ACE LTD

FORM 10-Q
(Quarterly Report)

Filed 02/16/99 for the Period Ending 12/31/98

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

ACE LTD

FORM 10-Q
(Quarterly Report)

Filed 2/16/1999 For Period Ending 12/31/1998

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended December 31, 1998

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)

The ACE Building
30 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 __X__ NO _____

The number of registrant's Ordinary Shares ($0.041666667 par value) outstanding as of February 10, 1999 was 193,725,126.

ACE LIMITED

INDEX TO FORM 10-Q

ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 1998 (Unaudited)	September 30, 1998
	(in thousands of U.S. dollars except share and per share data)	
Assets		
Investments and cash		
Fixed maturities available for sale, at fair value (amortized cost - $4,784,412 and $4,910,792)	$ 4,866,366	$ 5,056,807
Equity securities, at fair value (cost - $196,375 and $198,447)	220,843	189,717
Short-term investments, at fair value (amortized cost - $757,788 and $480,236)	757,804	480,190
Other investments, at fair value (cost-$128,119 and $156,758)	129,331	156,646
Cash	240,556	317,714
Total investments and cash	6,214,900	6,201,074
Goodwill	535,920	540,355
Premiums and insurance balances receivable	347,810	377,307
Reinsurance recoverable	1,159,270	1,116,753
Accrued investment income	54,491	57,153
Deferred acquisition costs	67,502	76,445
Prepaid reinsurance premiums	201,529	205,022
Deferred income taxes	42,796	25,264
Other assets	210,087	189,380
Total assets	$ 8,834,305	$ 8,788,753
Liabilities		
Unpaid losses and loss expenses	$ 3,678,269	$ 3,737,869
Unearned premiums	705,712	773,702
Premiums received in advance	62,671	53,794
Insurance and reinsurance balances payable	72,993	75,898
Accounts payable and accrued liabilities	137,383	165,527
Dividend payable	17,700	17,693
Bank debt	250,000	250,000
Total liabilities	4,924,728	5,074,483
Commitments and contingencies		
Shareholders' equity		
Ordinary Shares ($0.041666667 par value, 300,000,000 shares authorized; 193,687,126 and 193,592,519 shares issued and outstanding)	8,070	8,066
Additional paid-in capital	1,767,188	1,765,261
Unearned stock grant compensation	(15,087)	(6,181)
Retained earnings	2,040,664	1,819,554
Accumulated other comprehensive income	108,742	127,570
Total shareholders' equity	3,909,577	3,714,270
Total liabilities and shareholders' equity	$ 8,834,305	$ 8,788,753

See accompanying notes to interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended December 31, 1998 and 1997
(Unaudited)

	1998	1997
	(in thousands of U.S. dollars, except per share data)	
Revenues		
Gross premiums written	$ 254,068	$ 207,456
Reinsurance premiums ceded	(99,965)	(54,307)
Net premiums written	154,103	153,149
Change in unearned premiums	63,904	52,181
Net premiums earned	218,007	205,330
Net investment income	85,095	63,672
Net realized gains on investments	130,154	27,493
Total revenues	433,256	296,495
Expenses		
Losses and loss expenses	111,169	122,255
Acquisition costs	27,812	24,828
Administrative expenses	41,218	19,802
Amortization of goodwill	4,435	2,271
Interest expense	4,741	1,361
Total expenses	189,375	170,517
Income before income taxes	243,881	125,978
Income taxes	5,342	3,768
Net income	$ 238,539	$ 122,210
Basic earnings per share	$ 1.23	$ 0.68
Diluted earnings per share	$ 1.21	$ 0.67

See accompanying notes to interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three Months Ended December 31, 1998 and 1997

(Unaudited)

	1998	1997
	(in thousands of U.S. dollars)	
Ordinary Shares		
Balance at beginning of period	$ 8,066	$ 7,508
Exercise of stock options	4	2
Repurchase of shares	-	(104)
Balance at end of period	8,070	7,406
Additional paid-in capital		
Balance at beginning of period	1,765,261	1,177,954
Exercise of options	1,927	424
Repurchase of shares	-	(16,446)
Balance at end of period	1,767,188	1,161,932
Unrealized stock grant compensation		
Balance at beginning of period	(6,181)	(1,993)
Stock grants awarded	(9,924)	(3,123)
Amortization	1,018	866
Balance at end of period	(15,087)	(4,250)
Retained earnings		
Balance at beginning of period	1,819,554	1,403,463
Net income	238,539	122,210
Dividends declared	(17,429)	(13,085)
Repurchase of Ordinary Shares	-	(59,954)
Balance at end of period	2,040,664	1,452,634
Accumulated other comprehensive income		
Net unrealized appreciation (depreciation) on investments		
Balance at beginning of period	127,845	196,655
Change in period, net of taxation	(25,574)	(23,227)
Balance at end of period	102,271	173,428
Cumulative translation adjustments		
Balance at beginning of period	(275)	1,568
Change in period	6,746	(369)
Balance at end of period	6,471	1,199
Accumulated other comprehensive income	108,742	174,137
Total shareholders' equity	$ 3,909,577	$ 2,791,859

See accompanying notes to interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended December 31, 1998 and 1997
(Unaudited)

	1998	1997
	(in thousands of U.S. dollars)	
Net income	$ 238,539	$ 122,210
Other comprehensive income (loss)		
Unrealized appreciation (depreciation) on investments		
Unrealized appreciation (depreciation) on investments	(4,158)	8,207
Less: reclassification adjustment for realized gains included in net income	(25,319)	(31,434)
	(29,477)	(23,227)
Cumulative translation adjustments	6,746	(369)
Other comprehensive income (loss), before income taxes	(22,731)	(23,596)
Income taxes related to other comprehensive income items	3,903	-
Other comprehensive income (loss)	(18,828)	(23,596)
Comprehensive income	$ 219,711	$ 98,614

See accompanying notes to interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended December 31, 1998 and 1997

(Unaudited)

	1998	1997
	(in thousands of U.S. dollars)	
Cash flows from operating activities		
Net income	$ 238,539	$ 122,210
Adjustments to reconcile net income to net cash provided by operating activities:		
Unearned premiums	(67,990)	(51,449)
Unpaid losses and loss expenses, net of reinsurance recoverable	(102,117)	(13,557)
Prepaid reinsurance premiums	3,493	(11,013)
Deferred income taxes	(17,532)	6,588
Net realized gains on investments	(130,154)	(27,493)
Amortization of premium/discounts on fixed maturities	(1,958)	(867)
Amortization of goodwill	4,435	431
Deferred acquisition costs	8,943	20,742
Premiums and insurance balances receivable	29,497	45,628
Premiums received in advance	8,877	18,334
Insurance and reinsurance balances payable	(2,905)	12,214
Accounts payable and accrued liabilities	(28,144)	18,971
Other	(14,375)	(22,065)
Net cash flows (used for) from operating activities	(71,391)	118,674
Cash flows from investing activities		
Purchases of fixed maturities	(3,169,088)	(1,407,957)
Purchase of equity securities	(29,015)	(89,533)
Sales of fixed maturities	3,032,461	1,430,276
Sales of equity securities	25,338	85,537
Maturities of fixed maturities	4,310	13,000
Net realized gains (losses) on financial future contracts	121,542	8,687
Other investments	26,103	(7,547)
Net cash provided by investing activities	11,651	32,463
Cash flows from financing activities		
Repurchase of Ordinary Shares	-	(76,504)
Dividends paid	(17,422)	(12,165)
Repayment of bank debt	(250,000)	-
Proceeds from bank debt	250,000	-
Proceeds from exercise of options for ordinary shares	4	426
Net cash used for financing activities	(17,418)	(88,243)
Net (decrease) increase in cash	(77,158)	62,894
Cash - beginning of period	317,714	165,865
Cash - end of period	$ 240,556	$ 228,759

See accompanying notes to interim consolidated financial statements

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

The interim consolidated financial statements, which include the accounts of the Company and its subsidiaries, have been prepared on the basis of accounting principles generally accepted in the United States of America and, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results for such periods. 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 1998 Annual Report on Form 10-K.

On January 12, 1999, the Company announced that it had agreed to acquire the international and domestic property and casualty businesses of CIGNA Corporation for $3.45 billion in cash. Under the terms of the agreement the Company, through a newly created U.S. holding company, ACE INA Holdings Inc. (ACE INA), will acquire CIGNA's domestic property and casualty insurance operations including its run-off business and also its international property and casualty insurance companies and branches, including most of the accident and health business written through those companies. In connection with the acquisition, National Indemnity, a subsidiary of Berkshire Hathaway, will provide $1.25 billion of protection against adverse development with respect to the loss and loss adjustment expense reserves of the operations to be acquired. The acquisition, which is subject to receipt of necessary regulatory approvals and other customary closing conditions, is expected to be completed by the end of ACE's fiscal 1999 third quarter. The Company expects to finance this transaction with a combination of available cash and newly issued equity, debt and preferred and mandatorily convertible securities (see "Management's Discussion and Analysis - Liquidity and Capital Resources").

At December 31, 1998, approximately 48 percent of the Company's written premiums came from companies headquartered in North America with approximately 19 percent coming from companies headquartered in the United Kingdom and continental Europe and approximately 33 percent from companies headquartered in other countries.

2. Significant Accounting Policies

a) Comprehensive Income

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" ("SFAS 130"), which is effective for fiscal years beginning after December 15, 1997. SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. As of October 1, 1998, the Company adopted SFAS 130; however, the adoption of this statement had no impact on the Company's net income or shareholders' equity. SFAS 130 requires unrealized gains or losses on the Company's available-for-sale securities and cumulative translation adjustments, which prior to adoption were reported separately in shareholders' equity, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of SFAS 130.

b) New accounting pronouncements

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), which is effective for years beginning after December 15, 1997. SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. Because SFAS 131 in not required to be applied to interim financial statements in the initial year of adoption, the Company is not required to disclose segment information in accordance with SFAS 131 until its September 1999 annual report. In the Company's first quarter 2000 report, and in subsequent quarters, it will present the interim disclosures required by SFAS 131 for both 1999 and 2000.

3. Commitments and Contingencies

A number of the Company's insureds have given notice of claims relating to breast implants or components or raw material thereof that had been produced and/or sold by such insureds. Lawsuits including class actions, involving thousands of implant recipients have been filed in both state and federal courts throughout the United States. Most of the federal cases have been consolidated pursuant to the rules for Multidistrict Litigation to a Federal District Court in Alabama, although cases are in the process of being transferred back to federal courts or remanded to state courts.

In October 1995, negotiators for three of the major defendants agreed on the essential elements of a revised individual settlement plan for U.S. claimants with at least one implant from any of those manufacturers ("the Settlement"). In November 1995, the Settlement was approved by the three major defendants and in December 1995 the multidistrict litigation judge approved the Settlement. In addition, two other defendants became part of the Settlement, although certain of their settlement terms are different.

At June 30, 1994, the Company increased its then existing reserves relating to breast implant claims. Although the reserve increase was partially satisfied by an allocation from existing IBNR, it also required an increase in the Company's total reserve for unpaid losses and loss expenses at June 30, 1994 of $200 million. The increase in reserves was based on information made available in conjunction with the lawsuits and information made available from the Company's insureds and was predicated upon an allocation between coverage provided before and after the end of 1985 (when the Company commenced underwriting operations). No additional reserves relating to breast implant claims have been added since June 30, 1994.

The Company continually evaluates its reserves in light of developing information and in light of discussions and negotiations with its insureds. The Company has made payments to date of approximately $470 million with respect to breast implant claims, which includes a payment of $100 million made during the quarter ended December 31, 1998. These payments, along with commitments to make additional future payments, are made pursuant to agreements reached with a majority of the Company's significant breast implant insureds. These agreements had the effect of limiting the Company's exposure to breast implant claims to amounts which were anticipated in the Company's reserves. While the Company is unable at this time to determine whether additional reserves, which could have a material adverse effect upon the financial condition, results of operations and cash flows of the Company, may be necessary in the future, the Company believes that its reserves for unpaid losses and loss expenses including those arising from breast implant claims are adequate as at December 31, 1998.

The Company has considered asbestos and environmental claims and claims expenses in establishing the liability for unpaid losses and loss expenses. The estimation of ultimate losses arising from asbestos and environmental exposures has presented a challenge because traditional actuarial reserving methods, which primarily rely on historical experience, are inadequate for such estimation. The problem of estimating reserves for asbestos and environmental exposures resulted in the development of reserving methods which incorporate new sources of data with historical experience. The Company believes that the reserves carried for these claims are adequate based on known facts and current law.

4. Restricted Stock Awards

Under the terms of the 1995 Long-Term Incentive Plan 335,000 restricted Ordinary Shares were awarded during the current quarter to officers of the Company and its subsidiaries. These shares vest at various dates through November 2003.

At the time of grant the market value of the shares awarded under these grants is recorded as unearned stock grant compensation and is presented as a separate component of shareholders' equity. The unearned compensation is charged to operations over the vesting period.

5. Earnings Per Share

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

	December 31 1998	December 31 1997
	(in thousands of U.S. dollars, except share and per share data)	
Numerator:		
Net Income	$ 238,539	$ 122,210
Denominator:		
Denominator for basic earnings per share - weighted average shares	193,642,270	178,979,488
Effect of dilutive securities	3,707,086	4,028,982
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	197,349,356	183,008,470
Basic earnings per share	$ 1.23	$ 0.68
Diluted earnings per share	$ 1.21	$ 0.67

6. Credit Facilities

In December 1997, the Company arranged certain syndicated credit facilities. J.P. Morgan Securities, Inc. and Mellon Bank N.A. acted as co-arrangers in the arranging, structuring and syndication of these credit facilities. Each facility requires that the Company and/or certain of its subsidiaries maintain specific covenants, including a consolidated tangible net worth covenant and a maximum leverage covenant. The facilities provide:

|X| A $200 million 364 day revolving credit facility and a $200 million five year revolving credit facility which together make up a combined $400 million committed, unsecured syndicated revolving credit facility. In December 1998, the expiry date of the 364 day revolving credit facility was extended to March 31, 1999. At December 31, 1998, the five-year revolving credit facility had a $150 million letter of credit ("LOC") sub-limit (increased from $50 million during September 1998).

|X| A syndicated fully secured five year LOC facility totaling approximately (pound)154 million ($262 million) which was used to fulfill the requirements of Lloyd's to support underwriting capacity on Lloyd's syndicates in which the Company participates. As discussed below, this facility was replaced on November 27, 1998.

|X| A syndicated $250 million seven year amortizing term loan facility, which was used on January 2, 1998 to partially finance the acquisition of ACE USA. The interest rate on the term loan was LIBOR plus an applicable spread. As discussed below, this term loan was refinanced on October 27, 1998.

6. Credit Facilities (cont'd)

On October 27, 1998, ACE US Holdings, Inc. ("ACE US") refinanced the outstanding $250 million term loan with the proceeds from the issuance of $250 million in aggregate principal amount of unsecured credit sensitive senior notes maturing in October 2008. Interest payments, based on the initial fixed rate coupon on these notes of 8.63 percent, are due semi-annually in arrears. Total interest expense to be recorded by ACE US including amortized fees and hedging costs will initially be $23.3 million per year. The indenture related to these notes includes certain events of default for ACE US. The senior notes are callable subject to certain breakage costs, however, ACE US has no current intention of calling the debt. Simultaneously, the Company has entered into a notional $250 million credit default swap transaction that has the economic effect of reducing the cost of debt to the consolidated group, excluding fees and expenses, to 6.47 percent for 10 years. Certain assets totaling approximately $90 million are pledged as security in connection with the swap transaction. In the event that the Company terminates the credit default swap prematurely, the Company would be liable for certain transaction costs. However, the Company has no current intention of terminating the swap. The swap counter-party is a major financial institution with a long- term S&P Senior Debt Rating of AA- and the Company does not anticipate non-performance.

On November 27, 1998, the Company arranged a new syndicated partially secured five year LOC facility in the amount of (pound)270 million (approximately $450 million) to fulfill the requirements of Lloyd's for the 1999 year of account. This new facility was arranged by Citibank N.A., with ING Barings and Barclays Bank PLC acting as co-arrangers, and replaced the facility arranged in December 1997. This new LOC facility requires that the Company continue to maintain certain covenants, including a minimum consolidated tangible net worth covenant and a maximum leverage covenant. Certain assets totaling approximately $201 million are pledged as partial security for this facility, replacing the security pledged in connection with the December 1997 facility.

The Company also maintains an unsecured, syndicated revolving credit facility in the amount of $72.5 million. This facility was put in place by CAT prior to its acquisition by the Company and in September 1998, was assigned to Tempest Re. At September 30, 1998, no amounts have been drawn down under this facility. The facility requires that Tempest Re comply with specific covenants.

7. Reinsurance

The Company purchases reinsurance to manage various exposures including catastrophic risks. Although reinsurance agreements contractually obligate the Company's reinsurers to reimburse it for the agreed upon portion of its gross paid losses, they do not discharge the primary liability of the Company. The amounts for net premiums written and net premiums earned in the statements of operations are net of reinsurance. Direct, assumed and ceded amounts for these items for the three months ended December 31, 1998 and 1997 are as follows:

	1998	1997
	(in thousands)	
Premiums written		
Direct	$ 208,501	$ 184,985
Assumed	45,567	22,471
Ceded	(99,965)	(54,307)
Net	$ 154,103	$ 153,149
Premiums earned		
Direct	$ 233,567	$ 211,985
Assumed	97,850	46,622
Ceded	(113,410)	(53,277)
Net	$ 218,007	$ 205,330

7. Reinsurance (cont'd) The Company's provision for reinsurance recoverable at December 31, 1998 and September 30, 1998 is as follows:

	December 31 1998	September 30 1998
	(in thousands)	
Reinsurance recoverable on paid losses and loss expenses	$ 58,806	$ 57,225
Reinsurance recoverable on unpaid losses and loss expenses	1,184,978	1,143,121
Provision for uncollectable balances on unpaid losses and loss expenses	(84,514)	(83,593)
Reinsurance recoverable	$ 1,159,270	$ 1,116,753

8. Taxation

Under current Cayman Islands law, the Company is not required to pay any taxes on its income or capital gains. The Company has received an undertaking that, in the event of any taxes being imposed, the Company will be exempt from taxation in the Cayman Islands until the year 2013. Under current Bermuda law, the Company and its Bermuda subsidiaries are not required to pay any taxes on their income or capital gains. The Company and its Bermuda subsidiaries will be exempt from taxation in Bermuda until March 2016.

Income from the Company's operations at Lloyd's are subject to United Kingdom corporation taxes. ACE USA is subject to income taxes imposed by U.S. authorities.

The provision for income taxes detailed below represents the Company's estimate of tax liability in respect of the Company's operations at Lloyd's and at ACE USA and is calculated at rates equal to the statutory income tax rate in each jurisdiction.

The income tax provision for the three months ended December 31, 1998 and 1997 is as follows:

	1998	1997
	(in thousands)	
Current tax (benefit) expense	$ (476)	$ 2,062
Deferred tax expense	5,818	1,706
Provision for income taxes	$ 5,342	$ 3,768

8. Taxation (cont'd) The components of the net deferred tax asset as of December 31, 1998 and September 30, 1998 is as follows:

	December 31 1998	September 30 1998
	(in thousands)	
Deferred tax assets		
Loss reserve discount	$ 47,649	$ 50,581
Unearned premium adjustment	3,849	3,874
Uncollectable reinsurance	6,685	5,185
Other	66,626	49,646
Total deferred tax assets	124,809	109,286
Deferred tax liabilities		
Deferred policy acquisition costs	3,753	3,741
Unrealized appreciation on investments	5,379	9,282
Other	46,247	43,696
Total deferred tax liabilities	55,379	56,719
Valuation allowance	26,634	27,303
Net deferred tax asset	$ 42,796	$ 25,264

9. Reclassification

Certain items in the prior period financial statements have been reclassified to conform with the current period presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Safe Harbor Disclosure

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

General

The following is a discussion of the Company's results of operations, financial condition, liquidity and capital resources as of and for the three months ended December 31, 1998. The results of operations and cash flows for any interim period are not necessarily indicative of results for the full year. This discussion should be read in conjunction with the consolidated financial statements, related notes thereto and the Management's Discussion and Analysis of Results of Operations and Financial Condition included in the Company's 1998 Annual Report on Form 10-K.

ACE Limited ("ACE") is a holding company which, through its Bermuda-based operating subsidiaries, ACE Bermuda Insurance Ltd. (formerly A.C.E. Insurance Company, Ltd.) ("ACE Bermuda"), Corporate Officers & Directors Assurance Ltd. ("CODA"), Tempest Reinsurance Company Limited ("Tempest Re") and CAT Limited ("CAT") and its Dublin, Ireland based subsidiaries, ACE Insurance Company Europe Limited and ACE Reinsurance Company Europe Limited provides a broad range of insurance and reinsurance products to a diverse group of international clients. Following the acquisition of CAT, the CAT business was integrated into the Tempest Re book of business and effective January 1, 1999 CAT was actually merged into Tempest Re. Through its U.S. based subsidiary, ACE USA, Inc. ("ACE USA"), the Company provides insurance products to a broad range of clients in the United States. In addition, since 1996 the Company has provided funds at Lloyd's, primarily in the form of letters of credit, to support underwriting capacity for Lloyd's syndicates managed by Lloyd's managing agencies which are indirect wholly owned subsidiaries of ACE. Underwriting capacity is the maximum amount of gross premiums that a syndicate at Lloyd's can underwrite in a given year of account. Unless the context otherwise indicates, the term "Company" refers to one or more of ACE and its consolidated subsidiaries. The operations of the Company in the Lloyd's market are collectively referred to herein as "ACE Global Markets".

General (cont'd)

On January 12, 1999, the Company announced that it had agreed to acquire the international and domestic property and casualty businesses of CIGNA Corporation for $3.45 billion in cash. Under the terms of the agreement the Company, through a newly created U.S. holding company, ACE INA Holdings Inc. (ACE INA), will acquire CIGNA's domestic property and casualty insurance operations and also its international property and casualty insurance companies and branches, including most of the accident and health business written through those companies. In connection with the acquisition, National Indemnity, a subsidiary of Berkshire Hathaway, will provide $1.25 billion of protection against adverse development with respect to the loss and loss adjustment expense reserves of the operations to be acquired. The acquisition, which is subject to receipt of necessary regulatory approvals and other customary closing conditions is expected to be completed by the end of ACE's fiscal 1999 third quarter. The Company expects to finance this transaction with a combination of available cash and newly issued equity, debt and preferred and mandatorily convertible securities (see "Liquidity and Capital Resources").

The Company will continue to evaluate potential new product lines and other opportunities in the insurance and reinsurance markets. In addition, the Company regularly evaluates potential acquisitions of other companies and businesses and holds discussions with potential acquisition candidates. As a general rule, the Company publicly announces such acquisitions only after a definitive agreement has been reached.

Results of Operations - Three Months ended December 31, 1998

Net Income

	Three Months Ended December 31 1998	1997	% Change from Prior year
	(in millions)		
Income excluding net realized gains on investments	$ 108.4	$ 94.7	14.5%
Net realized gains on investments	130.1	27.5	N.M.
Net income	$ 238.5	$122.2	N.M.

(N.M. - Not meaningful)

Income excluding net realized gains on investments for the first quarter of fiscal 1999 increased by 14.5 percent compared with the first quarter of fiscal 1998. This increase is due in part to the inclusion, this quarter, of the results of ACE USA and CAT which were acquired on January 2, 1998 and April 1, 1998, respectively. These acquisitions increased the asset base of the company resulting in an increase in investment income for the first quarter of 1998 compared with the first quarter of 1997.

Positive movements in the investment markets produced net realized gains on investments in both the current quarter and the first quarter of fiscal 1998 and are described in detail under "net realized gains on investments".

Results of Operations - Three Months ended December 31, 1998 (cont'd)

Premiums

	Three Months ended December 31 1998	1997	% Change from Prior year
	(in millions)		
Gross premiums written:			
ACE Bermuda	$ 125.6	$ 127.5	(1.5)%
ACE Global Markets	87.9	80.0	9.9%
Tempest Re	7.4	-	N.M.
ACE USA	33.2	-	N.M.
	$ 254.1	$ 207.5	22.5%
Net premiums written:			
ACE Bermuda	$ 87.7	$ 94.8	(7.5)%
ACE Global Markets	41.5	58.3	(28.8)%
Tempest Re	4.3	-	N.M.
ACE USA	20.6	-	N.M.
	$ 154.1	$ 153.1	0.6%
Net premiums earned:			
ACE Bermuda	$ 82.6	$ 113.3	(27.1)%
ACE Global Markets	65.1	63.6	2.4%
Tempest Re	48.4	28.4	70.3%
ACE USA	21.9	-	N.M.
	$ 218.0	$ 205.3	6.2%

(N.M. - Not meaningful)

During the quarter, most insurance markets faced significant competitive pressures as a result of relatively low loss activity over the past several years and excess capital in these markets. This has resulted in continuing price pressure on most insurance and reinsurance lines.

Gross premiums written increased by $46.6 million or 22.5 percent to $254.1 million from $207.5 million in the quarter ended December 31, 1997, despite these continuing competitive market conditions. The increase is primarily the result of the inclusion of the results of ACE USA for the current quarter. ACE USA contributed $33.2 million to gross premiums written for the quarter ended December 31, 1998. Gross premiums written in ACE Bermuda were at comparable levels with last year. New business in the financial lines division resulted in significant growth over last year. This growth was offset by declines in the excess liability and directors and officers liability divisions which both continue to face difficult markets. Satellite and excess property divisions also experienced declines during the quarter. The Company recorded an increase of $8.0 million in gross premiums written with respect to the Company's participation in the Lloyd's syndicates managed by ACE Global Markets. This growth was a result of the Company's increased participation in the syndicates under management. Tempest Re renewals occur primarily in January and July each year and therefore premium transactions are not significant for Tempest Re during this quarter. With respect to the January 1999 renewals, Tempest Re was offered renewals on substantially all of the CAT business as well as the Tempest Re business. However, merger and acquisition activity among clients and the downward trend in pricing resulted in some declines in premium at Tempest Re.

Results of Operations - Three Months ended December 31, 1998 (cont'd)

Net premiums written increased by $1.0 million to $154.1 million for the quarter ended December 31, 1998 compared with $153.1 million for the quarter ended December 31, 1997. The property division's premium levels at ACE USA contributed significantly to the net premiums written for the quarter. This was offset by a decrease in net premiums written in ACE Bermuda and ACE Global Markets, primarily the result of an increase in the use of reinsurance. ACE Bermuda continued its use of reinsurance with this quarter seeing the restructuring of its satellite reinsurance program. Negotiations were also finalized on the expansion of the excess liability reinsurance program at ACE Bermuda, which increased the quota share to 50 percent effective January 1, 1999.

Net premiums earned increased by $12.7 million or 6.2 percent compared to the comparable quarter last year. The increase in net earned premiums is primarily due to the inclusion of the results of ACE USA and the CAT book of business during the current quarter and an increase in net premiums earned by ACE Global Markets as a result of the Company's increased share of capacity. These increases were offset somewhat by a decline in net premiums earned by ACE Bermuda as a result of declining net written premiums.

Net Investment Income

	Three Months ended December 31 1998	1997	% Change from Prior year
	(in millions)		
Net investment income	$ 85.1	$ 63.7	33.6%

Net investment income increased 33.6 percent to $85.1 million compared with $63.7 million in the quarter ended December 31, 1997. This increase is due to a larger investable asset base primarily due to the inclusion of ACE USA and CAT this quarter compared to the same quarter last year and the reinvestment of funds generated by the portfolio. The average yield on the investment portfolio remained relatively unchanged in the quarter ended December 31, 1998 compared with the quarter ended December 31, 1997.

Net Realized Gains on Investment

	Three Months ended December 31 1998	1997
	(in millions)	
Fixed maturities and short-term investments	$ 14.5	$ 21.4
Equity securities	2.0	7.3
Financial futures and option contracts	121.3	8.7
Other investments	(7.4)	-
Currency	(0.3)	(9.9)
	$ 130.1	$ 27.5

Results of Operations - Three Months ended December 31, 1998 (cont'd)

The Company's investment strategy takes a long-term view and the portfolio is actively managed to maximize total return within certain specific guidelines which minimize risk. The portfolio is reported at fair value. The effect of market movements on the investment portfolio will directly impact net realized gains (losses) on investments when securities are sold. Changes in unrealized gains and losses, which result from the revaluation of securities held, are reported as a separate component of other comprehensive income.

During the first quarter of fiscal 1999, the fair market value of the Company's investment portfolio increased primarily due to the strength in equity markets. In the first fiscal quarter, the S&P 500 Stock Index rose 21.3 percent and generated net realized gains on the Company's equity index futures contracts of $124.9 million. Net realized gains on the sale of equity securities amounted to $2.0 million for the quarter.

Fixed income markets were stable relative to the volatility seen in recent quarters. The sales proceeds for fixed maturity securities were generally higher than their amortized cost during the quarter resulting in net realized gains of $14.5 million being recognized on fixed income and short-term investments. Certain of the company's fixed income investment portfolios utilize fixed income futures contracts to manage duration exposure, and losses of $3.6 million were recognized on these during the quarter.

During the quarter the Company sold a private investment held by CAT, which resulted in a realized loss of $7.4 million.

Combined Ratio

	Three months ended December 31 1998	1997
Loss and loss expense ratio	51.0%	59.5%
Underwriting and administrative expense ratio	31.7%	21.7%
Combined ratio	82.7%	81.2%

The underwriting results of a property and casualty insurer are discussed frequently by reference to its loss and loss expense ratio, underwriting and administrative expense ratio and combined ratio. Each ratio is derived by dividing the relevant expense amounts by net premiums earned. The combined ratio is the sum of the loss and loss expense ratio and the underwriting and the administrative expense ratio. A combined ratio under 100 percent indicates underwriting income and a combined ratio exceeding 100 percent indicates underwriting losses. Property catastrophe reinsurance companies generally expect to have overall lower combined ratios as compared with other reinsurance companies with long-tail exposures. However, property catastrophe loss experience is generally characterized by low frequency but high severity short-tail claims which may result in significant volatility in results.

Several aspects of the Company's operations, including the low frequency and high severity of losses in the high excess layers in certain lines of business in which the Company provides insurance and reinsurance, complicate the actuarial reserving techniques utilized by the Company. Management believes, however, that the Company's reserves for unpaid losses and loss expenses, including those arising from breast implant litigation, are adequate to cover the ultimate cost of losses and loss expenses incurred through December 31, 1998. Since such provisions are necessarily based on estimates, future developments may result in ultimate losses and loss expenses significantly greater or less than such amounts (see "Breast Implant Litigation").

Results of Operations - Three Months ended December 31, 1998 (cont'd)

For the quarter ended December 31, 1998, the loss and loss expense ratio decreased to 51.0 percent compared with 59.5 percent for the first quarter of fiscal 1998. This decrease is the result of the changing mix of premiums written and earned by the Company, highlighted by the inclusion of ACE USA and CAT whose loss ratios are lower than the Company's traditional book of business. During the quarter, the Company incurred significant property catastrophe losses through Tempest Re in the quarter, ending a calendar 1998 year which is considered the third worst year for catastrophe losses. Industry sources have estimated U.S. insurers will pay policyholders in excess of $10.0 billion for 1998 catastrophes. These losses were offset by very favorable loss and loss expenses in ACE Bermuda for the quarter, primarily the result of a large multi-year financial lines contract written by ACE Bermuda, where the original policy term ended in 1998. The policy was not renewed and the program generated significant earnings during the quarter.

Underwriting and administrative expenses increased in the quarter compared to the first quarter of fiscal 1998 primarily due to the inclusion of underwriting and adminstrative expenses from ACE USA and CAT since their acquisition. The underwriting and administrative expense ratio also increased, from 21.7 percent in 1997 to 31.7 percent in the current quarter. The increase in this ratio is primarily due to the change in the mix of business, highlighted by the inclusion of administrative costs of ACE USA and our increased participation in the Lloyd's market. The underwriting and administrative expense ratios in ACE USA and ACE Global Markets is generally higher than the Company's traditional book of business and thus contributed to the increase in the underwriting and administrative expense ratio.

LIQUIDITY AND CAPITAL RESOURCES

As a holding company, ACE's assets consist primarily of the stock of its subsidiaries as well as other investments. In addition to investment income, its cash flows currently depend primarily on dividends or other statutorily permissible payments from its Bermuda-based operating subsidiaries (the "Bermuda subsidiaries"). There are currently no legal restrictions on the payment of dividends from retained earnings by the Bermuda subsidiaries as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid-in capital of each of the Bermuda subsidiaries. However, the payment of dividends or other statutorily permissible distributions by the Bermuda subsidiaries is subject to the need to maintain shareholder's equity at a level adequate to support the level of insurance and reinsurance operations. ACE received a dividend of $300 million from ACE Bermuda in November 1998.

The payment of any dividends from the Company's UK subsidiaries would be subject to applicable United Kingdom insurance law including those promulgated by the Society of Lloyd's. Under various U.S. insurance laws to which ACE US's insurance subsidiaries are subject, ACE US's insurance subsidiaries may pay a dividend only from earned surplus subject to the maintenance of a minimum capital requirement, without prior regulatory approval. No dividends were received from ACE US or ACE Global Markets during fiscal 1998 and the Company does not anticipate receiving dividends from ACE US or ACE Global Markets during fiscal 1999.

The Company's consolidated sources of funds consist primarily of net premiums written, investment income, and proceeds from sales and maturities of investments. Funds are used primarily to pay claims, operating expenses and dividends and for the purchase of investments.

The Company's insurance and reinsurance operations provide liquidity in that premiums are normally received substantially in advance of the time claims are paid. For the three months ended December 31, 1998, the Company's consolidated net cash flow from operating activities was $(71.4) million, compared with $118.7 million for the three months ended December 31, 1997. Cash flows are affected by claim payments, which due to the nature of the Company's operations, may comprise large loss payments on a limited number of claims and therefore can fluctuate significantly from year to year. The irregular timing of these loss payments, for which the source of cash can be from operations, available net credit facilities or routine sales of investments, can create significant variations in cash flows from operations between periods. For the three month periods ended December 31, 1998 and 1997, loss and loss expense payments amounted to $216.4 million (of which $100 million related to breast implant payments) and $126.4 million respectively. Total loss and loss expense payments amounted to $583.8 million, $421.9 million and $115.0 million in fiscal 1998, 1997 and 1996, respectively, of which approximately $250 million and $120 million in fiscal 1998 and 1997, respectively, related to breast implant payments.

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

The Company maintains loss reserves for the estimated unpaid ultimate liability for losses and loss expenses under the terms of its policies and agreements. The reserve for unpaid losses and loss expenses of $3.7 billion at December 31, 1998 includes $1.4 billion of case and loss expense reserves. While the Company believes that its reserve for unpaid losses and loss expenses at December 31, 1998 is adequate, future developments may result in ultimate losses and loss expenses significantly greater or less than the reserve provided.

At December 31, 1998 and September 30, 1998 total investments and cash amounted to approximately $6.2 billion. The Company's investment portfolio is structured to provide a high level of liquidity to meet insurance related or other obligations. The consolidated investment portfolio is externally managed by independent professional investment managers and is invested in high quality investment grade marketable fixed income and equity securities, the majority of which trade in active, liquid markets. The Company believes that its cash balances, cash flow from operations, routine sales of investments and the liquidity provided by its credit facilities (discussed below) are adequate to allow the Company to pay claims within the time periods required under its policies.

In December 1997, the Company arranged certain syndicated credit facilities. J.P. Morgan Securities, Inc. and Mellon Bank N.A. acted as co-arrangers in the arranging, structuring and syndication of these credit facilities. Each facility requires that the Company and/or certain of its subsidiaries comply with specific covenants, including a consolidated tangible net worth covenant and a maximum leverage covenant. The facilities provide:

|X| A $200 million 364 day revolving credit facility and a $200 million five year revolving credit facility which together make up a combined $400 million committed, unsecured syndicated revolving credit facility. In December 1998, the expiry date of the 364 day revolving credit facility was extended to March 31, 1999. At December 31, 1998, the five-year revolving credit facility had a $150 million letter of credit ("LOC") sub-limit (increased from $50 million during September 1998). As discussed below, the Company drew down $385 million on the revolving credit facilities to finance the acquisition of CAT Limited on April 1, 1998. The debt was subsequently repaid from a portion of the proceeds from the sale of 16.5 million new Ordinary Shares of the Company (discussed below).

|X| A syndicated fully secured five year LOC facility totaling approximately (pound)154 million ($262 million) which was used to fulfill the requirements of Lloyd's to support underwriting capacity on Lloyd's syndicates in which the Company participates. As discussed below, this facility was replaced on November 27, 1998.

|X| A syndicated $250 million seven year amortizing term loan facility, which was used on January 2, 1998 to partially finance the acquisition of ACE USA. The interest rate on the term loan was LIBOR plus an applicable spread. As discussed below, this term loan was refinanced on October 27, 1998.

On October 27, 1998, ACE US refinanced the outstanding $250 million term loan with the proceeds from the issuance of $250 million in aggregate principal amount of unsecured credit sensitive senior notes maturing in October 2008. Interest payments, based on the initial fixed rate coupon on these notes of 8.63 percent, are due semi-annually in arrears. Total interest expense to be recorded by ACE US including amortized fees and hedging costs, will initially be $23.3 million per year. The indenture related to these notes include certain restrictive covenants applicable to ACE US. The senior notes are callable subject to certain breakage costs, however, ACE US has no current intention of calling the debt.
Simultaneously, the Company has entered into a notional $250 million credit default swap transaction that has the economic effect of reducing the cost of debt to the consolidated group, excluding fees and expenses, to 6.47 percent for 10 years. Certain assets totaling approximately $90 million are pledged as security in connection with the swap transaction. In the event that the Company terminates the credit default swap prematurely, the Company would be liable for certain transaction costs. However, the Company has no current intention of terminating the swap. The swap counter-party is a major financial institution with a long- term S&P Senior Debt Rating of AA- and the Company does not anticipate non-performance.

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

On November 27, 1998, the Company arranged a new syndicated partially secured five year LOC facility in the amount of (pound)270 million (approximately $450 million) to fulfill the requirements of Lloyd's for the 1999 year of account. This new facility was arranged by Citibank N.A., with ING Barings and Barclays Bank PLC acting as co-arrangers, and will replace the facility arranged in December 1997. This new LOC facility requires that the Company continue to maintain certain covenants, including a minimum consolidated tangible net worth covenant and a maximum leverage covenant. Certain assets totaling approximately $201 million are pledged as partial security for this facility, replacing the security pledged in connection with the December 1997 facility.

The Company also maintains an unsecured, syndicated revolving credit facility in the amount of $72.5 million. This facility was put in place by CAT prior to its acquisition by the Company and in September 1998, was assigned to Tempest Re. At December 31, 1998, no amounts have been drawn down under this facility. The facility requires that Tempest Re comply with specific covenants.

On January 12, 1999, the Company announced that it had agreed to acquire the international and domestic property and casualty businesses of CIGNA Corporation for $3.45 billion in cash. Under the terms of the agreement the Company, through a newly created U.S. holding company, ACE INA Holdings Inc. (ACE INA), will acquire CIGNA's domestic property and casualty insurance operations and also its international property and casualty insurance companies and branches, including most of the accident and health business written through those companies. In connection with the acquisition, National Indemnity, a subsidiary of Berkshire Hathaway, will provide $1.25 billion of protection against adverse development with respect to the loss and loss adjustment expense reserves of the operations to be acquired. The acquisition, which is subject to receipt of necessary regulatory approvals and other customary closing conditions is expected to be completed by the end of ACE's fiscal 1999 third quarter. The Company expects to finance this transaction as follows:

(a) approximately $700 million to $1 billion of available cash, which will be contributed to ACE INA, and

(b) the remainder through the issuance of; (i) Ordinary Shares by the Company, the proceeds of which will also be contributed to ACE INA; (ii) preferred securities by ACE INA that are mandatorily convertible into Ordinary Shares of the Company; (iii) capital securities (e.g., trust-preferred securities) by ACE INA; and (iv) senior debt by ACE INA and together with the ACE Ordinary Shares, the ACE INA Mandatorily Convertible Securities and the ACE INA (collectively, the "Permanent Financing").

The Company or ACE INA will issue each of the Permanent Financing instruments either before or after the closing of the transaction at the time when the Company considers market conditions to be most favorable for issuance. Accordingly, on behalf of itself and ACE INA, the Company has secured interim bank financing sufficient to close the transaction.

On October 16, 1998 and January 15, 1999, the Company paid quarterly dividends of 9 cents per share, respectively to shareholders of record on September 30, 1998 and December 15, 1998. On February 5, 1999, the Board of Directors declared a quarterly dividend of 9 cents per share payable on April 16, 1999 to shareholders of record on March 31, 1999. The declaration and payment of future dividends is at the discretion of the Board of Directors and will be dependent upon the profits and financial requirements of the Company and other factors, including legal restrictions on the payment of dividends and such other factors as the Board of Directors deems relevant.

Fully diluted net asset value per share was $20.18 at December 31, 1998, compared with $19.14 at September 30, 1998.

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

The Company's financial condition, results of operations and cash flow are influenced by both internal and external forces. Claims settlements, premium levels and investment returns may be impacted by changing rates of inflation and other economic conditions. In many cases, significant periods of time, ranging up to several years or more, may elapse between the occurrence of an insured loss, the reporting of the loss to the Company and the settlement of the Company's liability for that loss. The liquidity of its investment portfolio, cash flows and the credit facilities are, in management's opinion, adequate to meet the Company's expected cash requirements.

Breast Implant Litigation

A number of the Company's insureds have given notice of claims relating to breast implants or components or raw material thereof that had been produced and/or sold by such insureds. Lawsuits, including class actions, involving thousands of implant recipients have been filed in both state and federal courts throughout the United States. Most of the federal cases have been consolidated pursuant to the rules for Multidistrict Litigation to a Federal District Court in Alabama, although cases are in the process of being transferred back to federal courts or remanded to state courts.

In October 1995, negotiators for three of the major defendants agreed on the essential elements of an individual settlement plan for U.S. claimants with at least one implant from any of those manufacturers (" the Settlement"). In November 1995, the Settlement was approved by the three major defendants and in December 1995 the multidistrict litigation judge approved the Settlement. In addition, two other defendants became part of the Settlement, although certain of their settlement terms are different and more restricted than the plan offered by the original three defendants.

At June 30, 1994, the Company increased its then existing reserves relating to breast implant claims. Although the reserve increase was partially satisfied by an allocation from existing IBNR, it also required an increase in the Company's total reserve for unpaid losses and loss expenses at June 30, 1994 of $200 million. The increase in reserves was based on information made available in the pending lawsuits and information from the Company's insureds and was predicated upon an allocation between coverage provided before and after the end of 1985 (when the Company commenced underwriting operations). No additional reserves relating to breast implant claims have been added since June 30, 1994.

The Company continually evaluates its reserves in light of developing information and in light of discussions and negotiations with its insureds. The Company has made payments to date of approximately $470 million with respect to breast implant claims, which includes a payment of $100 million made during the quarter ended December 31, 1998. These payments, along with commitments to make additional future payments, are made pursuant to agreements reached with a majority of the Company's significant breast implant insureds. Those agreements had the effect of limiting the Company's exposure to breast implant claims to amounts which were anticipated in the Company's reserves. While the Company is unable at this time to determine whether additional reserves, which could have a material adverse effect upon the financial condition, results of operations and cash flows of the Company, may be necessary in the future, the Company believes that its reserves for unpaid losses and loss expenses including those arising from breast implant claims are adequate as at December 31, 1998.

IMPACT OF THE YEAR 2000 ISSUE

General

The management of ACE Limited, recognizing that the Year 2000 problem, if left untreated, could have a material effect on the Company's business, results of operations or financial condition, has in progress a project to address this issue. It is the expectation of ACE's management that this project will reduce the impact of the Year 2000 problem to an immaterial level, although not all risks can be eliminated.

The Year 2000 problem stems from the inability, in some cases, of computer programs and embedded microchips to correctly process certain data. The problem is most evident because dates which fall in the year 2000 and in later years may not be properly distinguished from those which fell in the corresponding years of the present century.

IMPACT OF THE YEAR 2000 ISSUE (cont'd)

General (cont'd)

Although all ACE group companies had individually taken steps earlier towards alleviating the Year 2000 problem, a formal group-wide project was established in March 1998. At that time, an executive steering committee was formed to oversee the project. This committee meets on a monthly basis to review progress and take corrective action if necessary. In each of the ACE subsidiary companies, a senior member of the management has been appointed as Year 2000 coordinator. Each Year 2000 coordinator has responsibility for ensuring the success of that part of the Year 2000 plan relevant to its company. A detailed quarterly report on the status of the Year 2000 project is delivered to the audit committee of the Board of Directors.

A consultant who is an experienced project manager has been retained to assist the Year 2000 coordinator. In addition, certain subsidiaries have engaged external consultants to assist in monitoring their plans.

The project is substantially on schedule, though some components have been finished earlier than expected and some are taking more time than originally estimated. At the end of 1998, all ACE group companies were running Year 2000 compliant versions of most of the IT systems that are critical to the business. The replacement or remedy of the remaining critical systems and some residual testing will continue during the first and possibly the second quarter of calendar year 1999. One subsidiary (ACE USA) has one critical business area for which a Year 2000 compliant replacement system is now scheduled to go live in August 1999. A contingency plan exists for this business area should the replacement system be delayed or problematic.

The Company's Year 2000 project is divided into four sections: Underwriting; Information Technology; Trading Partners; and Physical Plant.

Underwriting

Underwriting teams within each ACE group subsidiary have considered the risks with respect to the Year 2000 problem that might be associated with underwriting their various lines of business and have developed internal guidelines which seek to minimize these risks. Compliance with these guidelines is the subject of internal audits and/or peer reviews. These guidelines are under regular review. In some cases, exclusionary language has been added to policies and in all cases there is a requirement for underwriters to consider information about our clients and potential clients that is relevant to the Year 2000 problem and based on this, to underwrite risks prudently or to decline them.

Information Technology
Each ACE subsidiary has a plan to ensure that all information technology components such as hardware, software and network equipment that will be in use in the Year 2000 (and beyond) for use by any business-critical function will not suffer from the Year 2000 problem. Inventories have been prepared of all such components, and appropriate action decided.

Most application software (such as insurance processing and accounting systems) which is in use within the ACE group has been supplied as packages (often tailored to meet ACE's needs) from various vendors. Several application software packages have already been replaced with Year 2000 compliant versions. Testing of these is complete in some cases, in progress for some systems and is scheduled for others. Remaining software packages will be replaced, or, in a few cases, remedied to free them of Year 2000 problems.

Testing of hardware and network components has commenced and is scheduled for completion before the end of March 1999. Testing of other software, such as operating systems and PC desktop applications is in progress or scheduled, though in a few cases we are relying on assurances from established software manufacturers that their systems will operate correctly.

IMPACT OF THE YEAR 2000 ISSUE (cont'd)

Trading Partners and Physical Plant

The trading partners section of the project focuses on Year 2000 issues relating to the Company's trading partners. Examples of the Company's trading partners are: insurance brokers, banks, reinsurance companies, vendors and service providers in information technology and general suppliers.

The Physical Plant section of the project focuses on items such as elevators, fire suppression systems, security systems, building management systems (which may control air-conditioning, heating and lighting systems) which may be controlled by software programs or embedded chips, and may thus fail or act unpredictably in, or after the year 2000. Furthermore, supply of electrical power and telecommunications services are considered here.

All material trading partners and those vendors and service providers connected with physical plant have been inventoried and questionnaires sent to them soliciting information about their Year 2000 readiness. Responses have not been provided in all cases, despite follow-up letters. ACE has made significant progress in assessing those responses which have been forthcoming. Some of these responses appear to give evidence of satisfactory progress and others do not. In those cases where additional follow-up fails to provide satisfactory responses, contingency plans will be drawn up in early 1999 to minimize the effect of potential failure of a trading partner.

Costs
The total cost of the Year 2000 project is not expected to be material to the Company's financial position. The total estimated cost is approximately $4 million, of which just over $2 million is for the information technology component of the project. Total expenditure to date on the whole project is approximately $1.2 million.

Risks

It is not feasible to assign probabilities to many of the events associated with the Year 2000. The arrival of January 1, 2000 presents novel problems about which there is no body of evidence upon which to base statistical predictions. Furthermore, world infrastructure in areas such as telecommunications, banking, law enforcement, energy production and distribution, manufacturing, transportation and government and military systems are inextricably linked in such a manner that a small failure in one area could produce large and unexpected effects in others. Each business has a dependence upon its customers and suppliers and through them (or directly) upon many or all of the infrastructural areas noted above.

ACE management believes that the risks associated with its own information technology project component are small. For reasons noted above, it is impossible to quantify all risks associated with trading partners and physical plant. Possibly the greatest risk for the Company lies in the possibility of unpredictable events affecting insureds producing a number of claims (valid or otherwise) which, if valid, are expensive to pay, or if not, expensive in defense litigation costs.

PART II - OTHER INFORMATION

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

1) The Annual General Meeting was held on February 5, 1999.
2) The following matters were voted on at the Annual General Meeting:

a) The following directors were elected.

	Term Expiring	Votes In Favor	Votes Withheld
Jeffrey W. Greenberg	2002	147,814,324	12,772,519
Meryl D. Hartzband	2002	157,650,530	2,936,313
Donald Kramer	2002	157,653,319	2,933,524
Walter A. Scott	2002	157,644,906	2,941,937
Sidney F. Wentz	2002	157,612,767	2,974,076

b) A special resolution was voted upon to approve the ACE Limited 1998 Long-Term Incentive Plan.

The holders of 127,409,320 shares voted in favor, 32,482,050 shares voted against and 695,473 shares abstained.

c) The appointment of PricewaterhouseCoopers LLP as independent public accountants for the Company for the year ended September 30, 1999 was ratified and approved.

The holders of 160,527,588 shares voted in favor, 25,383 shares voted against and 33,872 shares abstained.

ITEM 5. OTHER INFORMATION

1) On February 5, 1999, the Company declared a dividend of $0.09 per Ordinary Share payable on April 16, 1999 to shareholders of record on March 31, 1999.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

1) Exhibits

10.1 Ace Limited 1998 Long-Term Incentive Plan (as amended through the first amendment)

27 Financial Data Schedule

2) Reports on Form 8-K

The Company filed a Form 8-K current report (date of earliest event reported: December 22,1998) announcing that the Company and CIGNA Corporation were discussing a global strategic alliance, including the possible acquisition of CIGNA'S international and domestic property and casualty business by the Company.

The Company filed a Form 8-K current report (date of earliest event reported : January 12, 1999) pertaining to its agreement to acquire the international and domestic property and casualty insurance businesses of CIGNA Corporation for $3.45 billion in cash.

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

February 12, 1999	*/s/ Brian Duperreault*

	Brian Duperreault *Chairman, President and Chief Executive Officer*
February 12, 1999	*/s/ Christopher Z. Marshall*

	Christopher Z. Marshall *Chief Financial Officer*

EXHIBIT INDEX

Exhibit Number	Description	Numbered Page
10.1	Ace Limited 1998 Long-Term Incentive Plan (as amended through the first amendment)	
27	Financial Data Schedule	

ACE LIMITED 1998
LONG-TERM INCENTIVE PLAN

(As Amended Through the First Amendment)

ACE LIMITED 1998
LONG-TERM INCENTIVE PLAN

(As Amended Through the First Amendment)

SECTION 1

GENERAL

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

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

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

SECTION 2

OPTIONS AND SARS

2.1. Definitions.

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

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

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

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

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

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

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

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

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

SECTION 3

OTHER STOCK AWARDS

3.1. Definitions.

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

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

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

(d) A "Restricted Stock" Award is a grant of shares of Stock, and a "Restricted Stock Unit" Award is the grant of a right to receive shares of Stock in the future, with such shares of Stock or right to future delivery of such shares of

Stock subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the Participant, or achievement of performance or other objectives, as determined by the Committee.

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

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

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

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

SECTION 4

OPERATION AND ADMINISTRATION

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

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

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

(b) Subject to this subsection 4.2, the number of shares of Stock available for Awards under the Plan shall be 9,682,823 shares.

(c) To the extent provided by the Committee, any Award may be settled in cash rather than Stock. To the extent any shares of Stock covered by an Award are not delivered to a Participant or beneficiary because the Award is forfeited or canceled, or the shares of Stock are not delivered because the Award is settled in cash or used to satisfy the applicable tax withholding obligation, such shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Stock available for delivery under the Plan.

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

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

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

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

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

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

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

(f) In the event of a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), the Committee may adjust Awards to preserve the benefits or potential benefits of the Awards. Action by the

Committee may include: (i) adjustment of the number and kind of shares which may be delivered under the Plan; (ii) adjustment of the number and kind of shares subject to outstanding Awards; (iii) adjustment of the Exercise Price of outstanding Options and SARs; and (iv) any other adjustments that the Committee determines to be equitable.

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

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

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

4.4. Tax Withholding. All distributions under the Plan are subject to withholding of all applicable taxes, and the Committee may condition the delivery of any shares or other benefits under the Plan on satisfaction of the applicable withholding obligations. The Committee, in its discretion, and subject to such requirements as the Committee may impose prior to the occurrence of such withholding, may permit such withholding obligations to be satisfied through cash payment by the Participant, through the surrender of shares of Stock which the Participant already owns, or through the surrender of shares of Stock to which the Participant is otherwise entitled under the Plan.

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

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

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

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

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

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

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

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

4.13. Limitation of Implied Rights.

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

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

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

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

SECTION 5

CHANGE IN CONTROL

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

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

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

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

SECTION 6

COMMITTEE

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

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

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

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

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

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

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

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

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

SECTION 7

AMENDMENT AND TERMINATION

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

SECTION 8

DEFINED TERMS

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

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

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

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

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

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

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

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

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

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

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

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

(f) Eligible Individual. For purposes of the Plan, the term "Eligible Individual" shall mean any employee of the Company or a Subsidiary, and any consultant, director, or other person providing services to the Company or a Subsidiary. An Award may be granted to an employee or other individual providing services, in connection with hiring, retention or otherwise, prior to the date the employee or service provider first performs services for the

Company or the Subsidiaries, provided that such Awards shall not become vested prior to the date the employee or service provider first performs such services.

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

(h) Subsidiaries. For purposes of the Plan, the term "Subsidiary" means any corporation, partnership, joint venture or other entity during any period in which at least a fifty percent voting or profits interest is owned, directly or indirectly, by the Company (or by any entity that is a successor to the Company), and any other business venture designated by the Committee in which the Company (or any entity that is a successor to the Company) has a significant interest, as determined in the discretion of the Committee.

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

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ARTICLE 7

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD END	DEC 31 1998
DEBT HELD FOR SALE	4,866,366
DEBT CARRYING VALUE	0
DEBT MARKET VALUE	0
EQUITIES	220,843
MORTGAGE	0
REAL ESTATE	0
TOTAL INVEST	5,974,344
CASH	240,556
RECOVER REINSURE	58,806
DEFERRED ACQUISITION	67,502
TOTAL ASSETS	8,834,305
POLICY LOSSES	3,678,269
UNEARNED PREMIUMS	705,712
POLICY OTHER	135,664
POLICY HOLDER FUNDS	0
NOTES PAYABLE	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	8,070
OTHER SE	3,901,507
TOTAL LIABILITY AND EQUITY	8,834,305
PREMIUMS	218,007
INVESTMENT INCOME	85,096
INVESTMENT GAINS	130,154
OTHER INCOME	0
BENEFITS	111,169
UNDERWRITING AMORTIZATION	27,812
UNDERWRITING OTHER	0
INCOME PRETAX	243,881
INCOME TAX	5,342
INCOME CONTINUING	238,539
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	238,539
EPS PRIMARY	1.23
EPS DILUTED	1.21
RESERVE OPEN	0
PROVISION CURRENT	0
PROVISION PRIOR	0
PAYMENTS CURRENT	0
PAYMENTS PRIOR	0
RESERVE CLOSE	0
CUMULATIVE DEFICIENCY	0

End of Filing