors of Capital Re," "Special Factors -- Position of ACE Regarding Fairness of the Merger" and "Special Factors -- Background of the Merger"
Item 8(c).....	"The Special Meeting -- Record Date; Quorum; Vote Required"
Item 8(d)-(e).....	"Special Factors -- Capital Re's Reasons for the Merger; Recommendation of the Board of Directors of Capital Re"
Item 8(f).....	"Special Factors -- Background of the Merger"
Item 9(a)-(c).....	"Special Factors -- Capital Re's Reasons for the Merger; Recommendation of the Board of Directors of Capital Re" and "The Proposed Merger -- Presentation of the Financial Advisor to ACE"
Item 10(a).....	"Information Regarding Directors, Executive Officers and Five Percent Stockholders" and "The Stockholder Support Agreements"
Item 10(b).....	*
Item 11.....	"The Merger Agreement," "The Capital Support Agreement," "The Stock Option Agreement" and "The Stockholder Support Agreements"
Item 12(a)-(b).....	"Special Factors -- Capital Re's Reasons for the Merger; Recommendation of the Board of Directors of Capital Re" and "The Special Meeting -- Record Date; Quorum; Vote Required"
Item 13(a).....	"Special Factors -- Dissenters' Rights" and "Comparison of Stockholders' Rights and Description of the Share Capital of ACE Following the Merger -- Appraisal Rights"
Item 13(b)-(c).....	*
Item 14(a)-(b).....	"Unaudited ProForma Condensed Consolidated Financial Information of ACE," "Unaudited ProForma Condensed Consolidated Balance Sheet," "ProForma Balance Sheet Footnotes," "Unaudited ProForma Condensed Consolidated Statements of Operations," "ProForma Footnotes for the Nine Months Ended September 30, 1998" and "Where You Can Find More Information"
Item 15(a)-(b).....	*

Item 16.....	*
Item 17(a)-(e).....	Separately included herewith
Item 17(f).....	*

* This information is provided only in this Schedule 13E-3.

Item 1. Issuer and Class of Security Subject to the Transaction.

- (a) The information set forth in "The Parties" in the Summary of the Proxy Statement and in "The Special Meeting -- Record Date; Quorum; Vote Required" of the Proxy Statement is incorporated herein by reference.
- (b) The information set forth in "The Special Meeting -- Record Date; Quorum; Vote Required" of the Proxy Statement is incorporated herein by reference.
- (c) The information set forth in "Comparative Market Price and Dividend Information" in the Summary of the Proxy Statement is incorporated herein by reference.
- (d) The information set forth in "Dividends" in the Summary of the Proxy Statement is incorporated herein by reference.
- (e) In a registered underwritten public offering on April 14, 1998, Purchaser sold 16.5 million of its ordinary shares for \$36.75 per share for net proceeds of approximately \$606 million.
- (f) The information set forth in "Special Factors -- Background of the Merger" of the Proxy Statement is incorporated herein by reference.

Item 2. Identity and Background.

- (a)-(g) The information set forth in Schedule I of the Proxy Statement is incorporated herein by reference.

Item 3. Past Contacts, Transactions or Negotiations.

- (a)-(b) The information set forth in "Special Factors -- Background of the Merger" of the Proxy Statement is incorporated herein by reference.

Item 4. Terms of the Transaction.

- (a) The information set forth in "Special Factors" and "The Merger Agreement" of the Proxy Statement is incorporated herein by reference.
- (b) The information set forth in "The Stockholder Support Agreements" of the Proxy Statement is incorporated herein by reference.

Item 5. Plans or Proposals of the Issuer or Affiliate.

- (a)-(e) The information set forth in "Special Factors -- ACE's Reasons for the Merger" and "Special Factors -- Plans or Proposals" of the Proxy Statement is incorporated herein by reference.
- (f)-(g) The information set forth in "Special Factors -- Delisting and Deregistration of Capital Re Common Stock; Cessation of Capital Re Periodic Reporting" of the Proxy Statement is incorporated herein by reference.

Item 6. Source and Amounts of Funds or Other Consideration.

- (a)-(d) The information set forth in "Special Factors -- The Merger," "Special Factors -- Source and Amount of Funds" and "Special Factors -- Fees and Expenses" of the Proxy Statement is incorporated herein by reference.

Item 7. Purpose(s), Alternatives, Reasons and Effects.

- (a) The information set forth in "Special Factors -- ACE's Reasons for the Merger," "Special Factors -- Capital Re's Reasons for the Merger; Recommendation of the Board of Directors of Capital Re" and "Special Factors -- Purpose, Alternatives, Reasons and Effects of the Merger" of the Proxy Statement is incorporated herein by reference.
- (b) The information set forth in "Special Factors -- Background of the Merger" of the Proxy Statement is incorporated herein by reference.
- (c) The information set forth in "Special Factors -- Accounting Treatment," "Special Factors -- Background of the Merger," "Special Factors -- Material United States Federal Income Tax Consequences" and "Special Factors -- Purpose, Alternatives, Reasons and Effects of the Merger" of the Proxy Statement is incorporated herein by reference.
- (d) The information set forth in "Special Factors" of the Proxy Statement is incorporated herein by reference.

Item 8. Fairness of the Transaction.

- (a)-(b) The information set forth in "Special Factors -- Position of ACE Regarding Fairness of the Merger," "Special Factors -- Capital Re's Reasons for the Merger; Recommendation of the Board of Directors of Capital Re" and "Special Factors -- Background of the Merger" of the Proxy Statement is incorporated herein by reference.
- (c) The information set forth in "The Special Meeting -- Record Date; Quorum; Vote Required" of the Proxy Statement is incorporated herein by reference.
- (d)-(e) The information set forth in "Special Factors -- Capital Re's Reasons for the Merger; Recommendation of the Board of Directors of Capital Re" of the Proxy Statement is incorporated herein by reference.
- (f) The information set forth in "Special Factors -- Background of the Merger" of the Proxy Statement is incorporated herein by reference.

Item 9. Reports, Opinions, Appraisals and Certain Negotiations.

- (a)-(c) The information set forth in "Special Factors -- Capital Re's Reasons for the Merger; Recommendation of the Board of Directors of Capital Re" and "Special Factors -- Presentation of the Financial Advisor to ACE" of the Proxy Statement is incorporated herein by reference.

Item 10. Interest in Securities of the Issuer.

- (a) The information set forth in "Information Regarding Directors, Executive Officers and Five Percent Stockholders" and "The Stockholder Support Agreements" of the Proxy Statement is incorporated herein by reference.
- (b) None.

Item 11. Contracts, Arrangements or Understandings with Respect to the Issuer's Securities.

The information set forth in "The Merger Agreement," "The Capital Support Agreement," "The Stock Option Agreement" and "The Stockholder Support Agreements" of the Proxy Statement is incorporated herein by reference.

Item 12. Present Intention and Recommendation of Certain Persons with Regard to the Transaction.

(a)-(b) The information set forth in "Special Factors -- Capital Re's Reasons for the Merger; Recommendation of the Board of Directors of Capital Re", "The Special Meeting -- Record Date; Quorum; Vote Required" and "The Stockholder Support Agreements" of the Proxy Statement is incorporated herein by reference.

Item 13. Other Provisions of the Transaction.

(a) The information set forth in "Special Factors -- Dissenters' Rights" and "Comparison of Stockholders' Rights and Description of the Share Capital of ACE Following the Merger -- Appraisal Rights" of the Proxy Statement is incorporated herein by reference.

(b)-(c) Not applicable.

Item 14. Financial Information.

(a)-(b) The information set forth in "Unaudited ProForma Condensed Consolidated Financial Information of ACE," "Unaudited ProForma Condensed Consolidated Balance Sheet," "ProForma Balance Sheet Footnotes," "Unaudited ProForma Condensed Consolidated Statements of Operations," "ProForma Footnotes for the Nine Months ended June 30, 1999" and "ProForma Footnotes for the Year Ended September 30, 1998" of the Proxy Statement, "Ratio of Earnings to Fixed Charges and Preferred Share Dividends of ACE" of the Purchaser's Prospectus dated August 17, 1999, the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, is incorporated herein by reference.

Item 15. Persons and Assets Employed, Retained or Utilized.

(a)-(b) Not applicable.

Item 16. Additional Information.

Additional information concerning the Merger is set forth in the Proxy Statement and the entirety of the Proxy Statement is incorporated herein by reference.

Item 17. Material to be Filed as Exhibits.

(a)-(e) The Exhibit Index attached to this Transaction Statement is incorporated herein by reference.

(f) Not applicable.

SIGNATURES

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: November 12, 1999.

ACE LIMITED

By /s/ Peter Mear

Name: Peter Mear

Title: General Counsel and Secretary

EXHIBIT INDEX

Exhibit No. -----	Description -----	Sequentially Numbered Page -----
(a)	Not Applicable	
(b)(1)	Opinion of Goldman, Sachs & Co. (attached as Appendix C to the Proxy Statement/Prospectus)	
(b)(2)	Written Presentation Materials of Credit Suisse First Boston Corporation	
(c)(1)	Stock Option Agreement (attached as Appendix B to the Proxy Statement/Prospectus)	
(c)(2)	Capital Support Agreement (to be filed by amendment)	
(c)(3)	Agreement and Plan of Merger (attached as Appendix A to the Proxy Statement/Prospectus)	
(c)(4)	Stockholder Support Agreements (to be filed by amendment)	
(d)	Proxy Statement/Prospectus	
(e)	Appraisal Rights under Delaware General Corporate Law (attached as Appendix D to the Proxy Statement/Prospectus)	

[LOGO APPEARS HERE]

Materials Prepared for the Board of Directors

October 13, 1999

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Outline

- . Overview
- . Major Terms and Conditions
- . Merger Consequences

Appendices

- . Valuation
- . Strategic Rationale
- . Capital Re Update
- . ACE Involvement with Capital Re
- . Impact of Combination
- . Calculation of Goodwill

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ACE Involvement with Capital Re

- . Ongoing Bermuda-based joint venture with ACE
- . In the spring and summer of 1998, ACE and KRE negotiate a possible ACE acquisition of KRE and ACE conducts extensive due diligence of KRE culminating in a Board meeting to approve a range of acquisition values on August 6, 1998
- . ACE and KRE ultimately terminate discussions without reaching an agreement
- . In early 1999, KRE approaches ACE regarding a possible \$75 million equity investment in KRE
- . In June 1999, ACE invests \$75 million in KRE at \$16.95 per KRE share (12.3% ownership of KRE)
- . The discussions regarding ACE's equity investment lead eventually to a Merger Agreement at a price of 0.6 ACE shares per KRE share (\$18.43 per KRE share at time of Merger Agreement)

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Capital Re's Intrinsic Book Value

. Financial guaranty insurers/reinsurers use a measure called "intrinsic book value" which represents the sum of reported book value and the discounted present value of installment premiums and deferred premium revenue, net of expenses

Book Value per Share vs. Intrinsic Book Value per Share

	Book Value	% Chg	Intrinsic Book Value	% Chg
1992	\$ 9.36	NA	\$11.71	NA
1993	10.83	15.8 %	14.65	25.2 %
1994	11.01	1.7 %	15.15	3.4 %
1995	13.91	26.3 %	18.88	24.6 %
1996	15.43	10.9 %	20.16	6.8 %
1997	17.88	15.8 %	23.84	18.3 %
1998	19.13	7.0 %	26.97	13.1 %
Reported 6/30/99	15.19	(20.6)%	22.28	(17.4)%
Estimated 9/30/99	13.56	(10.7)%	20.65	(7.3)%

Source: Company reports, CSFB estimates.

ACE Involvement with Capital Re-
Recent Events

. On October 6, 1999, KRE received an unsolicited all cash offer of \$12.50 per share from XL Capital (subsequently raised to \$13.00 per share). As of that date, ACE's existing offer valued KRE at \$10.23 per share

. KRE postponed its October 7, 1999 shareholder meeting to vote on the ACE acquisition

. KRE's Board of Directors met on October 10, 1999 to consider XL Capital's revised all cash offer of \$13.00 per share and concluded that such offer was superior to the ACE proposal

. Under the terms of the Merger Agreement, KRE can terminate the transaction if, within 5 business days following notice, ACE does not make an offer that is "at least as favorable as the superior proposal" and KRE pays ACE the \$25 million break-up fee

. KRE Board meeting scheduled for October 15, 1999

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Major Terms and Conditions

Prior ACE Proposal

The key financial terms of ACE's prior proposal are as follows...

- . ACE to acquire all outstanding common stock of Capital Re in a tax-free merger and assume all existing KRE debt (\$99.9 million as of 3/31/99)
- . An exchange ratio of 0.6 ACE shares for each KRE share, subject to a maximum payment of \$22.00 per KRE share (\$36.67 ACE share price)
- . Equity Purchase Price of \$676 million, \$18.43 per KRE share, (based on a 5-day average ACE closing stock price ending June 1, 1999 of \$30.71)
- . Purchase accounting treatment
- . No new debt incurred
- . Transaction conditioned on, among other things, completing due diligence and maintenance of specified financial strength ratings for principal insurance subsidiaries
- . Anticipated closing in 4th quarter of calendar year 1999

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Analysis of XL Proposal

. All cash offer for all of KRE's outstanding shares at \$13.00 per share

(Dollars in Millions, except per share data)

	\$13.00	\$15.00	\$17.00
2000E XL Operating EPS	\$ 5.04/(1)/		
5/31/99 XL FD Wtd Avg Shares Outstanding	113.0		
2000E XL Net Operating Income	\$569.4		
2000E KRE Net Operating Income	74.5/(2)/		
Pro Forma 2000E Earnings	643.9		
Total Purchase Price	\$474.5	\$547.5	\$620.5
KRE Estimated 9/30/99 Book Value	494.9	494.9	494.9
Total Goodwill	\$(20.4)	\$ 52.6	\$125.6
Pro Forma 2000E Earnings	\$643.9	\$643.9	\$643.9
Goodwill Amortization Expense (25 years)	(0.8)	2.1	5.0
Total After-Tax Interest Expense at 4.55%/(3)/	21.4	24.6	27.9
Pro Forma Net Income	623.4	617.2	611.0
2000E Pro Forma Operating EPS	\$ 5.52	\$ 5.46	\$ 5.41
Accretion/(Dilution)	9.5%	8.4%	7.3%

- (1) Per First Call.
- (2) Per ACE and CSFB projections.
- (3) Assumes 100% financed by debt.
- (4) Based on 36.5 KRE shares.

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Revised ACE Proposal

The key financial terms of ACE's revised proposal are as follows...

- . ACE to acquire all outstanding common stock of Capital Re in a tax-free merger and assume all existing KRE debt (\$99.9 million as of 6/30/99)
- . A price in the range of \$13.00 to \$15.00 per KRE share (to be determined)
- . Consideration comprised of 0.6 ACE shares for each KRE share with a cash "top-up" to the purchase price
- . Value of ACE stock for purpose of calculating top-up defined by averaging ACE stock during 5-10 day period pre-closing
- . Equity Purchase Price of up to \$492 to \$557 million (based on \$13.00 to \$15.00 per KRE share and \$75 million ACE investment)(compared to \$676 million original deal value)
- . Purchase accounting treatment
- . Other major transaction elements remain unchanged
- . Anticipated closing in November 1999

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Overview of Components of Consideration

(Dollars in Millions, except per share amounts)

Price per KRE Share	\$13.00		\$14.00		\$15.00	
	Exchange Ratio	Share Consideration	Exchange Ratio	Share Consideration	Exchange Ratio	Share Consideration
Equity Purchase Price		\$ 492		\$ 524		\$ 557
Consideration to be Paid		\$ 417		\$ 449		\$ 482
Average Trading Value of ACE						
\$10.00	0.83x	\$ 8.33	0.93x	\$ 9.33	1.03x	\$10.33
\$13.00	0.64	8.33	0.72	9.33	0.79	10.33
\$15.00	0.60	9.00	0.62	9.33	0.69	10.33
\$18.00	0.60	10.80	0.60	10.80	0.60	10.80
Cash Top-up						
\$10.00		\$ 150		\$ 150		\$ 150
\$13.00		150		150		150
\$15.00		128		150		150
\$18.00		71		103		135

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Key Terms and Conditions

An exchange ratio of 0.60 plus a cash "top-up" to \$13.00-\$15.00 per KRE share results in the following ratios:

(Dollars in Millions)

	KRE	Range		
	Data	\$13.00	\$14.00	\$15.00
Equity Purchase Price Range/(1)/		\$492	\$524	\$557
Equity Purchase Price Range as a Multiple of:				
2000E Net Operating Income/(2)/	\$ 74.5	6.6x	7.0x	7.5x
2001E Net Operating Income/(2)/	86.1	5.7	6.1	6.5
6/30/99 Reported Book Value	554.8	0.9	0.9	1.0
9/30/99 Estimated Pro Forma Book Value/(3)/	494.9	1.0	1.1	1.1
9/30/99 Estimated Intrinsic Book Value	753.7	0.7	0.7	0.7

(1) Based on 32.1 million fully diluted KRE shares outstanding. Price also includes \$75 million ACE investment.

(2) Per ACE and CSFB projections.

(3) Estimated Book Value adjusted for additional losses and charges.

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6/30/99 Adjusted Pro Forma Book Value

Calculation of KRE 9/30/99 Adjusted Pro Forma Book Value
(Dollars in Millions, except per share data)

	Aggregate	Per Share /(1)/
-----		-----
Reported 6/30/99 Book Value	\$554.8	\$15.20
After-tax Losses & Charges:		
3Q Dividend	1.4	0.04
3Q Change in FAS 115 Adj. to Fair Market Value	12.5	0.34
Additional Lloyd's Losses & Write-down	60.0	1.64
	-----	-----
Total Losses & Charges	(73.9)	(2.02)
Operating Income	14.0	0.38
	-----	-----
9/30/99 Estimated Pro Forma Book Value	\$494.9	\$13.56
-----		-----

(1) Based on 36.5 million fully diluted KRE shares outstanding.

Merger Consequences

Merger Consequences Methodology

- . Prepared estimate of Capital Re earnings with necessary adjustments for the acquisition
- . Analyzed impact on ACE projected earnings per share from addition of Capital Re projected earnings
- . Major Assumptions
 - . Purchase Accounting
 - . Goodwill is amortized over 25 years
 - . ACE 1999-2000 earnings per ACE projections and 2001 earnings based on 12% ACE EPS growth
 - . ACE Expected is based on ACE's and CSFB's projection of Capital Re 2000E earnings of \$74.5 million and 2001E earnings of \$86.1MM
 - . ACE Downside is based on ACE's and CSFB's projection of Capital Re 2000E earnings of \$64.5 million and 2001E earnings of \$76.1MM
 - . Cash top-up limited to \$150MM

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Merger Consequences Summary - 2000

(Dollars in Millions)

	ACE EXPECTED ACQUISITION PRICE			ACE DOWNSIDE ACQUISITION PRICE		
	\$13.00	\$14.00	\$15.00	\$13.00	\$14.00	\$15.00
\$12.00	\$2.48	\$2.44	\$2.41	\$2.43	\$2.40	\$2.36
\$14.00	2.51	2.48	2.45	2.47	2.44	2.41
\$16.00	2.52	2.51	2.48	2.48	2.46	2.44
\$18.00	2.53	2.52	2.50	2.49	2.47	2.46
\$20.00	2.54	2.53	2.52	2.50	2.48	2.47

	ACE EXPECTED ACQUISITION PRICE			ACE DOWNSIDE ACQUISITION PRICE		
	\$13.00	\$14.00	\$15.00	\$13.00	\$14.00	\$15.00
\$12.00	2.0%	0.5%	(0.9)%	0.1%	(1.3)%	(2.7)%
\$14.00	3.4%	2.1%	0.8%	1.5%	0.3%	(1.0)%
\$16.00	3.8%	3.2%	2.2%	2.0%	1.4%	0.3%
\$18.00	4.3%	3.7%	3.1%	2.4%	1.8%	1.2%
\$20.00	4.7%	4.1%	3.5%	2.8%	2.2%	1.6%

Note: + 10MM of earnings results in \$0.04 - \$0.05 of accretion/dilution.

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(Dollars in Millions)

	ACE EXPECTED ACQUISITION PRICE			ACE DOWNSIDE ACQUISITION PRICE		
	\$13.00	\$14.00	\$15.00	\$13.00	\$14.00	\$15.00
\$12.00	\$ 2.79	\$ 2.75	\$ 2.72	\$ 2.75	\$ 2.71	\$ 2.67
\$14.00	2.83	2.80	2.76	2.79	2.75	2.72
\$16.00	2.84	2.83	2.80	2.80	2.78	2.76
\$18.00	2.85	2.84	2.82	2.81	2.79	2.78
\$20.00	2.86	2.85	2.83	2.82	2.80	2.79

	ACE EXPECTED ACQUISITION PRICE			ACE DOWNSIDE ACQUISITION PRICE		
	\$13.00	\$14.00	\$15.00	\$13.00	\$14.00	\$15.00
\$12.00	2.6%	1.2%	(0.2)%	0.9%	(0.5)%	(1.9)%
\$14.00	4.0%	2.8%	1.5%	2.4%	1.1%	(0.1)%
\$16.00	4.4%	3.9%	2.9%	2.8%	2.2%	1.2%
\$18.00	4.8%	4.3%	3.7%	3.1%	2.6%	2.1%
\$20.00	5.2%	4.7%	4.1%	3.5%	3.0%	2.5%

Note: +10MM of earnings results in \$0.04 - \$0.05 of accretion/dilution.

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(Dollars in Millions, except per share data)

SCENARIOS	ORIGINAL	ACE EXPECTED(5)			ACE DOWNSIDE(6)		
	DEAL						
ACQUISITION PRICE	\$18.43	\$13.00	\$14.00	\$15.00	\$13.00	\$14.00	\$15.00
ACE Operating EPS(1)	\$2.43	\$2.43	\$2.43	\$2.43	\$2.43	\$2.43	\$2.43
ACE FD Shares Outstanding	200.1	200.1	200.1	200.1	200.1	200.1	200.1
ACE Net Operating Income	\$486.2	\$486.2	\$486.2	\$486.2	\$486.2	\$486.2	\$486.2
Pacer Net Operating Income(2)	74.5	74.5	74.5	74.5	64.5	64.5	64.5
Goodwill Amortization	(7.7)	(0.4)	(1.7)	(2.9)	(0.4)	(1.7)	(2.9)
Reduction on Investment Income(3)	(0.3)	(6.0)	(7.9)	(9.9)	(6.0)	(7.9)	(9.9)
Net Operating Income	\$552.7	\$554.4	\$551.1	\$547.9	\$544.4	\$541.1	\$537.9
Fully Diluted Shares(4)	219.4	219.4	219.4	219.4	219.4	219.4	219.4
Operating EPS	\$2.52	\$2.53	\$2.51	\$2.50	\$2.48	\$2.47	\$2.45
EPS Gain	3.7%	4.0%	3.4%	2.8%	2.1%	1.5%	0.9%

(1) Per First Call estimates

(2) Per ACE projections

(3) Includes after-tax loss on investment income yield from additional dividends

(4) Based on 200.1 million fully diluted shares outstanding and 19.3 million shares issued in acquisition

(5) Based on ACE expected 2000E KRE earnings of \$74.5 million

(6) Based on ACE downside KRE earnings of \$64.5 million (\$10MM reduction)

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Valuation

Summary of Valuation Methodology

Comparable Companies Valuation

Compared financial data of Capital Re with comparable public companies data

Relevant Acquisitions Valuation

Compared terms of the ACE proposal with the most recent relevant financial guaranty and specialty (non-catastrophe) insurance and reinsurance combination terms

Discounted Cash Flow ("DCF") Analysis

Discounted to present value the projected cash flows of Capital Re under various assumptions developed with ACE senior management

Analysis of Impact on ACE Shareholders -- Merger Consequences

Compared future financial results for the combined entity with future ACE stand-alone results

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- . Analyzed Price/Earnings and Price/Book multiples for public companies with similar businesses to Capital Re
- . Applied relevant multiples to forecasted Capital Re earnings to estimate unaffected price range for Capital Re
- . Added representative control premium to unaffected price range

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Comparable Financial Guaranty Companies

(Dollars in Millions)

Company	10/11/99	P/E Multiples			Price/Reported
	Market Cap.	LTM	1999E	2000E	Book Value
Ambac Financial Grp.	\$3,377	12.7x	11.5x	10.2x	1.65
Enhance Financial Svcs.	693	8.4	7.5	6.5	1.02
Financial Security Assur.	1,551	13.2	12.3	10.9	1.43
MBIA Inc.	4,952	10.7	10.2	9.2	1.40
Capital Re Corp.	470	NM	NM	5.5	0.85
High		13.2x	12.3x	10.9x	1.65x
Mean		11.3	10.4	8.4	1.27
Median		11.7	10.9	9.2	1.40
Low		8.4	7.5	5.5	0.85

Note: Summary multiples include KRE.
Estimates per First Call.

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Comparable Companies Valuation Analysis

(Dollars in Millions, except per share data)

	KRE Data	Relevant Multiple Range		Implied Value		Implied Value Per Share/(1)/	
		Low	High	Low	High	Low	High
2000E Earnings/(2)/	\$ 74.5	6.0x	- 7.5x	\$447	- \$559	\$15.17	- \$18.97
6/30/99 Reported Book Value	554.8	0.90	- 1.10	499	- 610	15.56	- 19.01
9/30/99 Estimated Book Value	494.9	0.90	- 1.10	445	- 554	13.86	- 16.96
Indicated Preliminary Value Range Before Control Premium of:				\$475	- \$575	\$14.86	- \$17.79
Indicated Preliminary Value Range with Control Premium of:							
			10%	523	- 633	16.29	- 19.70
			20%	570	- 690	17.76	- 21.50
			30%	618	- 748	19.24	- 23.29

(1) Assumes 32.1 million fully diluted KRE shares outstanding (excluding 4.4 million ACE shares).

(2) Per ACE projections.

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Changes in Comparable Companies

Percent Change in Multiples Since June 2, 1999 Board Meeting

	Market Cap.	Price/ 2000E	Price/Reported Book Value
Ambac Financial Group	(19.5)%	(19.5)%	(17.4)%
Enhance Financial Services	(3.6)	(3.6)	(4.5)
Financial Security Assurance	(7.9)	(7.9)	(6.9)
MBIA Inc.	(27.6)	(27.6)	(24.5)
Capital Re Corp.	(33.1)	(29.1)	(16.6)

Illustrative Price Decrease Since June 2, 1999 Board Meeting

	Percent Decrease from Previous Price		
	10%	20%	30%
Previous Price	\$18.43	\$16.59	\$14.74
		\$12.90	

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Relevant Acquisitions Analysis Methodology

- . Analyzed acquisitions of businesses similar to Capital Re
- . Calculated aggregate transaction value and implied multiples of selected financial data

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Relevant Acquisitions

(Dollars in Millions)

Date	Buyer	Target	Purchase Price/(1)/	GAAP Book	LTM GAAP Income/(2)/
Financial Guarantors					
8/20/95	Financial Security Assurance	Capital Guaranty Corp.	\$ 202	1.0x	13.8x
10/97	MBIA Inc.	CapMAC Holdings	606	1.8	18.7
6/10/99	ACE Limited/(5)/	Capital Re	676	1.2/(3)/	9.1
10/6/99	XL Capital	Capital Re	475	1.0/(4)/	NM
Niche Reinsurers and Specialty Insurers					
7/2/96	General Re	National Re	\$ 940	2.5x	21.7x
3/31/97	PartnerRe	SAFR	950	1.7	15.9
7/27/98	Swiss Re	Life Re	1,642	2.7	32.2
11/23/98	CMAC Investment Corp.	Amerin Corp.	646	1.6	13.4
2/8/99	Chubb Corp.	Executive Risk Inc.	850	2.6	22.4
3/8/99	Fortis, Inc.	American Bankers Insurance Group	2,583	2.4	23.2
Mean Values				1.9x	20.2x
Median Values				1.7	20.2

(1) Equity value.

(2) Excludes realized capital gains (losses).

(3) 6/30/99 Book Value

(4) Estimated 9/30/99 Book Value

(5) A maximum payment of \$22 per KRE share would result in a purchase price of \$792 and a Price/Book multiple of 1.3x and Price/LTM Net Income of 10.7x.

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Relevant Acquisitions Valuation Analysis

(Dollars in Millions, except per share data)

	KRE Data	Relevant Multiple Range		Implied Value		Implied Value Per Share/(1)/	
		Low	High	Low	High	Low	High
Est. 9/30/99 Book Value	\$494.9	1.0x	1.3x	\$495	\$643	\$15.42	\$20.04
Indicated Preliminary Value Range				\$495	\$643	\$15.42	\$20.04

(1) Assumes 32.1 million fully diluted KRE shares outstanding (excluding 4.4 million ACE shares).

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Major Assumptions

. In conjunction with ACE senior management, CSFB modified Capital Re's projections by:

(i) recognizing \$239 million (pre-tax) of special charges in 1999 (\$119 million for IFS and CFS losses; \$50 million non-specific reserve increase; \$70 million Lloyd's write-off);

(ii) increasing loss reserves by an additional \$15 million (pre-tax) per year beginning in 2000; and

(iii) on a prospective basis, reversing the deferral and subsequent amortization of certain overhead expenses

. Since no interim cash flows are available to ACE, CSFB discounted a terminal value at discount rates of 10%, 11% and 12% based on a weighted average cost of capital ("WACC") analysis for the same companies used in the comparable companies valuation, applying exit multiples of 8.0x-10.0x 2003E earnings and 1.00x-1.20x 12/31/03E GAAP book value

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DCF Valuation Summary

(Dollars in Millions, except per share data)

	KRE Data	Multiples Range		Implied Value		Implied Value Per Share/(1)/	
		Low	High	Low	High	Low	High
2003 Terminal Book Value Multiple	\$ 868.1	1.0x	- 1.2x	\$ 563	- \$ 695	\$ 15.42	- \$ 19.04
2003 Terminal Earnings Multiple	108.5	8.0	- 10.0	436	- 651	11.94	- 17.84
Indicated Preliminary Value Range				\$ 500	- \$ 675	\$ 13.70	- \$ 18.49

1) Assumes 36.5 million fully diluted KRE shares outstanding (including 4.4 million ACE shares).

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Summary Valuation

(Dollars in Millions, except per share data)

	Implied Valuation		Implied Per Share Valuation/(1)/	
	Low	High	Low	High
Comparable Companies Analysis				
Without Takeover Premium	\$ 475	- \$ 575	\$ 14.86	- \$ 17.79
With Takeover Premium of 10%	523	- 633	16.29	- 19.70
Relevant Acquisitions Analysis	495	- 643	15.42	- 20.04
Discounted Cash Flow Analysis/(2)/	500	- 675	13.70/(2)/	- 18.49/(2)/
Preliminary Equity Reference Range/(1)/	\$ 500	- \$ 650	\$ 15.57	- \$ 20.25

(1) Assumes 32.1 million fully diluted KRE shares outstanding (excluding 4.4 million ACE shares).

(2) Assumes 36.5 million fully diluted KRE shares outstanding (including 4.4 million ACE shares).

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Strategic Rationale

The acquisition of Capital Re (KRE) is an excellent opportunity to further ACE's strategic and financial objectives. The acquisition would:

- . Constitute an integral part of ACE's strategic vision
- . Enhance ACE's management resources in financial products
- . Expand ACE's financial risks business
- . Diversify ACE's risk portfolio
- . Stabilize ACE's earnings
- . Achieve accretion to ACE's EPS
- . Increase ACE's profitability

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Capital Re Overview

Capital Re is an insurance holding company for a group of monoline reinsurance companies in separate specialty insurance markets. Capital Re provides reinsurance in four principal areas of specialization: i) financial guaranty insurance; ii) mortgage guaranty insurance; iii) trade credit insurance; and iv) title insurance. Highlights of the business include:

- . Leading specialty reinsurance group
- . Financial risk products that provide sustainable underwriting margins
- . Highly predictable year to year earnings growth from core businesses
- . Innovative and proven management team

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History of Capital Re

- . January 1988: Commenced operations reinsuring primarily municipal and non-municipal bond obligations
- . February 1990: Establishes Bermuda reinsurer of trade credit and political risk
- . February 1994: Establishes reinsurer of residential mortgage guaranty obligations originating principally in the U.S. and U.K.
- . March 1994: Establishes Bermuda reinsurer of financial guaranty, mortgage guaranty and trade credit insurance as direct reinsurer of third party exposures and retrocessionaire of other KRE companies; also provides structured reinsurance products
- . March 1996: Establishes reinsurer of title insurance policies
- . November 1996: Acquires Lloyd's managing agency (now known as "RGB") with 4 syndicates; RGB is currently being divested
- . December 1996: Establishes joint venture with GCR Holdings specializing in financial lines reinsurance; GCR subsequently acquired by EXEL in 1997
- . March 1998: ACE acquires joint venture from EXEL

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Capital Re - Recent Events

In the past 18 months, Capital Re has experienced some significant losses and other events:

- . \$10 million pre-tax reserve for Allegheny Health
- . \$90 million pre-tax reserve for Commercial Financial Services ("CFS")
- . Resignation of founding Chairman and CEO
- . Moody's financial strength ratings downgraded from "Aaa" to "Aa2"
- . Potential \$74 million pre-tax exposure for International Financial Services Life Insurance Company ("IFS")
- . \$70 million in reserves and write-downs at Lloyd's operation

Despite these events, Capital Re's core franchise remains strong.

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Impact of Combination

This merger is an excellent strategic and financial opportunity for ACE. Acquiring Capital Re would allow ACE to:

- . Gain a larger and stronger strategic position in the global reinsurance market
- . Increase Capital Re's profitability through the tax and business flexibility of Bermuda domiciled parent
- . Add high margin specialty lines businesses
- . Add non-correlated consistent earnings stream to balance volatility in other ACE businesses

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Calculation of Goodwill

(Dollars in Millions)

	June 2, 1999	October 13, 1999		
		\$ 13.00	\$ 14.00	\$ 15.00
Purchase Price	\$ 676	\$ 492	\$ 524	\$ 557
Consideration to be paid	601	417	449	482
ACE Investment in KRE	75	75	75	75
Option/Restricted Stock and Expenses	12	12	12	12
Equity Purchase Price	\$ 688	\$ 504	\$ 536	\$ 569
9/30/99 Estimated Book Value	495	495	495	495
Goodwill	193	\$ 9	\$ 41	\$ 74
Goodwill Amortization per year (25 years)	\$ 7.7	\$ 0.4	\$ 1.6	\$ 3.0

Note: Based on ACE closing price on 10/11/99 of \$16.75.

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