ACE LTD

FORM 10-Q
(Quarterly Report)

Filed 08/14/02 for the Period Ending 06/30/02

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 8/14/2002 For Period Ending 6/30/2002

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 June 30, 2002

OR

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

For the Transition Period from ________________ to ________________

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

ACE LIMITED

(Incorporated in the Cayman Islands)

ACE Global Headquarters
17 Woodbourne Avenue
Hamilton HM 08
Bermuda

Telephone 441-295-5200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

The number of registrant's Ordinary Shares ($0.041666667 par value) outstanding as of August 9, 2002 was 262,403,174.

ACE LIMITED

INDEX TO FORM 10-Q

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30 2002 (Unaudited)	December 31 2001
	(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 - $12,535,308 and $12,794,444)	$ 12,833,569	$ 13,000,165
Equity securities, at fair value (cost - $566,666 and $516,028)	462,075	467,566
Securities on loan, at fair value (cost - $411,023 and $0)	410,636	-
Short-term investments, at fair value	1,774,437	1,205,795
Other investments, (cost - $601,090 and $569,045)	628,234	591,006
Cash	877,779	671,381
Total investments and cash	16,986,730	15,935,913
Accrued investment income	194,505	213,821
Insurance and reinsurance balances receivable	3,181,242	2,521,562
Accounts and notes receivable	248,916	242,724
Reinsurance recoverable	11,636,647	11,398,446
Deferred policy acquisition costs	781,264	679,281
Prepaid reinsurance premiums	1,373,065	1,222,795
Goodwill	2,716,513	2,772,094
Deferred tax assets	1,188,405	1,250,835
Other assets	1,015,929	949,293
Total assets	$ 39,323,216	$ 37,186,764
Liabilities		
Unpaid losses and loss expenses	$ 20,661,359	$ 20,728,122
Future policy benefits for life and annuity contracts	392,625	382,730
Unearned premiums	4,936,803	3,853,429
Premiums received in advance	53,711	57,486
Insurance and reinsurance balances payable	1,708,094	1,418,001
Contract holder deposit funds	90,660	101,187
Securities lending collateral	419,446	-
Accounts payable, accrued expenses and other liabilities	1,619,847	1,466,127
Dividends payable	47,647	42,044
Short-term debt	224,364	495,408
Long-term debt	1,798,803	1,349,473
Trust preferred securities	675,000	875,000
Total liabilities	32,628,359	30,769,007
Commitments and contingencies		
Mezzanine equity	311,050	311,050
Shareholders' equity		
Ordinary Shares ($0.041666667 par value, 500,000,000 shares authorized; 262,247,758 and 259,861,205 shares issued and outstanding)	10,927	10,828
Additional paid-in capital	3,775,079	3,710,698
Unearned stock grant compensation	(52,289)	(37,994)
Retained earnings	2,526,584	2,321,576
Deferred compensation obligation	18,850	16,497
Accumulated other comprehensive income	123,506	101,599
Ordinary Shares issued to employee trust	(18,850)	(16,497)
Total shareholders' equity	6,383,807	6,106,707
Total liabilities, mezzanine equity and shareholders' equity	$ 39,323,216	$ 37,186,764

See accompanying notes to the interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and six months ended June 30, 2002 and 2001
(Unaudited)

	Three Months Ended June 30 2002	Three Months Ended June 30 2001	Six Months Ended June 30 2002	Six Months Ended June 30 2001
	(in thousands of U.S. dollars, except per share data)			
Revenues				
Gross premiums written				
Property and casualty premiums	$ 2,901,242	$ 2,372,622	$ 5,990,190	$ 4,933,320
Life and annuity premiums	27,713	30,039	56,911	30,979
	2,928,955	2,402,661	6,047,101	4,964,299
Reinsurance premiums ceded	(1,053,577)	(932,016)	(2,185,695)	(1,758,536)
Net premiums written				
Property and casualty premiums	1,848,707	1,440,606	3,806,456	3,174,784
Life and annuity premiums	26,671	30,039	54,950	30,979
	1,875,378	1,470,645	3,861,406	3,205,763
Change in unearned premiums	(299,671)	(85,458)	(925,890)	(451,460)
Net premiums earned				
Property and casualty premiums	1,549,398	1,355,148	2,880,795	2,723,324
Life and annuity premiums	26,309	30,039	54,721	30,979
	1,575,707	1,385,187	2,935,516	2,754,303
Net investment income	200,804	196,267	400,939	400,697
Other income (expense)	(12,068)	1,088	(7,269)	2,685
Net realized gains (losses) on investments	(139,721)	15,564	(165,602)	(3,811)
Total revenues	1,624,722	1,598,106	3,163,584	3,153,874
Expenses				
Losses and loss expenses	960,949	954,841	1,814,094	1,906,134
Life and annuity benefits	23,311	28,152	46,307	28,805
Policy acquisition costs	234,208	187,640	432,003	354,330
Administrative expenses	229,726	208,194	426,929	403,084
Interest expense	51,952	49,640	97,954	103,964
Amortization of goodwill	-	19,872	-	39,752
Total expenses	1,500,146	1,448,339	2,817,287	2,836,069
Income before income tax and cumulative effect of adopting a new accounting standard	124,576	149,767	346,297	317,805
Income tax expense	20,676	18,250	44,592	45,224
Income before cumulative effect of adopting a new accounting standard	103,900	131,517	301,705	272,581
Cumulative effect of adopting a new accounting standard (net of income tax)	-	-	-	(22,670)
Net income	$ 103,900	$ 131,517	$ 301,705	$ 249,911
Basic earnings per share before cumulative effect of adopting a new accounting standard	$ 0.37	$ 0.54	$ 1.11	$ 1.12
Basic earnings per share	$ 0.37	$ 0.54	$ 1.11	$ 1.02
Diluted earnings per share before cumulative effect of adopting a new accounting standard	$ 0.36	$ 0.52	$ 1.06	$ 1.07
Diluted earnings per share	$ 0.36	$ 0.52	$ 1.06	$ 0.98

See accompanying notes to the interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the six months ended June 30, 2002 and 2001
(Unaudited)

	2002	2001
	(in thousands of U.S. dollars)	
Ordinary Shares		
Balance - beginning of period	$ 10,828	$ 9,681
Shares issued	35	7
Exercise of stock options	74	35
Issued under Employee Stock Purchase Plan (ESPP)	5	4
Cancellation of Shares	(15)	(21)
Repurchase of Shares	-	(63)
Balance - end of period	10,927	9,643
Additional paid-in capital		
Balance - beginning of period	3,710,698	2,637,084
Ordinary Shares issued	35,598	2,567
Exercise of stock options	37,466	16,439
Ordinary Shares issued under ESPP	3,739	2,806
Cancellation of Ordinary Shares	(12,422)	(13,522)
Repurchase of Ordinary Shares	-	(17,195)
Balance - end of period	3,775,079	2,628,179
Unearned stock grant compensation		
Balance - beginning of period	(37,994)	(29,642)
Stock grants awarded	(37,313)	(18,474)
Stock grants forfeited	6,111	133
Amortization	16,907	4,541
Balance - end of period	(52,289)	(43,442)
Retained earnings		
Balance - beginning of period	2,321,576	2,733,633
Net income	301,705	249,911
Dividends declared on Ordinary Shares	(83,867)	(64,797)
Dividends declared on FELINE PRIDES	(12,830)	(12,763)
Repurchase of Ordinary Shares	-	(32,422)
Balance - end of period	2,526,584	2,873,562
Deferred compensation obligation		
Balance - beginning of period	16,497	14,597
Net increase to obligation	2,353	1,900
Balance - end of period	$ 18,850	$ 16,497

See accompanying notes to the interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (cont'd.)

For the six months ended June 30, 2002 and 2001

(Unaudited)

	2002	2001
	(in thousands of U.S. dollars)	
Accumulated other comprehensive income		
Net unrealized appreciation (depreciation) on investments		
Balance - beginning of period	$ 136,916	$ 102,335
Change in period, net of tax	22,695	(4,846)
Balance - end of period	159,611	97,489
Cumulative translation adjustments		
Balance - beginning of period	(35,317)	(32,881)
Change in period, net of tax	(788)	(7,712)
Balance - end of period	(36,105)	(40,593)
Accumulated other comprehensive income	123,506	56,896
Ordinary Shares issued to employee trust		
Balance - beginning of period	(16,497)	(14,597)
Net increases in Ordinary Shares	(2,353)	(1,900)
Balance - end of period	(18,850)	(16,497)
Total shareholders' equity	$ 6,383,807	$ 5,524,838

See accompanying notes to the interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the six months ended June 30, 2002 and 2001
(Unaudited)

	2002	2001
	(in thousands of U.S. dollars)	
Net income	$ 301,705	$ 249,911
Other comprehensive income (loss)		
Net unrealized appreciation (depreciation) on investments		
Unrealized appreciation (depreciation) on investments	29,633	11,100
Less: reclassification adjustment for net realized (gains) losses included in net income	14,874	(9,167)
	44,507	1,933
Cumulative translation adjustments	(358)	(15,965)
Other comprehensive income (loss), before income tax	44,149	(14,032)
Income tax benefit (expense) related to other comprehensive income items	(22,242)	1,474
Other comprehensive income (loss)	21,907	(12,558)
Comprehensive income	$ 323,612	$ 237,353

See accompanying notes to the interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2002 and 2001
(Unaudited)

	2002	2001
	(in thousands of U.S. dollars)	
Cash flows from operating activities		
Net income	$ 301,705	$ 249,911
Adjustments to reconcile net income to net cash provided by operating activities:		
Unpaid losses and loss expenses, net of reinsurance recoverable	(315,530)	154,694
Future policy benefits for life and annuity contracts	8,021	28,881
Unearned premiums	1,070,943	686,575
Prepaid reinsurance premiums	(150,270)	(224,703)
Deferred income taxes	39,735	16,107
Net realized losses on investments	119,929	3,811
Amortization of premium/discounts on fixed maturities	17,563	(3,534)
Deferred policy acquisition costs	(98,525)	(90,373)
Insurance and reinsurance balances receivable	(666,713)	(333,000)
Premiums received in advance	(3,775)	1,876
Insurance and reinsurance balances payable	287,278	33,422
Accounts payable, accrued expenses and other liabilities	(8,353)	(52,737)
Other	(30,913)	(60,007)
Cumulative effect of adopting a new accounting standard	-	22,670
Amortization of goodwill	-	39,752
Net cash flows from operating activities	$ 571,095	$ 473,345
Cash flows from investing activities		
Purchases of fixed maturities	(8,712,886)	(7,689,345)
Purchases of equity securities	(128,903)	(115,970)
Sales of fixed maturities	8,373,776	7,383,010
Sales of equity securities	84,287	113,672
Maturities of fixed maturities	139,875	24,000
Net realized losses on financial futures contracts	(60,800)	(17,695)
Acquisition of subsidiaries, net of cash acquired	54,728	-
Other	(43,250)	(37,246)
Net cash used for investing activities	$ (293,173)	$ (339,574)
Cash flows from financing activities		
Dividends paid on Ordinary Shares	(78,264)	(60,070)
Dividends paid on FELINE PRIDES	(12,830)	(12,835)
Net proceeds from (repayment of) short-term debt	(271,044)	38,780
Repayment of trust preferred securities	(200,000)	-
Proceeds from exercise of options for Ordinary Shares	37,540	16,474
Proceeds from shares issued under ESPP	3,744	2,810
Proceeds from long-term debt	449,330	-
Repurchase of Ordinary Shares	-	(49,680)
Net cash used for financing activities	$ (71,524)	$ (64,521)
Net increase in cash	206,398	69,250
Cash - beginning of period	671,381	608,069
Cash - end of period	$ 877,779	$ 677,319

See accompanying notes to the interim consolidated financial statements

Notes to interim consolidated Financial Statements

(Unaudited)

1. General

The interim unaudited consolidated financial statements, which include the accounts of the Company and its subsidiaries, have been prepared in accordance with accounting principles generally accepted in the United States of America and, in the opinion of management, reflect all adjustments (consisting of normally 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 Annual Report on Form 10-K for the year ended December 31, 2001.

ACE Limited ("ACE" or "the Company") is a holding company incorporated with limited liability under the Cayman Islands Companies Law and maintains its principal business office in Bermuda. The Company, through its various subsidiaries, provides a broad range of insurance and reinsurance products to insureds worldwide. During the first quarter of 2002, following changes in executive management responsibilities, the Company reassessed and changed its reporting segments from the individual operating units to lines of business. The four reporting segments are: Insurance - North American, Insurance - Overseas General, Global Reinsurance and Financial Products. These segments are described in Note 14.

The following table summarizes the Company's gross premiums written by geographic region for the six months ended June 30, 2002 and 2001. Allocations have been made on the basis of location of risk:

Six Months Ended	North America	Europe	Australia & New Zealand	Asia Pacific	Latin America
June 30, 2002	62%	24%	2%	8%	4%
June 30, 2001	58%	25%	2%	9%	6%

2. New accounting pronouncements

In June 2001, the Financial Accounting Standard Board ("FASB") issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. As required, the Company adopted FAS 142 on January 1, 2002 and ceased amortizing goodwill at that time. All goodwill recognized in the Company's consolidated balance sheet at January 1, 2002 was assigned to one or more reporting units. FAS 142 requires that goodwill in each reporting unit be tested for impairment by June 30, 2002. Any impairment loss recognized as a result of a transitional impairment test of goodwill should be reported as the cumulative effect of a change in accounting principle. Management has determined that there was no impairment in goodwill as a result of the test. As discussed in Note 14 "Segment information", we do not allocate assets to our new segments, therefore, changes in goodwill are not disclosed by segment. The following table details the movement in goodwill during the six months ended June 30, 2002. The reduction in goodwill is primarily a result of the settlement of a lawsuit involving a prior acquisition.

ACE

	Consolidated
Goodwill at beginning of year	$ 2,772,094
Adjustment to purchased goodwill	(55,581)
Goodwill at end of year	$ 2,716,513

Notes to interim consolidated Financial Statements (cont'd)

(Unaudited)

The following table provides a reconciliation of prior year reported net income to adjusted net income had FAS 142 been applied at the beginning of fiscal 2001:

	Three Months Ended June 30 2002	Three Months Ended June 30 2001	Six Months Ended June 30 2002	Six Months Ended June 30 2001
	(in thousands of U.S. dollars, except per share data)			
Reported net income	$ 103,900	$ 131,517	$ 301,705	$ 249,911
Add back: Goodwill amortization	-	19,872	-	39,752
Adjusted net income	$ 103,900	$ 151,389	$ 301,705	$ 289,663
Basic earnings per share:				
Reported earnings per share	$ 0.37	$ 0.54	$ 1.11	$ 1.02
Add back: Goodwill amortization	-	0.09	-	0.17
Adjusted earning per share	$ 0.37	$ 0.63	$ 1.11	$ 1.19
Diluted earnings per share:				
Reported earnings per share	$ 0.36	$ 0.52	$ 1.06	$ 0.98
Add back: Goodwill amortization	-	0.08	-	0.16
Adjusted earning per share	$ 0.36	$ 0.60	$ 1.06	$ 1.14

3. Securities on loan

We participate in a securities lending program whereby certain securities from our portfolio are loaned to other institutions for short periods of time. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities changes. Our policy is to require initial cash collateral equal to 102 percent of the fair value of the loaned securities. The proceeds from the collateral are invested in short-term investments and are reported on the balance sheet. We maintain full ownership rights to the securities loaned, and continue to earn interest on them. We share a portion of the interest earned on these short-term investments with the lending agent. In addition, we have the ability to sell the securities while they are on loan. We have an indemnification agreement with the lending agents in the event a borrower becomes insolvent or fails to return securities. Securities lending collateral of $419 million is recorded in short-term investments and in liabilities. The fair value of the securities on loan of $411 million at June 30, 2002 is reported on a separate line in total investments and cash. There were no securities loaned in 2001.

4. Commitments and contingencies

The Company has considered asbestos and environmental claims and claims expenses in establishing the liability for unpaid losses and loss expenses. The Company has developed reserving methods, which incorporate new sources of data with historical experience to estimate the ultimate losses arising from asbestos and environmental exposures. The reserves for asbestos and environmental claims and claims expenses represent management's best estimate of future loss and loss expense payments and recoveries which are expected to develop over the next several decades. The Company continuously monitors evolving case law and its effect on environmental and latent injury claims. While reserving for these claims is inherently uncertain, the Company believes that the reserves carried for these claims are adequate based on known facts and current law.

Notes to interim consolidated Financial Statements (cont'd)

(Unaudited)

5. Restricted stock awards

Under the Company's long-term incentive plans, 832,150 restricted Ordinary Shares were awarded during the six months ended June 30, 2002, to officers of the Company and its subsidiaries. These shares vest at various dates through June 2006. In addition, during the period, 12,588 restricted Ordinary Shares were awarded to outside directors under the terms of the 1995 Outside Directors Plan. These shares vest in May 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 income over the vesting period.

6. Earnings per share

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

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
	(in thousands of U.S. dollars, except per share data)			
Numerator:				
Net income before cumulative effect of adopting a new accounting standard	$ 103,900	$ 131,517	$ 301,705	$ 272,581
Dividends on FELINE PRIDES	(6,415)	(6,415)	(12,830)	(12,763)
Net income available to holders of Ordinary Shares before cumulative effect	97,485	125,102	288,875	259,818
Cumulative effect of adopting a new accounting standard	-	-	-	(22,670)
Net income available to holders of Ordinary Shares	$ 97,485	$ 125,102	$ 288,875	$ 237,148
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares outstanding	259,863,879	231,175,889	259,460,287	231,790,182
Dilutive effect of FELINE PRIDES	3,416,695	3,256,112	3,758,796	3,326,176
Effect of other dilutive securities	7,900,655	6,695,811	8,030,284	6,785,925
Denominator for diluted earnings per share: Adjusted weighted average shares outstanding and assumed conversions	271,181,229	241,127,812	271,249,367	241,902,283
Basic earnings per share:				
Earnings per share before cumulative effect of adopting a new accounting standard	$ 0.37	$ 0.54	$ 1.11	$ 1.12
Earnings per share	$ 0.37	$ 0.54	$ 1.11	$ 1.02
Diluted earnings per share:				
Earnings per share before cumulative effect of adopting a new accounting standard	$ 0.36	$ 0.52	$ 1.06	$ 1.07
Earnings per share	$ 0.36	$ 0.52	$ 1.06	$ 0.98

(Unaudited)

7. Credit facilities

In April 2002, the Company renewed its $800 million, 364-day revolving credit facility. This facility, together with the Company's $250 million, five-year revolving credit facility, which was last renewed in May 2000, are available for general corporate purposes and each of the facilities may also be used as commercial paper back-up. The five-year facility also permits the issuance of letters of credit. In 2000, $25 million was drawn under the five-year facility and was repaid in April 2002.

ACE Tempest Re also maintained an uncollateralized, syndicated revolving credit facility in the amount of $72.5 million, which was guaranteed by the Company. This facility expired in February 2002 and was not renewed. No amounts had been drawn on this facility.

At June 30, 2002, ACE Guaranty Re Inc. was party to a credit facility which provides up to $150 million specifically designed to provide rating agency qualified capital to further support ACE Guaranty Re Inc.'s claims-paying resources. In 2001, the facility's expiry date was extended to October 2008. ACE Guaranty Re Inc. has not borrowed under this credit facility.

8. Debt

The following table outlines the Company's consolidated debt position at June 30, 2002 and December 31, 2001:

	June 30 2002	December 31 2001
	(in millions of U.S. dollars)	
Short-term debt		
ACE INA commercial paper	$ 149	$ -
ACE Financial Services Debentures due 2002	75	75
ACE Financial Services Note	-	25
Reverse Repurchase Agreements	-	395
	$ 224	$ 495
Long-term debt		
ACE INA Notes due 2004	$ 400	$ 400
ACE INA Notes due 2006	300	299
ACE Limited Senior Notes due 2007	499	-
ACE US Holdings Senior Notes due 2008	250	250
ACE INA Subordinated Notes due 2009	250	300
ACE INA Debentures due 2029	100	100
	$ 1,799	$ 1,349
Trust Preferred Securities		
ACE INA RHINO Preferred Securities due 2002	$ 200	$ 400
Capital Re LLC Monthly Income Preferred Securities due 2044	75	75
ACE INA Trust Preferred Securities due 2029	100	100
ACE INA Capital Securities due 2030	300	300
	$ 675	$ 875

a) Commercial paper and money market facilities

In 1999, the Company arranged certain commercial paper programs. The programs use revolving credit facilities as back-up facilities and provide for up to $2.8 billion in commercial paper issuance (subject to the availability of back-up facilities, which currently total $1.05 billion) for ACE and for ACE INA.

In October 2001, the Company and certain subsidiaries executed securities repurchase agreements with various counterparties. Under these repurchase agreements, the Company agreed to sell securities and repurchase them at a date in the future for a predetermined price. The amounts due to brokers under the repurchase agreements at December 31, 2001 of $395 million were repaid during the first quarter of 2002 using proceeds from commercial paper raised during that quarter. In addition, the Company repaid $150 million of expiring commercial paper and the $25 million ACE Financial Services bank note. The average cost of borrowing using commercial paper was 2.0 percent for the three and six months ended June 30, 2002.

b) ACE Limited Senior Notes

In March 2002, ACE Limited issued $500 million of 6.0 percent notes due April 1, 2007. The notes are not redeemable before maturity and do not have the benefit of any sinking fund. These senior unsecured notes rank equally with all of the Company's other senior obligations and contain a customary limitation on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

c) ACE INA subordinated notes

In 1999, ACE INA issued $300 million 11.2 percent unsecured subordinated notes maturing in December 2009. The subordinated notes are callable subject to certain call premiums. During the quarter, the Company repaid $50 million of these notes and incurred debt prepayment expense of $11 million ($7 million, net of tax), which is reported as other expenses in the statement of operations.

d) ACE INA RHINO preferred securities

In 1999, ACE RHINOS Trust sold in a private placement, $400 million of Auction Rate Reset Preferred Securities ("Preferred Securities"). The sole assets of the Trust consist of $412 million of Auction Rate Reset Subordinated Notes Series A ("Subordinated Notes") issued by ACE INA. Proceeds of the Ordinary Share Offering of September 12, 2000 which was completed in satisfaction of a related agreement with Bank of America Securities, were used to support our guarantee of the Subordinated Notes. During the quarter the Company repaid $200 million in principal amount of Preferred Securities. The Company also expects to repay the remaining $200 million of these Preferred Securities during the quarter ending September 30, 2002.

9. Mezzanine Equity

In April 2000, the Company publicly offered and issued 6,000,000 FELINE PRIDES. On May 8, 2000, exercise of the underwriter's over allotment option resulted in the issuance of an additional 221,000 FELINE PRIDES, for aggregate net proceeds of approximately $311 million. Each FELINE PRIDE initially consists of a unit referred to as an Income PRIDE. Each Income PRIDE consists of (i) one 8.25 percent Cumulative Redeemable Preferred Share, Series A, liquidation preference $50 per share, of the Company, and (ii) a purchase contract pursuant to which the holder of the Income PRIDE agrees to purchase from the Company, on May 16, 2003, Ordinary Shares at the applicable settlement rate. On May 16, 2003 pursuant to the purchase contract, the holders of the FELINE PRIDES will be required to purchase $311 million of our Ordinary Shares. Each preferred share is pledged to the Company to secure the holders' obligations under the purchase contract. A holder of an Income PRIDE can obtain the release of the preferred share by substituting certain zero-coupon treasury securities as security for performance under the purchase contract. The resulting unit consisting of the zero-coupon treasury security and the purchase contract is a Growth PRIDE, and the preferred shares would be a separate security. A holder of a Growth PRIDE can convert it back into an Income PRIDE by depositing preferred shares as security for performance under the purchase contract and thereby obtain the release of the zero-coupon treasury securities.

The aggregate liquidation preference of the 8.25 percent Cumulative Redeemable Preferred Shares is $311 million. Unless deferred by the Company, the preferred shares pay dividends quarterly at a rate of 8.25 percent per year to May 16, 2003, and thereafter at the reset rate established pursuant to a remarketing procedure. If the Company elects to defer dividend payments on the preferred shares, the dividends will continue to accrue and the Company will be restricted from paying dividends on its Ordinary Shares and taking certain other actions. The preferred shares are not redeemable prior to June 16, 2003, on which date they must be redeemed by the Company in whole.

10. Reinsurance

The Company purchases reinsurance to manage various exposures including catastrophe risks. Although reinsurance agreements contractually obligate the Company's reinsurers to reimburse it for the agreed upon portion of its gross paid losses, they do not discharge the primary liability of the Company. The amounts for net premiums written and net premiums earned in the statements of operations are net of reinsurance. Direct, assumed and ceded amounts for these items for the three and six months ended June 30, 2002 and 2001 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
	(in thousands of U.S. dollars)			
Premiums written				
Direct	$ 2,347,328	$ 1,968,344	$ 4,462,455	$ 3,774,443
Assumed	581,627	434,317	1,584,646	1,189,856
Ceded	(1,053,577)	(932,016)	(2,185,695)	(1,758,536)
Net premiums written	$ 1,875,378	$ 1,470,645	$ 3,861,406	$ 3,205,763
Premiums earned				
Direct	$ 2,130,803	$ 1,900,568	$ 3,842,723	$ 3,378,991
Assumed	517,318	422,007	1,088,396	915,695
Ceded	(1,072,414)	(937,388)	(1,995,603)	(1,540,383)
Net premiums earned	$ 1,575,707	$ 1,385,187	$ 2,935,516	$ 2,754,303

The composition of the Company's reinsurance recoverable at June 30, 2002 and December 31, 2001, is as follows:

	June 30 2002	December 31 2001
	(in thousands of U.S. dollars)	
Reinsurance recoverable on paid losses and loss expenses	$ 1,253,378	$ 1,066,495
Reinsurance recoverable on unpaid losses and loss expenses	11,180,944	11,120,888
Total reinsurance recoverable	12,434,322	12,187,383
Bad debt provision	(797,675)	(788,937)
Net reinsurance recoverable	$ 11,636,647	$ 11,398,446

The Company evaluates the financial condition of its reinsurers and potential reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. The provision for unrecoverable reinsurance is required principally due to the failure of reinsurers to indemnify ACE, primarily because of disputes under reinsurance contracts and insolvencies. Reinsurance disputes continue to be significant, particularly on larger and more complex claims, including those related to asbestos and environmental pollution. Provisions have been established for amounts estimated to be uncollectible.

11. Deferred compensation obligation

The Company maintains a rabbi trust for deferred compensation plans for key employees and executive officers. In accordance with EITF 97-14, "Accounting for Deferred Compensation Agreements Where Amounts Earned are Held in a Rabbi Trust and Invested", assets of the rabbi trust are to be consolidated with those of the employer, and the value of the employer's stock held in the rabbi trust should be classified in shareholders' equity and accounted for at historical cost in a manner similar to treasury stock. The shares issued by the Company to the rabbi trust are recorded in Ordinary Shares issued to employee trust and the obligation has been recorded in deferred compensation obligation, both are components of shareholders' equity.

12. Taxation

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

Income from the Company's operations at Lloyd's is subject to United Kingdom corporation taxes. Lloyd's is required to pay U.S. income tax on U.S. connected income ("U.S. income") written by Lloyd's syndicates. Lloyd's has a closing agreement with the IRS whereby the amount of tax due on this business is calculated by Lloyd's and remitted directly to the IRS. These amounts are then charged to the personal accounts of the Names/Corporate Members in proportion to their participation in the relevant syndicates. The Company's Corporate Members are subject to this arrangement but, as UK domiciled companies, will receive UK corporation tax credits for any U.S. income tax incurred up to the value of the equivalent UK corporation income tax charge on the U.S. income.

ACE INA, ACE US Holdings and ACE Financial Services are subject to income taxes imposed by U.S. authorities and file U.S. tax returns. Certain international operations of the Company are also subject to income taxes imposed by the jurisdictions in which they operate.

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

The income tax provision for the three and six months ended June 30, 2002 and 2001 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
	(in thousands of U.S. dollars)			
Current tax expense	$ 5,370	$ 6,669	$ 4,857	$ 29,117
Deferred tax expense	15,306	11,581	39,735	16,107
Provision for income taxes	$ 20,676	$ 18,250	$ 44,592	$ 45,224

The weighted average expected tax provision has been calculated using pre-tax accounting income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. A reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate for the three and six months ended June 30, 2002 and 2001, is provided below.

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
	(in thousands of U.S. dollars)			
Expected tax provision at weighted average rate	$ 19,237	$ 11,856	$ 43,792	$ 35,969
Permanent differences				
Tax-exempt interest	(2,939)	(3,806)	(7,082)	(7,641)
Goodwill	-	4,458	-	8,913
Other	586	2,248	561	1,163
Net withholding taxes	3,792	3,494	7,321	6,820
Provision for income taxes	$ 20,676	$ 18,250	$ 44,592	$ 45,224

The components of the net deferred tax asset at June 30, 2002 and December 31, 2001 are as follows:

	June 30 2002	December 31 2001
	(in thousands of U.S. dollars)	
Deferred tax assets		
Loss reserve discount	$ 497,255	$ 523,195
Foreign tax credits	150,742	155,079
Policyholder dividends	48,054	47,509
Net operating loss carry forward	479,026	495,048
Other	282,754	299,068
Total deferred tax assets	1,457,831	1,519,899
Deferred tax liabilities		
Deferred policy acquisition costs	51,934	66,454
Unrealized appreciation on investments	58,726	28,570
Other	23,174	38,448
Total deferred tax liabilities	133,834	133,472
Valuation allowance	135,592	135,592
Net deferred tax asset	$ 1,188,405	$ 1,250,835

The valuation allowance reflects management's assessment, based on available information, that it is more likely than not that a portion of the deferred tax asset will not be realized due to the inability of certain foreign subsidiaries to generate sufficient taxable income. Adjustments to the valuation allowance are made when there is a change in management's assessment of the amount of deferred tax asset that is realizable.

At June 30, 2002, the Company has net operating loss carryforwards for U.S. federal income tax purposes of approximately $1.4 billion which are available to offset future U.S. federal taxable income through 2021.

13. Subsidiary Issuer Information

The following tables present condensed consolidating financial information for ACE Limited (the "Parent Guarantor"), ACE INA Holdings, Inc. and ACE Financial Services, Inc. (formerly Capital Re Corporation), (the "Subsidiary Issuers") at June 30, 2002 and December 31, 2001 and for the three and six months ended June 30, 2002 and 2001. The Subsidiary Issuers are indirect wholly-owned subsidiaries of the Parent Guarantor. Investments in subsidiaries are accounted for by the Parent Guarantor and the Subsidiary Issuers under the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are reflected in the Parent Guarantor's investment accounts and earnings. The Parent Guarantor fully and unconditionally guarantees certain of the debt of the Subsidiary Issuers.

Condensed Consolidating Balance Sheet as at June 30, 2002
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	Consolidating Adjustments(2)	ACE Consolidated
Assets						
Total investments and cash	$ 354,545	$ 6,856,881	$ 956,397	$ 8,818,907	$ -	$ 16,986,730
Insurance and reinsurance balances receivable	-	1,999,622	24,329	1,157,291	-	3,181,242
Reinsurance recoverable	-	9,362,078	815	2,273,754	-	11,636,647
Goodwill	-	2,130,561	96,723	489,229	-	2,716,513
Investments in subsidiaries	6,654,784	-	152,000	(152,000)	(6,654,784)	-
Due from subsidiaries and affiliates, net	235,453	(139,236)	(49,159)	188,395	(235,453)	-
Other assets	38,463	3,330,542	212,131	1,250,948	-	4,802,084
Total assets	$ 7,283,245	$23,510,448	$ 1,393,236	$14,026,524	$ (6,890,237)	$ 39,323,216
Liabilities						
Unpaid losses and loss expenses	$ -	$14,182,277	$ 75,426	$ 6,403,656	$ -	$ 20,661,359
Future policy benefits for life and annuity contracts	-	-	-	392,625	-	392,625
Unearned premiums	-	2,642,874	343,241	1,950,688	-	4,936,803
Short-term debt	-	149,365	-	-	-	224,364
Long-term debt	499,197	1,049,606	74,999	250,000	-	1,798,803
Trust preferred securities	-	600,000	75,000	-	-	675,000
Other liabilities	89,191	2,425,120	130,055	1,295,039	-	3,939,405
Total liabilities	588,388	21,049,242	698,721	10,292,008	-	32,628,359
Mezzanine equity	311,050	-	-	-	-	311,050
Total shareholders' equity	6,383,807	2,416,206	694,515	3,734,516	(6,890,237)	6,383,807
Total liabilities, mezzanine equity and shareholders' equity	$ 7,283,245	$23,510,448	$ 1,393,236	$14,026,524	$ (6,890,237)	$ 39,323,216

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

Condensed Consolidating Balance Sheet as at December 31, 2001
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	Consolidating Adjustments(2)	ACE Consolidated
Assets						
Total investments and cash	$ 489,596	$ 6,443,230	$ 901,905	$ 8,101,182	$ -	$ 15,935,913
Insurance and reinsurance balances receivable	-	1,715,873	24,075	781,614	-	2,521,562
Reinsurance recoverable	-	9,259,608	8,194	2,130,644	-	11,398,446
Goodwill	-	2,186,142	96,723	489,229	-	2,772,094
Investments in subsidiaries	5,621,604	-	152,000	(152,000)	(5,621,604)	-
Due from subsidiaries and affiliates, net	348,372	(478,645)	(11,862)	490,507	(348,372)	-
Other assets	64,570	3,313,941	184,509	995,729	-	4,558,749
Total assets	$ 6,524,142	$ 22,440,149	$ 1,355,544	$ 12,836,905	$ (5,969,976)	$ 37,186,764
Liabilities						
Unpaid losses and loss expenses	$ -	$ 14,468,024	$ 75,823	$ 6,184,275	$ -	$ 20,728,122
Future policy benefits for life and annuity contracts	-	-	-	382,730	-	382,730
Unearned premiums	-	2,055,459	323,951	1,474,019	-	3,853,429
Short-term debt	-	-	25,000	395,428	-	495,408
Long-term debt	-	1,099,473	74,980	250,000	-	1,349,473
Trust preferred securities	-	800,000	75,000	-	-	875,000
Other liabilities	106,385	2,395,745	138,586	444,129	-	3,084,845
Total liabilities	106,385	20,818,701	713,340	9,130,581	-	30,769,007
Mezzanine equity	311,050	-	-	-	-	311,050
Total shareholders' equity	6,106,707	1,621,448	642,204	3,706,324	(5,969,976)	6,106,707
Total liabilities, mezzanine equity and shareholders' equity	$ 6,524,142	$ 22,440,149	$ 1,355,544	$ 12,836,905	$ (5,969,976)	$ 37,186,764

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

Condensed Consolidating Statement of Operations
For the three months ended June 30, 2002
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	Consolidating Adjustments(2)	ACE Consolidated
Net premiums written	$ -	$ 988,125	$ 34,882	$ 852,371	$ -	$ 1,875,378
Net premiums earned	-	759,974	26,708	789,025	-	1,575,707
Net investment income	12,626	80,066	11,961	88,213	7,938	200,804
Other income (expenses)	-	(11,071)	-	(997)	-	(12,068)
Equity in earnings of subsidiaries	148,903	-	-	-	(148,903)	-
Net realized gains (losses) on investments	(29,959)	(8,680)	(23,762)	(77,320)	-	(139,721)
Losses and loss expenses	-	526,724	3,113	431,112	-	960,949
Life and annuity benefits	-	-	-	23.311	-	23,311
Policy acquisition costs and administrative expenses	18,985	208,972	12,709	224,149	(881)	463,934
Interest expense	6,436	39,006	3,238	5,415	(2,143)	51,952
Income tax expense	2,249	14,194	(3,789)	8,022	-	20,676
Net income (loss)	$ 103,900	$ 31,393	$ (364)	$ 106,912	$ (137,941)	$ 103,900

Condensed Consolidating Statement of Operations
For the three months ended June 30, 2001
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	Consolidating Adjustments(2)	ACE Consolidated
Net premiums written	$ -	$ 609,595	$ 28,171	$ 832,879	$ -	$ 1,470,645
Net premiums earned	-	619,706	19,501	745,980	-	1,385,187
Net investment income	13,741	88,208	11,485	89,716	(6,883)	196,267
Other income	-	-	-	1,088	-	1,088
Equity in earnings of subsidiaries	134,832	-	-	-	(134,832)	-
Net realized gains (losses) on investments	-	(26,800)	17,354	25,010	-	15,564
Losses and loss expenses	-	445,435	2,960	506,446	-	954,841
Life and annuity benefits	-	-	-	28,152	-	28,152
Policy acquisition costs and administrative expenses	17,417	185,087	9,227	184,500	(397)	395,834
Amortization of goodwill	-	14,490	1,051	4,331	-	19,872
Interest expense	(2,417)	44,529	3,275	5,319	(1,066)	49,640
Income tax expense	2,056	519	7,548	8,127	-	18,250
Net income (loss)	$ 131,517	$ (8,946)	$ 24,279	$ 124,919	$ (140,252)	$ 131,517

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

Condensed Consolidating Statement of Operations
For the six months ended June 30, 2002
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	Consolidating Adjustments(2)	ACE Consolidated
Net premiums written	$ -	$ 1,811,219	$ 45,750	$ 2,004,437	$ -	$ 3,861,406
Net premiums earned	-	1,369,461	48,416	1,517,639	-	2,935,516
Net investment income	29,076	160,252	23,451	206,889	(18,729)	400,939
Other income (expense)	-	(11,071)	-	3,802	-	(7,269)
Equity in earnings of subsidiaries	340,953	-	-	-	(340,953)	-
Net realized gains (losses) on investments	(22,684)	(34,473)	(18,921)	(89,524)	-	(165,602)
Losses and loss expenses	-	948,173	5,842	860,079	-	1,814,094
Life and annuity benefits	-	-	-	46,307	-	46,307
Policy acquisition costs and administrative expenses	33,089	372,142	23,277	432,186	(1,762)	858,932
Interest expense	8,126	80,632	6,547	9,255	(6,606)	97,954
Income tax expense	4,425	26,145	1,439	12,583	-	44,592
Net income	$ 301,705	$ 57,077	$ 15,841	$ 278,396	$ (351,314)	$ 301,705

Condensed Consolidating Statement of Operations
For the six months ended June 30, 2001
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	Consolidating Adjustments(2)	ACE Consolidated
Net premiums written	$ -	$ 1,209,775	$ 43,438	$ 1,952,550	$ -	$ 3,205,763
Net premiums earned	-	1,124,412	38,361	1,591,530	-	2,754,303
Net investment income	27,410	187,154	23,663	175,983	(13,513)	400,697
Other income	-	-	-	2,685	-	2,685
Equity in earnings of subsidiaries	251,560	-	-	-	(251,560)	-
Net realized gains (losses) on investments	-	(29,953)	23,658	2,484	-	(3,811)
Losses and loss expenses	-	791,235	5,776	1,109,123	-	1,906,134
Life and annuity benefits	-	-	-	28,805	-	28,805
Policy acquisition costs and administrative expenses	30,262	350,567	19,276	357,706	(397)	757,414
Amortization of goodwill	-	28,980	2,102	8,670	-	39,752
Interest expense	(5,248)	93,432	6,646	11,205	(2,071)	103,964
Income tax expense	4,045	14,325	14,752	12,102	-	45,224
Income before cumulative effect of adopting a new accounting standard	249,911	3,074	37,130	245,071	(262,605)	272,581
Cumulative effect of adopting a new accounting standard (net of income tax)	-	(50)	(22,800)	180	-	(22,670)
Net income	$ 249,911	$ 3,024	$ 14,330	$ 245,251	$ (262,605)	$ 249,911

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

Condensed Consolidating Statement of Cash Flows
For the six months ended June 30, 2002
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	Consolidating Adjustments(2)	ACE Consolidated
Net cash flows from (used for) operating activities	$ (105,282)	$ (112,983)	$ 23,392	$ 765,968	$ -	$ 571,095
Cash flows from investing activities						
Purchases of fixed maturities	1,705	(1,151,900)	(325,832)	(7,236,859)	-	(8,712,886)
Purchases of equity securities	-	(45,513)	-	(83,390)	-	(128,903)
Sales of fixed maturities	73,708	1,065,093	289,961	6,945,014	-	8,373,776
Sales of equity securities	-	44,234	-	40,053	-	84,287
Maturities of fixed maturities	-	-	-	139,875	-	139,875
Net realized gains (losses) on financial futures contracts	-	-	-	(60,800)	-	(60,800)
Acquisition of subsidiaries	-	-	-	54,728	-	54,728
Other	-	-	3,537	(46,787)	-	(43,250)
Net cash from (used for) investing activities	$ 75,413	$ (88,086)	$ (32,334)	$ (248,166)	$ -	$ (293,173)
Cash flows from financing activities						
Dividends paid on Ordinary Shares	(78,264)	-	-	-	-	(78,264)
Dividends paid on FELINE PRIDES	(12,830)	-	-	-	-	(12,830)
Proceeds from short term debt	-	(375,436)	(25,000)	129,393	-	(271,044)
Proceeds from long term debt	499,155	(50,000)	-	175	-	449,330
Advances to (from) affiliates	224,052	-	9,847	(233,899)	-	-
Proceeds from exercise of options for Ordinary Shares	37,540	-	-	-	-	37,540
Proceeds from shares issued under ESPP	3,744	-	-	-	-	3,744
Repayment of trust preferred securities	-	(200,000)	-	-	-	(200,000)
Capitalization of subsidiary	(869,276)	916,852	25,000	(72,576)	-	-
Dividends received from subsidiaries	195,000	-	-	(195,000)	-	-
Net cash used for financing activities	$ (879)	$ 291,416	$ 9,847	$ (371,908)	$ -	$ (71,524)
Net increase in cash	(30,748)	90,347	905	145,894	-	206,398
Cash - beginning of period	32,525	355,327	1,027	282,502	-	671,381
Cash - end of period	$ 1,777	$ 445,674	$ 1,932	$ 428,396	$ -	$ 877,779

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

Condensed Consolidating Statement of Cash Flows
For the six months ended June 30, 2001
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	Consolidating Adjustments(2)	ACE Consolidated
Net cash flows from (used for) Operating activities	$ (9,708)	$ (460,163)	$ 59,043	$ 884,173	$ -	$ 473,345
Cash flows from investing activities						
Purchases of fixed maturities	(13,988)	(1,067,197)	(498,929)	(6,109,231)	-	(7,689,345)
Purchases of equity securities	-	(69,294)	-	(46,676)	-	(115,970)
Sales of fixed maturities	-	1,528,351	466,513	5,388,146	-	7,383,010
Sales of equity securities	-	76,346		37,326	-	113,672
Maturities of fixed maturities	-	-	4,500	19,500	-	24,000
Net realized gains (losses) on financial futures contracts	-	-	-	(17,695)	-	(17,695)
Other	833	(3,372)	-	(34,707)	-	(37,246)
Net cash from (used for) investing activities	$ (13,155)	$ 464,834	$ (27,916)	$ (763,337)	$ -	$ (339,574)
Cash flows from financing activities						
Dividends paid on Ordinary Shares	(60,070)	-	-	-	-	(60,070)
Dividends paid on FELINE PRIDES	(12,835)	-	-	-	-	(12,835)
Proceeds from short term debt, net	-	38,784	-	(4)	-	38,780
Advances to affiliates	(129,405)	-	-	129,405	-	-
Proceeds from exercise of options for Ordinary Shares	16,474	-	-	-	-	16,474
Proceeds from shares issued under ESPP	2,810	-	-	-	-	2,810
Repurchase of Ordinary Shares	(49,680)	-	-	-	-	(49,680)
Dividends received from subsidiaries	223,691	-	-	(223,691)	-	-
Net cash from (used for) financing activities	$ (9,015)	$ 38,784	$ -	$ (94,290)	$ -	$ (64,521)
Net increase (decrease) in cash	(31,878)	43,455	31,127	26,546	-	69,250
Cash - beginning of period	46,516	253,447	26,576	281,530	-	608,069
Cash - end of period	$ 14,638	$ 296,902	$ 57,703	$ 308,076	$ -	$ 677,319

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

14. Segment information

Following changes in executive management responsibilities, during the first quarter of 2002, the Company reassessed and changed its reporting segments from the individual operating units to the following lines of business: Insurance - North American, Insurance - Overseas General, Global Reinsurance and Financial Products.

Insurance - North American includes the operations of ACE USA and ACE Bermuda, excluding the Financial Solutions business in both the U.S. and Bermuda which is now included in the new Financial Products segment, and ACE Canada. ACE USA primarily comprises the domestic U.S. and Canadian operations of ACE INA, which were acquired on July 2, 1999, and the operations of ACE US Holdings, which were acquired on January 2, 1998. These operations provide property and casualty insurance and reinsurance coverage, including excess liability, professional lines, satellite, excess property and political risk, to a diverse group of industrial, commercial and other enterprises.

Insurance - Overseas General includes the operations of ACE International, including ACE Europe, ACE Japan, ACE Far East and ACE Latin America. ACE International primarily comprises the international operations of ACE INA, which were acquired on July 2, 1999. ACE International provides property and casualty insurance, accident and health insurance and consumer-oriented products to individuals, mid-sized firms and large commercial clients. In addition, ACE International provides customized and comprehensive insurance policies and services to multinational firms and their cross-border subsidiaries. Insurance - Overseas General also includes the insurance operations of ACE Global Markets, which primarily encompasses the Company's operations in the Lloyd's market (including for segment purposes Lloyd's operations owned by ACE Financial Services). ACE Global Markets provides funds at Lloyd's to support underwriting by the Lloyd's syndicates managed by Lloyd's managing agencies which are owned by the Company. The reinsurance operation of ACE Global Markets is included in the new Global Reinsurance segment.

Global Reinsurance comprises the operations of ACE Tempest Re, ACE Tempest US and ACE Tempest UK and the reinsurance operations of ACE Global Markets. These subsidiaries primarily include property catastrophe reinsurance provided worldwide to insurers of commercial and personal property. Global Reinsurance also includes the operations of ACE Tempest Life Reinsurance. The principal business of ACE Tempest Life Reinsurance Ltd. is to provide reinsurance coverage to other life insurance companies. The life reinsurance business completed its first full year of operations in 2001.

Financial Products includes the financial guaranty business of ACE Guaranty Re and ACE Capital Re International ("ACE Financial Services"). Financial Products also includes the financial solutions business in the U.S. and Bermuda. ACE Financial Services provides value-added reinsurance products in several specialty insurance markets. ACE Financial Services has two principal divisions:
financial guaranty and financial risks. The financial guaranty division is comprised of municipal and non-municipal financial guaranty reinsurance and credit default swaps. The financial risks division is comprised of mortgage guaranty reinsurance, trade credit reinsurance and title reinsurance. The financial solutions business includes insurance and reinsurance solutions to complex risks that generally can not be adequately addressed by the traditional insurance marketplace.

a) The following tables summarize the operations by segment for the three and six months ended June 30, 2002 and 2001.

b) For segment reporting purposes, certain items have been presented in a different manner than in the consolidated financial statements. For segment reporting purposes, items considered non-recurring in nature have been aggregated and shown separately net of related taxes, and net realized gains (losses) have been presented net of related taxes.

ACE LIMITED AND SUBSIDIARIES
Notes to interim consolidated Financial Statements (cont'd)
(Unaudited)

Statement of Operations by Segment
For the three months ended June 30, 2002

	Insurance - North American	Insurance - Overseas General	Global Reinsurance	Financial Products	Corporate and Other(1)	ACE Consolidated
	(in thousands of U.S. Dollars)					
Operations Data						
Property and Casualty						
Gross premiums written	$ 1,427,608	$ 941,103	$ 214,209	$ 318,322	$ -	$ 2,901,242
Net premiums written	718,301	616,378	197,510	316,518	-	1,848,707
Net premiums earned	605,985	565,339	149,921	228,153	-	1,549,398
Losses and loss expenses	396,135	345,313	52,491	167,010	-	960,949
Policy acquisition costs	50,346	127,838	29,217	21,876	-	229,277
Administrative expenses	86,612	87,857	9,430	16,922	27,110	227,931
Underwriting income	72,892	4,331	58,783	22,345	(27,110)	131,241
Life						
Gross premiums written	-	-	27,713	-	-	27,713
Net premiums written	-	-	26,671	-	-	26,671
Net premiums earned	-	-	26,309	-	-	26,309
Life and annuity benefits	-	-	23,311	-	-	23,311
Policy acquisition costs	-	-	4,931	-	-	4,931
Administrative expenses	-	-	1,795	-	-	1,795
Net investment income	-	-	5,930	-	-	5,930
Underwriting income	-	-	2,202	-	-	2,202
Net investment income - property and casualty	103,383	27,615	23,182	46,119	(5,425)	194,874
Other income (expense)	(674)	22	-	(345)	-	(997)
Interest expense	8,080	479	4,465	3,278	35,650	51,952
Income tax expense	41,134	4,987	1,858	7,927	(16,845)	39,061
Income excluding net realized gains (losses) & non-recurring expenses	126,387	26,502	77,844	56,914	(51,340)	236,307
Debt prepayment expenses*	-	-	-	-	(7,196)	(7,196)
Income excluding net realized gains (losses)	126,387	26,502	77,844	56,914	(58,536)	229,111
Net realized gains (losses)*	(28,586)	(4,386)	(26,439)	(35,841)	(29,959)	(125,211)
Net income	$ 97,801	$ 22,116	$ 51,405	$ 21,073	$ (88,495)	$ 103,900

* Shown net of income tax
(1) Includes ACE Limited, ACE INA Holdings and intercompany eliminations.

Statement of Operations by Segment
For the three months ended June 30, 2001

	Insurance - North American	Insurance - Overseas General	Global Reinsurance	Financial Products	Corporate and Other(1)	ACE Consolidated
	(in thousands of U.S. Dollars)					
Operations Data						
Property and Casualty						
Gross premiums written	$ 1,142,367	$ 861,785	$ 104,567	$ 263,903	$ -	$ 2,372,622
Net premiums written	524,975	566,771	84,984	263,876	-	1,440,606
Net premiums earned	481,171	492,778	85,528	295,671	-	1,355,148
Losses and loss expenses	347,231	299,016	50,660	257,934	-	954,841
Policy acquisition costs	52,360	108,842	15,776	9,668	-	186,646
Administrative expenses	80,651	78,664	5,482	12,857	23,469	201,123
Underwriting income	929	6,256	13,610	15,212	(23,469)	12,538
Life						
Gross premiums written	-	-	30,039	-	-	30,039
Net premiums written	-	-	30,039	-	-	30,039
Net premiums earned	-	-	30,039	-	-	30,039
Life and annuity benefits	-	-	28,152	-	-	28,152
Policy acquisition costs	-	-	994	-	-	994
Administrative expenses	-	-	698	-	-	698
Net investment income	-	-	335	-	-	335
Underwriting income (loss)	-	-	530	-	-	530
Net investment income - property and casualty	105,428	29,025	17,449	41,954	2,076	195,932
Other income (expense)	826	(183)	-	445	-	1,088
Amortization of goodwill	(90)	919	3,502	1,051	14,490	19,872
Interest expense	8,089	631	-	3,282	37,638	49,640
Income tax expense (benefit)	26,927	6,137	3,875	5,628	(17,423)	25,144
Income excluding net realized gains (losses) and non-recurring expenses	72,257	27,411	24,212	47,650	(56,098)	115,432
Non-recurring expenses*	-	(3,970)	(491)	-	-	(4,461)
Income excluding net realized gains (losses)	72,257	23,441	23,721	47,650	(56,098)	110,971
Net realized gains (losses)*	5,381	(8,906)	1,353	22,718	-	20,546
Net income	$ 77,638	$ 14,535	$ 25,074	70,368	$ (56,098)	$ 131,517

* Shown net of income tax
(1) Includes ACE Limited, ACE INA Holdings and intercompany eliminations.

ACE LIMITED AND SUBSIDIARIES
Notes to interim consolidated Financial Statements (cont'd)
(Unaudited)

Statement of Operations by Segment
For the six months ended June 30, 2002

	Insurance - North American	Insurance - Overseas General	Global Reinsurance	Financial Products	Corporate and Other(1)	ACE Consolidated
	(in thousands of U.S. Dollars)					
Operations Data						
Property and Casualty						
Gross premiums written	$ 2,692,686	$ 1,903,375	$ 588,175	$ 805,954	$ -	$ 5,990,190
Net premiums written	1,231,164	1,230,586	551,832	792,874	-	3,806,456
Net premiums earned	1,078,931	1,074,584	264,826	462,454	-	2,880,795
Losses and loss expenses	723,632	637,073	91,679	361,710	-	1,814,094
Policy acquisition costs	92,328	241,523	45,669	40,419	-	419,939
Administrative expenses	157,573	174,455	15,880	27,067	49,320	424,295
Underwriting income	105,398	21,533	111,598	33,258	(49,320)	222,467
Life						
Gross premiums written	-	-	56,911	-	-	56,911
Net premiums written	-	-	54,950	-	-	54,950
Net premiums earned	-	-	54,721	-	-	54,721
Life and annuity benefits	-	-	46,307	-	-	46,307
Policy acquisition costs	-	-	12,064	-	-	12,064
Administrative expenses	-	-	2,634	-	-	2,634
Net investment income	-	-	12,197	-	-	12,197
Underwriting income	-	-	5,913	-	-	5,913
Net investment income - property and casualty	205,301	48,590	47,365	94,876	(7,390)	388,742
Other income (expense)	(20)	3,822	-	-	-	3,802
Interest expense	16,692	921	4,692	7,254	68,395	97,954
Income tax expense (benefit)	74,066	12,538	1,951	16,942	(34,689)	70,808
Income excluding net realized gains (losses) & non-recurring expenses	219,921	60,486	158,233	103,938	(90,416)	452,162
Debt prepayment expenses*	-	-	-	-	(7,196)	(7,196)
Income excluding net realized gains (losses)	219,921	60,486	158,233	103,938	(97,612)	444,966
Net realized gains (losses)*	(39,725)	(8,397)	(30,483)	(41,972)	(22,684)	(143,261)
Net income	$ 180,196	$ 52,089	$ 127,750	$ 61,966	$ (120,296)	$ 301,705

* Shown net of income tax
(1) Includes ACE Limited, ACE INA Holdings and intercompany eliminations.

ACE LIMITED AND SUBSIDIARIES
Notes to interim consolidated Financial Statements (cont'd)
(Unaudited)

Statement of Operations by Segment
For the six months ended June 30, 2001

	Insurance - North American	Insurance - Overseas General	Global Reinsurance	Financial Products	Corporate and Other (1)	ACE Consolidated
	(in thousands of U.S. Dollars)					
Operations Data						
Property and Casualty						
Gross premiums written	$2,106,191	$1,688,104	$ 332,612	$ 806,413	$ -	$ 4,933,320
Net premiums written	968,032	1,109,794	299,683	797,275	-	3,174,784
Net premiums earned	881,886	984,658	163,780	693,000	-	2,723,324
Losses and loss expenses	613,503	605,374	71,221	616,036	-	1,906,134
Policy acquisition costs	91,579	206,638	30,453	24,485	-	353,155
Administrative expenses	157,166	155,755	12,049	28,091	42,501	395,562
Underwriting income	19,638	16,891	50,057	24,388	(42,501)	68,473
Life						
Gross premiums written	-	-	30,979	-	-	30,979
Net premiums written	-	-	30,979	-	-	30,979
Net premiums earned	-	-	30,979	-	-	30,979
Life and annuity benefits	-	-	28,805	-	-	28,805
Policy acquisition costs	-	-	1,175	-	-	1,175
Administrative expenses	-	-	1,149	-	-	1,149
Net investment income	-	-	335	-	-	335
Underwriting income	-	-	185	-	-	185
Net investment income - property and casualty	220,121	56,731	34,531	83,782	5,197	400,362
Other income (expense)	1,931	(286)	-	1,040	-	2,685
Amortization of goodwill	(180)	1,845	7,005	2,102	28,980	39,752
Interest expense	16,795	1,425	-	7,228	78,516	103,964
Income tax expense (benefit)	54,581	12,549	7,378	10,923	(36,707)	48,724
Income excluding net realized gains (losses), non-recurring expenses and cumulative effect	170,494	57,517	70,390	88,957	(108,093)	279,265
Non-recurring expenses*	-	(3,970)	(491)	-	-	(4,461)
Income excluding net realized gains (losses) and cumulative effect	170,494	53,547	69,899	88,957	(108,093)	274,804
Net realized gains (losses)*	(3,721)	(4,348)	(18,160)	24,006	-	(2,223)
Income excluding cumulative effect of adopting a new accounting standard	166,773	49,199	51,739	112,963	(108,093)	272,581
Cumulative effect of adopting a new accounting standard	(50)	441	539	(23,600)	-	(22,670)
Net income	$ 166,723	$ 49,640	$ 52,278	$ 89,363	$ (108,093)	$ 249,911

* Shown net of income tax
(1) Includes ACE Limited, ACE INA Holdings and intercompany eliminations.

ACE LIMITED AND SUBSIDIARIES
Notes to interim consolidated Financial Statements (cont'd)
(Unaudited)

The following tables summarize the revenues of each segment by product offering for the three and six months ended June 30, 2002 and 2001:

Net premiums earned by type of premium

Three months ended June 30, 2002

	Property & Casualty	Life, Accident & Health	Financial Services	Financial Solutions	ACE Consoidated
	(in millions of U.S. dollars)				
Insurance - North American	$ 586	$ 20	$ -	$ -	$ 606
Insurance - Overseas General	433	133	-	-	566
Global Reinsurance	150	26	-	-	176
Financial Products	-	-	77	151	228
	$ 1,169	$ 179	$ 77	$ 151	$ 1,576

Three months ended June 30, 2001

	Property & Casualty	Life, Accident & Health	Financial Services	Financial Solutions	ACE Consoidated
	(in millions of U.S. dollars)				
Insurance - North American	$ 481	$ -	$ -	$ -	$ 481
Insurance - Overseas General	371	122	-	-	493
Global Reinsurance	85	30	-	-	115
Financial Products	-	-	96	200	296
	$ 937	$ 152	$ 96	$ 200	$ 1,385

Six months ended June 30, 2002

	Property & Casualty	Life, Accident & Health	Financial Services	Financial Solutions	ACE Consoidated
	(in millions of U.S. dollars)				
Insurance - North American	$ 1,036	$ 43	$ -	$ -	$ 1,079
Insurance - Overseas General	818	257	-	-	1,075
Global Reinsurance	265	55	-	-	320
Financial Products	-	-	126	336	462
	$ 2,119	$ 355	$ 126	$ 336	$ 2,936

Six months ended June 30, 2001

	Property & Casualty	Life, Accident & Health	Financial Services	Financial Solutions	ACE Consoidated
	(in millions of US. dollars)				
Insurance - North American	$ 878	$ 4	$ -	$ -	$ 882
Insurance - Overseas General	742	240	-	3	985
Global Reinsurance	163	31	-	-	194
Financial Products	-	-	134	559	693
	$ 1,783	$ 275	$ 134	$ 562	$ 2,754

Property and casualty underwriting assets are reviewed in total by management for purposes of decision-making. We do not allocate assets to our new segments. Assets are specifically identified for our life segment and corporate holding companies.

The following table summarizes the identifiable assets at June 30, 2002 and December 31, 2001:

	June 30 2002	December 31 2001
	(in millions of U.S. dollars)	
Property and casualty	$ 36,234	$ 34,198
Life reinsurance	510	480
Other	2,579	2,509
Total assets	$ 39,323	$ 37,187

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

The following is a discussion of our results of operations, financial condition, liquidity and capital resources as of and for the three and six months ended June 30, 2002. Our results of operations and cash flows for any interim period are not necessarily indicative of our results for the full year. This discussion should be read in conjunction with our consolidated financial statements and related notes and the Management's Discussion and Analysis of Results of Operations and Financial Condition included in our Annual Report on Form 10-K for the year ended December 31, 2001.

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 ACE may include forward-looking statements which reflect our 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 herein and in other documents we file with the Securities and Exchange Commission) include, but are not limited to, (i) the impact of the September 11th tragedy and its aftermath on ACE's insureds and reinsureds, on the insurance and reinsurance industry and on the economy in general and uncertainties relating to governmental responses to the tragedy, (ii) the ability to collect reinsurance recoverable, credit developments of reinsurers, and any delays with respect thereto, (iii) the occurrence of catastrophic events or other insured or reinsured events with a frequency or severity exceeding our estimates, (iv) the uncertainties of the loss reserving process, including the difficulties associated with assessing environmental damage and asbestos related latent injuries, (v) uncertainties relating to government and regulatory policies such as subjecting ACE to insurance regulation or taxation in additional jurisdictions or amending, revoking or enacting any laws, regulations or treaties affecting our current operations and other legal, regulatory and legislative developments, (vi) judicial decisions and legal tactics, (vii) the actual amount of new and renewal business and market acceptance of our products, (viii) risks associated with the introduction of new products and services, (ix) the competitive environment in which we operate, related trends and associated pricing pressures, market perception, and developments, (x) actions that rating agencies may take from time to time,
(xi) developments in global financial markets, which could affect our investment portfolio and financing plans, (xii) changing rates of inflation and other economic conditions, (xiii) losses due to foreign currency exchange rate fluctuations, (xiv) loss of the services of any of our executive officers without suitable replacements being recruited in a reasonable time frame, (xv) the ability of technology to perform as anticipated, (xvi) the amount of dividends received from subsidiaries, and (xvii) management's response to these factors. The words "believe", "anticipate", "estimate", "project", "should", "plan", "expect", "intend", "hope", "will likely result" or "will continue" and variations thereof and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future events or otherwise.

New Reporting Segments

Following changes in executive management responsibilities, during the quarter ended March 31, 2002, we reassessed and changed our reporting segments from the individual operating units to four lines of business:
Insurance - North American, Insurance - Overseas General, Global Reinsurance and Financial Products. We believe that these new segments better represent the way we manage our operations and measure our performance. Insurance - North American includes the operations of ACE USA, ACE Bermuda and ACE Canada, excluding the financial solutions divisions in both the U.S. and Bermuda which are included in the new Financial Products segment. Insurance - Overseas General includes the operations of ACE International, including ACE Europe, ACE Japan, ACE Far East and ACE Latin America, and the insurance operations of ACE Global Markets. The reinsurance operations of ACE Global Markets is now included in the new Global Reinsurance segment together with ACE Tempest Re, ACE Tempest US and our life reinsurance operation, which is disclosed separately. The Financial Products segment includes the financial guaranty business of ACE Guaranty Re and ACE Capital Re International and the financial solutions business in the U.S. and Bermuda.

Critical Accounting Policies

Certain amounts in our consolidated financial statements are the result of transactions that require us to use our best estimates and assumptions to determine our reported values. These amounts could ultimately be materially different than what has been provided for in our consolidated financial statements. We consider the assessment of our property and casualty ("P&C") loss reserves, the fair value of our investment portfolio including derivatives and the reinsurance recoverable to be the values requiring the most inherently subjective and complex estimates. As such, we deem our accounting policies for these amounts to be of critical importance to our consolidated financial statements. More information regarding the estimates and assumptions required to arrive at these amounts can be found below in the sections entitled, Investments and Cash, Property and Casualty Loss Reserves, Reinsurance, Asbestos and Environmental Claims and Derivatives.

September 11th 2001 Tragedy

The terrorist attacks on September 11, 2001 ("the September 11th tragedy") resulted in the largest insured loss in history. We continue to monitor our total potential liability based upon individual insurance and reinsurance policy language, legal and factual developments in underlying matters involving its insureds as well as legislative developments in the U.S. involving the terrorist attack. If our current assessments of future developments are proved wrong, the financial impact of any of them, singularly or in the aggregate, could be material. For example, business interruption insurance claims could materialize in the future with greater frequency than we have anticipated or provided for in our estimates, or, insureds that we expect will not be held responsible for injuries resulting from the attack, are ultimately found to be responsible at a financial level that impacts our insurance or reinsurance policies.

In February 2002, we announced that one of our Bermuda subsidiaries, ACE Bermuda Insurance Ltd. ("ACE Bermuda") agreed to settle its property insurance claim with Silverstein Properties, Inc., ("Silverstein") arising from the World Trade Center disaster. The settlement is based upon a single occurrence and comprised payment of only one policy limit. ACE Bermuda and Silverstein have agreed to dismiss all litigation and arbitration pending between them. The settlement amount is within the reserve previously established for this event and does not affect the remaining group reserves for other claims arising from the September 11th tragedy. There were no substantial payments in connection to the September 11th tragedy in the current quarter. As of June 30, 2002 we have paid gross losses of $524 million and net losses of $89 million with respect to the September 11th tragedy and have collected approximately 95 percent of the related recoverable. We believe our reserve in connection with the September 11th tragedy is adequate at June 30, 2002.

Results of Operations - Three months ended June 30, 2002 and 2001

	Three Months Ended June 30 2002	2001
	(in millions of U.S. dollars)	
Net operating income	$ 236	$ 115
Debt prepayment expense (net of income tax)	(7)	-
Non-recurring expenses (net of income tax)	-	(4)
Net realized gains (losses) on investments (net of income tax)	(125)	20
Net income	$ 104	$ 131

Net operating income is comprised of income excluding net realized gains (losses), debt prepayment expense and non-recurring expenses. Net operating income increased by $121 million to $236 million for the three months ended June 30, 2002, compared with $115 million for the three months ended June 30, 2001. We adopted FAS 142 on January 1, 2002 and accordingly have not amortized any goodwill in the current quarter, compared with $20 million of goodwill amortized for the quarter ended June 30, 2001. The current quarter was also aided by the absence of high level catastrophe losses. For the same quarter last year, we incurred $55 million in catastrophe losses related to storms in the Mid-Western United States. Excluding the catastrophe losses and goodwill amortization in 2001, net operating income increased by 24 percent. The increase in income was primarily due to growth in net premiums earned combined with better loss experience over the same quarter last year.

The debt prepayment expense of $7 million (net of income tax) incurred in the current quarter was as a result of the prepayment of a portion of the ACE INA Subordinated Notes due in 2009. This cost was mostly attributable to the decrease in interest rates since the original note was issued. During the three months ended June 30, 2001, we incurred non-recurring expenses of $4 million (net of income tax) relating to a contractual obligation due to a departing employee.

Net realized gains (losses) on investments (net of income tax) were $125 million for the three months ended June 30, 2002 compared with net realized gains of $20 million for the three months ended June 30, 2001. The net realized losses were generated primarily as a result of losses realized on fixed maturities, financial futures and interest rate swaps as well as an after-tax loss of $33 million reflecting fair value adjustments on derivatives.

Consolidated Operating Results

	Three Months Ended June 30 2002	2001
	(in millions of U.S. dollars)	
Cross premiums written	$ 2,929	$ 2,403
Net premiums written	1,875	1,470
Net premiums earned	1,576	1,385
Losses and loss expenses	961	955
Life and annuity benefits	23	28
Policy acquisition costs	234	187
Administrative expenses	231	202
Underwriting income	$ 127	$ 13
Net investment income	201	196
Other income (expense)	(1)	1
Interest expense	52	50
Income tax expense	39	25
Amortization of goodwill	-	20
Net operating income	$ 236	$ 115
Loss and loss expense ratio*	62.0%	70.5%
Underwriting and administrative expense ratio*	29.5%	28.6%
Combined ratio*	91.5%	99.1%

* Ratios exclude life reinsurance business

We continued to experience widespread firming of prices on new and renewing business this quarter, which translated into steady growth in our gross premiums written and a significant increase in our underwriting income. Gross premiums written increased by 22 percent to $2.9 billion for the second quarter of 2002 compared with the same quarter last year. Underwriting income increased to $127 million for the current quarter compared with $13 million for the quarter ended June 30, 2001. Our net operating income increased by $121 million to $236 million for the quarter ended June 30, 2002 compared with $115 million for the same quarter last year.

Excluding our Financial Products segment, gross premiums written increased by 23 percent. During the quarter ended June 30, 2001, our financial products segment wrote two large retroactive contracts in the form of loss portfolio transfer contracts ("LPTs") for $165 million, whereas our LPT activity in the current quarter was $25 million. When LPT contracts are written in a quarter, they cause large variations in premium volume. LPTs are discussed in more detail in the Financial Products segment discussion.

Net premiums written, which reflect the premiums we retain after purchasing reinsurance protection, increased by 28 percent to $1.9 billion for the quarter ended June 30, 2002 compared with $1.5 billion last year. Exclusive of our Financial Products segment, net premiums written increased by 29 percent for the current quarter compared with the quarter ended June 30, 2001.

Net premiums earned, which reflect the portion of net premiums written recorded as revenues for the period, increased by 14 percent to $1.6 billion for this quarter compared with $1.4 billion for the same quarter last year. Excluding the LPTs, net premiums earned increased by 27 percent.

The underwriting results of P&C business are discussed by reference to the combined ratio, loss and loss expense ratio and underwriting and administrative expense ratio. We calculate these ratios 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 administrative expense ratio. A combined ratio under 100 percent indicates underwriting income and a combined ratio exceeding 100 percent indicates underwriting losses.

We establish reserves for unpaid losses and loss expenses, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. The process of establishing reserves for P&C claims continues to be a complex and imprecise process requiring the use of informed estimates and judgments. Our estimates and judgments may be revised as the claims develop and as additional experience and other data becomes available and are reviewed, as new or improved methodologies are developed or as current laws change. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable, and would be reflected in our results of operations for the period in which the estimates are changed.

In addition, catastrophe losses may have a significant effect on the insurance and reinsurance industry. Our Global Reinsurance segment and other segments of our group have exposure to windstorm, hail, earthquake and other catastrophic events, all of which are managed using measures including underwriting controls, occurrence caps as well as modeling, monitoring and managing our accumulations of potential losses across the group. We use retrocessional programs to limit our net losses from catastrophes. However, property catastrophe loss experience is generally characterized as low frequency but high severity short-tail claims, which may add volatility to our financial results.

The loss and loss expense ratio decreased to 62.0 percent for the quarter ended June 30, 2002 compared with 70.5 percent for the same quarter of 2001. The decrease is principally due to the low level of catastrophe losses and the fact that no LPTs of significant value were written in the current quarter. LPT contracts are typically recorded at higher loss ratios than our other lines of business. More information regarding LPTs is provided in the Financial Products segment discussion.

Underwriting and administrative expenses are comprised of policy acquisition costs, which include commissions, premium taxes, underwriting and other costs that vary with and are primarily related to the production of premium, and administrative expenses which include all other operating costs. The underwriting and administrative expense ratio increased from 28.6 percent for the quarter ended June 30, 2001 to 29.5 percent for the current quarter. The principal reason for the change is the impact of the LPTs, which increased net premiums earned in 2001, thereby reducing the underwriting and administrative expense ratio.

We assess the performance of our life reinsurance business based on net operating income, which is net income excluding net realized gains and losses from the sale of investments. For the current quarter, this division generated net operating income of $2 million compared with $1 million for the same quarter last year.

Segment Results

Insurance - North American

The Insurance - North American segment is comprised of our P&C insurance operations in the U.S., Bermuda and Canada excluding the financial solutions business in the U.S. and Bermuda. This segment writes a variety of insurance products including property, liability, professional risk (directors and officers liability, ("D&O") and errors and omissions coverages, ("E&O")), marine, program business, political risk, accident and health, warranty, aerospace and other specialty lines.

	Three Months Ended June 30 2002	2001	Percentage Change From Prior Year
	(in millions of U.S. dollars)		
Gross premiums written	$ 1,428	$ 1,143	25%
Net premiums written	718	525	37
Net premiums earned	606	481	26
Losses and loss expenses	396	347	14
Underwriting and administrative expenses	137	133	3
Underwriting income	$ 73	$ 1	NM
Net investment income	103	105	(2)
Other income (expense)	(1)	1	-
Interest expense	8	8	-
Income tax expense	41	27	53
Net operating income	$ 126	$ 72	75%
Loss and loss expense ratio	65.4%	72.1%	
Underwriting and administrative expense ratio	22.6%	27.7%	
Combined ratio	88.0%	99.8%	

NM - not meaningful

This segment's underwriting income grew by $72 million. Gross premiums written increased by 25 percent to $1.4 billion for the quarter ended June 30, 2002 compared with $1.1 billion for the same quarter last year. Overall, the North American insurance market has continued to experience accelerating increases in insurance prices and we believe this current environment is sustainable as insurers reduce availability of insurance in reaction to negative loss trends and economic conditions. In addition, policy terms and conditions, capacity and policy attachment points are moving in a more favorable direction and should positively impact future profitability.

ACE USA, which comprises the majority of this segment, increased gross premiums written by 23 percent to $1.3 billion. Westchester Specialty, ACE USA's wholesale oriented excess and surplus lines group continued to experience tremendous demand for its products as both standard line companies and program managers have lost significant capacity and are looking to us to fill in the shortfall. As a result, Westchester Specialty has been able to successfully demand increases in rates in excess of 50 percent and improve its policy terms and conditions. As overall markets continue to harden, opportunities in the excess and surplus lines market traditionally outpace those in the standard admitted lines market. Also contributing to the increase this quarter is ACE USA's Professional Risk Group, which provides insurance policies that protect against management liability and professional liability as well as surety, aviation and satellite risks. Spurred by recent corporate failures, demand for E&O, D&O and surety coverage, continues to be strong translating to new and renewal business with large price increases, dramatically lower policy limits and more favorable policy terms.

ACE Bermuda increased its gross premiums written by 55 percent to $113 million for the current quarter. Significant rate increases were achieved on both new and renewal business across their core lines - excess liability, professional lines and excess property.

Net premiums written for the North American segment increased by 37 percent for the quarter, outpacing the gross premiums written due to our strategic decision to reduce our reliance on reinsurance. Net premiums earned increased by $125 million to $606 million for the current quarter compared with $481 million for the 2001 quarter. This increase is principally due to the earning out of higher premiums written in previous quarters. While a portion of the net premiums written this quarter are earned, most will be earned out in future quarters.

The loss and loss expense ratio decreased to 65.4 percent for the current quarter compared with 72.1 percent last year. This decrease is a result of higher net premiums earned combined with lower loss activity, partially achieved by changes in business mix in the current quarter compared with the prior year.

The underwriting and administrative expense ratio declined to 22.6 percent for the current quarter compared with 27.7 percent for the same quarter last year principally because expenses were relatively unchanged while net premiums earned increased significantly.

Net investment income decreased by $2 million to $103 million for the quarter ended June 30, 2002 compared with $105 million for the same quarter last year. As discussed later in this report, this decrease is principally a result of lower interest rates for the current quarter compared with last year. Net operating income increased by 75 percent for the quarter ended June 30, 2002 compared with the same quarter last year due to the increase in underwriting income offset by increased income tax expense at ACE USA.

Insurance - Overseas General

The Insurance - Overseas General segment comprises ACE International, our network of indigenous insurance operations and the insurance operations of ACE Global Markets, our Lloyd's operation. Like the North American insurance segment, this segment writes a variety of insurance products including property, liability, professional risk (D&O and E&O), marine, political risk, accident and health, aerospace and consumer oriented products.

	Three Months Ended June 30 2002	2001	Percentage Change From Prior Year
	(in millions of U.S. dollars)		
Gross premiums written	$ 941	$ 862	9%
Net premiums written	616	566	9
Net premiums earned	566	493	15
Losses and loss expenses	345	299	15
Underwriting and administrative expenses	217	188	15
Underwriting income	$ 4	$ 6	(31)%
Net investment income	28	29	(5)
Interest expense	1	1	-
Income tax expense	5	6	(19)
Amortization of goodwill	-	1	-
Net operating income	$ 26	$ 27	(3)%
Loss and loss expense ratio	61.1%	60.6%	
Underwriting and administrative expense ratio	38.1%	38.1%	
Combined ratio	99.2%	98.7%	

Underwriting income for the Overseas General segment decreased by $2 million to $4 million for the quarter ended June 30, 2002 compared with $6 million for the same quarter last year. Gross premiums written increased by 9 percent for the quarter to $941 million compared with $862 million for the quarter ended June 30, 2001.

Gross premiums written for ACE International increased by 15 percent to $627 million for the current quarter compared with $547 million last year. Europe and Asia contributed the most to this increase reporting 60 percent and 40 percent growth in gross premiums written respectively. These increases were offset by the 31 percent decline in gross premiums written in Latin America. ACE International breaks down into two major categories of business - P&C and accident and health ("A&H"). Both A&H and P&C had good quarters reporting increases in net premiums written of 20 percent and 31 percent, respectively. All regions of the world, with the exception of Japan, continued to experience price firming across most classes of business. Rates overall, excluding Japan, have increased in excess of 40 percent in the quarter compared with last year. Japan's premium rates increased approximately 2 percent predominantly in A&H, personal lines and a small commercial portfolio of business. Adjusting for foreign exchange, Japan increased its net premiums written by 7 percent in the current quarter.

ACE Global Markets reported $314 million in gross premiums written for the quarter ended June 30, 2002, which was relatively unchanged compared with last year's $315 million. This operation is currently adjusting its underwriting strategy and moving from a gross line underwriter (where large gross limits are written on the basis that most of the risk is then reinsured) to a net line underwriter (where much smaller gross limits are written and much less reliance is placed on reinsurance) to conform with our underwriting strategies and standards. As a consequence, in certain lines of business that do not fit strategies, net limits per risk have been reduced, in some cases by half or more, and other lines of business have been placed in run-off, requiring us to purchase reinsurance to cover the run-off. We will be reducing our capacity at Lloyd''s to 652 million pounds for the 2003 year of account from 900 million pounds for the 2002 year of account. Our current production activity is very strong, and rates in the second quarter increased an average of 41 percent as all classes are continuing to harden. We remain firmly committed to this operation and expect it to contribute to our earnings growth in the future.

Net premiums written for the segment increased by 9 percent to $616 million for the quarter ended June 30, 2002 compared with $566 million last year. Net premiums written in ACE International increased by 27 percent while net premiums written in ACE Global Markets decreased by 23 percent primarily due to the cost of reinsurance to protect run-off exposures, as discussed previously.

Net premiums earned increased by 15 percent for the current quarter principally on the strength of ACE International's 20 percent increase in net premiums earned over last year. The loss and loss expense ratio was stable at 61.1 percent for the current quarter compared with 60.6 percent for the same quarter last year. The underwriting and administrative expense ratio remained at 38.1 percent as policy acquisition costs and administrative expenses increased proportionately with net premiums earned. Administration expenses increased due to increased Lloyd's Central Guarantee Fund costs, Lloyd's premium levies and business expansion in certain lines of business. Net operating income decreased by 3 percent for the current quarter compared with last year.

Global Reinsurance

The Global Reinsurance segment consists of ACE Tempest Re, ACE Tempest USA and ACE Global Market's P&C reinsurance operations as well as our life reinsurance operations which are disclosed separately. The P&C reinsurance group writes catastrophe, marine, casualty, and nuclear products.

Property and Casualty

	Three Months Ended June 30 2002	Three Months Ended June 30 2001	Percentage Change From Prior Year
	(in millions of U.S.dollars)		
Gross premiums written	$ 214	$ 104	105%
Net premiums written	197	85	132
Net premiums earned	150	85	75
Losses and loss expenses	53	51	4
Underwriting and administrative expenses	38	21	82
Underwriting income	$ 59	$ 13	332%
Net investment income	23	17	33
Interest expense	4	-	-
Income tax expense	2	4	(52)
Amortization of goodwill	-	3	-
Net operating income	$ 76	$ 23	219%
Loss and loss expense ratio	35.0%	59.2%	
Underwriting and administrative expense ratio	25.8%	24.9%	
Combined ratio	60.8%	84.1%	

Due to the low level of catastrophe losses in 2002 and a favorable underwriting environment, Global Reinsurance reported underwriting income of $59 million for the quarter ended June 30, 2002 compared with $13 million for the same quarter last year.

Gross premiums written for the quarter increased by 105 percent to $214 million from $104 million last year. The reinsurance market continues to show discipline in both pricing and underwriting terms and prices in the property classes continue to increase although reinsurance rate increases are beginning to stabilize.

In ACE Tempest Re, where we write most of the property catastrophe reinsurance business, net premiums written increased by 85 percent and generally prices continue to increase at rates that we expect will lead to returns on equity in excess of 25 percent. In the property catastrophe business, risk modeling and selection capabilities are extremely important. While we deem current prices adequate to achieve a reasonable risk adjusted return, we still declined a substantial amount of business that we believed was inadequately priced.

ACE Tempest U.K. which is principally focused on specialty reinsurance products increased its net premiums written by 152 percent to $57 million for the current quarter compared with $23 million for the same quarter last year. ACE Tempest U.S., established in 2000 with an initial focus on writing P&C reinsurance, increased its net premiums written to $47 million for the current quarter compared with $12 million for the same quarter last year.

The loss and loss expense ratio improved from 59.2 percent for the quarter ended June 30, 2001 to 35.0 percent for the current quarter due to the absence of any significant loss activity in the quarter and the increase in net premiums earned.

The underwriting and administrative expense ratio increased to 25.8 percent for the current quarter compared with 24.9 percent for the quarter ended June 30, 2001. This slight increase is due to an increase in policy acquisition costs relative to net premiums earned caused by a change in the mix of business written. Net operating income increased by 219 percent to $76 million for the current quarter compared with the quarter ended June 30, 2001 principally due to the increase in underwriting income from all divisions.

Life Reinsurance

Our principal business in this division is to provide reinsurance coverage to life insurance companies. In 2001, we concluded our first full year of operations for our life division. We price life reinsurance using actuarial and investment models that incorporate a number of factors, including assumptions for mortality, morbidity, expenses, demographics, persistency, investment returns and inflation. We assess the performance of our life reinsurance business based on net operating income, which is net income excluding net realized gains and losses from the sale of investments. The use of combined ratios is not an appropriate measure of the underwriting results of life reinsurance business.

	Three Months Ended June 30	
	2002	2001
	(in millions of U.S. dollars)	
Gross premiums written	$ 28	$ 30
Net premiums written	27	30
Net premiums earned	26	30
Life and annuity benefits	23	28
Underwriting and administrative expenses	7	2
Net investment income	6	1
Net operating income	$ 2	$ 1

The life reinsurance group wrote $28 million of business for the quarter ended June 30, 2002 derived principally from treaty business as opposed to one-time single premium transactions. We are focused on writing risk transfer treaty business where the principal risk is mortality and morbidity based. Our current product portfolio focuses mainly on life and variable products. During the quarter, we made the decision to cease pursuing large, one-time transaction business and the long-term disability business as we no longer believe our efforts in these areas justify the potential returns.

Financial Products

The Financial Products segment consists of two broad categories: financial guaranty business and financial solutions business. The financial guaranty business includes municipal and non-municipal financial guaranty reinsurance, title cover, single-name and portfolio credit default swaps, mortgage guaranty reinsurance, trade credit reinsurance and residual value reinsurance. The financial solutions business includes insurance and reinsurance solutions to complex risks that generally cannot be adequately addressed by the traditional insurance marketplace. Each financial solutions contract is unique and specifically tailored for an individual client, but generally they are multi-year and contain some form of client participation. Due to the nature of the financial solutions business, premium volume can vary significantly from period to period and therefore premiums written in any one quarter are not indicative of premiums to be written in future quarters.

We also write retroactive contracts, including LPTs, which indemnify ceding companies for events that have occurred in prior years. While these types of contracts are generally written in the Financial Products segment, they can also be written in other segments, including the life reinsurance group. These contracts, which meet the established criteria for reinsurance accounting under United States generally accepted accounting principles ("GAAP"), are recorded in the statement of operations when written and generally result in large one-time written and earned premiums with comparable incurred losses. These contracts, when written, can cause significant variances in gross premiums written, net premiums written, net premiums earned, net incurred losses as well as the loss and loss expense ratio and underwriting and administrative expense ratio. At the time one of these contracts is written, we make certain assumptions with respect to the ultimate amount and timing of payments in order to establish loss and loss expense reserves. As with most loss reserves, the actual amount and timing of payments may result in loss and loss expenses which are significantly greater or less than the reserves initially provided.

It is generally expected that losses ultimately paid under retroactive contracts will exceed the premiums received, in some cases by large margins. Premiums are based in part on time-value-of money concepts because loss payments may occur over lengthy time periods. However, retroactive contracts do not have a significant impact on reported earnings in the period of inception. When writing a retroactive contract, the excess of the estimated ultimate losses over the premiums received is established as a deferred charge and amortized against income over the estimated future claim settlement period. We expect that these contracts will produce significant underwriting losses over time, but we also expect that this business will be profitable due to expected investment earnings on the premiums received.

	Three Months Ended June 30 2002	Three Months Ended June 30 2001	Percentage Change From Prior Year
	(in millions of U.S. dollars)		
Gross premiums written	$ 318	$ 264	21%
Net premiums written	317	264	20
Net premiums earned	228	296	(23)
Losses and loss expenses	167	258	(35)
Underwriting and administrative expenses	39	22	73
Underwriting income	$ 22	$ 16	47%
Net investment income	46	42	10
Interest expense	3	3	-
Income tax expense	8	6	41
Amortization of goodwill	-	1	-
Net operating income	$ 57	$ 48	19%
Loss and loss expense ratio	73.2%	87.2%	
Underwriting and administrative expense ratio	17.0%	7.6%	
Combined ratio	90.2%	94.8%	

Net operating income for this segment increased by 19 percent to $57 million for the quarter ended June 30, 2002 compared with $48 million for the same quarter last year. Our combined ratio improved to 90.2 percent for the current quarter compared with 94.8 percent last year. Better pricing terms and changes in our business mix achieved this favorable decline in our combined ratio. Net premiums earned declined by 23 percent to $228 million for the quarter compared with $296 million for the same quarter last year. This significant decrease is due to the decline in LPT business recorded in the current quarter compared with last year. We wrote $25 million of LPTs in the current quarter, compared with $165 million in the same quarter last year. This decrease had the effect of reducing our net premiums earned, as LPTs are generally earned when written.

Our financial guaranty operation reported a 17 percent increase in net operating income for the current quarter compared with the quarter ended June 30, 2001. This was achieved primarily on the strength of new trade credit insurance business. Our trade credit business, which protects sellers of goods and services from the risk of non-payment of trade receivables increased gross premiums written by $8 million in the current quarter. We are taking advantage of new business opportunities arising due to a broad based credit spread widening and a demand for credit protection caused by market volatility.

Financial solutions also had a successful quarter reporting a 25 percent increase in underwriting income. In the U.S. operation, we wrote several prospective, multi-year programs where we provide first loss protection on synthetic collateralized debt obligations. These transactions contributed $107 million to gross premiums written and will be earned evenly over their five-year contract term. While there is currently strong demand for LPTs in the market, these deals are usually large and complex and take time to conclude. It is difficult to predict the amount or timing of the writing of LPT transactions.

The absence of any significant LPTs in the quarter has impacted the loss and loss expense ratio as well as the underwriting and administrative expense ratio. The loss and loss expense ratio improved from 87.2 percent for the quarter ended June 30, 2001 to 73.2 percent for the current quarter. The underwriting and administrative expenses increased for the current quarter compared with the same quarter last year due to increased policy acquisition costs as a result of a change in the mix of business written. The decrease in net premiums earned caused an increase in the underwriting and administrative expense ratio.

Results of Operations - Six months ended June 30, 2002 and 2001

	Six Months Ended June 30 2002	2001
	(in millions of U.S. dollars)	
Net operating income	$ 452	$ 279
Debt prepayment expense (net of income tax)	(7)	-
Non-recurring expenses (net of income tax)	-	(4)
Net realized losses on investments (net of income tax)	(143)	(2)
Cumulative effect of adopting a new accounting standard (net of income tax)	-	(23)
Net income	$ 302	$ 250

Net operating income increased by $173 million to $452 million for the six months ended June 30, 2002, compared with $279 million for the same period last year. We adopted FAS 142 on January 1, 2002 and accordingly have not amortized any goodwill in the current period which compares to $40 million of goodwill amortized for the six months ended June 30, 2001. In addition, there were no significant catastrophe losses in the current period. For the same period last year, we incurred $55 million in catastrophe losses related to storms in the Mid-Western United States. Excluding the catastrophe losses and goodwill amortization in 2001, net operating income increased by 21 percent for the six months ended June 30, 2002 compared with the same period last year. This increase in income was primarily due to growth in net premiums earned combined with better loss experience over the same period last year.

The debt prepayment expense of $7 million (net of income tax) was incurred in the second quarter as a result of the prepayment of a portion of the ACE INA Subordinated Notes due in 2009. During the six months ended June 30, 2001, we incurred non-recurring expenses of $4 million (net of income tax) relating to a contractual obligation due to a departing employee.

Net realized losses on investments (net of income tax) were $143 million for the six months ended June 30, 2002 compared with net realized losses of $2 million last year. The net realized losses were generated primarily as a result of losses realized on fixed maturities, financial futures and interest rate swaps as well as an after-tax loss of $46 million reflecting fair value adjustments on derivatives, which we include in net realized losses.

Consolidated Operating Results

	Six Months Ended June 30 2002	2001
	(in millions of U.S. dollars)	
Gross premiums written	$ 6,047	$ 4,964
Net premiums written	3,861	3,205
Net premiums earned	2,936	2,754
Losses and loss expenses	1,814	1,906
Life and annuity benefits	46	29
Policy acquisition costs	432	354
Administrative expenses	428	397
Underwriting income	$ 216	$ 68
Net investment income	401	401
Other income	4	3
Interest expense	98	104
Income tax expense	71	49
Amortization of goodwill	-	40
Net operating income	$ 452	$ 279
Loss and loss expense ratio*	63.0%	70.0%
Underwriting and administrative expense ratio*	29.2%	27.5%
Combined ratio*	92.2%	97.5%

*Ratios exclude life reinsurance business

Overall, underwriting income increased by 213 percent to $216 million for the six months ended June 30, 2002 compared with $68 million for the same period last year. This significant increase was driven principally by an increase in prices across most lines of business and the absence of any significant catastrophe losses during the period. Net operating income increased to $452 million for the current period compared with $279 million last year.

Gross premiums written increased by 22 percent to $6.0 billion for the six months ended June 30, 2002 compared with $4.9 billion for the same period last year. During the six months ended June 30, 2001, we wrote several large retroactive contracts in the form of LPTs totaling $417 million compared with $25 million for the current period. When these contracts are written they cause large variations in premium volume.

Net premiums written increased by 20 percent to $3.9 billion for the six months ended June 30, 2002 compared with $3.2 billion last year. Net premiums earned increased by 7 percent to $2.9 billion for the period compared with $2.8 billion last year. Excluding the LPTs, net premiums earned increased by 24 percent.

The loss and loss expense ratio decreased to 63.0 percent for the six months ended June 30, 2002 compared with 70.0 percent for the same period in 2001. This decrease is principally due to the absence of significant catastrophe losses in 2002 and the fact that no LPTs of significant value were written in the current period. LPT contracts are typically recorded at higher loss ratios than our other lines of business.

The underwriting and administrative expense ratio increased from 27.5 percent last year to 29.2 percent for the six months ended June 30, 2002. The principal reason for the change is the impact of the LPTs which increased net premiums earned and reduced the expense ratio in 2001. In addition, our increased participation in the Lloyd's market through ACE Global Markets resulted in increased Lloyd's Central Guarantee Fund costs, and Lloyd's premium levies and we incurred costs related to business expansion in certain lines of business.

We assess the performance of our life reinsurance business based on net operating income. For the six months ended June 30, 2002, this division generated net operating income of $6 million compared with a break-even result for the same period last year.

Segment Results

Insurance - North American

	Six Months Ended June 30 2002	2001	Percentage Change From Prior Year
	(in millions of U.S.dollars)		
Gross premiums written	$ 2,693	$ 2,106	28%
Net premiums written	1,231	967	27
Net premiums earned	1,079	882	22
Losses and loss expenses	723	614	18
Underwriting and administrative expenses	250	248	1
Underwriting income	$ 106	$ 20	437%
Net investment income	205	220	(7)
Other income	-	2	-
Interest expense	17	17	-
Income tax expense	74	55	36
Net operating income	$ 220	$ 170	40%
Loss and loss expense ratio	67.1%	69.5%	
Underwriting and administrative expense ratio	23.1%	28.2%	
Combined ratio	90.2%	97.7%	

Underwriting income for the six months ended June 30, 2002 was $106 million compared with $20 million for the same period last year. Significant growth was achieved across most product lines as this segment reported an increase in gross premiums written of 28 percent for the six months ended June 30, 2002 compared with last year.

Within this segment, ACE USA's gross premiums written increased by 26 percent to $2.5 billion. Most of ACE USA's operating divisions experienced strong premium growth for the six months ended June 30, 2002. ACE Risk Management Group ("ARM"), Westchester Specialty and the Professional Risk Group contributed the most to this growth. We benefited substantially from rising prices on large property accounts and excess casualty lines while recent corporate failures have fuelled increases in E&O and D&O rates. In addition, there continues to be general improvement in policy terms and conditions.

ACE Bermuda had an increase in gross premiums written of 57 percent to $200 million for the six months ended June 30, 2002. Significant rate increases were achieved on both new and renewal business across the core lines of excess liability, professional and excess property. In addition to the rate increases, ACE Bermuda also secured better terms and conditions which have improved the risk profile of the in-force book.

Net premiums earned increased by 22 percent to $1.1 billion compared with the six months ended June 30, 2001. This increase is principally due to the earning out of higher premiums written in previous quarters.

The loss and loss expense ratio decreased to 67.1 percent for the six months ended June 30, 2002 compared with 69.5 percent last year. This decrease is a result of higher earned premiums partially achieved by price increases. The underwriting and administrative expense ratio declined to 23.1 percent for the six months ended June 30, 2002 compared with 28.2 last year principally because expenses were relatively unchanged and net premiums earned increased. Net operating income increased by 40 percent due to increased underwriting income in all divisions offset by reduced net investment income.

Insurance - Overseas General

	Six Months Ended June 30 2002	2001	Percentage Change From Prior Year
	(in millions of U.S. dollars)		
Gross premiums written	$ 1,903	$ 1,688	13%
Net premiums written	1,230	1,110	11
Net premiums earned	1,075	985	9
Losses and loss expenses	637	605	5
Underwriting and administrative expenses	417	363	15
Underwriting income	$ 21	$ 17	27%
Net investment income	49	57	(14)
Other income	4	-	-
Interest expense	1	1	-
Income tax expense	13	13	-
Amortization of goodwill	-	2	-
Net operating income	$ 60	$ 58	5%
Loss and loss expense ratio	59.3%	61.5%	
Underwriting and administrative expense ratio	38.7%	36.8%	
Combined ratio	98.0%	98.3%	

Underwriting income increased by 27 percent to $21 million for the six months ended June 30, 2002 compared with $17 million for the same period last year. Gross premiums written increased by 13 percent for the period to $1.9 billion compared with $1.7 billion for the six months ended June 30, 2001.

ACE International increased its gross premiums written by 14 percent to $1.3 billion for the current period compared with $1.1 billion last year. For the six months ended June 30, 2002, all regions, with the exception of Japan, reported continued firming in both rates and underwriting terms. Geographically, Europe and Asia contributed the most growth, reporting increases in gross premiums written of 48 percent and 40 percent respectively. Growth in these areas was principally driven by strong rate increases in both the P&C and A&H businesses. Offsetting these increases is the performance of Latin America, which reported a decrease in gross premiums written of 13 percent for the six months ended June 30, 2002 compared with the same period last year.

ACE Global Markets reported $615 million in gross premiums written for the six months ended June 30, 2002, which is a 10 percent increase over last year's gross premiums written of $557 million. As previously noted in the three-months discussion, this operation is currently adjusting its underwriting strategy and moving from a gross line underwriter (where large gross limits are written on the basis that most of the risk is then reinsured) to a net line underwriter (where much smaller gross limits are written and much less reliance is placed on reinsurance) in keeping with our underwriting standards.

Net premiums written for the segment increased by 11 percent to $1.2 billion for the six months ended June 30, 2002 compared with $1.1 billion last year. Net premiums written at ACE International increased by 22 percent, again driven by Europe and Asia which reported increases in net premiums written of 46 percent and 33 percent, respectively. Net premiums written at ACE Global Markets decreased by 13 percent primarily due to the cost of reinsurance to protect us on run-off exposures, as discussed previously.

Net premiums earned increased by 9 percent for the six months ended June 30, 2002 compared with last year. The loss and loss expense ratio decreased to 59.3 percent for the current period compared with 61.5 percent for the same period last year. The underwriting and administrative expense ratio increased to 38.7 percent for the current period compared with 36.8 percent for the six months ended June 30, 2001 due to increased Lloyd's Central Guarantee Fund costs, Lloyd's premium levies and business expansion. Net operating income increased by 5 percent for the six months ended June 30, 2002 compared with the same period last year.

Global Reinsurance

Property and Casualty

	Six Months Ended June 30 2002	Six Months Ended June 30 2001	Percentage Change From Prior Year
	(in millions of U.S. dollars)		
Gross premiums written	$ 588	$ 333	77%
Net premiums written	552	300	84
Net premiums earned	265	163	62
Losses and loss expenses	92	71	29
Underwriting and administrative expenses	61	43	45
Underwriting income	$ 112	$ 49	123%
Net investment income	47	35	37
Interest expense	5	-	-
Income tax expense	2	7	(74)
Amortization of goodwill	-	7	-
Net operating income	$ 152	$ 70	117%
Loss and loss expense ratio	34.6%	43.5%	
Underwriting and administrative expense ratio	23.2%	25.9%	
Combined ratio	57.8%	69.4%	

On the strength of a favorable underwriting environment and an absence of any significant loss activity, the Global Reinsurance segment increased its underwriting income by 123 percent to $112 million for the six months ended June 30, 2002 compared with $49 million for the six months ended June 30, 2001. The reinsurance market continues to show discipline in both pricing and underwriting terms and prices in the property classes continue to increase although reinsurance rate increases are beginning to stabilize. Gross premiums written increased by 77 percent to $588 million compared with $333 million last year.

In ACE Tempest Re, where we write most of the property catastrophe business, net premiums written increased by 64 percent and prices continue to increase at rates that we expect will lead to returns on equity in excess of 25 percent.

ACE Tempest U.K., which is principally focused on specialty reinsurance products, increased its net premiums written by 83 percent to $137 million for the six months ended June 30, 2002 compared with $75 million for the same period last year. ACE Tempest U.S., increased its net premiums written to $79 million for the current period compared with $20 million for the same period last year.

The loss and loss expense ratio improved from 43.5 percent for the six months ended June 30, 2001 to 34.6 percent for the current period due to the absence of any significant loss activity and the increase in net premiums earned in the current period. The underwriting and administrative expense ratio decreased to 23.2 percent for the six months ended June 30, 2002 compared with 25.9 percent last year despite increased policy acquisition costs and administrative expenses, due to a change in the mix of business and increased costs due to business expansion at ACE Tempest U.S. and ACE Tempest U.K. This decrease is due to the increase in net premiums earned this period. Net operating income increased by 117 percent due to the increase in underwriting income from all the divisions.

Life Reinsurance

	Six Months Ended June 30 2002	Six Months Ended June 30 2001
	(in millions of U.S. dollars)	
Gross premiums written	$ 57	$ 31
Net premiums written	55	31
Net premiums earned	55	31
Life and annuity benefits	46	29
Underwriting and administrative expenses	15	2
Net investment income	12	-
Net operating income	$ 6	$ -

During the six months ended June 30, 2002, the life reinsurance group reported $6 million in net operating income compared with nil for the same period last year. We are focused on writing risk transfer treaty business where the principal risk is mortality and morbidity based. Our current product portfolio focuses mainly on life and variable products.

Financial Products

	Six Months Ended June 30 2002	Six Months Ended June 30 2001	Percentage Change From Prior Year
	(in millions of U.S. dollars)		
Gross premiums written	$ 806	$ 806	-
Net premiums written	793	797	(1)
Net premiums earned	462	693	(33)
Losses and loss expenses	362	616	(41)
Underwriting and administrative expenses	67	53	(28)
Underwriting income	$ 33	$ 24	36%
Net investment income	95	84	13
Other income	-	1	-
Interest expense	7	7	-
Income tax expense	17	11	55
Amortization of goodwill	-	2	-
Net operating income	$ 104	$ 89	17%
Loss and loss expense ratio	78.2%	88.9%	
Underwriting and administrative expense ratio	14.6%	7.5%	
Combined ratio	92.8%	96.4%	

This segment's net operating income increased by 17 percent to $104 million for the six months ended June 30, 2002 compared with $89 million for the same period last year. This increase was principally driven by changes in our business mix which reduced our combined ratio for this segment to 92.8 percent compared with 96.4 percent last year. Gross premiums written were flat compared with the same period last year. However, last year included $417 million of LPTs which were written and earned in the same period.

Our financial guaranty operations reported an increase of 17 percent in net operating income for the six months ended June 30, 2002 compared with the six months ended June 30, 2001. During the period, we benefited from an increase in municipal refunding coupled with a robust housing market, principally in the U.S. In addition, market demand for credit derivatives and trade credit insurance was strong so we were able to increase our writings in both these areas.

The financial solutions operations had net premiums earned of $336 million for the six months ended June 30, 2002, a 29 percent decline over the same period last year. This unit was successful in writing several large multi-year, prospective, structured programs during the period, however, the premium for the same period last year was bolstered by several LPTs.

As previously stated, LPTs are typically recorded at higher loss ratios than our other lines of business and as a result the absence of any significant LPTs in the six months ended June 30, 2002 had the effect of reducing our loss and loss expense ratio compared with last year. The loss and loss expense ratio improved from 88.9 percent for the six months ended June 30, 2001 to 78.2 percent for the current period. The underwriting and administrative expense ratio was lower in 2001, comared with 2002, due to the high level of earned premiums for the LPTs in 2001.

Net Investment Income

The following table provides an analysis of our net investment income by segment for the three and six months ended June 30, 2002 and 2001:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
	(in millions of U.S. dollars)			
Insurance - North American	$ 103	$ 105	$ 205	220
Insurance - Overseas General	28	29	49	57
Global Reinsurance - P&C	23	17	47	35
Global Reinsurance - Life	6	1	12	-
Financial Products	46	42	95	84
Corporate and other (1)	(5)	2	(7)	5
Net investment income	$ 201	$ 196	$ 401	401

(1) Includes ACE Limited, ACE INA Holdings and intercompany eliminations.

Net investment income is influenced by a number of factors, including the amounts and timing of inward and outward cash flows, the market level of interest rates as well as overall asset allocation. Net investment income increased by 2 percent to $201 million for the quarter ended June 30, 2002 compared with $196 million for the same quarter last year.

The proceeds from our sale of Ordinary Shares in the fourth quarter of 2001 and positive cash flow over the past four quarters resulted in an increase in net investment income of approximately $26 million for the current quarter compared with the same quarter last year. This increase was offset by a decrease of $21 million in investment income principally due to reinvesting at lower yields on cash and short-term deposits, the rollover of our portfolio at lower current yields and the use of funds to reduce our current debt levels.

Net investment income was unchanged at $401 million for the six months ended June 30, 2002 and 2001. The proceeds from our equity offering in the fourth quarter of 2001 and positive cash flow resulted in an increase in net investment income of approximately $54 million for the current period compared with the same period last year. This increase was offset by a $54 million decrease in investment income for the same reasons discussed above.

Net Realized Gains (Losses) on Investments

Our investment strategy takes a long-term view and our portfolio is actively managed to maximize total return within certain specific guidelines, which are designed to minimize risk. Our investment portfolio is reported at fair value, however the effect of market movements on our portfolio impact income (through net realized gains (losses) on investments) when securities are sold, when permanent impairments are recorded on invested assets or when financial futures, options and interest rate swaps are marked to market. Changes in unrealized gains and losses, which result from the revaluation of securities held, are reported as a separate component of accumulated other comprehensive income. The following table presents our net realized gains (losses) on investments for the three and six months ended June 30, 2002 and 2001:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
	(in millions of U.S. dollars)			
Fixed maturities and short-term investments	$ (25)	$ (19)	$ (39)	$ (11)
Equity securities	4	11	(2)	24
Financial futures, options and interest rate swaps	(88)	11	(80)	(18)
Fair value adjustment on derivatives	(33)	11	(46)	15
Currency	3	-	2	(4)
Other investments	-	2	-	(10)
Total net realized gains (losses) on investments	$ (139)	$ 16	$ (165)	$ (4)

Net realized losses on fixed maturities during the second quarter of 2002 include losses related to write-downs of certain securities in our investment portfolio that had what we believe to be an other than temporary decline in their fair value. The write down for the current quarter was $24 million. Net realized losses on investments of $165 million included write-downs for the six months ended June 30, 2002 of $42 million.

We use foreign currency forward contracts to minimize the effect of fluctuating foreign currencies on the value of non-U.S. dollar holdings currently held in the portfolio not specifically targeted to match the currency of liabilities. These contracts are not designated as specific hedges and therefore, realized and unrealized gains and losses recognized on these contracts are recorded as net realized gains (losses) in the quarter in which the fluctuations occur, together with net foreign currency gains (losses) recognized when non-U.S. dollar securities are sold.

We use fixed income futures contracts and interest rate swaps to manage duration exposure. Losses of $30 million were recognized on interest rate swaps during the second quarter of 2002. Net realized losses generated by our equity and fixed income index futures and option contracts amounted to $58 million for the current quarter, bringing the total net realized losses attributable to financial futures and option contracts and interest rate swaps to $88 million compared with gains of $11 million for the same quarter in 2001.

We implemented FAS 133 on January 1, 2001, which requires that all derivatives be recognized as either assets or liabilities in the consolidated balance sheet and measured at fair value. The change in fair value of our derivatives for the quarter ended June 30, 2002 was a loss of $33 million compared with a gain of $11 million for the same quarter in 2001. The level of such gains and losses is dependent upon a number of factors including changes in interest rates, credit spreads and other market factors.

Other Expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
	(in millions of U.S. dollars)			
Other (income) expense	$ 12	$ (1)	$ 7	$ 3
Interest expense	$ 52	$ 50	$ 98	$ 104
Income tax expense	$ 21	$ 18	$ 45	$ 45
Amortization of goodwill	$ -	$ 20	$ -	$ 40

Other (income) expense includes $11 million ($7 million, net of income tax) in debt prepayment expense incurred in the second quarter as a result of the prepayment of a portion of the ACE INA Subordinated Notes due in 2009.

Interest expense increased by $2 million for the current quarter compared with the quarter ended June 30, 2001, primarily because we issued $500 million of debt (discussed in the Capital Resources section below) late in the first quarter of 2002. The impact of this was offset by lower short-term interest rates on our floating rate debt.

The effective tax rate on net operating income calculated at June 30, 2002 was 14.2 percent compared with 17.9 percent last year due to higher net operating income in non-taxable jurisdictions in 2002. Realized losses on investments for the current quarter were primarily in non-taxable jurisdictions resulting in an effective tax rate on net income of 16.6 percent compared with 12.2 percent in 2001. The effective tax rate on net operating income for the six months ended June 30, 2002 was 13.5 percent compared with 14.9 percent for the same period last year due to higher net operating income in taxable jurisdictions in 2002. The effective tax rate on net income for the six months ended June 30, 2002 was 12.9 percent compared with 14.2 percent last year due to the impact of taxable benefits on realized losses in both years.

In June 2001, FASB issued FAS 142. FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. As required, we adopted FAS 142 on January 1, 2002 and ceased amortizing goodwill as at that date.

Interest expense decreased by 6 percent for the six months ended June 30, 2002 compared with the six months ended June 30, 2001. This decrease is primarily attributed to lower short-term interest rates on our floating rate debt for the current period as compared with the same period last year.

Investments and Cash

Our principal investment objective is to ensure that funds will be available to meet our insurance and reinsurance obligations. Within this broad liquidity constraint, our investment portfolio's structure seeks to maximize return subject to specifically approved guidelines of overall asset classes, credit quality, liquidity and volatility of expected returns. As such, our investment portfolio is invested primarily in fixed income securities with an average credit quality of AA as rated by Standard and Poor's ("S&P"). The portfolio is externally managed by independent professional investment managers. The average duration of our fixed income securities is 3.2 years at June 30, 2002.

At June 30, 2002, total investments and cash were $16.9 billion compared with $15.9 billion at December 31, 2001, an increase of $1 billion. The increase in total investments and cash primarily results from the net proceeds of our debt offering at the end of the first quarter, securities lending collateral of $419 million and strong operating cash flows. Offsetting these increases, we paid dividends of $91 million during the period. Our other investments principally comprise direct investments, investments in investment funds and investments in limited partnerships. For direct investments that meet the requirements for equity accounting, we accrue our portion of the net income or loss of the investment. We carry other direct investments at fair value. Where fair values are not publicly available, the investments are carried at estimated fair value. Our investments in investment funds are carried at the net asset value as advised by the fund. We account for investments in limited partnerships using the equity method. We evaluate the carrying value of our investments and if they experience a decline in value that we consider other than temporary, we record a realized loss in the statement of operations.

On May 28, 2002 we announced our intent to acquire 22 percent of the outstanding shares of Huatai Insurance Company of China ("Huatai"), for total consideration of approximately $150 million. Huatai is China's first nationally licensed joint stock P&C insurer. To comply with Chinese regulations, our investment was made by three of our subsidiary companies:
ACE INA Holdings Inc., ACE Tempest Re and ACE US Holdings Inc.

The following table identifies our invested assets at fair value, by type held at June 30, 2002 and December 31, 2001:

	June 30 2002	December 31 2001
	(in millions of U.S. dollars)	
Fixed maturities available for sale	$ 12,834	$ 13,000
Equity securities	462	467
Short-term investments	1,774	1,206
Other investments	628	591
Securities on loan	411	-
Cash	878	672
Total investments and cash	$ 16,987	$ 15,936

The following tables identify our fixed income securities, short-term investments, securities on loan and cash and cash equivalents at June 30, 2002. The first table shows the amount of items by type while the second table shows them by S&P credit rating.

	June 30, 2002 Market Value	Percentage Of Total
	(in millions of U.S. dollars)	
Treasury	$ 878	5.5%
Agency	1,012	6.4%
Corporate	6,632	41.7%
Mortgage-backed securities	2,078	13.1%
Asset-backed securities	326	2.1%
Municipal update	1,115	7.0%
Non-US	1,406	8.8%
Cash and cash equivalents	2,450	15.4%
Total	$ 15,897	100%

	June 30, 2002 Market Value	Percentage Of Total
	(in millions of U.S. dollars)	
AAA	$ 6,518	41%
AA	3,796	24%
A	2,874	18%
BBB	1,520	9%
BB	568	4%
B	580	4%
Other	41	0%
Total	$ 15,897	100%

Property and Casualty Loss Reserves

We establish reserves for the estimated unpaid ultimate liability for losses and loss expenses under the terms of our policies and agreements. These reserves include estimates for both claims that have been reported and those that have been incurred but not reported ("IBNR"), and include estimates of expenses associated with processing and settling these claims. The table below presents a reconciliation of our unpaid losses and loss expenses for the six months ended June 30, 2002:

Unpaid Losses and Loss Expenses	Gross	Reinsurance Recoverable	Net
	(in millions of U.S. dollars)		
Balance at December 31, 2001	$ 20,728	$ 10,327	$ 10,401
Losses and loss expenses incurred	3,405	1,591	1,814
Losses and loss expenses paid	(3,531)	(1,580)	(1,951)
Foreign exchange revaluation	59	38	21
Balance at June 30, 2002	$ 20,661	$ (10,376)	$ 10,285

The reserve for unpaid losses and loss expenses was relatively unchanged at June 30, 2002, and December 31, 2001, and includes $12.8 billion of case and loss expense reserves. The process of establishing reserves for P&C claims continues to be a complex and imprecise one, requiring the use of informed estimates and judgments. Our estimates and judgments may be revised as claims develop and as additional experience and other data become available and reviewed, as new or improved methodologies are developed or as current laws change. As part of our evaluation process of loss reserves, we engage independent actuarial firms to review the methods and assumptions we use in estimating the unpaid losses and loss expenses. We continually evaluate our estimate of reserves in light of developing information and in light of discussions and negotiations with our insureds. While we believe that our reserve for unpaid losses and loss expenses at June 30, 2002 is adequate, future developments may result in ultimate losses and loss expenses significantly greater or less than the reserve provided.

Reinsurance

One of the ways we manage our loss exposure is through the use of reinsurance. While reinsurance arrangements are designed to limit our losses from large exposures and to permit recovery of a portion of direct unpaid losses, reinsurance does not relieve us of our liability to our insureds. Accordingly, our loss reserves represent total gross losses, and reinsurance recoverable represents anticipated recoveries of a portion of those unpaid losses as well as amounts recoverable from reinsurers with respect to claims, which we have already paid. The table below presents our net reinsurance recoverable at June 30, 2002 and December 31, 2001.

	June 30, 2002	December 31, 2001
	(in millions of U.S. dollars)	
Net Reinsurance Recoverable		
Reinsurance recoverable on paid losses and loss expenses	$ 1,253	$ 1,066
Reinsurance recoverable on future policy benefits	7	5
Reinsurance recoverable on unpaid losses and loss expenses	11,174	11,116
Total reinsurance recoverable	12,434	12,187
Bad debt provision	(797)	(789)
Net reinsurance recoverable	$ 11,637	$ 11,398

We evaluate the financial condition of our reinsurers and potential reinsurers on a regular basis and also monitor concentrations of credit risk with reinsurers. The provision for unrecoverable reinsurance is required principally due to the failure of reinsurers to indemnify us, primarily because of disputes under reinsurance contracts and insolvencies. Reinsurance disputes continue to be significant, particularly on larger and more complex claims, including those related to asbestos and environmental pollution. Provisions have been established for amounts estimated to be uncollectible.

Following is a breakdown of our reinsurance recoverable on paid losses at June 30, 2002:

Category	Amount	Bad Debt Provision and %	
		(in millions of U.S. dollars)	
Current	$ 717	$ 33	4.6%
Other	536	349	65.1
Total	$ 1,253	$ 382	30.5%

The current category represents amounts in process of collection in the normal course of business, for which we have no indication of dispute or credit issues. We provide bad debt provisions based primarily on the application of historical loss experience to credit categories and historical dispute statistics.

The other category includes amounts recoverable that are in dispute, or are from companies, who are in supervision, rehabilitation or liquidation. Our estimation of this provision considers the credit quality of the reinsurer, based on independent assessments provided by rating agencies and whether we have received collateral or other credit protections such as letters of credit. In addition, we also consider any information we may have regarding the reinsurers plans to dispute amounts recoverable and make judgments based on our knowledge and experience regarding the specific items in dispute.

The following tables provide a listing of our largest reinsurers with the first category representing the top 10 and the second category representing the next 20 in terms of the levels of reinsurance recoverable. Our bad debt provision in the first two categories is principally based on an analysis of the credit quality of the reinsurer, and collateral balances. The third category includes amounts due from over 2,500 companies each having balances of less than $20 million. The next category, mandatory pools and government agencies, are amounts backed by the Government. Insurance companies are required by law to participate. We have assumed no bad debts or disputed amounts for this category. Structured settlements are annuities purchased from life insurance companies to settle workers compensation claims. These amounts are assigned principally to large, highly rated life insurance companies. Since we retain the ultimate liability in the event that the assigned company fails to pay, we reflect the amount as a liability and a recoverable for GAAP purposes. These amounts are not subject to dispute and we establish our bad debt provision based on the credit quality of the life insurers, as assessed by rating agencies. The next category, captives, are companies established by our insurance clients to assume a significant portion of their direct insurance risk from us (i.e. they are structured to allow clients to self-insure a portion of their own risk). It is our policy to obtain collateral equal to expected losses. Our final category, other, includes amounts recoverable that are in dispute, or are from companies that are in supervision, rehabilitation, or liquidation. This category of our recoverables is analyzed very carefully. We establish our bad debt provision for these categories based on a case by case analysis of individual situations, including credit and collateral analysis and consideration of our collection experience in similar situations. Another consideration we make in establishing our bad debt provision relates to the reinsurance protection purchased from National Indemnity Company (NICO) in the Westchester Specialty and CIGNA P&C acquisitions. In both instances, the coverage provides reimbursement for amounts uncollectible from reinsurers. The remaining limits under these contracts are available for both future loss reserve development and uncollectible recoverables.

Breakdown of Reinsurance Recoverable	December 31 2001	Bad Debt Provision and %	
Categories			
Top 10 reinsurers	$ 5,835	$ 51	0.9%
Next 20 reinsurers	1,054	32	3.0
Individual balances less than $20 million	1,860	194	10.4
Mandatory pools and government agencies	903	-	0.0
Structured settlements	682	3	0.5
Captives	924	-	0.0
Other	929	509	54.8
Total	$ 12,187	$ 789	6.5%

Top 10 Reinsurers	Next 20 Reinsurers	
AXA	AIG	Markel
Berkshire Group	CNA Group	Overseas Partners
Employers Re	Eagle Star Re	PMA Reins Corp
Equitas	Eureko BV	QBE
Hannover Re	Everest Rein Co	Renaissance Reins. Ltd.
Lloyd's	Fairfax Holdings	Royal & Sun Alliance Ins.
Munich Re	Gerling Global	Scan Re
Swiss Re	Hartford	SCOR
XL Capital	IRB - Brasil Re	St. Paul
Zurich Ins. Corp	Liberty Mutual	TOA

Asbestos and Environmental Claims

Included in our liabilities for losses and loss expenses are liabilities for asbestos, environmental and latent injury damage claims and expenses, that are referred to as A&E. These claims are principally related to claims arising from remediation costs associated with hazardous waste sites and bodily injury claims related to asbestos products and environmental hazards. These amounts include provision for both reported and IBNR claims. The table below presents loss reserve details for A&E exposures at June 30, 2002 and December 31, 2001:

	June 30, 2002		December 31, 2001	
	Gross	Net	Gross	Net
	(in millions of U.S. dollars)			
Asbestos	$ 1,129	$ 115	$ 1,119	$ 149
Environmental and Other	961	372	1,089	452
Total	$ 2,090	$ 487	$ 2,208	$ 601

Survival ratios attempt to measure the adequacy of A&E loss reserves by taking the current ending loss reserve and dividing by the average annual claim payments for the prior three years. We believe this is a very simplistic measure of a very complicated issue. However, we understand this ratio is used as a means to compare companies with A&E exposures. Thus, if we average our last 3 years of A&E claim payments and expect payments to continue at the same pace, our survival ratio is 7.8 years. Using the 2001 calendar year payments, our survival ratio is 9.1 years. These ratios take into account the remaining coverage under the NICO reinsurance contract. More information relating to our asbestos exposure including our asbestos reserving process follows.

Background

Our exposure to asbestos principally arises out of liabilities acquired when we purchased the P&C business of CIGNA in 1999 and when we purchased Westchester Specialty from Talegen in 1998. While we certainly have other insurance operations, exposure to asbestos liabilities are concentrated in these two areas of our business. Of these two areas of business, the larger exposure is contained within the liabilities acquired from the CIGNA acquisition. These liabilities reside in the various subsidiaries of Brandywine Holdings ("Brandywine"), which was created in 1995 by the restructuring of ACE INA's domestic operations into separate ongoing and run-off operations.

As part of the acquisition of the CIGNA P&C business, NICO provided reinsurance protection against adverse development for the aggregate liabilities of Brandywine, including environmental and asbestos liabilities. As part of the acquisition of the Westchester business, NICO provided $750 million (75% quota share of $1 billion) of reinsurance protection for adverse development for all losses occurring prior to 1997.

As of June 30, 2002 the remaining limit in the NICO reinsurance cover protecting Brandywine is $533 million. ACE Bermuda has a 10 percent retrocession from NICO that would equate to a $53.3 million participation in the remaining limits. As of June 30, 2002 the remaining limit in the NICO reinsurance cover protecting Westchester was approximately $600 million.

Paying for the unimpaired

A large majority of current asbestos cases are dominated by claimants who are not physically sick by any accepted medical standard. Reports of pending claims by two major asbestos manufacturers in 2001 indicate that at least two-thirds are for harmless conditions with no evidence of impairment. Court decisions and legislation have begun to recognize the unfairness of the situation and the strain it puts on resources available to compensate truly impaired claimants. For instance, the federal judge presiding over all federal asbestos cases has dismissed any and all claims that do not have an actual medical diagnosis of any asbestos-related disease. In addition, states such as Massachusetts, Maryland and Pennsylvania defer unimpaired claims until actual injury is demonstrated. New York, Ohio, Indiana and Texas are considering similar approaches to address the unimpaired problem.

Traditional tort common law prohibits compensation for emotional injuries without proof of objective manifestation of the injury. To date, unimpaired claimants have tended to receive compensation as part of large settlement pools where unimpaired claimants are packaged by plaintiffs' lawyers along with seriously injured claimants whose presence in the pool yields heightened compensation for the entire pool. We believe that a high level of concern by (1) a judiciary facing dockets swamped with asbestos claims;
(2) some prominent plaintiffs' lawyers worrying about fair compensation for the truly injured who are becoming a diminishing percentage of all asbestos claims, and, (3) defendants with peripheral contact to asbestos facing financial ruin, will force unimpaired claimants to prove injury under traditional common law standards. In addition, we believe that many unimpaired claimants who cannot meet the traditional evidentiary standard will ultimately be removed from the judicial system until there is objective proof of onset of actual disease.

Peripheral and unidentified asbestos defendants

The inability of the tort system to manage and resolve asbestos cases fairly has resulted in an alarming number of bankruptcies, nearly 60 at last count. Bankruptcy courts may provide a rational and workable claim administration facility for many asbestos defendants overwhelmed with claims, the majority of which are filed on behalf of unimpaired claimants. When the most culpable asbestos defendants file for bankruptcy, the remaining defendants become targets. Since the bankruptcy process may eliminate the defendants with the highest percentage of asbestos-related liability, claimants proceed against the peripheral co-defendants to force them to pick up the bankrupt shares.

The issue for the co-defendants is whether the applicable state law makes them liable on a joint and several basis for the entire claim, including the bankrupt shares. Most states have enacted laws limiting at least some of the financial exposure for marginally responsible parties to the percentage of fault actually assigned those parties at trial. And in the context of the Federal Employers' Liability Act, the United States Supreme Court, in the Norfolk & Western Railway v. Ayers case, is considering whether to limit the liability of peripheral defendants as well as compensation for the unimpaired. We believe that a positive ruling from the US Supreme Court in Ayers would help present a road map for other courts in refocusing dollars for the truly impaired claimants to be paid by the defendants based on their actual percentage of liability.

Claimants' lawyers have been looking for new sources of compensation to relieve the pressure on limited resources caused by bankruptcies and unimpaired claims far beyond the original asbestos and building material defendants. A report of the RAND Institute for Civil Justice estimates that over 6,000 different defendants representing peripheral industries such as manufacturers of food and beverage, textiles, paper, glass, iron and steel and durable metal goods have already been sued. In view of the large number of defendants already identified in hugely diverse industries after years of research, we believe that most legitimate defendants with serious asbestos liability have been identified although we are unable to predict the extent to which other peripheral defendants with decreasing degrees of potential liability may be named in future suits. We believe that some claims against peripheral defendants will also be pushed towards trial situations where rules limiting liability for tangential responsibility apply and that the anticipated reduction in the exposure to unimpaired claims will help relieve the pressure to find new defendants.

High profile defendants

We have provided various levels of liability coverage for 48 of the original group of target defendants generally thought to have the most serious asbestos exposure. The status of the 21 policyholders (out of the 48) with the greatest asbestos exposure is as follows: 13 have been resolved by us and the remaining 8 are reserved at or near actual policy limits or limits agreed to with the policyholder. Of the remaining 27 policyholders, 20 are resolved or reserved for ultimate potential exposure at a level we are confident will have little variability. Three of the remaining policyholders are fully reserved based on the law as we believe it is developing and our experience and judgment and there is a possibility (but low probability) of a high level of variability around the potential outcomes. The final four policyholders involve excess policies subject to the resolutions of liability and coverage issues by and with underlying insurers. Additional reserves have been established for target policyholders where exposure exists for potential operations or non-products exposures beyond the product liability limits.

Reserving process

We conduct a reserve review of our asbestos reserves on a quarterly basis. This reserve review includes a detailed individual claim review and analysis of the policies at issue, legal precedents, as well as factual and investigative developments. In the context of our asbestos reviews, many risk factors are considered, including paying for unimpaired claimants and targeting of peripheral defendants. We also consider multiple recoveries by claimants for various defendants; the ability of a claimant to bring a claim in a State in which they have no residency or exposure; the ability of a policyholder to claim the right to non-products coverage; and whether high level excess policies have the potential to be accessed given the policyholders claim trends and liability situation. It should be noted that results in other asbestos cases announced by other carriers may very well have little or no relevance to us because other coverage exposures are highly dependent upon the specific facts of individual coverage and resolution status of disputes among carrier, policyholder and claimants.

Based on the policies, the facts, the law and a careful analysis of the impact that these risk factors will likely have on any given account, we estimate the potential liability for indemnity, policyholder defense costs and coverage litigation expense. There are many complex variables (such as variables associated with the issues discussed above) that are considered when estimating the reserves for our inventory of asbestos accounts. The variables involved may directly impact the predicted outcome. Sometimes, the outcomes change dramatically based on a small change in one risk factor related to just one account.

Our current asbestos reserves are based upon an assessment of our policies, legal precedents and investigative facts, and how the various risk factors are likely to be played out as those issues are litigated. If our assessments prove to be somewhat less favorable than believed, we have adequate protection in our NICO cover. Our reserve review process involves a continual evaluation of cases taking into account all currently known information as well as reasonable assumptions related to unknown information. When facts and circumstances change, including the impact of the risk factors, we change our reserves to best reflect our estimate of ultimate reserves. While reserving for these claims is inherently uncertain, we believe that the reserves carried for these claims are adequate based on known facts and current laws. See Note 4 of the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet the short-term and long-term cash requirements of its business operations. As a holding company, ACE's assets consist primarily of the investments in its subsidiaries as well as other investments. In addition to net investment income, its cash flows currently depend primarily on dividends or other statutorily permissible payments from its Bermuda-based operating subsidiaries. During the six months ended June 30, 2002, ACE was able to meet all of its obligations, including the payment of dividends declared on its Ordinary Shares and FELINE PRIDES, with its net cash flow and the dividends received. Should the need arise, we have access to the debt markets and other available credit facilities which are discussed below.

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 shareholders' equity at levels adequate to support the insurance and reinsurance operations. During the six month ended June 30, 2002, ACE Bermuda declared dividends of $195 million. ACE Tempest Re did not declare any dividends during the period. ACE expects that a majority of its cash inflows for the remainder of 2002 will be from its Bermuda subsidiaries. Management assesses which subsidiaries to draw dividends from based on among other things, regulatory and legal restrictions and the subsidiary's financial condition, particularly its ability to provide dividends without compromising its operations.

The payments of dividends from ACE's non-Bermuda based operating subsidiaries are also subject to laws and regulations, which vary by jurisdiction. The payment of any dividends from ACE Global Markets or its subsidiaries would be subject to applicable United Kingdom insurance laws and regulations including those promulgated by the Society of Lloyd's. ACE INA's and ACE Financial Services' U.S. insurance subsidiaries may pay dividends, without prior regulatory approval, only from earned surplus and subject to the maintenance of a minimum capital requirement. ACE INA's international subsidiaries are also subject to various insurance laws and regulations in the countries in which they operate. These laws and regulations include restrictions that limit the amount of dividends that can be paid without prior approval of the insurance regulatory authorities.

During the six months ended June 30, 2002, ACE did not receive any dividends from ACE Global Markets, ACE INA or ACE Financial Services nor does ACE expect to receive dividends from these subsidiaries during 2002. Under the Lloyd's accounting model, syndicates in Lloyd's operate each year as an annual venture. Each "year of account" is held open for three years. At the end of three years, the "year of account" purchases reinsurance from the next open year (this purchase is known as "reinsurance to close" or "RITC") and distributes the remaining funds to the investors in the syndicate. ACE Global Markets has historically reinvested these funds in operations, which have expanded each year. ACE INA has issued debt to provide partial financing for the ACE INA Acquisition and for other operating needs. This debt is serviced by dividends paid by ACE INA's insurance subsidiaries to ACE INA as well as other group resources. ACE Financial Services' U.S. insurance subsidiaries are limited in their dividend paying abilities due to their need to maintain their AA and AAA financial strength ratings.

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

Our insurance and reinsurance operations provide liquidity in that premiums are received in advance, generally substantially in advance, of the time claims are paid. Our consolidated net cash flow from operating activities was $571 million for the six months ended June 30, 2002 compared with $473 million for the six months ended June 30, 2001. Generally cash flows are affected by claim payments which, due to the nature of our 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 quarters. Net loss and loss expense payments were $2.0 billion and $1.9 billion for the six months ended June 30, 2002 and 2001, respectively. We believe that we have sufficient liquidity to meet our anticipated cash flow obligations, including those resulting from the September 11th tragedy. During the six months ended June 30, 2002 we made gross claim payments of $426 million with respect to the September 11th tragedy. On a net basis, our payment with respect to this claim was $64 million during the current period and approximately 95 percent of the related recoverable has been collected. Although our ongoing operations continue to generate positive cash flows, our cash flows are currently impacted by a large book of loss reserves from businesses in run-off. The run-off operations generated negative cash flows of $309 million for the six months ended June 30, 2002 compared with negative cash flows of $413 million for the same period last year, primarily due to claim payments. The run-off book of business continues to require cash to meet its liabilities and cash flows are very dependent on the timing of claim settlements.

Both internal and external forces influence our financial condition, results of operations and cash flows. Claim settlements, premium levels and investment returns may be impacted by changing rates of inflation and other economic conditions. In many cases, significant periods of time, ranging up to several years or more, may lapse between the occurrence of an insured loss, the reporting of the loss to us and the settlement of the liability for that loss. We believe that our cash balances, cash flow from operations, routine sales of investments and the liquidity provided by our credit facilities (discussed below) are adequate to meet expected cash requirements.

Capital Resources

Capital resources consist of funds deployed or available to be deployed to support our business operations. The following table summarizes the components of our capital resources at June 30, 2002 and December 31, 2001:

	June 30 2002	December 31 2001
	(in millions of U.S. dollars)	
Shareholders' equity	$ 6,384	$ 6,107
Mezzanine equity	311	311
Trust preferred securities	675	875
Long-term debt	1,799	1,349
Short-term debt	224	495
Total capitalization	$ 9,393	$ 9,137
Debt to total capitalization	21.5%	20.2%

We believe our financial strength provides us with the flexibility and capacity to obtain funds externally through debt or equity financing on both a short-term and long-term basis. We have accessed both the debt and equity markets from time to time. Historically, this has primarily been in connection with acquisitions, although we did issue Ordinary Shares in October 2001 to provide additional capital to support growth in our operations. Also, in March 2002 we issued $500 million of senior debt, primarily to repay our short-term debt and for general corporate purposes. As of June 30, 2002 we had reduced short-term debt by $271 million from the level at December 31, 2001. In addition, $50 million of ACE INA Subordinated Notes due 2009 was repaid during the quarter. An after tax premium of $7 million was paid to retire the ACE INA Notes. This cost was mostly attributable to the decrease in interest rates since the original note was issued. We expect to continue to reduce our long-term debt over the next several quarters, which may result in additional debt prepayment expense but which will also reduce our interest expense. We will also use $75 million from the debt proceeds to repay the ACE Financial Services debt which matures in November 2002. Our ability to access the capital markets is dependent on among other things market conditions and our perceived financial strength.

In 1999, ACE RHINOS Trust sold in a private placement, $400 million of Auction Rate Reset Preferred Securities ("Preferred Securities"). The sole assets of the Trust consist of $412 million of Auction Rate Reset Subordinated Notes Series A ("Subordinated Notes") issued by ACE INA. Proceeds of an Ordinary Share Offering in September 2000, were used to support our guarantee of the Subordinated Notes. During the quarter ended June 30, 2002 we repaid $200 million in principal amount of Preferred Securities. We will repay the remaining $200 million of these Preferred Securities when they become due during the quarter ending September 30, 2002.

In addition, in 1999, we filed a registration statement with the Securities and Exchange Commission ("SEC") utilizing a "shelf" registration process relating to a number of different types of debt and equity securities. Under this shelf process, we may sell the securities described in the registration statement up to a total offering price of $4 billion. We have utilized the shelf to issue the mezzanine equity, the trust preferred securities, the short-term and long-term debt, as well as the equity offerings of $400 million in 2000 and $1.1 billion in 2001. At June 30, 2002, the amount available under this shelf filing was $127 million. We are in the process of filing another registration statement with the SEC allowing us to sell securities up to a total offering price of $1.5 billion.

Shareholders' Equity

Fully diluted book value per share was $24.21 at June 30, 2002, compared with $23.59 at December 31, 2001, reflecting an increase of 3 percent during the period. Shareholder's equity increased by $277 million during the six months ended June 30, 2002, due primarily to our net income, which was partially offset by dividends declared during the period.

As part of our capital management program, in November 2001, our Board of Directors authorized the repurchase of any ACE issued debt or capital securities including Ordinary Shares, up to $250 million. As of June 30, 2002, this authorization had not been utilized.

On January 11, 2002 and April 12, 2002, we paid dividends of 15 cents per share to shareholders of record on December 31, 2001 and March 29, 2002, respectively. On July 12, 2002 we paid dividends of 17 cents per share to shareholders of record on June 28, 2002. On August 8, 2002, we declared a quarterly dividend of 17 cents per share payable on October 11, 2002 to shareholders of record on September 27, 2002. We have paid dividends each quarter since we became a public company in 1993. However, the declaration, payment and value of future dividends is at the discretion of our Board of Directors and will be dependent upon our profits, financial requirements and other factors, including legal restrictions on the payment of dividends and such other factors as our Board of Directors deems relevant.

Mezzanine Equity

On April 12, 2000, we publicly offered and issued 6,000,000 FELINE PRIDES. On May 8, 2000, exercise of the underwriter's over allotment option resulted in the issuance of an additional 221,000 FELINE PRIDES, for aggregate net proceeds of approximately $311 million. Each FELINE PRIDE initially consists of a unit referred to as an Income PRIDE. Each Income PRIDE consists of (i) one 8.25 percent Cumulative Redeemable Preferred Share, Series A, liquidation preference $50 per share, and (ii) a purchase contract pursuant to which the holder of the Income PRIDE agrees to purchase from us, on May 16, 2003, $311 million of Ordinary Shares at the applicable settlement rate. At a market price of our Ordinary Shares above $26.33, upon redemption, we would issue 11,800,000 shares in exchange for the FELINE PRIDES.

The aggregate liquidation preference of the 8.25 percent Cumulative Redeemable Preferred Shares is $311 million. Unless deferred by us, the preferred shares pay dividends quarterly at a rate of 8.25 percent per year to May 16, 2003, and thereafter at the reset rate established pursuant to a remarketing procedure. If we elect to defer dividend payments on the preferred shares, the dividends will continue to accrue and we will be restricted from paying dividends on our Ordinary Shares and taking certain other actions. The preferred shares are not redeemable prior to June 16, 2003, on which date they must be redeemed by us in whole.

Contractual Obligations and Commitments

The table below shows our contractual obligations and commitments including our payments due by period:

	Payments Due By Period (in millions of U.S. dollars)				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Short-term debt	$ 224	$ 224	$ -	$ -	$ -
Long-term debt	1,799	-	400	799	600
Trust preferred securities	675	200	-	-	475
Total contractual obligations and commitments	$ 2,698	$ 424	$ 400	$ 799	$ 1,075

During the first quarter of 2002, we issued $500 million, five year senior debt, with a coupon rate of 6.0 percent, due April 1, 2007. These senior unsecured notes rank equally with all of our other senior obligations. The agreement governing this senior debt contains a customary limitation on liens as well as customary event of default provisions, which if breached could accelerate the maturity of such senior debt. The proceeds were used for general corporate purposes and to reduce other debt as described in Capital Resources. The notes are not redeemable before maturity and do not have the benefit of any sinking fund.

Following the September 11th tragedy, our ability to access the commercial paper markets was disrupted, partly because certain of our debt ratings were placed on "negative watch". During the fourth quarter of 2001, as an alternative to raising commercial paper, we entered into securities repurchase agreements with various counterparties to raise short-term funds. Under these repurchase agreements, we agreed to sell securities and repurchase them at a date in the future for a predetermined price, thereby creating liquidity. The "negative watches" on our debt ratings were lifted during the first quarter of 2002 and our access to the commercial paper markets was restored. We raised commercial paper and the amounts due to brokers under the repurchase agreements at December 31, 2001 of $395 million were repaid during the first quarter of 2002.

At June 30, 2002, short-term debt consisted of $149 million in commercial paper and the ACE Financial Services $75 million 7.75 percent debentures which mature in November 2002. We have the ability to either repay the debentures or obtain alternative financing in the capital markets upon maturity. We intend to repay the debt using proceeds from the March 2002 debt offering.

We continue to have access to substantial liquidity resources. In the event of any future disruption in the commercial paper markets, we have access to our cash resources, our short-term investments and our substantial investment portfolio. We also have the ability to draw down on our existing $1.05 billion of credit facilities. In addition, we have the ability to enter into repurchase agreements to provide liquidity. The covenants of our existing credit facilities limit our borrowing under repurchase agreements to $800 million.

Credit Facilities

In April 2002, we renewed, at substantially the same terms, our $800 million, 364-day revolving credit facility. This facility, together with our $250 million, five-year revolving credit facility, which was last renewed in May 2000, is available for general corporate purposes and each of the facilities may also be used for commercial paper back up. The five-year facility also permits the issuance of letters of credit. In 2000, an amount of $25 million was drawn under the five-year facility. This was repaid in April 2002.

In November 2001, to fulfill the requirements of Lloyd's for open years of account, we renewed and increased a syndicated uncollateralized, five-year letter of credit ("LOC") facility in the amount of (pound)440 million (approximately $673 million). This facility was originally arranged in 1998.

As our Bermuda-based subsidiaries are not admitted insurers and reinsurers in the United States, the terms of certain insurance and reinsurance contracts require them to provide LOCs to clients. ACE Global Markets are required to satisfy certain United States regulatory trust fund requirements which can be met by the issuance of LOCs. In August 2001, we arranged a $450 million unsecured syndicated, one year LOC facility for general business purposes, including the issuance of insurance and reinsurance letters of credit. This facility replaced an LOC facility originally arranged in September 1999 and renewed in September 2000. Usage under this facility was $446 million at June 30, 2002 compared with $373 million at December 31, 2001. In December 2001, we arranged a $500 million secured, syndicated, one year LOC facility for general business purposes, including the issuance of insurance and reinsurance letters of credit. This additional capacity was required to meet the increased requirements for LOCs arising principally from ACE Tempest Re's growing life reinsurance operations and U.S. regulatory trust fund requirements of ACE Global Markets arising from the September 11th tragedy. Usage under this facility was $130 million at June 30, 2002 and at December 31, 2001. The LOCs issued under both of these facilities are principally used to support unpaid losses and loss expenses already reflected in our balance sheet.

All of the facilities described above require that we maintain certain covenants. These covenants include:

(i) a minimum consolidated net worth of $3.6 billion plus 25 percent of cumulative net income since March 31, 2000 and;

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

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

At June 30, 2002, the minimum consolidated net worth requirement under the covenant was $3.9 billion and our actual consolidated net worth as calculated under the covenant was $6.2 billion and our ratio of debt to total capitalization was 0.215 to 1.

ACE Tempest Re also maintained an uncollateralized, syndicated revolving credit facility in the amount of $72.5 million, which was guaranteed by us. This facility expired in February of 2002 and was not renewed. No amounts had been drawn on this facility.

At June 30, 2002, ACE Guaranty Re Inc. was party to a credit facility which provides up to $150 million specifically designed to provide rating agency qualified capital to further support ACE Guaranty Re Inc.'s claims-paying resources. In 2001, the facility's expiry date was extended to October 2008. ACE Guaranty Re Inc. has not borrowed under this credit facility.

We provide funds at Lloyd's, primarily in the form of letters of credit, to support underwriting capacity for Lloyd's syndicate 2488 managed by Lloyd's managing agencies that we own. Syndicate 2488 has a 2002 capacity of (pound)900 million. We also maintain various other LOC facilities; both collateralized and uncollateralized, for general corporate purposes. At June 30, 2002, the aggregate availability under these facilities was $521 million and usage was $396 million.

More information regarding our contractual obligations, commitments and credit facilities can be found in our consolidated financial statements, and related notes and Management's Discussion and Analysis of Results of Operations and Financial Condition included in our Annual Report on Form 10-K for the year ended December 31, 2001.

MARKET SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. We are exposed to potential loss to various market risks, including changes in interest rates and foreign currency exchange rates. Our investment portfolio consists of both fixed income and equity securities, denominated in both U.S. and foreign currencies, which are sensitive to changes in interest rates, equity prices and foreign currency exchange rates. Therefore earnings would be effected by changes in interest rates, equity prices and foreign currency exchange rates. We use investment derivative instruments such as futures, options, interest rate swaps, and foreign currency forward contracts for duration management and management of foreign currency exposures. These instruments are sensitive to changes in interest rates and foreign currency exchange rates. The portfolio includes other market sensitive instruments which are subject to changes in market values, with changes in interest rates.

Duration Management and Market Exposure Management

We utilize financial futures, options, interest rate swaps and foreign currency forward contracts for the purpose of managing certain investment portfolio exposures. These instruments are recognized as assets or liabilities in our consolidated financial statements and changes in market value are included in net realized gains or losses on investments in the consolidated statements of operations.

Our exposure to interest rate risk is concentrated in our investment portfolio, and to a lesser extent, our debt obligations. A hypothetical adverse parallel shift in the yield curve of 100 basis points would have resulted in a decrease in total return of 3.1 percent on our fixed income portfolio at June 30, 2002 compared with 3.2 percent at December 31, 2001. This equates to a decrease in market value of approximately $442 million on a fixed income portfolio valued at $14.6 billion at June 30, 2002, and $452 million on a fixed income portfolio valued at $14.2 billion at December 31, 2001. An immediate time horizon was used as this presents the worst case scenario.

Our portfolio of equity securities, which we carry on our balance sheet at fair value, has exposure to price risk. This risk is defined as the potential loss in fair value resulting from adverse changes in stock prices. In addition, we attain exposure to the equity markets through the use of derivative instruments which also have exposure to price risk. Our U.S. equity exposure in the portfolio is highly correlated with the Standard and Poor's 500 index and changes in this index would approximate the impact on our portfolio. Our international equity portfolio has exposure to a broad range of non-U.S. equity markets, primarily in those countries where we have insurance operations. These portfolios are correlated to movement in each country's broad equity market. The combined equity exposure through both our equity portfolio and derivative instruments was valued at $1 billion at June 30, 2002. A hypothetical 10 percent decline in the price of each stock in these portfolios and the index correlated to the derivative instruments would have resulted in a $100 million decline in fair value. Changes in fair value of these derivative instruments are recorded as realized gains or losses in the consolidated statements of operations. Changes in the fair value of our equity portfolio are recorded as unrealized appreciation (depreciation) and are included as other comprehensive income in shareholders' equity.

Our exposure to foreign exchange risk is concentrated in our net invested assets denominated in foreign currencies. Our international operations use cash flows to purchase these investments to hedge insurance reserves and other liabilities denominated in the same currencies. At June 30, 2002, our net asset exposure to foreign currencies was not material.

DERIVATIVES

As of January 1, 2001, we adopted FAS 133 which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. FAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a fair value, cash flow or foreign currency hedge. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. Upon initial application of FAS 133, hedging relationships must be designated anew and documented pursuant to the provisions of this statement. As of June 30, 2002, we had no derivatives that were designated as hedges.

We maintain investments in derivative instruments such as futures, options, interest rate swaps and foreign currency forward contracts for which the primary purposes are to manage duration and foreign currency exposure, yield enhancement or to obtain an exposure to a particular financial market. We have historically recorded the changes in market value of these instruments as realized gains or losses in our consolidated statement of operations and, accordingly, FAS 133, as amended, did not have a significant impact on the results of operations, financial condition or liquidity in future periods as it relates to these instruments.

Certain products (principally credit protection oriented) issued by ACE Financial Services have been determined to meet the definition of a derivative under FAS 133. These products consist primarily of credit default swaps, index-based instruments and certain financial guarantee coverages. Effective January 1, 2001, we record these products at their fair values, which are determined principally through obtaining quotes from independent dealers and counterparties.

During the first quarter of 2001 we recorded an expense related to the cumulative effect of adopting this standard of $23 million, net of income tax of $12 million. During the six months ended June 30, 2002, we have recorded in net realized gains (losses) on investments, a pretax loss of $46 million to reflect the change in the fair value of derivatives. The level of gains and losses resulting from changes in the fair value of derivatives on a prospective basis is dependent upon a number of factors including changes in interest rates, credit spreads and other market factors. Our involvement with derivative instruments and transactions is primarily to offer protection to others or to mitigate our own risk and is not considered speculative in nature.

NEW ACCOUNTING PRONOUNCEMENT

In June 2001, FASB issued FAS 142 "Goodwill and Other Tangible Assets". FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. As required, we adopted FAS 142 on January 1, 2002, and ceased amortizing goodwill at that time. All goodwill recognized in our consolidated balance sheet at January 1, 2002 was assigned to one or more reporting units. FAS 142 requires that goodwill in each reporting unit be tested for impairment by June 30, 2002. Any impairment loss recognized as a result of a transitional impairment test of goodwill should be reported as the cumulative effect of a change in accounting principle. Management has determined there was no impairment in goodwill as a result of the test.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

1. The Annual General Meeting was held on May 16, 2002.

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

a) The following directors were elected.

	Term Expiring	Shares with Votes in Favor	Shares with Votes Withheld
Dominic J. Frederico	2005	229,034,301	1,744,217
Donald Kramer	2005	229,088,811	1,689,707
John A. Krol	2005	229,073,397	1,705,121
Robert G. Mendoza	2005	229,085,808	1,692,710
Walter A. Scott	2005	229,089,113	1,689,405

The number of shares obstained and the number of broker non-votes was nil.

b) The appointment of PricewaterhouseCoopers LLP as independent accountants for the Company for the year ended December 31, 2002 was ratified and approved.

The holders of 226,778,023 shares voted in favor, 3,237,484 shares voted against and 763,011 shares abstained. There were no broker non-votes.

ITEM 5. OTHER INFORMATION

1. On May 16, 2002, the Company declared a quarterly dividend of $0.17 per Ordinary Share payable on July 12, 2002 to shareholders of record on June 28, 2002.

2. On August 8, 2002, the Company declared a quarterly dividend of $0.17 per Ordinary Share payable on October 11, 2002 to shareholders of record on September 27, 2002.

3. On August 8, 2002, the Company announced that Evan Greenberg has been appointed to its Board of Directors, effective immediately. Evan Greenberg joined ACE as Vice Chairman of ACE Limited and CEO of ACE Tempest Re in November 2001. In February 2002, he also assumed responsibility for all of ACE's international insurance operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

1. Exhibits

10.1 Second Amendment and Restatement dated as of April 5, 2002, amending the credit agreement dated as of May 8, 2000, among ACE Limited, certain subsidiaries, various lenders and J.P. Morgan Securities Inc.

10.2 Third Amendment dated as of April 5, 2002, amending the Amended and Restated Five Year Credit Agreement dated as of May 8, 2000, and as amended October 23, 2000 among ACE Limited, certain subsidiaries, various lenders and JP Morgan Chase Bank (formerly known as Morgan Guaranty Trust Company of New York).

10.3 Second Amendment dated as of April 5, 2002, amending the Reimbursement agreement dated as of August 24, 2001 and as amended October 23, 2001 among ACE Limited, certain subsidiaries, various lenders and Wachovia Bank, National Association (formerly known as First Union National Bank).

10.4 * The ACE Limited 1995 Outside Directors Plan (As amended through the fifth amendment)

* Management Contract or Compensation Plan

2. There were no reports on Form 8K filed during the quarter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ACE LIMITED

August 13, 2002	*/s/ Brian Duperreault* -- *Brian Duperreault* *Chairman and Chief Executive Officer*
August 13, 2002	*/s/ Phillip V. Bancroft* -- *Phillip V. Bancroft* *Chief Financial Officer*

ACE LIMITED

EXHIBIT INDEX

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* Management Contract or Compensation Plan

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

SECOND AMENDED AND RESTATED CREDIT AGREEMENT dated as of April 5, 2002 among ACE Limited (the "Parent"), ACE Bermuda Insurance Ltd. ("ACE Bermuda"), ACE Tempest Reinsurance Ltd, formerly known as Tempest Reinsurance Company Limited ("Tempest"), ACE INA Holdings Inc. ("ACE INA") and ACE Guaranty Re Inc. ("ACE Guaranty"), the LENDERS listed on the signature pages hereof, J.P. MORGAN SECURITIES INC., as Lead Arranger and Bookrunner, BANK OF AMERICA, N.A., BARCLAYS BANK PLC, CITIBANK, N.A. and FLEET NATIONAL BANK, as Co-Syndication Agents, JPMORGAN CHASE BANK, as Administrative Agent, and LLOYDS TSB BANK PLC, as Documentation Agent.

W I T N E S S E T H :

WHEREAS, certain of the parties hereto have heretofore entered into a Credit Agreement dated as of May 8, 2000 (as heretofore amended and/or restated, the "Agreement");

WHEREAS, at the date hereof, no Advances are outstanding under the Agreement; and

WHEREAS, the parties hereto desire to amend the Agreement as set forth herein and to restate the Agreement in its entirety to read as set forth in the Agreement with the amendments specified below;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Definitions; References. Unless otherwise specifically defined herein, each capitalized term used herein which is defined in the Agreement shall have the meaning assigned to such term in the Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Agreement shall from and after the date hereof refer to the Agreement as amended and restated hereby. The term "Notes" defined in the Agreement shall include from and after the date hereof the New Notes (as defined below).

SECTION 2. Amendment of the Agreement.

(a) The following definition in Section 1.01 of the Agreement is amended to read as follows:

"Termination Date" means the earlier of April 4, 2003 and the date of termination in whole of the WC Commitments or such later date to which the Termination Date shall have been extended pursuant to Section 2.01(b) or, if such day is not a Business Day, the next preceding Business Day.

(b) Section 2.08(a)(ii) of the Agreement is amended by replacing the figure "0.15%" with the figure "0.25%".

(c) Section 4.01(g) of the Agreement is amended by changing each reference to the date "December 31, 2000" to "December 31, 2001".

(d) Section 5.02(a)(xviii) of the Agreement is amended by deleting the word "and" immediately after the semi-colon at the end thereof.

(e) Section 5.02(a)(xix) of the Agreement is amended by deleting the period at the end thereof and adding a semi-colon and the word "and" at the end thereof.

(f) Section 5.02(a) of the Agreement is amended by adding the following immediately after the word "and" following the semi-colon at the end of subsection (xix) thereof:

(xx) Liens securing up to an aggregate amount of $200,000,000 of obligations of Tempest, the Parent or any wholly owned Subsidiary, arising out of catastrophe bond financing.

(g) The lead-in to Section 5.03 of the Agreement is amended by replacing the phrase "the Parent will furnish to the Agents and the Lenders" with the phrase "the Parent will furnish to the Administrative Agent for distribution to the Lenders".

(h) Section 9.01 of the Agreement is amended by adding the following phrase at the end of the parenthetical in the first proviso thereto:

"and other than any Lender that is not affected by such amendment, waiver or consent."

SECTION 3. Change in Pricing. With effect from and including the date this Amendment and Restatement becomes effective in accordance with
Section 7 hereof, the attached Pricing Schedule shall replace the existing Pricing Schedule.

SECTION 4. Change in Commitments. With effect from and including the date this Amendment and Restatement becomes effective in accordance with Section 7 hereof, (i) each Person listed on the signature pages hereof which is not a party to the Agreement (a "New Lender") shall become a Lender party to the Agreement and (ii) the Commitment of each Lender shall be the amount set forth opposite the name of such Lender on the attached Commitment Schedule, which shall replace the existing Commitment Schedule. Any Lender whose Commitment is changed to zero shall upon such effectiveness cease to be a Lender party to the Agreement, and all accrued fees and other amounts payable under the Agreement for the account of such Lender shall be due and payable on such date; provided that the provisions of Sections 2.12, 8.05 and 9.03 of the Agreement shall continue to inure to the benefit of each such Lender.

SECTION 5. Representations and Warranties. (a) Each Borrower hereby represents and warrants (but, in the case of each Borrower other than the Parent, only as to itself) that as of the date hereof and after giving effect hereto:

(i) no Default has occurred and is continuing; and

(ii) each representation and warranty of such Borrower set forth in the Agreement after giving effect to this Amendment and Restatement (but, in the case of each Borrower other than the Parent, only as to itself) is true and correct as though made on and as of such date.

(b) The Parent hereby represents and warrants that, as of the date of effectiveness hereof, there shall have occurred no material adverse change since December 31, 2001 in the business, financial condition, operations or properties of the Parent and its Subsidiaries, taken as a whole.

SECTION 6. Governing Law. This Amendment and Restatement shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 7. Counterparts; Effectiveness. This Amendment and Restatement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Amendment and Restatement shall become effective as of the date hereof when each of the following conditions shall have been satisfied:

(i) The Administrative Agent shall have received counterparts of this Amendment and Restatement duly executed by each of the parties listed on the signature pages hereof (or in the case of any party as to which such an executed counterpart shall not have been received, the Administrative Agent shall have received evidence satisfactory to it of the execution and delivery of a counterpart hereof by such party).

(ii) The Administrative Agent shall have received the following in form and substance reasonably satisfactory to the Administrative Agent (unless otherwise specified) and (except for the New Notes (as defined below)) in sufficient copies for each Lender.

(A) Duly executed Committed Notes (in substantially the form of Exhibit A-1 to the Agreement) from each Borrower for each of the New Lenders and each Lender with a Commitment (as reflected on the existing Commitment Schedule) which differs from the Commitment reflected on the attached Commitment Schedule, dated on or before the date of effectiveness hereof (the "New Notes").

(B) Certified copies of the resolutions of the Board of Directors of each Loan Party approving the transactions contemplated by the Loan Documents and each Loan Document to which it is or is to be a party, and of all documents evidencing other necessary corporate action and governmental and other third party approvals and consents, if any, with respect to the transactions contemplated by the Loan Documents and each Loan Document to which it is or is to be a party.

(C) A certificate of each Loan Party, signed on behalf of such Loan Party by its President, Vice President, Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer and its Secretary or any Assistant Secretary, dated the date of effectiveness hereof, certifying, in the case of each Loan Party other than the Parent, only as to such Loan Party, as to (1) the truth of the representations and warranties contained in the Loan Documents as though made on and as of the date of effectiveness hereof and (2) the absence of any event occurring and continuing, or resulting from the effectiveness hereof, that constitutes a Default.

(D) A certificate of the Secretary or an Assistant Secretary of each Loan Party certifying the names and true signatures of the officers of such Loan Party authorized to sign this Amendment and Restatement, the New Notes to be issued by such Loan Party and the other documents to be delivered hereunder and thereunder.

(E) A favorable opinion of (1) Maples and Calder, Cayman Islands counsel for the Parent, to substantially the effect of Exhibit D-1 to the Agreement with respect to this Amendment and Restatement and the Agreement as amended and restated hereby and as to such other matters as the Administrative Agent may reasonably request, (2) Mayer, Brown, Rowe & Maw, New York counsel for the Loan Parties, to substantially the effect of Exhibit D-2 to the Agreement with respect to this Amendment and Restatement and the Agreement as amended and restated hereby and as to such other matters as the Administrative Agent may reasonably request, (3) Conyers Dill & Pearman, Bermuda counsel for ACE Bermuda and Tempest, to substantially the effect of Exhibit D-3 to the Agreement with respect to this Amendment and Restatement and the Agreement as amended and restated hereby and as to such other matters as the Administrative Agent may reasonably request and (4) Hogan & Hartson, Maryland counsel for ACE Guaranty, to substantially the effect of Exhibit D-4 to the Agreement with respect to this Amendment and Restatement and the Agreement as amended and restated hereby and as to such other matters as any Lender through the Administrative Agent may reasonably request.

(iii) The Borrowers shall have paid all accrued fees of the Agents and the Lenders and all accrued expenses of the Agents (including the accrued fees and expenses of counsel to the Administrative Agent), in each case to the extent then due and payable.

This Amendment and Restatement shall not become effective or binding on any party hereto unless all of the foregoing conditions are satisfied not later than the date hereof. The Administrative Agent shall promptly notify the Borrowers and the Lenders of the effectiveness of this Amendment and Restatement, and such notice shall be conclusive and binding on all parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment and Restatement to be duly executed by their respective authorized officers as of the day and year first above written.

ACE LIMITED

The Common Seal of ACE Limited was
hereunto affixed in the presence of:

Director

Chief Financial Officer

ACE BERMUDA INSURANCE LTD.

The Common Seal of ACE Bermuda
Insurance Ltd. was hereunto affixed
in the presence of:

Director

Director

ACE TEMPEST REINSURANCE LTD.

The Common Seal of ACE Tempest
Reinsurance Ltd. was hereunto affixed in the presence of:

Director

Director

ACE INA HOLDINGS INC.

By:

Title: Director

ACE GUARANTY RE INC.

By:

Title:

JPMORGAN CHASE BANK, as
Administrative Agent and as
Lender

By:

Name:

Title:

BANK OF AMERICA, N.A., as
Syndication Agent and as Lender

By:

Name:

Title:

FLEET NATIONAL BANK, as Syndication Agent and as Lender

By:

Name:

Title:

BARCLAYS BANK PLC, as Syndication Agent and as Lender

By:

Name:

Title:

CITIBANK, N.A., as Syndication Agent and as Lender

By:

Name:

Title:

LLOYDS TSB BANK PLC, as Documentation Agent and as Lender

By:

Name:

Title:

By:

Name:

Title:

COMMERZBANK
AKTIENGESELLSCHAFT, NEW
YORK AND GRAND CAYMAN
BRANCHES

By:

Name:

Title:

By:

Name:

Title:

CREDIT LYONNAIS, NEW YORK
BRANCH

By:

Name:

Title:

ROYAL BANK OF CANADA

By:

Name:

Title:

STATE STREET BANK AND
TRUST COMPANY

By:

Name:

Title:

WACHOVIA BANK, NATIONAL ASSOCIATION

By:

Name:

Title:

ABN AMRO BANK N.V.

By:

Name:

Title:

By:

Name:

Title:

THE BANK OF TOKYO-MITSUBISHI, LIMITED

By:

Name:

Title:

COMERICA BANK

By:

Name:

Title:

DEUTSCHE BANK AG, NEW
YORK BRANCH

By:

Name:

Title:

By:

Name:

Title:

MELLON BANK, N.A.

By:

Name:

Title:

HSBC BANK USA

By:

Name:

Title:

THE BANK OF NEW YORK

By:

Name:

Title:

BANK ONE, N.A.

By:

Name:

Title:

PRICING SCHEDULE

Each of "Applicable Facility Fee Percentage" and "Applicable Margin" means, for any day, the rate per annum set forth below in the row opposite such term and in the column corresponding to the Pricing Level and Usage that apply on such day:

Pricing Level	Level I	Level II	Level III	Level IV	Level V	Level VI
Applicable Facility Fee Percentage	0.060%	0.070%	0.080%	0.110%	0.135%	0.185%
Applicable Margin						
Usage < 33%	0.140%	0.230%	0.270%	0.390%	0.615%	0.815%
Usage > 33% -	0.240%	0.330%	0.370%	0.515%	0.740%	1.065%

For purposes of this Schedule, the following terms have the following meanings, subject to the concluding paragraph of this Schedule:

"Level I Pricing" applies on any day on which the Borrower's long-term debt is rated A+ or higher by S&P or A1 or higher by Moody's.

"Level II Pricing" applies on any day on which (i) the Borrower's long-term debt is rated A or higher by S&P or A2 or higher by Moody's and (ii) Level I Pricing does not apply.

"Level III Pricing" applies on any day on which (i) the Borrower's long-term debt is rated A- or higher by S&P or A3 or higher by Moody's and

(ii) neither Level I Pricing nor Level II Pricing applies.

"Level IV Pricing" applies on any day on which (i) the Borrower's long-term debt is rated BBB+ or higher by S&P and/or Baa1 or higher by Moody's and (ii) none of Level I Pricing, Level II Pricing and Level III Pricing applies.

"Level V Pricing" applies on any day on which (i) the Borrower's long-term debt is rated BBB or higher by S&P or Baa2 or higher by Moody's and (ii) none of Level I Pricing, Level II Pricing, Level III Pricing and Level IV Pricing applies.

"Level VI Pricing" applies on any day if no other Pricing Level applies on such day.

"Moody's" means Moody's Investors Service, Inc.

"Pricing Level" refers to the determination of which of Level I, Level II, Level III, Level IV, Level V or Level VI Pricing applies on any day.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

The "Usage" applicable to any date is the percentage equivalent of a fraction the numerator of which is the sum of the aggregate outstanding principal amount of the Advances at such date and the denominator of which is the aggregate amount of the WC Commitments at such date. If for any reason any Advances remain outstanding following the termination of the WC Commitments, Usage will be deemed to be more than 33%.

The credit ratings to be utilized for purposes of this Schedule are those assigned to the senior unsecured long-term debt securities of the Parent without third-party credit enhancement, and any rating assigned to any other debt security of the Parent shall be disregarded. The ratings in effect for any day are those in effect at the close of business on such day.

In the case of split ratings from S&P and Moody's, the rating to be used to determine the applicable Pricing Level is the higher of the two (e.g., A+/A2 results in Level I Pricing); provided that if the split is more than one full rating category, the intermediate (or higher of the two intermediate ratings) will be used (e.g. A+/A3 results in Level II Pricing and AA-/A3 results in Level I Pricing); and provided further that unless the Parent's credit ratings qualify for at least Level V Pricing, no better Pricing Level will be applicable.

COMMITMENT SCHEDULE

Lender	Commitment
JPMorgan Chase Bank	$66,000,000
Barclays Bank PLC	$55,000,000
Bank of America, N.A.	$55,000,000
Citibank, N.A.	$55,000,000
Fleet National Bank	$55,000,000
Lloyds TSB Bank plc	$55,000,000
Wachovia Bank, National Association	$50,000,000
Credit Lyonnais New York Branch	$50,000,000
Commerzbank Aktiengesellschaft, New York and Grand Cayman Branches	$50,000,000
Deutsche Bank AG, New York Branch	$50,000,000
HSBC Bank USA	$37,000,000
Mellon Bank, N.A.	$37,000,000
Royal Bank of Canada	$37,000,000
ABN AMRO Bank N.V.	$37,000,000
Comerica Bank	$37,000,000
State Street Bank and Trust Company	$37,000,000
Bank of Tokyo-Mitsubishi, Limited	$37,000,000
The Bank of New York	$0.00
Bank One, N.A.	$0.00
Total	$800,000,000

THIRD AMENDMENT

THIS THIRD AMENDMENT dated as of April 5, 2002 (this "Amendment") amends the Amended and Restated Five Year Credit Agreement dated as of May 8, 2000 and as amended as of October 23, 2000 and as of October 23, 2001 (the "Credit Agreement") among ACE Limited, a Cayman Islands company (the "Parent"), ACE Bermuda Insurance Ltd. ("ACE Bermuda"), ACE Tempest Reinsurance Ltd., formerly known as Tempest Reinsurance Company Limited ("Tempest"), ACE INA Holdings Inc. ("ACE INA") and ACE Financial Services, Inc. ("ACE Financial")(Ace Bermuda, Tempest, ACE INA and ACE Financial, together with the Parent, the "Borrowers"), various financial institutions (the "Lenders"), and JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York, as administrative agent (in such capacity, the "Agent"). Terms defined in the Credit Agreement are, unless otherwise defined herein or the context otherwise requires, used herein as defined therein.

WHEREAS, the Borrowers, the Lenders and the Agent have entered into the Credit Agreement; and

WHEREAS, the parties hereto desire to amend the Credit Agreement in certain respects as more fully set forth herein;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Amendment to Representations and Warranties of Borrower. Effective on (and subject to the occurrence of) the Amendment Effective Date (as defined below), Section 4.01(b) of the Credit Agreement is amended by adding "as of the Effective Date" at the end thereof.

SECTION 2. Amendments to Negative Covenants. Effective on (and subject to the occurrence of) the Amendment Effective Date (as defined below), Section 5.02 of the Credit Agreement shall be amended as set forth below:

2.1 Amendment to Section 5.02(a)(xviii). Section 5.02(a)(xviii) of the Credit Agreement shall be amended by deleting the word "and" immediately after the semi-colon at the end thereof.

2.2 Amendment to Section 5.02(a)(xix). Section 5.02(a)(xix) of the Credit Agreement shall be amended by deleting the period at the end thereof and adding a semi-colon and the word "and" at the end thereof.

2.3 Amendment to Section 5.02(a). Section 5.02(a) of the Credit Agreement shall be amended by adding the following immediately after the word "and" following the semi-colon at the end of subsection (xix) thereof:

(xx) Liens securing up to an aggregate amount of $200,000,000 of obligations of Tempest, the Parent or any wholly owned Subsidiary, arising out of catastrophe bond financing.

SECTION 3. Amendment to Reporting Requirements. Effective on (and subject to the occurrence of) the Amendment Effective Date (as defined below), the lead-in to Section 5.03 of the Credit Agreement is amended by replacing the phrase "the Parent will furnish to the Agents and the Lenders" with the phrase "the Parent will furnish to the Administrative Agent for distribution to the Lenders".

SECTION 4. Representations and Warranties. Each Borrower represents and warrants to the Agent and the Lenders that (a) each warranty set forth in Article IV of the Credit Agreement is true and correct as of the date of the execution and delivery of this Amendment by the Parent, with the same effect as if made on such date (except to the extent such representations and warranties expressly refer to an earlier date, in which case they were true and correct as of such earlier date), (b) the execution and delivery by the Parent of this Amendment and the performance by each Borrower of its respective obligations under the Credit Agreement, as amended hereby (as so amended, the "Amended Credit Agreement") (i) are within the corporate or limited liability company power, as applicable, of such Borrower, (ii) have been duly authorized by all necessary corporate action, as applicable, on the part of such Borrower, (iii) have received all necessary governmental and regulatory approval and (iv) do not and will not contravene or conflict with any provision of law or of the organizational documents of any Borrower or of any indenture, loan agreement or other contract, order or decree which is binding upon any Borrower and (c) the Amended Credit Agreement is the legal, valid and binding obligation of each Borrower, enforceable against such Borrower in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws of general application affecting the enforcement of creditors' rights or by general principles of equity limiting the availability of equitable remedies.

SECTION 5. Effectiveness. The amendments set forth in Section 1, Section 2 and Section 3 above shall become effective on such date (the "Amendment Effective Date") when the Agent shall have received each of the following documents, each in form and substance satisfactory to the Agent:

5.1 Executed Counterparts. Counterparts of this Amendment executed by the Parent and the Required Lenders.

5.2 Confirmation. A confirmation, substantially in the form of Annex I attached hereto, executed by each existing Guarantor.

5.3 Other Documents. Such other documents as the Agent or any Lender may reasonably request in connection with the authorization, execution and delivery of this Amendment.

SECTION 6. Miscellaneous.

6.1 Continuing Effectiveness, etc. As herein amended, the Credit Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects. After the Amendment Effective Date, all references in the Credit Agreement and the other Loan Documents to "Credit Agreement", "Agreement" or similar terms shall refer to the Amended Credit Agreement.

6.2 Counterparts. This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Amendment.

6.3 Governing Law. This Amendment shall be a contract made under and governed by the laws of the State of New York applicable to contracts made and to be fully performed within such state.

6.4 Successors and Assigns. This Amendment shall be binding upon each Borrower, the Lenders and the Agent and their respective successors and assigns, and shall inure to the benefit of the Borrowers, the Lenders and the Agent and the respective successors and assigns of the Lenders and the Agent.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

ACE LIMITED

By: --
Title:

JPMORGAN CHASE BANK, formerly known
as MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

By: ---
Title:

MELLON BANK, N.A.

By: ---
Title:

BANK OF AMERICA, N.A.

By: ---
Title:

ABN AMRO BANK N.V.

By: ---
Title:

By: ---
Title:

THE BANK OF NEW YORK

By: ---
Title:

BANK ONE, NA

By: ---
Title:

BARCLAYS BANK PLC

By: ---
Title:

CITIBANK, N.A.

By: ---
Title:

DEUTSCHE BANK AG NEW YORK AND/OR CAYMAN ISLANDS BRANCHES

By: ---
Title:

By: ---
Title:

WACHOVIA BANK, NATIONAL ASSOCIATION

By: ---
Title:

FLEET NATIONAL BANK

By: ---
Title:

ROYAL BANK OF CANADA

By: ---
Title:

THE BANK OF TOKYO-MITSUBISHI, LTD.
NEW YORK BRANCH

By: ---
Title:

BNP PARIBAS

By: ---
Title:

By: ---
Title:

CREDIT LYONNAIS NEW YORK BRANCH

By: ---
Title:

LLOYDS TSB BANK PLC

By: ---
Title:

By: ---
Title:

STATE STREET BANK AND TRUST COMPANY

By: --

Title:

Annex I

CONFIRMATION

Dated as of April 5, 2002

To: JPMorgan Chase Bank, individually and as Agent, and the other financial institutions party to the Credit Agreement referred to below

Please refer to: (a) the Amended and Restated Five Year Credit Agreement dated as of May 8, 2000 and as amended as of October 23, 2000 and as of October 23, 2001 (the "Credit Agreement") among ACE Limited, ACE Bermuda Insurance Ltd., ACE Tempest Reinsurance Ltd., formerly known as Tempest Reinsurance Company Limited , ACE INA Holdings Inc. and ACE Financial Services, Inc. (Ace Bermuda, Tempest, ACE INA and ACE Financial, together with ACE Limited, the "Borrowers"), various financial institutions (the "Lenders"), and JPMorgan Chase Bank, as administrative agent (in such capacity, the "Agent"); (b) the other "Loan Documents" (as defined in the Credit Agreement), including the Guaranty; and (c) the Third Amendment dated as of April 5, 2002 to the Credit Agreement (the "Third Amendment").

Each of the undersigned hereby confirms to the Agent and the Lenders that, after giving effect to the Third Amendment and the transactions contemplated thereby, each Loan Document to which such undersigned is a party continues in full force and effect and is the legal, valid and binding obligation of such undersigned, enforceable against such undersigned in accordance with its terms.

ACE LIMITED

By: -- Name Printed: -------------------------------------- Title: --------------------------------------

By: -- Name Printed: ------------------------------------- Title: ---

ACE BERMUDA INSURANCE LTD.

By: -- Name Printed: ------------------------------------ Title: ---

By: -- Name Printed: ------------------------------------ Title: ---

ACE TEMPEST REINSURANCE LTD.,
formerly known as TEMPEST REINSURANCE
COMPANY LIMITED

By: -- Name Printed: ------------------------------------ Title: ---

By: -- Name Printed: ------------------------------------ Title: ---

ACE INA HOLDINGS INC.

By: -- Name Printed: ------------------------------------ Title: ---

By: -- Name Printed: ------------------------------------ Title: ---

SECOND AMENDMENT

THIS SECOND AMENDMENT dated as of April 5, 2002 (this "Amendment") amends the Reimbursement Agreement dated as of August 24, 2001 and as amended as of October 23, 2001 (the "Reimbursement Agreement") among ACE Limited, a Cayman Islands company (the "Parent"), ACE Bermuda Insurance Ltd., a Bermuda company ("ACE Bermuda"), and ACE Tempest Reinsurance Ltd., a Bermuda company ("Tempest") (Ace Bermuda and Tempest, together with the Parent, the "Account Parties"), various financial institutions (the "Banks"), and Wachovia Bank, National Association (formerly known as First Union National Bank) ("Wachovia"), as administrative agent (in such capacity, the "Administrative Agent"). Terms defined in the Reimbursement Agreement are, unless otherwise defined herein or the context otherwise requires, used herein as defined therein.

WHEREAS, the Account Parties, the Banks, Fleet National Bank, as Documentation Agent, Wachovia, as Issuing Bank, and the Administrative Agent have entered into the Reimbursement Agreement; and

WHEREAS, the parties hereto desire to amend the Reimbursement Agreement in certain respects as more fully set forth herein;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Amendment to Representations and Warranties of Account Parties. Effective on (and subject to the occurrence of) the Amendment Effective Date (as defined below), Section 4.01(b) of the Reimbursement Agreement is amended by adding "as of the Effective Date" at the end thereof.

SECTION 2. Amendment to Negative Covenants. Effective on (and subject to the occurrence of) the Amendment Effective Date (as defined below),
Section 5.02 of the Reimbursement Agreement shall be amended as set forth below:

2.1 Amendment to Section 5.02(a)(xvii). Section 5.02(a)(xvii) of the Reimbursement Agreement shall be amended by deleting the word "and" immediately after the semi-colon at the end thereof.

2.2 Amendment to Section 5.02(a)(xviii). Section 5.02(a)(xviii) of the Reimbursement Agreement shall be amended by deleting the period at the end thereof and adding a semi-colon and the word "and" at the end thereof.

2.3 Amendment to Section 5.02(a). Section 5.02(a) of the Reimbursement Agreement shall be amended by adding the following immediately after the word "and" following the semi-colon at the end of subsection (xviii) thereof:

(xix) Liens securing up to an aggregate amount of $200,000,000 of obligations of Tempest, the Parent or any wholly owned Subsidiary, arising out of catastrophe bond financing.

SECTION 3. Representations and Warranties. Each Account Party represents and warrants to the Administrative Agent and the Banks that (a) each warranty set forth in Article IV of the Reimbursement Agreement is true and correct as of the date of the execution and delivery of this Amendment by the Parent, with the same effect as if made on such date (except to the extent such representations and warranties expressly refer to an earlier date, in which case they were true and correct as of such earlier date), (b) the execution and delivery by the Parent of this Amendment and the performance by each Account Party of its respective obligations under the Reimbursement Agreement, as amended hereby (as so amended, the "Amended Reimbursement Agreement") (i) are within the corporate or limited liability company power, as applicable, of such Account Party, (ii) have been duly authorized by all necessary corporate action, as applicable, on the part of such Account Party, (iii) have received all necessary governmental and regulatory approval and (iv) do not and will not contravene or conflict with any provision of law or of the organizational documents of any Account Party or of any indenture, loan agreement or other contract, order or decree which is binding upon any Account Party and (c) the Amended Reimbursement Agreement is the legal, valid and binding obligation of each Account Party, enforceable against such Account Party in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws of general application affecting the enforcement of creditors' rights or by general principles of equity limiting the availability of equitable remedies.

SECTION 4. Effectiveness. The amendments set forth in Sections 1 and 2 above shall become effective on such date (the "Amendment Effective Date") when the Administrative Agent shall have received each of the following documents, each in form and substance satisfactory to the Administrative Agent:

4.1 Executed Counterparts. Counterparts of this Amendment executed by the Parent and the Required Banks.

4.2 Confirmation. A confirmation, substantially in the form of Annex I attached hereto, executed by each of ACE Bermuda and Tempest.

4.3 Other Documents. Such other documents as the Administrative Agent or any Bank may reasonably request in connection with the authorization, execution and delivery of this Amendment.

SECTION 5. Miscellaneous.

5.1 Continuing Effectiveness, etc. As herein amended, the Reimbursement Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects. After the Amendment Effective Date, all references in the Reimbursement Agreement and the other Loan Documents to "Reimbursement Agreement", "Agreement" or similar terms shall refer to the Amended Reimbursement Agreement.

5.2 Counterparts. This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Amendment.

5.3 Governing Law. This Amendment shall be a contract made under and governed by the laws of the State of New York applicable to contracts made and to be fully performed within such state.

5.4 Successors and Assigns. This Amendment shall be binding upon each Account Party, the Banks and the Administrative Agent and their respective successors and assigns, and shall inure to the benefit of the Account Parties, the Banks and the Administrative Agent and the respective successors and assigns of the Banks and the Administrative Agent.

Delivered at Chicago, Illinois, as of the day and year first above written.

ACE LIMITED

By:

Title:

WACHOVIA BANK, NATIONAL ASSOCIATION, as Administrative Agent

By:

Title:

FLEET NATIONAL BANK

By:

Title:

MELLON BANK, N.A.

By:

Title:

ROYAL BANK OF CANADA, NEW YORK BRANCH

By:

Title:

BANK ONE, N.A.

By:

Title:

(signatures continued)

COMERICA BANK

By:

Title:

DEUTSCHE BANK AG, NEW YORK BRANCH

By:

Title:

By:

Title:

STATE STREET BANK AND TRUST COMPANY

By:

Title:

THE BANK OF BERMUDA LIMITED

By:

Title:

THE BANK OF N.T. BUTTERFIELD & SON LIMITED

By:

Title:

CREDIT SUISSE FIRST BOSTON

By:

Title:

ANNEX I

CONFIRMATION

Dated as of April 5, 2002

To: Wachovia Bank, National Association, individually and as Administrative Agent, and the other financial institutions party to the Reimbursement Agreement referred to below

Please refer to: (a) the Reimbursement Agreement dated as of August 24, 2001 and as amended as of October 23, 2001 (the "Reimbursement Agreement") among ACE Limited, ACE Bermuda Insurance Ltd. and ACE Tempest Reinsurance Ltd. (Ace Bermuda and Tempest, together with ACE Limited, the "Account Parties"), various financial institutions (the "Banks"), and Wachovia Bank, National Association (formerly known as First Union National Bank) ("Wachovia"), as administrative agent (in such capacity, the "Administrative Agent"); (b) the other "Loan Documents" (as defined in the Reimbursement Agreement); and (c) the Second Amendment dated as of April 5, 2002 to the Reimbursement Agreement (the "Second Amendment").

Each of the undersigned hereby confirms to the Administrative Agent and the Banks that, after giving effect to the Second Amendment and the transactions contemplated thereby, each Loan Document to which such undersigned is a party continues in full force and effect and is the legal, valid and binding obligation of such undersigned, enforceable against such undersigned in accordance with its terms.

ACE LIMITED

By:
Name Printed:

Title:

ACE BERMUDA INSURANCE LTD.

By:
Name Printed:

Title:

ACE TEMPEST REINSURANCE LTD.

By:
Name Printed:

Title:

ACE LIMITED 1995
OUTSIDE DIRECTORS PLAN
(AS AMENDED THROUGH THE FIFTH AMENDMENT)

ACE LIMITED 1995
OUTSIDE DIRECTORS PLAN

SECTION 1

GENERAL

1.1. Purpose. The ACE Limited 1995 Outside Directors Plan (the "Plan") has been established by ACE Limited (the "Company") to promote the interests of the Company and its shareholders by enhancing the Company's ability to attract and retain the services of experienced and knowledgeable directors and by encouraging such directors to acquire an increased proprietary interest in the Company.

1.2. Operation and Administration. The operation and administration of the Plan shall be subject to the provisions of Section 4. Capitalized terms in the Plan shall be defined as set forth in Section 7 or elsewhere in the Plan.

SECTION 2

RETAINER AWARDS

2.1. General.

(a) For each Plan Year, each Director who is an Eligible Director on the first day of that Plan Year shall be granted a "Retainer Award" for the year, which shall be in the form of shares of Stock having a Fair Market Value of $35,000. Except as otherwise provided in this subsection 2.1, the Retainer Award for any Plan Year shall be made as of the first business day of that Plan Year (the "Award Date" for that Retainer Award), and the Fair Market Value of the Stock so awarded shall be determined as of that date. Notwithstanding the foregoing, for the Plan Year beginning in 1999 (the "1999 Plan Year"), the Retainer Award for such Plan Year shall include an additional award (the "1999 Additional Award"), in the form of shares having a Fair Market Value of $8,750 (and for the 1999 Plan Year, reference in the Plan to the "Retainer Award" shall include reference to such 1999 Additional Award). Except as otherwise provided in this subsection 2.1, the 1999 Additional Award shall be made as of the first business day following the adoption of the Second Amendment of the Plan (the "1999 Additional Award Date"), and the Fair Market Value of the Stock so awarded shall be determined as of that date.

(b) If a Director becomes an Eligible Director during a Plan Year, on a date other than the first day of the Plan Year, he shall be granted a Retainer Award for the year, which shall be in the form of shares of Stock having a Fair Market Value equal to $35,000, subject to a pro-rata reduction to reflect the portion of the Plan Year prior to the date on which he becomes an Eligible Director; provided, however, that with respect to the 1999 Plan Year, such Retainer Award subject to pro rata reduction shall include the 1999 Additional Award. A Director's Retainer Award under this paragraph (b) shall be made on the first business day on which he is an Eligible Director (the "Award Date" for that Retainer Award), and the Fair Market Value of the Stock so awarded shall be determined as of that date; provided, however, that if a Director becomes eligible for a Retainer Award under this Paragraph (b) on a date before the 1999 Additional Award Date, then that portion of the 1999 Additional Award to which he becomes entitled shall be made as of the 1999 Additional Award Date, and the Fair Market Value of the Stock so awarded shall be determined as of that date.

(c) The shares awarded under this subsection 2.1 shall be subject to the vesting provision set forth in subsection 2.3.

(d) A Participant may elect to defer receipt of his Retainer Awards in accordance with Supplement A of the Plan.

2.2. Fractional Shares. If the Retainer Award that would otherwise be made to a Participant as of any Award Date under paragraph 2.1 is not a whole number, then the number of shares otherwise awardable shall be reduced to the next lowest whole number and, instead, the Fair Market Value (determined as of the Award Date) of the shares subject to the reduction shall be paid to the Participant in cash as soon as practicable after the Award Date.

2.3. Vesting. A Participant who ceases to be a Director shall forfeit the Retainer Award which is not vested on his Date of Termination; provided, however, that (i) if a Participant ceases to be a Director by reason of his death or Disability, any portion of the Retainer Award that is not then vested shall vest on his Date of Termination; and (ii) any portion of the Retainer Award that is held by an individual serving as a Director on the date of a Change in Control that is not then vested shall vest on the date of the Change of Control. Except as otherwise provided in this subsection 2.3, a Participant shall become vested in 100% of the Retainer Award shares for any Plan Year on the last day of that Plan Year; provided that a Participant shall become vested in the Retainer Award shares for the Plan Year only if such Participant's Date of Termination does not occur prior to the last day of that year.

2.4. Limit on Stock. Stock granted as a Retainer Award shall be subject to the following:

(a) Such Stock may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date it is vested.

(b) Each certificate issued in respect of such Stock shall be registered in the name of the Participant and deposited, together with a stock power endorsed in blank, with the Company.

(c) Except as otherwise provided by the Plan, the Participant as owner of shares of Stock granted to him as a Retainer Award shall have all the rights of a shareholder, including but not limited to the right to vote such shares and the right to receive all dividends paid on such shares; provided, however, that no dividends shall be payable to or for the benefit of a Participant with respect to record dates for such dividends occurring on or after the date, if any, on which the Participant has forfeited the Stock.

SECTION 3

COMMITTEE CHAIRMAN AWARDS

(a) Each Eligible Director who serves as the chairman of any committee of the Board (a "Committee Chairman") during any Plan Year Quarter shall be granted a Committee Chairman Award as of the first business day of the next following Plan Year Quarter, which shall be the "Award Date" for such award.

(b) The amount of the Committee Chairman Award shall be the number of shares of Stock having a Fair Market Value (determined as of the Award Date) of $1,250 per quarter. If an individual serves as a Committee Chairman for less than a full Plan Year Quarter, then the size of the Committee Chairman Award shall be subject to a pro-rata reduction to reflect the portion of the Plan Year Quarter during which he was not Committee Chairman.

(c) The shares granted as a Committee Chairman Award under this Section 3 shall be fully vested at the time of award.

(d) A Participant may elect to defer receipt of his Committee Chairman Awards in accordance with Supplement A of the Plan.

(e) A Participant may elect to receive his Committee Chairman Award in cash.

SECTION 3A

MEETING AWARDS

(a) Each Eligible Director who is otherwise eligible to receive cash compensation for attendance at a meeting of the Board or for attendance at a meeting of any committee of the Board, may in lieu of such cash compensation, elect to receive to such compensation in Stock, and such compensation payable in Stock shall be considered the grant of a "Meeting Award." An election to receive a Meeting Award in lieu of cash compensation must be made in accordance with the requirements of paragraph (c) of this Section 3A. A Meeting Award shall be granted as of the first business day coincident with or next following the date of the Board or committee meeting to which it relates, which shall be the "Award Date" for such award.

(b) The amount of the Meeting Award for attendance at a Board meeting shall be the number of shares of Stock having a Fair Market Value (determined as of the Award Date) of $3,000 per meeting. The amount of the Meeting Award for attendance at a committee meeting shall be the number of shares of Stock having a Fair Market Value (determined as of the Award Date) of $1,000 per meeting.

(c) Except as otherwise provided in this paragraph (c), an election to receive a Meeting Award in lieu of cash compensation for attendance at Board and committee meetings during a Plan Year shall be filed at such time and in such form as established by the Committee. An individual who becomes an Eligible Director on a date other than the first day of the Plan Year may elect to receive a Meeting Award in lieu of cash compensation for the remainder of the year by filing a Meeting Award election filed at such time and in such form as established by the Committee. An election to receive a Meeting Award rather than cash compensation shall apply to all Board and committee meetings in the Plan Year for which the election is made, provided, however, that such election shall be effective only with respect to compensation for meetings occurring after the date such election is filed.

(d) The shares granted as a Meeting Award under this Section 3A shall be fully vested at the time of award.

(e) A Participant may elect to defer receipt of his Meeting Awards in accordance with Supplement A of the Plan.

(f) If a Participant has made no election under this Section 3A with respect to the form of payment of compensation for his attendance at Board or committee meetings, then such compensation shall be paid in cash.

SECTION 3B

OPTION AWARDS

3B.1. General.

(a) For each Plan Year, each Director who is an Eligible Director on the first day of that Plan Year shall be granted an "Option Award" which shall entitle the Eligible Director to purchase shares of Stock. The number of shares subject to the Option Award with respect to the Option Award granted in the Plan Year beginning in 2001 (the "2001/2002 Plan Year") and in each Plan Year thereafter shall be 4,000, unless and until the number of shares underlying an Option Award in any subsequent Plan Year is modified by the Board. Except as otherwise provided in this subsection 3B.1, the Option Award for any Plan Year shall be granted as of the first business day of that Plan Year (the "Award Date" for that Option Award).

(b) If a Director becomes an Eligible Director during a Plan Year, on a date other than the first day of the Plan Year, he shall be granted an Option Award which shall entitle the Eligible Director to purchase shares of Stock. The number of shares of Stock subject to the Option Award shall be the number which would have been subject to the Option if he had become an Eligible Director on the first day of the Plan Year, except that such number of shares shall be subject to a pro rata reduction to reflect the portion of the Plan Year prior to the date on which he becomes an Eligible Director. In no event shall an Option Award be granted with respect to a fractional share, and the amount of any pro-rata reduction shall be rounded to the nearest whole share. An Option Award made under this paragraph (b) shall be granted on the first business day on which the Director is an Eligible Director (the "Award Date" for that Option Award).

(c) In addition to any Option Award granted in accordance with paragraphs (b) or (c) of this subsection 3B.1, an individual who is an Eligible Director on the first day of the 2001/2002 Plan Year shall be granted an Option Award, entitling him to purchase 2,000 shares of Stock. Such Option Award shall be granted as the first business day of the 2001/2002 Plan Year (the "Award Date" for that Option Award).

3B.2. Terms of Option Awards.

(a) An Option Award shall entitle the Director to purchase shares of Stock at a per-share price equal to the greater of: (i) 100% of the Fair Market Value of a share of Stock as of the Award Date; or
(ii) the par value of a share of Stock.

(b) The full purchase price of each share of Stock purchased upon the exercise of any Option Award shall be paid at the time of such exercise and, as soon as practicable thereafter, a certificate representing the shares so purchased shall be delivered to the person entitled thereto.

(c) The Option Award purchase price shall be payable in cash or in shares of Stock (valued at Fair Market Value as of the day of exercise), or in any combination thereof. A Director may elect to pay the purchase price upon the exercise of an Option Award granted pursuant to this Section 3B through a cashless exercise procedure established by the Company.

(d) The Option Award granted to an Eligible Director shall become exercisable with respect to one-third of the shares covered by the Option Award on the last day of the Plan Year for which it was granted; with respect to an additional one-third of the shares covered by the Option Award on the last day of the Plan Year next following the Plan Year for which it was granted; and with respect to the remaining one-third of the shares covered by the Option Award on the last day of the next following Plan Year; provided, however, that such portion of the Option Award shall become exercisable only if such Director's Date of Termination does not occur on or prior to the last day of the applicable Plan Year. Notwithstanding any provision of the Plan to the contrary, the foregoing vesting schedule shall be subject to acceleration, to the extent permitted by the Committee, in the event of the Participant's death, Disability, retirement, or involuntary termination or in the event of a Change in Control.

(e) An Option Award shall expire on the earlier of: (i) the ten-year anniversary of the Award Date or (ii) the one-year anniversary of the Director's Date of Termination. Notwithstanding the foregoing, the Committee may provide that, following a Director's Date of Termination, an Option Award shall expire on any date later than the one-year anniversary of the Director's Date of Termination, provided that such date of expiration may not be later than the ten-year anniversary of the date on which the Option Award was granted. No Option shall be exercisable following a Director's Date of Termination except to the extent that the Option is exercisable prior to, or becomes exercisable as of, such Date of Termination.

SECTION 4

OPERATION AND ADMINISTRATION

4.1. Effective Date. Subject to the approval of the shareholders of the Company at the Company's 1996 annual meeting of its shareholders, the Plan shall be effective as of the Effective Date; provided, however, that to the extent that Awards are made under the Plan prior to its approval by shareholders, they shall be contingent on approval of the Plan by the shareholders of the Company. The Plan shall be unlimited in duration and, in the event of Plan termination, shall remain in effect as long as any shares of Stock awarded under it are outstanding and not fully vested, or any Option Awards granted under it are outstanding and not exercised; provided, however, that no new Awards shall be made under the Plan after the tenth anniversary of the Effective Date. With respect to any individual who is an Eligible Director on the Effective Date, receipt of Awards under the Plan shall be contingent on the Director relinquishing, as of the Effective Date, and subject to this Plan being approved by the shareholders at the 1996 annual meeting, the ownership rights to any shares of Stock awarded to him by the Company before the Effective Date, but only with respect to the shares that had not vested on or before February 1, 1996.

4.2. Shares Subject to Plan. The shares of Stock with respect to which Awards may be made under the Plan shall be shares 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). The number of shares of Stock available for Awards under the Plan during any fiscal year of the Company shall equal:

(a) 0.5% of the adjusted average of the outstanding Stock, as that number is determined by the Company to calculate fully diluted earnings per share for the preceding fiscal year;

REDUCED BY

(b) any shares of Stock granted pursuant to Awards under the Plan, and any shares of Stock subject to any outstanding award under the Plan;

provided however, that no reduction shall be made in the number of shares otherwise available under paragraph 4.2(a) for any shares of Stock subject to an Award under the Plan to the extent that such shares are not issued by reason of a lapse, forfeiture, expiration or termination of the Award for any reason without issuance of shares (whether or not cash or other consideration is paid to a Participant in respect of such shares).

4.3. Fractional Shares. No fractional shares of Stock shall be distributed under the Plan and, instead, the Fair Market Value of such fractional share shall be distributed in cash, with the Fair Market Value determined as of the date the fractional share would otherwise have been distributable.

4.4. Adjustments to Shares.

(a) If the Company shall effect any subdivision or consolidation of shares of Stock or other capital readjustment, payment of stock dividend, stock split, combination of shares or recapitalization or other increase or reduction of the number of shares of Stock outstanding without receiving compensation therefor in money, services or property, then the Committee shall adjust (i) the number of shares of Stock available under the Plan; (ii) the number of shares available under any limits; (iii) the number of shares of Stock subject to outstanding (non-vested) Awards and to deferred Stock Awards; (iv) the number of shares of Stock subject to future grants; and (v) the per-share price under any outstanding Option Award.

(b) If the Company is reorganized, merged or consolidated or is party to a plan of exchange with another corporation, pursuant to which reorganization, merger, consolidation or plan of exchange the shareholders of the Company receive any shares of stock or other securities or property, or the Company shall distribute securities of another corporation to its shareholders, there shall be substituted for the shares subject to outstanding (non-vested) Awards and to deferred Stock Awards an appropriate number of shares of each class of stock or amount of other securities or property which were distributed to the shareholders of the Company in respect of such shares; provided that, upon the occurrence of a reorganization of the Company or any other event described in this paragraph (b), any successor to the Company shall be substituted for the Company.

(c) The existence of this Plan and the Awards granted hereunder shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of bonds, debentures, preferred or prior preference stocks ahead of or affecting the Company's Stock or the rights thereof, the dissolution or liquidation of the Company, any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(d) Except as expressly provided by the terms of this Plan, the issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property or for labor or services, either upon direct sale, upon the exercise of rights or warrants to subscribe therefor or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to Awards then outstanding hereunder.

4.5. Limit on Distribution. Distribution 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 issue 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 and the applicable requirements of any securities exchange or similar entity.

(b) The Committee shall add such conditions and limitations to any Award to any Participant who is subject to Section 16(a) and 16(b) of the Securities Exchange Act of 1934, as is necessary to comply with Section 16(a) or 16(b) and the rules and regulations thereunder or to obtain any exemption therefrom.

(c) To the extent that the Plan provides for issuance of certificates to reflect the transfer of shares of Stock, the transfer of such shares may, at the direction of the Committee, be effected on a non-certificated basis, to the extent not prohibited by the provisions of Rule 16b-3, applicable local law, the applicable rules of any stock exchange, or any other applicable rules.

4.6. Taxes. All Awards and other payments under the Plan are subject to all applicable taxes.

4.7. Distributions to Disabled Persons. Notwithstanding any other provision of the Plan, if, in the Committee's opinion, a Participant or other person entitled to benefits under the Plan is under a legal disability or is in any way incapacitated so as to be unable to manage his financial affairs, the Committee may direct that payment be made to a relative or friend of such person for his benefit until claim is made by a conservator or other person legally charged with the care of his person or his estate, and such payment or distribution shall be in lieu of any such payment to such Participant or other person. Thereafter, any benefits under the Plan to which such Participant or other person is entitled shall be paid to such conservator or other person legally charged with the care of his person or his estate.

4.8. Transferability. 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. 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 Section 5.

4.10. Form and Time of Elections. Any election required or permitted under the Plan shall be in writing, and shall be deemed to be filed when delivered to the Secretary of the Company. Any deferral election made under Supplement A shall be irrevocable after it is filed with respect to the Plan Year for which it is filed, and such deferral shall remain in effect and be irrevocable with respect to any future Plan Year unless a new election with respect to such Plan Year is filed in accordance with rules established by the Committee, in which case such new election shall be irrevocable with respect to such Plan Year.

4.11. Agreement With Company. Each Award of Stock granted under Sections 2 and 3 shall be evidenced by an Agreement (an "Agreement") duly executed on behalf of the Company and by the Participant to whom such Award is granted and dated as of the applicable date of grant. Each Agreement shall comply with and be subject to the terms of the Plan.

4.12. 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.

4.13. Action by Company. Any action required or permitted to be taken by the Company shall be by resolution of the Board, 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, by a duly authorized officer of the Board, or (except to the extent prohibited by the provisions of Rule 16b-3, applicable local law, the applicable rules of any stock exchange, or any other applicable rules) by a duly authorized officer of the Company.

4.14. 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.

SECTION 5

COMMITTEE

5.1. Selection of Committee. The Committee shall be selected by the Board, and shall consist of not less than two members of the Board.

5.2. Powers of Committee. The authority to manage and control the operation and administration of the Plan shall be vested in the Committee. The Committee will have the authority to establish, amend, and rescind any rules and regulations relating to the Plan, to determine the terms and provisions of any agreements made pursuant to the Plan, and to make all other determinations that may be necessary or advisable for the administration of the Plan.

5.3. Information to be Furnished to Committee. The Company shall furnish the Committee with such data and information as may be required for it to discharge its duties. The records of the Company as to the period of a Director's service 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.

5.4. Liability and Indemnification of Committee. No member or authorized delegate of the Committee shall be liable to any person for any action taken or omitted in connection with the administration of the Plan unless attributable to his own fraud or willful misconduct; nor shall the Company be liable to any person for any such action unless attributable to fraud or willful misconduct on the part of a director or employee of the Company. The Committee, the individual members thereof, and persons acting as the authorized delegates of the Committee under the Plan, shall be indemnified by the Company, to the fullest extent permitted by law, against any and all liabilities, losses, costs and expenses (including legal fees and expenses) of whatsoever kind and nature which may be imposed on, incurred by or asserted against the Committee or its members or authorized delegates by reason of the performance of a Committee function if the Committee or its members or authorized delegates did not act dishonestly or in willful violation of the law or regulation under which such liability, loss, cost or expense arises. This indemnification shall not duplicate but may supplement any coverage available under any applicable insurance.

SECTION 6

AMENDMENT AND TERMINATION

The Board may, at any time, amend or terminate the Plan, provided that, subject to subsection 4.4 (relating to certain adjustments to shares), no amendment or termination may adversely affect the rights of any Participant or beneficiary under any Award made under the Plan prior to the date such amendment is adopted by the Board. Notwithstanding the provisions of this Section 6, in no event shall the provisions of the Plan relating to Awards under the Plan be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act, or the rules thereunder; provided, however, that the limitation set forth in this sentence shall be applied only to the extent required under SEC Rule 16b-3(c)(2)(ii)(B) or any successor provision thereof.

SECTION 7

DEFINED TERMS

For purposes of the Plan, the terms listed below shall be defined as follows:

(a) Award. The term "Award" shall mean the Retainer Award, the Option Award, the Committee Chairman Award, and the Meeting Award granted to any person under the Plan.

(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 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 date of this Agreement; 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) Date of Termination. A Participant's "Date of Termination" shall be the day following the last day on which he serves as a Director.

(e) Director. The term "Director" means a member of the Board.

(f) Disability. A Participant shall be considered to have a "Disability" during the period in which he is unable, by reason of a medically determinable physical or mental impairment, to engage in any substantial gainful activity, which condition, in the opinion of a physician selected by the Committee, is expected to have a duration of not less than 120 days.

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

(h) Effective Date. The "Effective Date" means the date on which Directors begin their yearly term of office on the Board following their election at the Company's 1996 annual shareholders meeting.

(i) Eligible Director. Each Director who is not an employee of the Company or any Related Company shall be an "Eligible Director".

(j) Fair Market Value. The "Fair Market Value" of a share of Stock of the Company 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.

(k) Participant. A "Participant" is any person who has received an Award under the Plan.

(l) Plan Year. The term "Plan Year" means the period (i) beginning on the date on which members of the Board begin their yearly term as Board members following the election of Directors at the Company's annual shareholders meeting and (ii) ending on the day immediately prior the first day of the following Plan Year. The first Plan Year shall begin on the Effective Date.

(m) Plan Year Quarter. For any Plan Year, the first Plan Year Quarter shall begin on the first day of the plan year, and shall end on the 90th day of the Plan Year; the second Plan Year Quarter shall begin on the 91st day of the Plan Year, and shall end on the 180th day of the Plan Year; the third Plan Year Quarter shall begin on the 181st day of the Plan Year, and shall end on the 270th day of the Plan Year; and the fourth Plan Year Quarter shall begin on the 271st day of the Plan Year, and shall end on the last day of the Plan Year. Notwithstanding the foregoing, with respect to only the 1999 Plan Year, there shall be an additional Plan Year Quarter, so that the fourth Plan Year Quarter shall begin on the 271st day of the Plan Year, and shall end on the 360th day of the Plan Year; and the fifth Plan Year Quarter shall begin on the 361st day of the Plan Year, and shall end on the last day of the Plan Year.

(n) Related Companies. The term "Related Company" means any company during any period in which it is a "subsidiary corporation" (as that term is defined in Code section 424(f)) with respect to the Company.

(o) SEC. "SEC" shall mean the Securities and Exchange Commission.

(p) Stock. The term "Stock" shall mean shares of common stock of the Company.

SUPPLEMENT A
ELECTIVE DEFERRAL

SECTION A- 1

DEFERRAL ELECTION

A-1 - 1. General. An individual who is otherwise entitled to receive a Retainer Award or a Committee Chairman Award, or who is otherwise eligible to receive cash payment for services provided as a Director ("Cash Compensation"), may elect to defer delivery of all or a portion of such shares of Stock and such cash, subject to the following terms of this Section A-1.

A-1 - 2. Stock Deferral Election.

(a) An individual who is an Eligible Director on the first day of a Plan Year may elect to defer the receipt of all or a portion of the Stock awarded as the Retainer Award for the Plan Year, to defer receipt of all or a portion of the Stock awarded as the Meeting Award for the Plan Year, or to defer the receipt of all or a portion of the Stock awarded as a Committee Chairman Award for any quarter of a Plan Year, by filing a deferral election with respect to the Plan Year at such time and in such form as established by the Committee; provided, however, that such election shall be effective only with respect to compensation payable after the date such election is filed.

(b) An individual who becomes an Eligible Director on a date other than the first day of a Plan Year may elect to defer all or a portion of the Stock awarded as the Retainer Award for the remainder of the year by filing a deferral election with respect to the remainder of the year at such time and in such form as established by the Committee; provided, however, that such election shall be effective only with respect to compensation payable after the date such election is filed.

(c) An individual who becomes a Committee Chairman on a date other than the first day of a Plan Year may elect to defer all or a portion of the Committee Chairman Award for the remainder of the year by filing a deferral election prior to the date on which he becomes Committee Chairman; and, by filing a deferral election within 30 days after becoming a Committee Chairman, he may defer receipt of the portion of the Committee Chairman Award for the portion of the Plan Year following the 30-day period.

(d) An individual who becomes an Eligible Director on a date other than the first day of a Plan Year may elect to defer all or a portion of the Meeting Award for the remainder of the year by filing a deferral election with respect to the remainder of the year at such time and in such form as established by the Committee; provided, however, that such election shall be effective only with respect to compensation payable after the date such election is filed.

A-1 - 3. Cash Deferral Election.

(a) An election to defer the receipt of all or a portion of the Cash Compensation for any Plan year shall be filed with respect to a Plan Year at such time and in such form as established by the Committee; provided, however, that such election shall be effective only with respect to Cash Compensation payable after the date such election is filed.

(b) An individual who becomes an Eligible Director on a date other than the first day of a Plan Year may elect to defer all or a portion of the Cash Compensation for the remainder of the year by filing a deferral election with respect to the remainder of the year at such time and in such form as established by the Committee; provided, however, that such election shall be effective only with respect to Cash Compensation payable after the date such election is filed.

SECTION A-2

ACCOUNTS

A-2 - 1. Stock Account. A Stock Account shall be maintained on behalf of each Participant who elects to defer the distribution of shares of Stock under this Supplement A, for the period during which delivery of shares of Stock is deferred. A Participant's Stock Account shall be subject to the following adjustments:

(a) The Stock Account will be credited with Share Units equal to the number of shares of Stock as to which the Participant has elected deferred receipt, with such Share Units to be credited as of the date on which the shares would otherwise have been delivered to him in the absence of the deferral.

(b) As of each dividend record date for the Stock following the date any Share Units are credited to the Participant's Stock Account, and prior to the date of distribution of shares of Stock with respect to those Share Units, the Participant's Stock Account shall be credited with additional Share Units (including fractional Share Units) equal to (i) the amount of the dividend that would be payable with respect to the number of shares of Stock equal to the number of Share Units credited to the Participant's Stock Account on the dividend record date; divided by (ii) the Fair Market Value of a share of Stock on the date of payment of the dividend.

(c) As of the date of any distribution of shares of Stock with respect to a Participant's Stock Account under Section A-3, the Share Units credited to a Participant's Stock Account shall be reduced by the number of Shares so distributed to the Participant.

A-2 -2. Cash Account. A Cash Account shall be maintained on behalf of each Participant who elects to defer the distribution of cash under this Supplement A, for the period during which delivery of cash is deferred. A Participant's Cash Account shall be credited with interest, with the applicable interest rate for any calendar year equal to the prime rate as of the first business day of that calendar year, as reported in The Wall Street Journal. As of the date of any distribution with respect to a Participant's Account under Section A-3, the balance credited to a Participant's Account shall be reduced by the amount of the distribution to the Participant.

A-2 - 3. Statement of Accounts. As soon as practicable after the end of each Plan Year, the Company shall provide each Participant having one or more Accounts under the Plan with a statement of the transactions in his Accounts during that year and his Account balances as of the end of the year.

SECTION A- 3

DISTRIBUTIONS

A-3 - 1. General.

(a) Subject to the terms of this Section A-3, a Participant shall specify, as part of his deferral election with respect to Stock Awards, and as part of his deferral election with respect to Cash Compensation, the time of distribution of the amounts deferred pursuant to such election; provided, however, that distribution of shares of Stock, and of Cash Compensation, shall be made in a lump sum not later than the first anniversary of the date on which the individual ceases to be a Director; and further provided that a Participant may elect only a single date for distribution of all of his deferred Stock Awards and only a single date for distribution of all of his deferred Cash Compensation under the Plan, provided that the distribution date for the Participant's deferred Stock Awards and for deferred Cash Compensation may differ.

(b) At the time of distribution of deferred shares in accordance with the Participant's election, the Participant shall receive a distribution of shares of Stock equal to the number of share units credited to his Account immediately prior to such distribution. If the scheduled distribution date would otherwise occur after a dividend record date but before the payment of the dividend, distribution shall be deferred (not more than 30 days) until the dividend is paid.

(c) At the time of distribution of Cash Compensation in accordance with the Participant's election, the Participant shall receive the amount then credited to the Participant's Cash Account as of the date of distribution.

(d) In determining a Participant's right to distributions of stock under this Section A-3, the vesting provisions of subsection 2.3 of the Plan shall apply to the share units credited to the Participant's Stock Account as though each unit represented one share of Stock, and with all units attributable to payment of dividends being fully vested as of the date they are credited to the Participant's Stock Account.

(e) Notwithstanding the foregoing provisions of this Section A-3, if any share units are credited to a Participant's Stock Account as of the date of a Change in Control, the Participant shall receive a distribution of shares of Stock equal to the number of such share units. Such distribution shall be in settlement of the Participant's rights to distribution under this Section A-3, provided that if the record date for a dividend is prior to a Change in Control, but the dividend payment is to occur after such Change in Control, the additional shares attributable to such dividends shall be distributed as soon as practicable thereafter.

A-3 - 2. Limitation of Implied Rights. Neither the Participant nor any other person shall, by reason of deferral of shares of Stock or the deferral of Cash Compensation, under this Supplement A, acquire any right in or title to any assets, funds or property of the Company whatsoever prior to the date such shares are distributed. A Participant shall have only a contractual right to the shares and cash, if any, distributable under the Plan, unsecured by any assets of the Company. Nothing contained in the Plan shall constitute a guarantee by the Company that the assets of the Company shall be sufficient to provide any benefits to any person.

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