ACE LTD

FORM 10-Q
(Quarterly Report)

Filed 11/09/05 for the Period Ending 09/30/05

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

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2005

OR

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

For the Transition Period from __________to __________

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

ACE LIMITED

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

Telephone 441-295-5200

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

YES ☑ NO ☐

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

YES ☑ NO ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES ☐ NO ☑

The number of registrant's Ordinary Shares ($0.041666667 par value) outstanding as of November 3, 2005 was 322,327,905.

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ACE LIMITED
PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30 2005	December 31 2004
	(Unaudited) (in millions of U.S. dollars, except share and per share data)	
Assets		
Investments		
Fixed maturities available for sale, at fair value (amortized cost - $22,434 and $22,422)	$ 22,551	$ 22,891
Fixed maturities held to maturity, at amortized cost (fair value - $3,126)	3,125	—
Equity securities, at fair value (cost - $1,210 and $1,061)	1,436	1,265
Short-term investments, at fair value (amortized cost - $2,212 and $2,163)	2,212	2,163
Other investments (cost - $575 and $551)	651	606
Total investments	29,975	26,925
Cash	409	498
Securities lending collateral	1,438	1,059
Accrued investment income	329	309
Insurance and reinsurance balances receivable	3,508	3,255
Accounts and notes receivable	202	196
Reinsurance recoverable	15,662	14,882
Deferred policy acquisition costs	970	944
Prepaid reinsurance premiums	1,441	1,355
Funds withheld	304	339
Value of reinsurance business assumed	240	273
Goodwill	2,703	2,700
Deferred tax assets	1,244	1,173
Investments in partially-owned insurance companies (cost - $811 and $755)	862	796
Other assets	1,258	1,479
Total assets	$ 60,545	$ 56,183
Liabilities		
Unpaid losses and loss expenses	$ 34,674	$ 31,483
Unearned premiums	6,238	5,983
Future policy benefits for life and annuity contracts	521	509
Funds withheld	127	142
Insurance and reinsurance balances payable	2,428	2,337
Deposit liabilities	331	343
Securities lending payable	1,438	1,059
Payable for securities purchased	710	507
Accounts payable, accrued expenses and other liabilities	1,361	1,508
Dividends payable	66	60
Short-term debt	446	146
Long-term debt	1,564	1,849
Trust preferred securities	412	412
Total liabilities	50,316	46,338
Commitments and contingencies Shareholders' equity		
Preferred Shares ($1.00 par value, 2,300,000 shares authorized, issued and outstanding)	2	2
Ordinary Shares ($0.041666667 par value, 500,000,000 shares authorized; 288,672,450 and 284,478,525 shares issued and outstanding)	12	12
Additional paid-in capital	5,044	4,905
Unearned stock grant compensation	(85)	(57)
Retained earnings	4,815	4,249

Deferred compensation obligation	8	12
Accumulated other comprehensive income	441	734
Ordinary Shares issued to employee trust	(8)	(12)
Total shareholders' equity	10,229	9,845
Total liabilities and shareholders' equity	$ 60,545	$ 56,183

See accompanying notes to the interim consolidated financial statements

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	**2004 (Restated)**	**2005**	**2004 (Restated)**
	(in millions of U.S. dollars, except per share data)			
Revenues				
Gross premiums written	$ 4,261	$ 3,988	$13,017	$ 12,448
Reinsurance premiums ceded	(1,372)	(1,214)	(3,853)	(3,593)
Net premiums written	2,889	2,774	9,164	8,855
Change in unearned premiums	202	85	(275)	(626)
Net premiums earned	3,091	2,859	8,889	8,229
Net investment income	320	246	910	731
Net realized gains (losses)	83	(32)	101	67
Total revenues	3,494	3,073	9,900	9,027
Expenses				
Losses and loss expenses	2,806	2,221	6,439	5,476
Life and annuity benefits	33	48	105	134
Policy acquisition costs	426	393	1,243	1,154
Administrative expenses	308	306	960	928
Interest expense	43	50	128	140
Other (income) expense	(25)	(14)	(36)	2
Total expenses	3,591	3,004	8,839	7,834
Income (loss) before income tax	(97)	69	1,061	1,193
Income tax expense	15	65	269	318
Net income (loss)	$ (112)	$ 4	$ 792	$ 875
Other comprehensive income (loss)				
Unrealized appreciation (depreciation) arising during the period	(78)	406	(132)	14
Reclassification adjustment for net realized (gains) losses included in net income	(47)	(32)	(151)	(176)
Amortization of net unrealized (gains) losses related to transferred securities	(2)	—	(4)	—
Net unrealized appreciation (depreciation) on investments	(127)	374	(287)	(162)
Cumulative translation adjustments	(25)	27	(104)	5
Minimum pension liability	1	2	7	2
Other comprehensive income (loss), before income tax	(151)	403	(384)	(155)
Income tax benefit (expense) related to other comprehensive income items	40	(82)	91	56
Other comprehensive income (loss)	(111)	321	(293)	(99)
Comprehensive income (loss)	$ (223)	$ 325	$ 499	$ 776
Basic earnings (loss) per share	$ (0.43)	$ (0.03)	$ 2.67	$ 3.00
Diluted earnings (loss) per share	$ (0.43)	$ (0.03)	$ 2.63	$ 2.95

See accompanying notes to the interim consolidated financial statements

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

	2005	2004 (Restated)
	(in millions of U.S. dollars)	
Preferred Shares		
Balance – beginning of year and end of period	$ 2	$ 2
Ordinary Shares		
Balance – beginning of year and end of period	12	12
Additional paid-in capital		
Balance – beginning of year	4,905	4,767
Net shares issued under employee stock-based compensation plans	46	43
Exercise of stock options	84	73
Ordinary Shares issued under Employee Stock Purchase Plan	8	8
Other	1	9
Balance – end of period	5,044	4,900
Unearned stock grant compensation		
Balance – beginning of year	(57)	(45)
Net issuance of restricted stock under employee stock-based compensation plans	(70)	(54)
Amortization	42	30
Balance – end of period	(85)	(69)
Retained earnings		
Balance – beginning of year	4,249	3,374
Net income	792	875
Dividends declared on Ordinary Shares	(193)	(173)
Dividends declared on Preferred Shares	(33)	(33)
Balance – end of period	4,815	4,043
Deferred compensation obligation		
Balance – beginning of year	12	17
Increase (decrease) to obligation	(4)	(4)
Balance – end of period	$ 8	$ 13

See accompanying notes to the interim consolidated financial statements

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

	2005	2004 (Restated)
	(in millions of U.S. dollars)	
Accumulated other comprehensive income		
Net unrealized appreciation (depreciation) on investments		
Balance – beginning of year	$ 634	$ 684
Change in period	(287)	(162)
Income tax benefit	54	46
Balance – end of period	401	568
Minimum pension liability		
Balance – beginning of year	(64)	(36)
Change in period	7	2
Income tax expense	(2)	—
Balance – end of period	(59)	(34)
Cumulative translation adjustment		
Balance – beginning of year	164	65
Change in period	(104)	5
Income tax benefit	39	10
Balance – end of period	99	80
Accumulated other comprehensive income	441	614
Ordinary Shares issued to employee trust		
Balance – beginning of year	(12)	(17)
(Increase) decrease in Ordinary Shares	4	4
Balance – end of period	(8)	(13)
Total shareholders' equity	$10,229	$ 9,502

See accompanying notes to the interim consolidated financial statements

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

	2005	2004 (Restated)
	(in millions of U.S. dollars)	
Cash flows from operating activities		
Net income	$ 792	$ 875
Adjustments to reconcile net income to net cash flows from operating activities:		
Net realized (gains) losses	(101)	(67)
Amortization of premium/discounts on fixed maturities	80	80
Deferred income taxes	11	173
Unpaid losses and loss expenses	4,120	2,952
Unearned premiums	403	955
Future policy benefits for life and annuity contracts	12	29
Insurance and reinsurance balances payable	120	470
Accounts payable, accrued expenses and other liabilities	(59)	70
Insurance and reinsurance balances receivable	(356)	(588)
Reinsurance recoverable	(1,533)	(660)
Deferred policy acquisition costs	(43)	(154)
Prepaid reinsurance premiums	(132)	(308)
Funds withheld, net	19	(88)
Value of reinsurance business assumed	33	44
Other	133	288
Net cash flows from operating activities	3,499	4,071
Cash flows used for investing activities		
Purchases of fixed maturities available for sale	(22,172)	(18,283)
Purchases of equity securities	(455)	(838)
Sales and maturities of fixed maturities available for sale	18,755	13,937
Sales of equity securities	348	440
Maturities of fixed maturities held to maturity	117	—
Net proceeds from (payments made on) the settlement of investment derivatives	(2)	14
Sale of subsidiary (net of cash sold of $0 and $82 million)	7	953
Other	(44)	(137)
Net cash flows used for investing activities	(3,446)	(3,914)
Cash flows used for financing activities		
Dividends paid on Ordinary Shares	(187)	(166)
Dividends paid on Preferred Shares	(33)	(33)
Net proceeds from issuance of long-term debt	10	500
Proceeds from exercise of options for Ordinary Shares	84	73
Proceeds from Ordinary Shares issued under ESPP	8	7
Net proceeds from short-term debt	—	(400)
Repayment of trust preferred securities	—	(75)
Net cash flows used for financing activities	(118)	(94)
Effect of foreign currency rate changes on cash and cash equivalents	(24)	1
Net increase (decrease) in cash	(89)	64
Cash – beginning of year	498	559
Cash – end of period	$ 409	$ 623

See accompanying notes to the interim consolidated financial statements

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

1. General

ACE Limited (ACE or the Company) is a holding company incorporated with limited liability under the Cayman Islands Companies Law and maintains its business office in Bermuda. The Company, through its various subsidiaries, provides a broad range of insurance and reinsurance products to insureds worldwide. ACE operates through four business segments: Insurance – North American, Insurance – Overseas General, Global Reinsurance and Financial Services. These segments are described in Note 13.

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

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

ACE restated its financial statements for the years ended December 31, 2004, 2003, 2002, 2001, and 2000, each of the quarters in the years 2003 and 2004, and the quarter ended March 31, 2005. The primary purpose of the restatement was to correct the accounting treatment for eight finite risk transactions. ACE also included in the restatement correction of certain unrelated errors, previously identified but considered to be of an immaterial nature. For additional information see our Annual Report on Form 10-K/A for the year ended December 31, 2004 (Notes 3 and 21 to the Consolidated Financial Statements) for a discussion of the restatement and a reconciliation of previously reported amounts to the restated amounts. All amounts included herein for the prior periods have been adjusted to reflect the restatement.

2. Significant accounting policies

a) Investments

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

b) Stock-based compensation

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

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars, except per share data)			
Net income available to holders of Ordinary Shares:				
As reported	$ (123)	$ (7)	$ 759	$ 842
Add: Stock-based compensation expense included in reported net income, net of income tax	11	8	32	32
Deduct: Compensation expense, net of income tax	14	15	42	57
Pro forma	$ (126)	$ (14)	$ 749	$ 817
Basic earnings (loss) per share:				
As reported	$ (0.43)	$ (0.03)	$ 2.67	$ 3.00
Pro forma	$ (0.44)	$ (0.05)	$ 2.63	$ 2.91
Diluted earnings (loss) per share:				
As reported	$ (0.43)	$ (0.03)	$ 2.63	$ 2.95
Pro forma	$ (0.44)	$ (0.05)	$ 2.59	$ 2.86

The fair value of the options issued is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants for the periods indicated:

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Dividend yield	2.02%	1.85%	1.89%	1.75%
Expected volatility	22.36%	24.31%	22.36%	26.65%
Risk free interest rate	3.97%	3.61%	3.88%	2.77%
Forfeiture rate	5%	5%	5%	5%
Expected life	4 years	4 years	4 years	4 years

c) New accounting pronouncements

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

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

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

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

3. Investments

a) Gross unrealized loss

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

	0 - 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in millions of U.S. dollars)					
U.S. Treasury and agency	$ 2,976	$ (18)	$ 9	$ (4)	$ 2,985	$ (22)
Foreign	2,090	(15)	—	—	2,090	(15)
Corporate securities	6,299	(72)	62	(2)	6,361	(74)
Mortgage-backed securities	5,588	(54)	21	(1)	5,609	(55)
States, municipalities and political subdivisions	311	(2)	—	—	311	(2)
Total fixed maturities	17,264	(161)	92	(7)	17,356	(168)
Equities	513	(24)	—	—	513	(24)
Other investments	20	(2)	—	—	20	(2)
Total	$ 17,797	$ (187)	$ 92	$ (7)	$ 17,889	$ (194)

b) Write-downs by security type

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Fixed maturities	$ (4)	$ (11)	$ (28)	$ (15)
Equity securities	(4)	(3)	(6)	(5)
Other investments	(2)	(10)	(2)	(10)
Total write-downs included in net realized gains (losses)	$ (10)	$ (24)	$ (36)	$ (30)

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

4. Goodwill

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

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

5. Unpaid losses and loss expenses

Property and casualty

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

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

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

	Nine Months Ended September 30	
	2005	2004 (Restated)
	(in millions of U.S. dollars)	
Gross unpaid losses and loss expenses at beginning of year	$ 31,483	$ 27,083
Reinsurance recoverable on unpaid losses	(13,966)	(12,408)
Net unpaid losses and loss expenses at beginning of year	17,517	14,675
Sale of Assured Guaranty	—	(374)
Total	17,517	14,301
Net losses and loss expenses incurred in respect of losses occurring in:		
Current year	6,361	5,491
Prior year	78	(15)
Total	6,439	5,476
Net losses and loss expenses paid in respect of losses occurring in:		
Current year	(1,290)	(872)
Prior year	(2,562)	(2,543)
Total	(3,852)	(3,415)
Foreign currency revaluation and other	(195)	(30)
Net unpaid losses and loss expenses at end of period	19,909	16,332
Reinsurance recoverable on unpaid losses	14,765	13,188
Gross unpaid losses and loss expenses at end of period	$ 34,674	$ 29,520

Net losses and loss expenses incurred were $6.4 billion and $5.5 billion for the period ended September 30, 2005 and 2004, respectively. Net losses and loss expenses incurred for the period ended September 30, 2005 and 2004 include $78 million of adverse prior period development and $15 million of favorable prior period development, respectively. The adverse prior period development in the nine months ended September 30, 2005 was the result of adverse development of $95 million for the Insurance North American segment being partially offset by favorable development for the Insurance Overseas General, Global Reinsurance & Financial Services segments of $4 million, $8 million and $5 million respectively.

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

Insurance – North American incurred net adverse prior period development of $95 million and $99 million in the nine months ended September 30, 2005 and 2004, respectively. The net prior period development for the nine months ended September 30, 2005, was the net result of several underlying favorable and adverse movements, the most significant of which were:

- Favorable development of $105 million on lines with short-tail exposures (property, inland marine, crop hail and workers' compensation catastrophe) resulting from the Company's standard quarterly reserving process that arose from the better than expected emergence of actual claims relative to expectations used to establish reserves. A majority of the favorable development arose from accident year 2004.

ACE LIMITED AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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- Adverse development of $160 million on certain sub-portfolios of long-tail business, written principally during accident years 1998-2002 in our U.S. operations. In particular;
  - Excess general liability business written on major account portfolio ($38 million across accident years 1998 - 2001).
  - Run-off association captive assumed reinsurance business ($13 million in accident years 2001 and prior).
  - Run-off program business from the 1999 and 2000 accident years, aggregate excess workers' compensation exposure, general liability and automobile liability ($59 million in accident years 1999-2002).
  - Voluntary and involuntary assumed business, comprising mostly workers' compensation, and including pool participations ($35 million in accident years 2004 and prior).
  - Professional liability business, mainly related to a run-off nursing care program ($15 million for accident years 1999-2002).

  The development followed completion of reserve studies that reflected higher than anticipated actual loss experience compared with the expected assumptions used to establish reserves. In the instance of the excess general liability and professional liability business, the development arose following the completion of a detailed claims review that identified the need for significant case reserve changes on a small number of accounts.
- Adverse development of $15 million in the ACE Bermuda excess D&O liability book in accident year 2001 following a claims and legal review of information received on several previously notified claims.
- Adverse development of $34 million impacting the 2002 and 2001 accident years relating to changes in the legal and claim positions on financial guarantee business.
- Adverse development of $16 million on a commercial marine portfolio due primarily to higher than expected loss development for accident years 2003 and 2004.

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

Insurance – Overseas General incurred net favorable prior period development of $4 million and $45 million in the nine months ended September 30, 2005 and 2004, respectively. The net prior period development for the nine months ended September 30, 2005, was the net result of several underlying favorable and adverse movements, the most significant of which were:

- Favorable development of $112 million on property, marine, accident & health, technical and energy lines identified as part of the Company's standard quarterly reserving process and which arose from the better than expected emergence of actual claims relative to expectations. This movement related mainly to the 2003 and 2004 accident years.
- Adverse development of $41 million on ACE's share of a consortium that reinsured U.S. workers compensation business across the 1995-1999 underwriting years. The adverse development arose following the completion of a financial and actuarial review of updated bordereaux information received from the client.
- Adverse development of $53 million on professional lines business, primarily driven by exposures in the financial services industry from underwriting years 1999 to 2002. Approximately $17 million of this movement was due to a settlement on a high excess policy made in this quarter. The balance was the result of detailed reviews covering a number of major incidents coupled with higher than expected loss development.

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- Adverse development of $7 million on discontinued lines arising from re-evaluation of ceded reinsurance on an individual claim on the 2000 accident year.
- Adverse development of $16 million on a political risk policy with Argentine exposure from 2002. This movement followed an unfavorable arbitration ruling within the quarter.

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

Global Reinsurance incurred net favorable prior period development of $8 million and $48 million in the nine months ended September 30, 2005 and 2004, respectively. The net prior period development for the nine months ended September 30, 2005, was the net result of several offsetting favorable and adverse movements on reserves established following catastrophe events for property and property catastrophe lines of business. These movements were identified as part of the Company’s standard quarterly reserving process and included $28 million of adverse prior period development on the third quarter 2004 storms principally related to increased loss estimates on certain previously reported claims and $36 million of miscellaneous favorable development on accident years 2004 and prior. The net prior period development for the nine months ended September 30, 2004 related primarily to property, property catastrophe and other short-tail lines.

Financial Services incurred net favorable prior period development of $5 million and $21 million in the nine months ended September 30, 2005 and 2004, respectively. The net prior period development for the nine months ended September 30, 2005, was the net result of several underlying modest favorable and adverse movements but primarily related to a significant reduction of outstanding balances on a securitized portfolio of credit card receivables following an analysis of recent collection experience. The net prior period development for the nine months ended September 30, 2004, related primarily to favorable development on a high excess of loss assumed multi-year contract and loss portfolio business, partially offset by adverse development on two assumed reinsurance contracts and on credit business.

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6. Reinsurance

a) *Consolidated reinsurance*

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Premiums written				
Direct	$ 3,241	$ 3,374	$10,109	$ 10,118
Assumed	1,020	614	2,908	2,330
Ceded	(1,372)	(1,214)	(3,853)	(3,593)
Net	$ 2,889	$ 2,774	$ 9,164	$ 8,855
Premiums earned				
Direct	$ 3,389	$ 3,375	$ 9,865	$ 9,635
Assumed	1,085	665	2,743	1,885
Ceded	(1,383)	(1,181)	(3,719)	(3,291)
Net	$ 3,091	$ 2,859	$ 8,889	$ 8,229

b) *Reinsurance recoverable on ceded reinsurance*

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

	September 30 2005	December 31 2004
	(in millions of U.S. dollars)	
Reinsurance recoverable on paid losses and loss expenses	$ 1,174	$ 1,210
Bad debt reserve on paid losses and loss expenses	(290)	(309)
Reinsurance recoverable on future policy benefits	13	15
Reinsurance recoverable on unpaid losses and loss expenses	15,254	14,585
Bad debt reserve on unpaid losses and loss expenses	(489)	(619)
Net reinsurance recoverable	$ 15,662	$ 14,882

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

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

	September 30, 2005			December 31, 2004		
Category	**Amount**	**Bad Debt Reserve**	**% of Total Reserve**	**Amount**	**Bad Debt Reserve**	**% of Total Reserve**
			(in millions of U.S. dollars)			
General collections	$ 695	$ 31	4.5%	$ 716	$ 37	5.2%
Other	479	259	54.1%	494	272	55.1%
Total	$ 1,174	$ 290	24.7%	$ 1,210	$ 309	25.5%

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

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

c) Reinsurance programs involving minimum benefit guarantees under annuity contracts

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

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

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
	(in millions of U.S. dollars)			
GMDB				
Net premiums earned	$ 17	$ 12	$ 51	$ 32
Life and annuity benefits expense	$ 4	$ 6	$ 24	$ 14
GMIB				
Net premiums earned	$ 21	$ 17	$ 63	$ 46
Life and annuity benefits expense	$ (2)	$ 8	—	$ 18
Realized gains (losses)	$ 7	$ (41)	$ 13	$ (51)

At September 30, 2005, reported liabilities for GMDB and GMIB reinsurance were $51 million and $15 million, respectively, compared with $31 million and $29 million, respectively, at December 31, 2004. Reported liabilities for both GMDB and GMIB reinsurance are determined using internal valuation models. Such valuations require considerable judgment and are subject to significant uncertainty. The valuation of these products is subject to fluctuations arising from, among other factors, changes in interest rates, changes in the equity markets, and changes in the allocation of the investments underlying annuitant's account value. These models and the related assumptions are continually reviewed by management and enhanced, as appropriate, based upon improvements in modeling techniques and availability of more timely information, such as market conditions and demographics of in-force annuities.

At September 30, 2005, the Company's net amount at risk from its GMDB and GMIB reinsurance programs was $452 million and $16 million, respectively. For the GMDB programs, the net amount at risk is defined as the excess, if any, of the current guaranteed value over the current account value. For the GMIB programs, the net amount at risk is defined as the excess, if any, of the present value of the minimum guaranteed annuity payments over the present value of the annuity payments assumed (under the terms of the reinsurance contract) to be available to each policyholder.

7. Commitments, contingencies and guarantees

a) Other investments

The Company invests in limited partnerships with a carrying value of $108 million included in other investments. In connection with these investments, the Company has commitments that may require funding of up to $201 million over the next several years.

b) Credit facilities

On July 1, 2005, the Company replaced two letter of credit facilities which in aggregate permitted up to $1.35 billion of LOCs with two new letter of credit facilities permitting up to $1.5 billion of LOCs.

c) Legal proceedings

(i) Claims and Other Litigation

The Company's insurance subsidiaries are subject to claims litigation involving disputed interpretations of policy coverages and, in some jurisdictions, direct actions by allegedly-injured persons seeking damages from policyholders. These lawsuits, involving claims on policies issued by the Company's subsidiaries which are typical to the insurance industry in general and in the normal course of business, are considered in the Company's loss and loss expense reserves which are discussed in the P&C loss reserves discussion. In addition to claims litigation, the Company and its subsidiaries are subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance policies. This category of business litigation typically involves, inter alia, allegations of underwriting errors or misconduct, employment claims, regulatory activity or disputes arising from business ventures. In the opinion of ACE's management, ACE's ultimate liability for these matters is not likely to have a material adverse effect on ACE's consolidated financial

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condition, although it is possible that the effect could be material to ACE's consolidated results of operations for an individual reporting period.

(ii) Subpoenas

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

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

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

(iii) Business practice-related litigation

On September 22, 2005, ACE and the Office of the Attorney General for the State of Connecticut separately announced that ACE had resolved its liability in connection with a lawsuit brought by the Attorney General. The settlement required ACE to make a payment of $40,000 to the State of Connecticut. The settlement did not entail any admission of wrongdoing by ACE. The claims brought by the Connecticut Attorney General related to certain alleged underwriting practices in connection with a loss portfolio transfer of Connecticut workers compensation claims which ACE will continue to administer.

ACE, ACE INA Holdings, Inc. and ACE USA, along with a number of other insurers, were named in a series of federal putative nationwide class actions brought by insurance policyholders. The Judicial Panel on Multidistrict Litigation (JPML) consolidated these cases in the District of New Jersey. Two related state court cases, *Palm Tree Computers Systems, Inc. et al. v. ACE USA et al* .(Case No. 6:05-cv-418-ACC-JGG; Eighteenth Judicial Circuit in and for Seminole County, Florida) and *Bensley Construction, Inc. et al. v. Marsh & McLennan Companies, Inc.* (Case No. 2005-00277; D. Mass.), were removed to federal court and are the subject of pending motions to remand.

Illinois Union Insurance Company, an ACE subsidiary, has been named in a state court class action: *Van Emden Management Corporation v. Marsh & McLennan Companies, Inc., et al.* (Case No. 05-0066A; Superior Court of Massachusetts) (filed January 13, 2005). ACE American Insurance Co., an ACE subsidiary, has been named in a state court lawsuit in Florida: *Office Depot, Inc. v. Marsh & McLennan Companies, Inc. et al.* (Case No. 502005CA004396; Circuit Court of the 15th Judicial Circuit in Palm Beach County Florida) (filed June 22, 2005). The allegations in these cases are similar to the allegations in the federal class actions identified above. The Court has stayed the *Van Emden* case pending resolution of the consolidated proceedings in the District of New Jersey or until further order of the Court.

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

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

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

ACE was named in four putative securities class action suits following the filing of the civil suit against Marsh by the NYAG on October 14, 2004. The suits were consolidated by the JPML in the Eastern District of Pennsylvania The Court has appointed as lead plaintiffs Sheet Metal Workers' National Pension Fund and Alaska Ironworkers Pension Trust. Lead plaintiffs filed a consolidated amended complaint on September 30, 2005, naming ACE Limited, Evan G. Greenberg, Brian Duperreault, and Philip V. Bancroft as defendants. Plaintiffs assert claims solely under Section 10(b) of the Securities Exchange Act of 1934 (the Exchange Act), Rule 10b-5 promulgated thereunder, and Section 20(a) of the Securities Act (control person liability). Plaintiffs allege that the ACE's public statements and securities filings should have revealed that insurers, including certain ACE entities and brokers, allegedly conspired to increase premiums and allocate customers through the use of "B" quotes and contingent commissions and that the ACE's revenues and earnings were inflated by these practices.

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

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

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All of these suits seek compensatory damages without specifying an amount. As a result, ACE cannot at this time estimate its potential costs related to these legal matters and accordingly no liability for compensatory damages has been established in the Consolidated Financial Statements. The nine months ended September 30, 2005, includes approximately $39 million of investigation related legal expenses. As of September 30, 2005, ACE has paid and accrued over $49 million for legal related fees since the investigation began.

8. Debt

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

	September 30 2005	December 31 2004
	(in millions of U.S. dollars)	
Short-term debt		
Reverse Repurchase Agreements	$ 146	$ 146
ACE INA Notes due 2006	300	—
	446	146
Long-term debt		
ACE INA Notes due 2006	—	300
ACE Limited Senior Notes due 2007	500	500
ACE US Holdings Senior Notes due 2008	250	250
ACE INA Subordinated Notes due 2009	200	200
ACE INA Senior Notes due 2014	499	499
ACE INA Debentures due 2029	100	100
Other	15	—
	1,564	1,849
Trust preferred securities		
ACE INA Trust Preferred Securities due 2029	103	103
ACE INA Capital Securities due 2030	309	309
	$ 412	$ 412

a) Short-term debt

The Company has commercial paper programs that use revolving credit facilities as back-up facilities and provide for up to $600 million in commercial paper issuance for each of ACE and ACE INA (subject to the availability of back-up facilities, which currently total $600 million). At September 30, 2005, short-term debt consisted of $446 million. This included amounts owed to brokers under securities repurchase transactions and the $300 million senior notes due August 2006.

b) Long-term debt-other

In August 2005, due to favorable low-interest terms, ACE American borrowed $10 million from the Pennsylvania Industrial Development Authority (PIDA) at a rate of 2.75% due September 1, 2020. The proceeds from PIDA were restricted for purposes of defraying construction cost **s** on a new office building. Principle and interest are payable on a monthly basis. The current balance outstanding is $10 million.

In addition, in 1999, ACE American assumed a CIGNA loan from the City of Philadelphia under the Urban Development Action Grant (UDAG) with an imputed rate of 8.75% due December 31, 2019. The current amount outstanding is $4.7 million. This loan was previously classified in other liabilities.

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9. Employee benefit plans

a) Defined benefit plans

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
	(in millions of U.S. dollars)			
Components of net benefit cost				
Service cost	$ 2	$ 1	$ 6	$ 4
Interest cost	5	4	15	12
Expected return on plan assets	(4)	(3)	(11)	(10)
Amortization of net actuarial loss	2	1	5	4
Net benefit cost	$ 5	$ 3	$ 15	$ 10

b) Restricted stock awards

Under the Company's long-term incentive plans, 1,773,990 and 1,591,251 restricted Ordinary Shares were awarded during the nine months ended September 30, 2005 and 2004, respectively, to officers of the Company and its subsidiaries. These shares vest at various dates through 2009. In addition, during the nine months ended September 30, 2005 and 2004, respectively, 24,856 and 30,361 restricted ordinary units were awarded to outside directors under the terms of the 1995 outside Directors Plan. The units issued in 2004 vested during the current year while the 2005 issuances will vest in 2006.

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

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10. Earnings per share

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars, except share and per share data)			
Numerator:				
Net income	$ (112)	$ 4	$ 792	$ 875
Dividends on Preferred Shares	(11)	(11)	(33)	(33)
Net income available to holders of Ordinary Shares	$ (123)	$ (7)	$ 759	$ 842
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares outstanding	284,777,017	280,993,760	284,016,708	279,988,076
Effect of other dilutive securities	—	—	4,704,056	5,298,054
Denominator for diluted earnings per share:				
Adjusted weighted average shares outstanding and assumed conversions	284,777,017	280,993,760	288,720,764	285,286,130
Basic earnings (loss) per share	$ (0.43)	$ (0.03)	$ 2.67	$ 3.00
Diluted earnings (loss) per share	$ (0.43)	$ (0.03)	$ 2.63	$ 2.95

The denominator for diluted loss per share for the three months ended September 30, 2005 and 2004 does not include the dilutive effect of other dilutive securities. The incremental shares from assumed conversions are not included in computing diluted loss per share amounts as these shares are considered anti-dilutive. Other anti-dilutive securities totaled 5,060,953 shares for the three months ended September 30, 2005 and 4,623,319 shares for the three months ended September 30, 2004.

11. Taxation

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

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

ACE Prime Holdings and its respective subsidiaries are subject to income taxes imposed by U.S. authorities and file a consolidated U.S. tax return. Should ACE Prime Holdings pay a dividend to the Company, withholding taxes will apply. Currently, however, no withholding taxes are accrued with respect to such unremitted earnings as management has no

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intention of subjecting these earnings to withholding tax. The cumulative amount that would be subject to withholding tax if distributed, as well as the determination of the associated tax liability are not practicable to compute, however, such amount would be material to the Company. Certain international operations of the Company are also subject to income taxes imposed by the jurisdictions in which they operate.

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Current tax expense	$ 86	$ 40	$ 258	$ 145
Deferred tax expense	(71)	25	11	173
Provision for income taxes	$ 15	$ 65	$ 269	$ 318

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Expected tax provision at weighted average rate	$ 12	$ 65	$ 285	$ 279
Permanent differences				
Tax-exempt interest and DRD, net of proration	(2)	(1)	(5)	(8)
American Job Creation Act	—	—	(27)	—
Other	1	—	7	2
Sale of Assured Guaranty	—	—	—	35
Goodwill	—	—	—	4
Net withholding taxes	4	1	9	6
Total provision for income taxes	$ 15	$ 65	$ 269	$ 318

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

	September 30 2005	December 31 2004
	(in millions of U.S. dollars)	
Deferred tax assets		
Loss reserve discount	$ 664	$ 607
Unearned premium reserve	154	143
Foreign tax credits	582	432
Investments	128	127
Bad debts	131	171
Net operating loss carry-forward	79	228
Other, net	137	73
Total deferred tax assets	1,875	1,781
Deferred tax liabilities		
Deferred policy acquisition costs	130	132
Unrealized appreciation on investments	81	135
Unremitted foreign earnings	333	251
Total deferred tax liabilities	544	518
Valuation allowance	87	90
Net deferred tax asset	$ 1,244	$ 1,173

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

At September 30, 2005, the Company has net operating loss carryforwards for U.S. federal income tax purposes of approximately $226 million. The net operating loss carryforwards are available to offset future U.S. federal taxable income and, if unutilized, will expire in the year 2022. In addition, the Company has a foreign tax credit carryforward in the amount of $61 million which, if unutilized, will expire in the years 2011-2015. The Company has an alternative minimum tax credit carryforward of $27.6 million which can be carried forward indefinitely.

American Jobs Creation Act of 2004

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

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

During the three months ended September 30, 2005, the Company did not repatriate any additional foreign earnings. During the nine months ended September 30, 2005, the Company repatriated foreign earnings of approximately $367 million subject to Domestic Reinvestment Plans that would qualify under the Act based on the guidance issued to date. Of the $367 million

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repatriated foreign earnings to date, approximately $250 million will qualify for preferential tax treatment. For the nine months ended September 30, 2005, the tax benefit associated with these repatriations was $27 million and was a result of the reduction of the net deferred tax liability associated with these repatriated earnings, based on guidance issued to date.

Additional earnings repatriations up to the limitation under the Act of $500 million may be completed through the remainder of 2005. Based on guidance issued to date, the Company is evaluating potential additional repatriations and is not in a position to complete the evaluation or determine the total associated tax impact as a result of the Act. However, based on its analysis to date, it is possible that the Company may ultimately repatriate up to an additional $250 million, up to the limitation of qualifying dividends, with an associated tax benefit of up to $47 million. The Company expects to finalize its assessment during the fourth quarter of 2005.

12. Information provided in connection with outstanding debt of subsidiaries

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

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

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations [1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Assets					
Investments	$ 116	$ 15,937	$ 13,922	$ —	$ 29,975
Cash	21	162	226	—	409
Insurance and reinsurance balances receivable	—	2,561	947	—	3,508
Reinsurance recoverable	—	14,517	1,145	—	15,662
Goodwill	—	2,221	482	—	2,703
Investments in subsidiaries	10,640	—	—	(10,640)	—
Due (to) from subsidiaries and affiliates, net	152	(255)	255	(152)	—
Other assets	25	5,565	2,698	—	8,288
Total assets	$ 10,954	40,708	$ 19,675	$ (10,792)	$ 60,545
Liabilities					
Unpaid losses and loss expenses	$ —	$ 25,119	$ 9,555	$ —	$ 34,674
Unearned premiums	—	4,666	1,572	—	6,238
Future policy benefits for life and annuity contracts	—	—	521	—	521
Short-term debt	—	300	146	—	446
Long-term debt	500	814	250	—	1,564
Trust preferred securities	—	412	—	—	412
Other liabilities	225	4,429	1,807	—	6,461
Total liabilities	725	35,740	13,851	—	50,316
Total shareholders' equity	10,229	4,968	5,824	(10,792)	10,229
Total liabilities and shareholders' equity	$ 10,954	$ 40,708	$ 19,675	$ (10,792)	$ 60,545

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

(2) Includes ACE Limited parent company eliminations.

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

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	Consolidating Adjustments (2)	ACE Limited Consolidated
Assets					
Investments	$ 82	$ 13,804	$ 13,039	$ —	$ 26,925
Cash	6	225	267	—	498
Insurance and reinsurance balances receivable	—	2,508	747	—	3,255
Reinsurance recoverable	—	13,780	1,102	—	14,882
Goodwill	—	2,213	487	—	2,700
Investments in subsidiaries	10,509	—	—	(10,509)	—
Other assets	36	5,629	2,258	—	7,923
Total assets	$ 10,633	$ 38,159	$ 17,900	$ (10,509)	$ 56,183
Liabilities					
Unpaid losses and loss expenses	$ —	$ 23,259	$ 8,224	$ —	$ 31,483
Unearned premiums	—	4,448	1,535	—	5,983
Future policy benefits for life and annuity contracts	—	—	509	—	509
Due to (from)subsidiaries and affiliates, net	124	164	(164)	(124)	—
Short-term debt	—	—	146	—	146
Long-term debt	500	1,099	250	—	1,849
Trust preferred securities	—	412	—	—	412
Other liabilities	164	4,308	1,484	—	5,956
Total liabilities	788	33,690	11,984	(124)	46,338
Total shareholders’ equity	9,845	4,469	5,916	(10,385)	9,845
Total liabilities and shareholders’ equity	$ 10,633	$ 38,159	$ 17,900	$ (10,509)	$ 56,183

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

(2) Includes ACE Limited parent company eliminations.

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

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	Consolidating Adjustments (2)	ACE Limited Consolidated
Net premiums written	$ —	$ 1,642	$ 1,247	$ —	$ 2,889
Net premiums earned	—	1,755	1,336	—	3,091
Net investment income	1	171	148	—	320
Equity in earnings of subsidiaries	(110)	—	—	110	—
Net realized gains (losses)	37	21	25	—	83
Losses and loss expenses	—	1,347	1,459	—	2,806
Life and annuity benefits	—	—	33	—	33
Policy acquisition costs and administrative expenses	35	407	302	(10)	734
Interest expense	4	35	3	1	43
Other (income) expense	—	(1)	(24)	—	(25)
Income tax expense (benefit)	1	59	(45)	—	15
Net income (loss)	$ (112)	$ 100	$ (219)	$ 119	$ (112)

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

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	Consolidating Adjustments (2)	ACE Limited Consolidated
Net premiums written	$ —	$ 1,741	$ 1,033	$ —	$ 2,774
Net premiums earned	—	1,688	1,171	—	2,859
Net investment income	—	129	117	—	246
Equity in earnings of subsidiaries	46	—	—	(46)	—
Net realized gains (losses)	(4)	5	(33)	—	(32)
Losses and loss expenses	—	1,210	1,011	—	2,221
Life and annuity benefits	—	—	48	—	48
Policy acquisition costs and administrative expenses	32	389	281	(3)	699
Interest expense	6	37	8	(1)	50
Other (income) expense	—	(5)	(9)	—	(14)
Income tax expense (benefit)	—	66	(1)	—	65
Net income (loss)	$ 4	$ 125	$ (83)	$ (42)	$ 4

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

(2) Includes ACE Limited parent company eliminations.

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	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations [1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net premiums written	$ —	$ 5,380	$ 3,784	$ —	$ 9,164
Net premiums earned	—	5,192	3,697	—	8,889
Net investment income	1	471	438	—	910
Equity in earnings of subsidiaries	929	—	—	(929)	—
Net realized gains (losses)	(20)	61	60	—	101
Losses and loss expenses	—	3,550	2,889	—	6,439
Life and annuity benefits	—	—	105	—	105
Policy acquisition costs and administrative expenses	101	1,242	888	(28)	2,203
Interest expense	16	98	15	(1)	128
Other (income) expense	—	—	(36)	—	(36)
Income tax expense (benefit)	1	271	(3)	—	269
Net income	$ 792	$ 563	$ 337	$ (900)	$ 792

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

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations [1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net premiums written	$ —	$ 5,200	$ 3,655	$ —	$ 8,855
Net premiums earned	—	4,610	3,619	—	8,229
Net investment income	6	345	384	(4)	731
Equity in earnings of subsidiaries	965	—	—	(965)	—
Net realized gains (losses)	9	32	26	—	67
Losses and loss expenses	—	3,094	2,382	—	5,476
Life and annuity benefits	—	—	134	—	134
Policy acquisition costs and administrative expenses	86	1,093	912	(9)	2,082
Interest expense	18	104	21	(3)	140
Other (income) expense	—	—	2	—	2
Income tax expense	1	243	74	—	318
Net income	$ 875	$ 453	$ 504	$ (957)	$ 875

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

(2) Includes ACE Limited parent company eliminations.

ACE LIMITED AND SUBSIDIARIES
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Condensed Consolidating Statement of Cash Flows
For the nine months ended September 30, 2005
(in millions of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations [(1)]	ACE Limited Consolidated
Net cash flows from (used for) operating activities	$ (48)	$ 2,087	$ 1,460	$ 3,499
Cash flows from (used for) investing activities				
Purchases of fixed maturities available for sale	—	(10,923)	(11,249)	(22,172)
Purchases of equity securities	—	(236)	(219)	(455)
Sales of fixed maturities available for sale	—	8,453	10,302	18,755
Maturities of fixed maturities held to maturity	—	—	117	117
Sales of equity securities	—	206	142	348
Net proceeds from (payments made on) the settlement of investment derivatives	(20)	—	18	(2)
Capitalization of subsidiaries	(100)	100	—	—
Dividends received from subsidiaries	580	—	(580)	—
Sale of subsidiary	—	—	7	7
Other	—	72	(116)	(44)
Net cash flows from (used for) investing activities	$ 460	$ (2,328)	$ (1,578)	$ (3,446)
Cash flows from (used for) financing activities				
Dividends paid on Ordinary Shares	(187)	—	—	(187)
Dividends paid on Preferred Shares	(33)	—	—	(33)
Net proceeds from issuance of long-term debt	—	10	—	10
Proceeds from exercise of options for Ordinary Shares	84	—	—	84
Proceeds from Ordinary Shares issued under ESPP	8	—	—	8
Advances (to) from affiliates	(269)	185	84	—
Net cash flows from (used for) financing activities	$ (397)	$ 195	$ 84	$ (118)
Effect of foreign currency rate changes on cash and cash equivalents	$ —	$ (17)	$ (7)	$ (24)
Net increase in cash	15	(63)	(41)	(89)
Cash – beginning of period	6	225	267	498
Cash – end of period	$ 21	$ 162	$ 226	$ 409

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

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Condensed Consolidating Statement of Cash Flows
For the nine months ended September 30, 2004
(in millions of U.S. dollars)
(Restated)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations (1)	ACE Limited Consolidated
Net cash flows from (used for) operating activities	$ (10)	$ 2,294	$ 1,787	$ 4,071
Cash flows used for investing activities				
Purchases of fixed maturities available for sale	(12)	(8,385)	(9,886)	(18,283)
Purchases of equity securities	—	(387)	(451)	(838)
Sales of fixed maturities available for sale	28	5,829	8,080	13,937
Sales of equity securities	—	322	118	440
Net proceeds from the settlement of investment derivatives	9	—	5	14
Capitalization of subsidiaries	(637)	365	272	—
Dividends received from subsidiaries	452	—	(452)	—
Sale of subsidiary (net of cash sold)	—	—	953	953
Other	—	(24)	(113)	(137)
Net cash flows used for investing activities	$ (160)	$ (2,280)	$ (1,474)	$ (3,914)
Cash flows from (used for) financing activities				
Dividends paid on Ordinary Shares	(166)	—	—	(166)
Dividends paid on Preferred Shares	(33)	—	—	(33)
Net proceeds from long-term debt	—	500	—	500
Net proceeds from short-term debt	—	(400)	—	(400)
Proceeds from exercise of options for Ordinary Shares	73	—	—	73
Proceeds from Ordinary Shares issued under ESPP	7	—	—	7
Advances (to) from affiliates	269	51	(320)	—
Repayment of trust preferred securities	—	—	(75)	(75)
Net cash flows from (used for) financing activities	$ 150	$ 151	$ (395)	$ (94)
Effect of foreign currency rate changes on cash and cash equivalents	$ —	$ 1	$ —	$ 1
Net increase in cash	(20)	166	(82)	64
Cash – beginning of period	27	165	367	559
Cash – end of period	$ 7	$ 331	$ 285	$ 623

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

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13. Segment information

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

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

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

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

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

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

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

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

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

	Insurance – North American	Insurance - Overseas General	Global Reinsurance	Corporate and Other	Consolidated Property & Casualty [1]	Financial Services	ACE Consolidated
Gross premiums written	$ 2,250	$ 1,332	$ 411	$ —	$ 3,993	$ 211	$ 4,204
Net premiums written	1,307	933	380	—	2,620	212	2,832
Net premiums earned	1,338	1,031	408	—	2,777	257	3,034
Losses and loss expenses	1,173	687	637	(1)	2,496	310	2,806
Policy acquisition costs	134	207	78	—	419	2	421
Administrative expenses	96	145	16	46	303	3	306
Underwriting income (loss)	(65)	(8)	(323)	(45)	(441)	(58)	(499)
Life							
Gross premiums written	—	—	57	—	—	—	57
Net premiums written	—	—	57	—	—	—	57
Net premiums earned	—	—	57	—	—	—	57
Life and annuity benefits	—	—	33	—	—	—	33
Policy acquisition costs	—	—	5	—	—	—	5
Administrative expenses	—	—	2	—	—	—	2
Net investment income	—	—	10	—	—	—	10
Underwriting income	—	—	27	—	—	—	27
Net investment income	139	82	45	9	275	35	310
Net realized gains (losses)	10	17	12	37	76	7	83
Interest expense	6	—	1	36	43	—	43
Other (income) expense	(1)	5	1	—	5	(30)	(25)
Income tax expense (benefit)	10	22	(12)	(15)	5	10	15
Net income (loss)	$ 69	$ 64	$ (229)	$ (20)	$ (143)	$ 4	$ (112)

(1) Excludes life reinsurance business.

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

	Insurance – North American	Insurance - Overseas General	Global Reinsurance	Corporate and Other	Consolidated Property & Casualty [(1)]	Financial Services	ACE Consolidated
Gross premiums written	$ 2,234	$ 1,292	$ 334	$ —	$ 3,860	$ 68	$ 3,928
Net premiums written	1,366	980	301	—	2,647	68	2,715
Net premiums earned	1,251	1,086	351	—	2,688	111	2,799
Losses and loss expenses	998	665	436	6	2,105	116	2,221
Policy acquisition costs	121	199	65	—	385	2	387
Administrative expenses	110	139	16	36	301	4	305
Underwriting income (loss)	22	83	(166)	(42)	(103)	(11)	(114)
Life							
Gross premiums written	—	—	60	—	—	—	60
Net premiums written	—	—	59	—	—	—	59
Net premiums earned	—	—	60	—	—	—	60
Life and annuity benefits	—	—	48	—	—	—	48
Policy acquisition costs	—	—	6	—	—	—	6
Administrative expenses	—	—	1	—	—	—	1
Net investment income	—	—	8	—	—	—	8
Underwriting income	—	—	13	—	—	—	13
Net investment income	123	51	32	3	209	29	238
Net realized gains (losses)	9	2	(35)	(6)	(30)	(2)	(32)
Interest expense	6	—	—	42	48	2	50
Other (income) expense	(3)	3	—	—	—	(14)	(14)
Income tax expense (benefit)	48	34	(1)	(17)	64	1	65
Net income (loss)	$ 103	$ 99	$ (155)	$ (70)	$ (36)	$ 27	$ 4

(1) Excludes life reinsurance business.

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

	Insurance – North American	Insurance - Overseas General	Global Reinsurance	Corporate and Other	Consolidated Property & Casualty (1)	Financial Services	ACE Consolidated
Gross premiums written	$ 6,744	$ 4,396	$ 1,316	$ —	$ 12,456	$ 389	$ 12,845
Net premiums written	4,144	3,190	1,270	—	8,604	388	8,992
Net premiums earned	3,942	3,200	1,136	—	8,278	439	8,717
Losses and loss expenses	3,013	1,907	1,048	8	5,976	463	6,439
Policy acquisition costs	381	616	228	—	1,225	5	1,230
Administrative expenses	318	435	47	141	941	14	955
Underwriting income (loss)	230	242	(187)	(149)	136	(43)	93
Life							
Gross premiums written	—	—	172	—	—	—	172
Net premiums written	—	—	172	—	—	—	172
Net premiums earned	—	—	172	—	—	—	172
Life and annuity benefits	—	—	105	—	—	—	105
Policy acquisition costs	—	—	13	—	—	—	13
Administrative expenses	—	—	5	—	—	—	5
Net investment income	—	—	29	—	—	—	29
Underwriting income	—	—	78	—	—	—	78
Net investment income	412	236	124	12	784	97	881
Net realized gains (losses)	13	69	23	(20)	85	16	101
Interest expense	16	—	2	110	128	—	128
Other (income) expense	—	16	3	—	19	(55)	(36)
Income tax expense (benefit)	171	122	6	(53)	246	23	269
Net income (loss)	$ 468	$ 409	$ 27	$ (214)	$ 612	$ 102	$ 792

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

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

	Insurance – North American	Insurance - Overseas General	Global Reinsurance	Corporate and Other	Consolidated Property & Casualty [1]	Financial Services	ACE Consolidated
Gross premiums written	$ 6,241	$ 4,466	$ 1,281	$ —	$ 11,988	$ 291	$ 12,279
Net premiums written	3,907	3,256	1,238	—	8,401	289	8,690
Net premiums earned	3,436	3,174	1,030	—	7,640	424	8,064
Losses and loss expenses	2,532	1,878	769	6	5,185	291	5,476
Policy acquisition costs	333	579	203	—	1,115	22	1,137
Administrative expenses	323	416	50	98	887	38	925
Underwriting income (loss)	248	301	8	(104)	453	73	526
Life							
Gross premiums written	—	—	169	—	—	—	169
Net premiums written	—	—	165	—	—	—	165
Net premiums earned	—	—	165	—	—	—	165
Life and annuity benefits	—	—	134	—	—	—	134
Policy acquisition costs	—	—	17	—	—	—	17
Administrative expenses	—	—	3	—	—	—	3
Net investment income	—	—	24	—	—	—	24
Underwriting income	—	—	35	—	—	—	35
Net investment income (loss)	337	159	88	5	589	118	707
Net realized gains (losses)	91	29	(33)	9	96	(29)	67
Interest expense	16	—	—	119	135	5	140
Other (income) expense	3	10	—	(1)	12	(10)	2
Income tax expense (benefit)	182	145	3	(44)	286	32	318
Net income (loss)	$ 475	$ 334	$ 95	$ (164)	$ 705	$ 135	$ 875

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

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

	September 30 2005	December 31 2004
	(in millions of U.S. dollars)	
Life reinsurance	$ 915	$ 749
Corporate	2,212	2,125
All other	57,418	53,309
Total assets	$ 60,545	$ 56,183

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

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

Net premiums earned by type of premium

	Property & Casualty	Life, Accident & Health	Financial Services	ACE Consolidated
		(in millions of U.S. dollars)		
Three Months Ended September 30, 2005				
Insurance – North American	$ 1,293	$ 45	$ —	$ 1,338
Insurance – Overseas General	760	271	—	1,031
Global Reinsurance	408	57	—	465
Financial Services	—	—	257	257
	$ 2,461	$ 373	$ 257	$ 3,091
Three Months Ended September 30, 2004 (Restated)				
Insurance – North American	$ 1,207	$ 44	$ —	$ 1,251
Insurance – Overseas General	840	246	—	1,086
Global Reinsurance	351	60	—	411
Financial Services	—	—	111	111
	$ 2,398	$ 350	$ 111	$ 2,859
Nine Months Ended September 30, 2005				
Insurance – North American	$ 3,805	$ 137	$ —	$ 3,942
Insurance – Overseas General	2,409	791	—	3,200
Global Reinsurance	1,136	172	—	1,308
Financial Services	—	—	439	439
	$ 7,350	$ 1,100	$ 439	$ 8,889
Nine Months Ended September 30, 2004 (Restated)				
Insurance – North American	$ 3,306	$ 130	$ —	$ 3,436
Insurance – Overseas General	2,468	706	—	3,174
Global Reinsurance	1,030	165	—	1,195
Financial Services	—	—	424	424
	$ 6,804	$ 1,001	$ 424	$ 8,229

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

Nine Months Ended	North America	Europe	Australia & New Zealand	Asia Pacific	Latin America
September 30, 2005	61%	25%	3%	7%	4%
September 30, 2004	64%	22%	3%	7%	4%

14. Subsequent Events

On October 4, 2005, ACE completed a public offering of 32.91 million Ordinary Shares (which included the over-allotment option of 4.29 million Ordinary Shares) at a price per share of $45.58, for total gross proceeds of approximately $1.5 billion. ACE expects to use the net proceeds of the offering for growth opportunities in the global insurance and reinsurance markets.

In October 2005, Hurricane Wilma made several landfalls, with the most destructive effects experienced in the Yucatan Peninsula, Mexico, Cuba and Florida. While the Company has exposure to losses from Hurricane Wilma, no reasonable estimate of losses can be made at this time.

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

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

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

- losses arising out of hurricanes and flooding which could be affected by:
  - the number of insureds and ceding companies affected,
  - the amount and timing of losses actually incurred and reported by insureds,
  - the preliminary nature of reports and estimates of loss to date,
  - communication and access issues,
  - the impact of these losses on our reinsurers,
  - the cost of building materials and labor,
  - the amount and timing of reinsurance recoverables actually received, and
  - complex coverage and regulatory issues such as whether losses occurred from storm surge or flooding and related lawsuits;
- actions that rating agencies may take from time to time, such as changes in our claims-paying ability, financial strength or credit ratings or placing these ratings on credit watch negative or the equivalent;
- global political conditions, the occurrence of any terrorist attacks, including any nuclear, biological or chemical events, or the outbreak and effects of war, and possible business disruption or economic contraction that may result from such events;
- the ability to collect reinsurance recoverables, credit developments of reinsurers, and any delays with respect thereto and changes in the cost, quality or availability of reinsurance;
- the occurrence of catastrophic events or other insured or reinsured events with a frequency or severity exceeding our estimates;
- actual loss experience from insured or reinsured events and the timing of claim payments;
- the uncertainties of the loss-reserving and claims-settlement processes, including the difficulties associated with assessing environmental damage and asbestos-related latent injuries, the impact of aggregate-policy-coverage limits, and the impact of bankruptcy protection sought by various asbestos producers and other related businesses and the timing of loss payments;
- judicial decisions and rulings, new theories of liability, and legal tactics;
- the effects of public company bankruptcies and/or accounting restatements, as well as disclosures by and investigations of public companies relating to possible accounting irregularities, and other corporate governance issues, including the effects of such events on:
  - the capital markets;

    - the markets for directors and officers and errors and omissions insurance; and
    - claims and litigation arising out of such disclosures or practices by other companies;
- uncertainties relating to governmental, legislative and regulatory policies, developments, actions, investigations and treaties, which, among other things, could subject us to insurance regulation or taxation in additional jurisdictions or affect our current operations;
- the actual amount of new and renewal business, market acceptance of our products, and risks associated with the introduction of new products and services and entering new markets, including regulatory constraints on exit strategies;
- the competitive environment in which we operate, including trends in pricing or in policy terms and conditions, which may differ from our projections and changes in market conditions that could render our business strategies ineffective or obsolete;
- developments in global financial markets, including changes in interest rates, stock markets and other financial markets, and foreign currency exchange rate fluctuations, which could affect our statement of operations, investment portfolio and financing plans;
- the potential impact from government-mandated insurance coverage for acts of terrorism and potential expiration, extension or replacement of related legislation;
- the availability of borrowings and letters of credit under our credit facilities;
- changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers;
- material differences between actual and expected assessments for guaranty funds and mandatory pooling arrangements;
- the effects of investigations into market practices in the property and casualty industry;
- changing rates of inflation and other economic conditions;
- the amount of dividends received from subsidiaries;
- loss of the services of any of our executive officers without suitable replacements being recruited in a reasonable time frame;
- the ability of technology to perform as anticipated; and
- management's response to these factors.

The words "believe", "anticipate", "estimate", "project", "should", "plan", "expect", "intend", "hope", "will likely result" or "will continue", and variations thereof and similar expressions, identify forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

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

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

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

The insurance industry is highly competitive with many companies offering similar coverage. The rates, terms and conditions related to the products we offer have historically changed depending on the timing of the insurance cycle. During periods of excess underwriting capacity, as defined by availability of capital, competition can result in lower pricing and less favorable terms and conditions. During periods of reduced underwriting capacity, pricing and terms and conditions are generally more favorable. We believe that, due to the unprecedented hurricane activity in 2004 and 2005, and resultant loss of industry capital, rates on new and renewed policies will increase and policies will be written with more restrictive terms and conditions.

Catastrophe Charges

During the three months ended September 30, 2005, we incurred net catastrophe-related pre-tax charges of $901 million, primarily associated with Hurricanes Katrina and Rita. For the three months ended September 30, 2004, we incurred net catastrophe-related pre-tax charges of $479 million primarily associated with hurricanes which struck the Caribbean and the U.S.

On August 29, 2005, Hurricane Katrina, a Category 4 storm, struck the Gulf Coast of the United States. The hurricane and the subsequent flooding caused by the failure of the levee system in New Orleans produced significant losses. Due to the size and complexity of the storm and flooding, total covered losses for the insurance industry remain hard to predict, however, industry sources have estimated that the losses arising out of Hurricane Katrina will result in the largest insured loss in history. ACE’s Hurricane Katrina losses were $558 million after tax, reinstatement premiums and premiums earned on multi-year contracts. Hurricane Rita struck the Gulf Coast of the United States as a Category 3 hurricane on September 24, 2005. Hurricane Rita produced numerous losses, though significantly less than the losses attributable to Hurricane Katrina. ACE’s Hurricane Rita losses were $131 million after tax, reinstatement premiums and premiums earned on multi-year contracts. Also included in the current quarter are losses associated with Hurricanes Dennis and Ophelia, Typhoon Nabi and European floods, which totaled $53 million, after tax and reinstatement premiums.

These amounts were based on ground-up reviews of a substantial majority of our in-force direct policies and internal modeling of our in-force reinsurance policies we believe to be affected, together with information from our insureds and cedents which is still being received and evaluated. Actual losses may vary materially from these amounts as a result of, among other things, the receipt of additional information from insureds or brokers, the attribution of losses to coverages that, for the purpose of our calculations, we assumed would not be exposed and inflation in repair costs due to the limited availability of labor and materials. In addition, our Hurricane Katrina and Hurricane Rita losses are subject to a high level of uncertainty due to extremely complex and unique causation and coverage issues associated with the events, including the attribution of losses to wind or flood damage or other perils, extremely limited claims data received to date, potential legal and regulatory developments related to potential losses, as well as inflation in repair costs due to the limited availability of labor and materials due in part to the size and proximity in time and distance of the two hurricanes. We expect that these issues may become subject to litigation by state attorneys general and private parties and will not be resolved for a considerable period of time. As a result, although we believe our reserves for these events are adequate, both industry wide insured losses and our losses from Hurricanes Katrina and Rita may ultimately be materially greater or lower than our initial reported losses and any additional losses could have a further material adverse impact on our financial results.

The following tables show the impact of catastrophe charges on each of our operating segments in the three months ended September 30, 2005 and 2004 (we incurred $3 million of catastrophe charges in the first half of 2005 and none in the first half of 2004). This information is based on currently available information derived from modeling techniques, industry assessments of exposure and claims information obtained from our clients and brokers. Actual losses from these events may vary materially from our estimates due to the inherent uncertainties in making such determinations resulting from several factors, including the potential inaccuracies and inadequacies in the data provided by clients and brokers, the modeling techniques and

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the application of such techniques, as well as the high frequency of recent catastrophic events and the effects of any resultant demand surge on claims activity.

Catastrophe Loss Charges - By Event	Insurance- North American	Insurance- Overseas General	Global Reinsurance	Consolidated P&C	Financial Services	Total
			(in millions of U.S. dollars)			
Gross loss						$2,369
Net loss						
Hurricane Katrina	$ 139	$ 70	$ 319	$ 528	$ 240	$ 768
Hurricane – Rita	52	46	69	167	—	167
Hurricane – Dennis	12	5	25	42	—	42
Other [(1)]	—	—	19	19	—	19
Total	$ 203	$ 121	$ 432	$ 756	$ 240	$ 996
Reinstatement premiums (earned) expensed	59	36	(22)	73	—	73
Premiums earned on multi-year contracts	—	—	(5)	(5)	(163)	(168)
Net premium (earned) expensed	59	36	(27)	68	(163)	(95)
Total impact before income tax	262	157	405	824	77	901
Income tax benefit	(87)	(47)	(25)	(159)	—	(159)
Total impact after income tax	$ 175	$ 110	$ 380	$ 665	$ 77	$ 742
Effective tax rate	33%	30%	6%	19%	— %	18%

(1) Includes Hurricane Ophelia, Typhoon Nabi and European floods.

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Catastrophe Loss Charges - By Event	Insurance-North American	Insurance-Overseas General	Global Reinsurance	Consolidated P&C	Financial Services	Total
	(in millions of U.S. dollars)					
Gross loss						$878
Net loss						
Hurricane - Charley	$ 31	$ —	$ 65	$ 96	$ —	$ 96
Hurricane - Frances	22	6	48	76	5	81
Hurricane – Ivan	40	20	76	136	5	141
Hurricane - Jeanne	33	18	63	114	1	115
Typhoons	—	9	26	35	—	35
Total	126	53	278	457	11	468
Reinstatement premiums (earned) expensed	13	13	(15)	11	—	11
Total impact before income tax	139	66	263	468	11	479
Income tax benefit	(41)	(21)	(11)	(73)	—	(73)
Total impact after income tax	$ 98	$ 45	$ 252	$ 395	$ 11	$406
Effective tax rate	29%	32%	4%	16%	— %	15%

In October 2005, Hurricane Wilma made several landfalls, with the most destructive effects experienced in the Yucatan Peninsula, Mexico, Cuba and Florida. While we have exposure to losses from Hurricane Wilma, no reasonable estimate of losses can be made at this time.

Sale of Ordinary Shares in Public Offering

On October 4, 2005, we completed a public offering of 32.91 million Ordinary Shares (which included the over-allotment option of 4.29 million Ordinary Shares) at a price per share of $45.58, for total gross proceeds of approximately $1.5 billion. We expect to use the net proceeds of the offering for growth opportunities in the global insurance and reinsurance markets.

Insurance Industry Investigations and Related Matters

Information on the insurance industry investigations and related matters is set forth in Note 7 c) of our Consolidated Financial Statements.

Restatement of Previously Issued Financial Statements

ACE restated its financial statements for the years ended December 31, 2004, 2003, 2002, 2001, and 2000, each of the quarters in the years 2003 and 2004, and the quarter ended March 31, 2005. The primary purpose of the restatement was to correct the accounting treatment for eight finite risk transactions. ACE also included in the restatement correction of certain unrelated errors, previously identified but considered to be of an immaterial nature. The cumulative impact of the restatement through the first quarter of 2005 is an increase of shareholders' equity of $4 million. The cumulative effect of the restatement for certain finite contracts as of the first quarter of 2005 is to increase shareholders' equity by approximately $16 million. The cumulative of the other unrelated corrections is to decrease shareholders' equity by approximately $12 million. For additional information see our Annual Report on Form 10-K/A for the year ended December 31, 2004 (Note 3 to the Consolidated Financial Statements). All amounts included herein for the prior periods have been adjusted to reflect the restatement.

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

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

Critical Accounting Estimates

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

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

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

Results of Operations – Three and Nine Months Ended September 30, 2005 and 2004

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

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Consolidated Operating Results

	Three Months Ended September 30 2005	Three Months Ended September 30 2004 (Restated)	Nine Months Ended September 30 2005	Nine Months Ended September 30 2004 (Restated)
	(in millions of U.S. dollars)			
Net premiums written	$ 2,889	$ 2,774	$9,164	$ 8,855
Net premiums earned	3,091	2,859	8,889	8,229
Net investment income	320	246	910	731
Net realized gains (losses)	83	(32)	101	67
Total revenues	$ 3,494	$ 3,073	$9,900	$ 9,027
Losses and loss expenses	2,806	2,221	6,439	5,476
Life and annuity benefits	33	48	105	134
Policy acquisition costs	426	393	1,243	1,154
Administrative expenses	308	306	960	928
Interest expense	43	50	128	140
Other (income) expense	(25)	(14)	(36)	2
Total expenses	$ 3,591	$ 3,004	$8,839	$ 7,834
Income (loss) before income tax	(97)	69	1,061	1,193
Income tax expense	15	65	269	318
Net income (loss)	$ (112)	$ 4	$ 792	$ 875

Net premiums written, which reflect the premiums we retain after purchasing reinsurance protection, increased four percent and three percent in the three and nine months ended September 30, 2005, respectively, compared with the same periods in 2004. The P&C business reported a decrease in net premiums written of one percent for the current quarter, primarily due to an increase in reinstatement premiums in connection with catastrophe losses and also due to a decline in net premiums written for ACE USA and ACE Global Markets. For the nine months ended September 30, 2005, the P&C business reported an increase in net premiums written of two percent, compared with the same period in 2004, principally driven by growth in the U.S. casualty operations of the Insurance-North American segment and increased production, retention and inward reinstatement premiums (in connection with catastrophe losses) in the Global Reinsurance segment. Our Financial Services business reported increases in net premiums written of $144 million and $99 million in the three and nine months ended September 30, 2005, primarily driven by premiums written on multi-year contracts in connection with catastrophe losses.

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

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net premiums written:		
Growth in original currency	(1.5)%	1.1%
Foreign exchange effect	0.5%	1.3%
Growth as reported in U.S. dollars	(1.0)%	2.4%
Net premiums earned:		
Growth in original currency	2.8%	7.0%
Foreign exchange effect	0.5%	1.3%
Growth as reported in U.S. dollars	3.3%	8.3%

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2005	% of total	2004 (Restated)	% of total	2005	% of total	2004 (Restated)	% of total
	(in millions of U.S. dollars)							
Property and all other	$ 824	27%	$ 890	31%	$2,450	28%	$ 2,545	31%
Casualty	1,637	53%	1,508	53%	4,900	55%	4,259	52%
Personal accident (A&H)	316	10%	290	10%	928	10%	836	10%
Total P&C	2,777	90%	2,688	94%	8,278	93%	7,640	93%
Global Re – life	57	2%	60	2%	172	2%	165	2%
Financial Services	257	8%	111	4%	439	5%	424	5%
Net premiums earned	$3,091	100%	$ 2,859	100%	$8,889	100%	$ 8,229	100%

Net premiums earned reflect the portion of net premiums written that were recorded as revenues for the period as the exposure period expires. Driven primarily by growth in production of U.S. casualty business over the last several quarters, net premiums earned in our P&C business increased three percent and eight percent in the three and nine months ended September 30, 2005, respectively, compared with the same periods in 2004. Our Financial Services business reported increases in net premiums earned in the three and nine months ended September 30, 2005 of $146 million and $15 million, respectively, primarily driven by net premiums earned on multi-year contracts in connection with catastrophe losses.

Net investment income increased 30 percent and 24 percent in the three and nine months ended September 30, 2005, respectively, compared with the same periods in 2004. The growth in net investment income for the current periods was primarily due to positive operating cash flows, which have resulted in a higher overall average invested asset base.

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Loss and loss expense ratio	92.5%	79.4%	73.9%	67.9%
Policy acquisition cost ratio	13.9%	13.8%	14.1%	14.1%
Administrative expense ratio	10.1%	10.9%	10.9%	11.5%
Combined ratio	116.5%	104.1%	98.9%	93.5%

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Our loss and loss expense ratio increased in the three and nine months ended September 30, 2005, compared with the same periods in 2004, primarily due to higher catastrophe losses and net adverse prior period development. The following table shows the impact of catastrophe losses and prior period development on our loss and loss expense ratio for the periods indicated.

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Loss and loss expense ratio, as reported	92.5%	79.4%	73.9%	67.9%
Catastrophe losses	(30.9)%	(17.0)%	(10.8)%	(5.9)%
Prior period development	(1.0)%	0.5%	(0.9)%	0.2%
Loss and loss expense ratio, adjusted	60.6%	62.9%	62.2%	62.2%

We recorded $996 million and $999 million in catastrophe losses, in the three and nine months ended September 30, 2005, respectively, compared with $468 million in the nine months ended September 30, 2004 (all recorded in the third quarter of 2004). As discussed in the section entitled, “Catastrophe Charges”, the catastrophe losses in the current periods relate primarily to Hurricanes Katrina and Rita.

Our loss and loss expense ratio is also impacted by prior period development. Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves first reported in previous calendar years and excludes the effect of losses from the development of earned premium from previous accident years. For purposes of analysis and disclosure, management views prior period development to be changes in the nominal value of loss estimates from period to period and excludes changes in loss estimates that do not arise from the emergence of claims, such as those related to uncollectible reinsurance, interest, or foreign currency. Accordingly, specific items excluded from prior period development include the following: gains/losses related to foreign currency translation that affect both the valuation of unpaid losses and loss expenses and losses incurred; losses recognized from the early termination or commutation of reinsurance agreements that principally relate to the time value of money; changes in the value of reinsurance business assumed reflected in losses incurred but principally related to the time value of money and losses that arise from changes in estimates of earned premiums from prior accident years. We experienced net adverse prior period development of $29 million and $78 million in the three and nine months ended September 30, 2005 respectively. This compares with net favorable prior period development of $14 million and $15 million in the three and nine months ended September 30, 2004.

Policy acquisition costs include commissions, premium taxes, underwriting and other costs that vary with, and are primarily related to, the production of premium. Administrative expenses include all other operating costs. Our administrative expenses increased primarily due to higher costs associated with servicing business growth and recently established units at ACE USA and ACE Westchester Specialty, as well as the impact of the depreciation of the U.S. dollar relative to other major currencies. Additionally, we incurred approximately $5 million and $39 million of legal costs in the three and nine months ended September 30, 2005, in connection with the investigations by the various attorneys general and related matters.

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

Our effective tax rate on net income, which we calculate as income tax expense divided by income before income tax, decreased to 25 percent in the nine months ended September 30, 2005, compared with 27 percent for the same period in 2004. The effective tax rate on our current quarter catastrophe losses was 18 percent. Comparatively, the effective tax rate on the catastrophe losses we incurred in the third quarter of 2004 was 15 percent. A significant portion of the catastrophe losses for both periods were incurred in lower-tax jurisdictions. The effective tax rate for the nine months ended September 30, 2005 was approximately 2.5 percentage points lower due to the favorable impact of the American Jobs Creation Act, which resulted in an income tax benefit of $27 million. See the section entitled “American Jobs Creation Act of 2004”, for more information.

Segment Operating Results – Three and Nine Months Ended September 30, 2005 and 2004

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

Insurance - North American

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

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

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

ACE Bermuda writes insurance risks worldwide. ACE Bermuda provides commercial insurance products to a global client base, covering risks that are generally low in frequency and high in severity. ACE Bermuda's portfolio of products includes excess liability, D&O, excess property, political risk, aviation and satellite.

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Net premiums written	$1,307	$ 1,366	$4,144	$ 3,907
Net premiums earned	1,338	1,251	3,942	3,436
Losses and loss expenses	1,173	998	3,013	2,532
Policy acquisition costs	134	121	381	333
Administrative expenses	96	110	318	323
Underwriting income (loss)	$ (65)	$ 22	$ 230	$ 248
Net investment income	139	123	412	337
Net realized gains	10	9	13	91
Interest expense	6	6	16	16
Other (income) expense	(1)	(3)	—	3
Income tax expense	10	48	171	182
Net income	$ 69	$ 103	$ 468	$ 475
Loss and loss expense ratio	87.7%	79.8%	76.4%	73.7%
Policy acquisition cost ratio	10.0%	9.7%	9.7%	9.7%
Administrative expense ratio	7.2%	8.7%	8.1%	9.4%
Combined ratio	104.9%	98.2%	94.2%	92.8%

Insurance – North American's net premiums written decreased four percent in the quarter ended September 30, 2005, compared with the same quarter in 2004, primarily due to an increase in reinstatement premiums in connection with catastrophe losses, and lower production at ACE USA. ACE USA reported decreased production in its run-off operations and recreation marine business, which offset growth in its casualty units. For the nine months ended September 30, 2005, net premiums written increased six percent, primarily driven by continued growth in the risk management unit, and medical liability and workers' compensation business at ACE USA and ACE Westchester Specialty's growth in casualty business.

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2005	% of total	2004 (Restated)	% of total	2005	% of total	2004 (Restated)	% of total
	(in millions of U.S. dollars)							
Property and all other	$ 298	22%	$ 335	27%	$ 952	24%	$ 962	28%
Casualty	995	74%	872	70%	2,853	72%	2,344	68%
Personal accident (A&H)	45	4%	44	3%	137	4%	130	4%
Net premiums earned	$1,338	100%	$ 1,251	100%	$3,942	100%	$ 3,436	100%

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
ACE USA	$ 886	$ 817	$2,600	$ 2,209
ACE Westchester Specialty	353	332	1,041	912
ACE Bermuda	99	102	301	315
Net premiums earned	$ 1,338	$ 1,251	$3,942	$ 3,436

ACE USA’s net premiums earned increased 8 percent and 18 percent in the three and nine months ended September 30, 2005, respectively, compared with the same periods in 2004. The increases primarily related to the risk management unit which reported growth in demand for its custom coverage solutions for large companies, construction business and national accounts, partially offset by current quarter reinstatement premiums. Additionally, ACE USA continues to benefit from increased distribution channels and growth in its relatively new casualty units which offer workers’ compensation and medical liability coverage.

ACE Westchester Specialty’s net premiums earned for the three and nine months ended September 30, 2005, increased 6 percent and 14 percent, respectively, compared with the same periods in 2004. These increases primarily reflect growth in casualty business, particularly in late 2004 and early 2005, partially offset by the impact of reinstatement premiums and the revised Standard Reinsurance Agreement with the U.S. government, which increased crop cessions.

ACE Bermuda’s net premiums earned decreased three percent and four percent in the three and nine months ended September 30, 2005, respectively, compared with the same periods in 2004. These decreases were primarily due to competition for professional lines business, which has put downward pressure on rates, partially offset by increased excess liability lines production.

Insurance – North American’s loss and loss expense ratio increased in the three and nine months ended September 30, 2005, compared with the same periods in 2004. This increase was due to a rise in catastrophe losses and increased casualty business (which typically experiences higher loss ratios than other business), partially offset by favorable current accident year experience of $19 million and a decrease in net adverse prior period development. The following table shows the impact of catastrophe losses and prior period development on our loss and loss expense ratio for the periods indicated.

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Loss and loss expense ratio, as reported	87.7%	79.8%	76.4%	73.7%
Catastrophe losses	(18.3)%	(10.7)%	(6.2)%	(3.9)%
Prior period development	(1.6)%	(3.4)%	(2.4)%	(2.9)%
Loss and loss expense ratio, adjusted	67.8%	65.7%	67.8%	66.9%

Insurance – North American recorded net catastrophe charges of $203 million in the nine months ended September 30, 2005, compared with $126 million in the same period of 2004. The catastrophe charges in both years occurred in the third quarter and related primarily to hurricane losses. The loss and loss expense ratios for the three and nine months ended September 30, 2005, were negatively impacted by net adverse prior period development of $22 million and $95 million, respectively. The net adverse prior period development for the three and nine months ended September 30, 2005, represented 0.2 percent and 1.1 percent of the segment's net unpaid loss and loss expense reserves at June 30, 2005, and December 31, 2004, respectively. For the three and nine months ended September 30, 2004, net adverse prior period development was $42 million and $99 million, respectively. The net prior period development for the three months ended September 30, 2005, was the net result of several underlying favorable and adverse movements, the most significant of which were:

- Favorable development of $44 million for lines with short-tail exposures (property, crop hail and workers' compensation catastrophe) resulting from our standard actuarial reserving process that arose from the better than expected emergence of actual claims relative to expectations used to establish initial reserves. A majority of the favorable development arose from accident year 2004.
- Adverse development of $37 million on certain lines with long-tail exposures. The largest movements are listed below. Since claims for such lines of business take many years to develop, actuarial reserve estimates for such exposures are subject to a significant amount of uncertainty. We consider both the spread and magnitude of the movements listed below to be indicative of the inherent uncertainty associated with the process.
  - Adverse development of $42 million on run-off business from the 1999 and 2000 accident years, including middle market workers' compensation, general liability and commercial automobile liability exposures;
  - Favorable development of $17 million on excess workers' compensation business due to a low level of reported large losses and the impact of legislative reforms. This favorable movement was primarily due to accident years 2003 and 2004;
  - Favorable development of $17 million on an E&O portfolio due to lower than expected loss development for report years 2003 and 2004;
  - Adverse development of $15 million for accident years 1999 to 2002 resulting from a comprehensive claims department review of professional liability claims. The main component of this development was related to a run-off nursing care program.
- An unfavorable court ruling on a financial guarantee policy resulting in adverse development of $15 million for accident year 2001.
- Adverse development of $16 million on a commercial marine portfolio due primarily to higher than expected loss development for accident years 2003 and 2004.

The net prior period development for the three months ended September 30, 2004, was the net result of several underlying favorable and adverse movements. The adverse development was primarily driven by larger than expected future settlements on two excess D&O liability policies at ACE Bermuda and adverse development on run-off operations. This deterioration was partially offset by lower than expected loss development on certain short-tail lines of business.

Insurance – North American's policy acquisition cost ratio increased in the three months ended September 30, 2005, compared with the same quarter in 2004. This increase was primarily due to the reduction in net premiums earned in connection with reinstatement premiums. Excluding the impact of the reinstatement premiums, the policy acquisition cost ratio increased modestly, which reflects higher commission costs on crop business at ACE Westchester Specialty. For the nine months ended September 30, 2005, the policy acquisition cost ratio was stable as higher acquisition costs for ACE Westchester Specialty were offset by reductions in direct and contingent commissions at ACE USA and lower commission costs on ACE Bermuda's core lines of business.

Insurance – North American's administrative expenses decreased in the three and nine months ended September 30, 2005, compared with the same periods in 2004. Administrative expenses continue to increase as a result of higher costs to support business growth and recently established casualty units, however, for the current quarter, these costs were offset by the release of $16 million in accruals.

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Insurance - Overseas General

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

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Net premiums written	$ 933	$ 980	$3,190	$ 3,256
Net premiums earned	1,031	1,086	3,200	3,174
Losses and loss expenses	687	665	1,907	1,878
Policy acquisition costs	207	199	616	579
Administrative expenses	145	139	435	416
Underwriting income (loss)	$ (8)	$ 83	$ 242	$ 301
Net investment income	82	51	236	159
Net realized gains	17	2	69	29
Other (income) expense	5	3	16	10
Income tax expense	22	34	122	145
Net income	$ 64	$ 99	$ 409	$ 334
Loss and loss expense ratio	66.7%	61.2%	59.6%	59.2%
Policy acquisition cost ratio	20.1%	18.3%	19.2%	18.2%
Administrative expense ratio	14.1%	12.8%	13.6%	13.1%
Combined ratio	100.9%	92.3%	92.4%	90.5%

Net premiums written for Insurance – Overseas General decreased five percent and two percent in the three and nine months ended September 30, 2005, respectively, compared with the same periods in 2004. The decrease for the current quarter was primarily driven by higher catastrophe-loss reinstatement premiums at ACE Global Markets. For the nine months ended September 30, 2005, the decrease in net premiums written was primarily due to a decline in production at ACE Global Markets, due to rate reductions, partially offset by gains on conversion from the weakening of the U.S. dollar against the British pound sterling and the euro (see table below for impact of foreign exchange on net premiums written and earned). ACE International reported stable net premiums written for the current periods.

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2005	% of total	2004 (Restated)	% of total	2005	% of total	2004 (Restated)	% of total
	(in millions of U.S. dollars)							
Property and all other	$ 325	32%	$ 361	33%	$ 989	31%	$ 1,049	33%
Casualty	435	42%	479	44%	1,420	44%	1,419	45%
Personal accident (A&H)	271	26%	246	23%	791	25%	706	22%
Net premiums earned	$1,031	100%	$ 1,086	100%	$3,200	100%	$ 3,174	100%

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
ACE Europe	$ 464	$ 477	$1,416	$ 1,435
ACE Asia Pacific	143	129	415	358
ACE Far East	94	98	289	288
ACE Latin America	101	88	306	255
ACE International	802	792	2,426	2,336
ACE Global Markets	229	294	774	838
Net premiums earned	$1,031	$ 1,086	$3,200	$ 3,174

Insurance – Overseas General reported a five percent decrease in net premiums earned in the three months ended September 30, 2005, compared with the same quarter in 2004. For the current periods, net premiums earned were impacted by weak market conditions for ACE Global Markets' portfolio of products, and reinstatement premiums related to catastrophe losses.

ACE International's net premiums earned increased one percent and four percent in the three and nine months ended September 30, 2005, respectively, compared with the same periods in 2004. These increases were primarily due to the relative position of the U.S. dollar, as strong A&H growth was more than offset by lower P&C writings. ACE Europe reported a decline in production, particularly in the U.K. P&C business, which is experiencing increased competitive pricing conditions which have resulted in lower rates, deterioration in terms and reduced renewal activity. ACE Latin America and ACE Asia Pacific continued to report solid growth in A&H business for the three and nine months ended September 30, 2005. ACE Global Markets' net premiums earned decreased 22 percent and eight percent in the three and nine months ended September 30, 2005, respectively, compared with the same periods in 2004. The decreases were primarily a result of the current-quarter reinstatement premiums in connection with Hurricane Katrina, lower rates and a decline in new business opportunities across most of ACE Global Markets' portfolio of products.

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

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net premiums written:		
Growth (decrease) in original currency	(6.2)%	(5.2)%
Foreign exchange effect	1.4%	3.2%
Growth (decrease) as reported in U.S. dollars	(4.8)%	(2.0)%
Net premiums earned:		
Growth (decrease) in original currency	(6.1)%	(2.0)%
Foreign exchange effect	1.0%	2.8%
Growth (decrease) as reported in U.S. dollars	(5.1)%	0.8%

Insurance – Overseas General's loss and loss expense ratio increased in the three and nine months ended September 30, 2005, compared with the same periods of 2004, primarily due to higher catastrophe losses, offset by changes in business mix (increase in A&H which typically exhibits lower loss ratios than other types of business), and favorable current accident year experience of $13 million. The following table shows the impact of prior period development and catastrophe losses on our loss and loss expense ratio for the periods indicated.

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Loss and loss expense ratio, as reported	66.7%	61.2%	59.6%	59.2%
Catastrophe losses	(13.6)%	(5.6)%	(4.4)%	(1.9)%
Prior period development	(1.0)%	1.8%	0.1%	1.4%
Loss and loss expense ratio, adjusted	52.1%	57.4%	55.3%	58.7%

Insurance – Overseas General recorded catastrophe-related losses of $121 million in the three and nine months ended September 30, 2005, respectively. For the nine months ended September 30, 2004, this segment incurred $53 million of catastrophe-related losses, recorded in the third quarter. This segment incurred net adverse prior period development of $10 million and net favorable prior period development of $4 million in the three and nine months ended September 30, 2005, respectively. These movements represented 0.2 percent and 0.1 percent of the net unpaid loss and loss expense reserves at June 30, 2005 and December 31, 2004, respectively. In comparison net favorable prior development in the three and nine months ended September 30, 2004 was $20 million and $45 million, respectively.

The net adverse prior period development of $10 million for the quarter ended September 30, 2005, was the result of several underlying favorable and adverse movements, the most significant of which were:

- Favorable development of $43 million on property, marine, accident & health, technical and energy lines identified as part of our standard quarterly reserving process and which arose from the better then expected emergence of actual claims relative to expectations.
- Adverse development of $44 million on professional lines business, primarily driven by exposures in the financial services industry from underwriting years 1999 to 2002. Approximately $17 million of this movement was due to a settlement on a high excess policy made in this quarter. The balance was the result of detailed reviews covering a number of major incidents combined with higher than expected loss development during the current quarter.
- Adverse development of $16 million on a political risk policy with Argentine exposure from 2002. This movement followed an unfavorable arbitration ruling within the quarter.

The net prior period development for the three months ended September 30, 2004, was the net result of several underlying favorable and adverse movements, primarily related to short-tail property and fire lines, partially offset by adverse development on European marine business.

The policy acquisition cost ratio for Insurance – Overseas General increased in the three and nine months ended September 30, 2005, compared with the same periods in 2004, primarily due to higher commissions as a result of changes in business mix (increase in A&H, which typically incurs higher commission than other business), increased commissions on certain P&C lines at ACE Europe and, for the current quarter, the decrease in net premiums earned.

Insurance – Overseas General's administrative expenses increased four percent and five percent in the three and nine months ended September 30, 2005, primarily due to the depreciation of the U.S. dollar and increased costs to support business opportunities at ACE Europe and ACE Asia Pacific. These increases in administrative expenses were partially offset by improvements at ACE Global Markets due to a decline in Lloyd's costs – a result of our reduced capacity through Syndicate 2488 and lower Lloyd's levies.

Global Reinsurance

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

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

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

ACE Tempest Re Europe offers clients reinsurance coverage through three divisions: Lloyd's Syndicate 2488, ACE Tempest Re Europe (London) and ACE Tempest Re Europe (Dublin). Effective at the end of the third quarter, the Dublin office closed and its staff moved to open a new ACE Tempest Re office in Zurich. These divisions write all lines of traditional and specialty property, casualty, marine, aviation, and medical malpractice.

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Property and Casualty Reinsurance

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Net premiums written	$ 380	$ 301	$1,270	$ 1,238
Net premiums earned	408	351	1,136	1,030
Losses and loss expenses	637	436	1,048	769
Policy acquisition costs	78	65	228	203
Administrative expenses	16	16	47	50
Underwriting income (loss)	$ (323)	$ (166)	$ (187)	$ 8
Net investment income	45	32	124	88
Net realized gains	7	2	7	14
Interest expense	1	—	2	—
Other (income) expense	1	—	3	—
Income tax expense (benefit)	(12)	(1)	6	3
Net income (loss)	$ (261)	$ (131)	$ (67)	$ 107
Loss and loss expense ratio	156.2%	123.9%	92.3%	74.6%
Policy acquisition cost ratio	19.1%	18.6%	20.1%	19.7%
Administrative expense ratio	4.0%	4.6%	4.1%	4.9%
Combined ratio	179.3%	147.1%	116.5%	99.2%

Global Reinsurance's net premiums written increased 26 percent and three percent in the three and nine months ended September 30, 2005, compared with the same periods in 2004, primarily due to an increase in production and retention ratio, as well as increased inward reinstatement premiums in connection with catastrophe losses. Over the past two quarters we have observed improved market conditions for property and property catastrophe business, particularly in Florida, following extraordinary storm activity and related industry losses late in 2004. Hurricane Katrina had an even greater impact on the industry's capacity to write new and renewal business, however, it is still too early to assess its effect on rates going-forward. Net premiums written for the nine months ended September 30, 2005, increased only modestly compared with the current quarter's rate of growth, as the increases in the current quarter were partially offset by weak market conditions for property and property catastrophe business during the first quarter of the year. Additionally, we have experienced a weakening rate environment for casualty business in Europe.

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2005	% of total	2004 (Restated)	% of total	2005	% of total	2004 (Restated)	% of total
	(in millions of U.S. dollars)							
Property and all other	$ 94	23%	$ 105	30%	$ 261	23%	$ 282	27%
Casualty	207	51%	157	45%	627	55%	496	48%
Property catastrophe	107	26%	89	25%	248	22%	252	25%
Net premiums earned	$ 408	100%	$ 351	100%	$1,136	100%	$ 1,030	100%

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
ACE Tempest Re Europe	$ 79	$ 77	$ 221	$ 227
ACE Tempest Re USA	223	185	665	545
ACE Tempest Re Bermuda	106	89	250	258
Net premiums earned	$ 408	$ 351	$1,136	$ 1,030

Net premiums earned increased 16 percent and ten percent in the three and nine months ended September 30, 2005, compared with the same periods in 2004. These increases were primarily driven by higher reinstatement premiums in connection with catastrophe losses, strong casualty production written in prior periods and improved property production. Non-catastrophe P&C business has represented a growing portion of Global Reinsurance's net premiums written over the last three years, and in general, has experienced more favorable market conditions over this time period compared with catastrophe lines.

For the current quarter, ACE Tempest Re Europe reported a three percent increase in net premiums earned as the impact of lower production levels was more than offset by marine and energy reinstatement premiums on the storm losses. For the nine months ended September 30, 2005, ACE Tempest Re Europe reported a decrease in net premiums earned of three percent due to declines in production of casualty business. ACE Tempest Re USA, reported 21 percent and 22 percent increases in net premiums earned in the three and nine months ended September 30, 2005, respectively, compared with the same periods in 2004, primarily due to casualty earnings on policies written in prior periods and new property business written in 2005. ACE Tempest Re Bermuda reported a 19 percent increase in net premiums earned for the three months ended September 30, 2005, due to improved market conditions for property catastrophe business in the current quarter and higher catastrophe loss reinstatement premiums. For the nine months ended September 30, 2005, ACE Tempest Re Bermuda's net premiums earned declined three percent, primarily due to weak market conditions for property catastrophe business in the first half of 2005.

The loss and loss expense ratio increased in the three and nine months ended September 30, 2005, compared with the same periods in 2004. These increases were primarily related to higher catastrophe losses. The following table shows the impact of catastrophe losses and prior period development on our loss and loss expense ratio for the periods indicated.

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Loss and loss expense ratio, as reported	156.2%	123.9%	92.3%	74.6%
Catastrophe losses	(102.5)%	(77.1)%	(37.0)%	(26.3)%
Prior period development	1.2%	6.3%	0.7%	4.7%
Loss and loss expense ratio, adjusted	54.9%	53.1%	56.0%	53.0%

Global Reinsurance recorded $435 million of catastrophe losses in the nine months ended September 30, 2005, of which $432 million was recorded in the current quarter. These catastrophe losses were primarily related to Hurricanes Katrina and Rita. For the nine months ended September 30, 2004, Global Reinsurance recorded $278 million of catastrophe losses, all occurring in the third quarter and primarily related to storm activity. This segment experienced $5 million and $8 million of net favorable prior period development in the three and nine months ended September 30, 2005, respectively. These amounts represented 0.3 percent and 0.5 percent of Global Reinsurance's net unpaid loss and loss expense reserves at June 30, 2005 and December 31, 2004, respectively. In the three and nine months ended September 30, 2004, we experienced net favorable prior period development of $22 million and $48 million, respectively. The favorable development in the three months ended September 30, 2005, was primarily driven by lower than expected development on property lines of business, most notably on the 2002 and 2003 treaty years. Similarly the favorable movement in the three months ended September 30, 2004 was mainly attributable to property lines. The loss and loss expense ratio was also impacted by the shift in mix of business that has resulted from growth in non-catastrophe P&C business at ACE Tempest Re USA and ACE Tempest Re Europe. Non-catastrophe P&C business typically exhibits higher loss ratios than property catastrophe business (except for periods with high catastrophe losses). Additionally, during the second quarter of 2005, ACE Tempest Re USA wrote more business on a pro-rata basis versus excess-of-loss, the latter of which typically experiences higher losses and loss expense ratios.

Global Reinsurance's policy acquisition cost ratio increased in the three and nine months ended September 30, 2005, compared with the same periods in 2004, primarily due to changes in business mix, partially offset by increased catastrophe loss reinstatement premiums which do not incur acquisition costs. Administrative expenses have remained stable in the three and nine months ended September 30, 2005, compared with the same periods in 2004. The administrative expense ratio decreased due to the increases in net premiums earned.

Life Reinsurance

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Net premiums written	$ 57	$ 59	$ 172	$ 165
Net premiums earned	57	60	172	165
Life and annuity benefits	33	48	105	134
Policy acquisition costs	5	6	13	17
Administrative expenses	2	1	5	3
Net investment income	10	8	29	24
Life underwriting income	27	13	78	35
Net realized gains (losses)	5	(37)	16	(47)
Net income (loss)	$ 32	$ (24)	$ 94	$ (12)

Life underwriting income improved in the three and nine months ended September 30, 2005, compared with the same periods in 2004, primarily due to the decrease in life and annuity benefits. For the nine months ended September 30, 2005, life and annuity benefits declined primarily due to the decrease in group long-term disability business (discontinued in 2002), which typically incurs higher benefit ratios than other types of business and also experienced a reserve strengthening in the prior year period. For the three months ended September 30, 2005, the decline was also due to favorable underlying account experience, which reduced the expected value of future benefit payments under variable annuity contracts. Net premiums earned benefited from continued growth in variable annuity business, offset by the continued decrease in production of long-term disability business. Net realized gains in the three and nine months ended September 30, 2005, compared with net realized losses for the same periods in 2004, resulted in net income for the current periods. The net realized gains (losses) for the three and nine months ended September 30, 2005 and 2004, consisted primarily of fair value adjustments on guaranteed minimum income benefits (GMIBs), which occur due to changes in the level and volatility of interest rates and equity markets. In addition, the fair value gain of $13 million on GMIBs in the nine months ended September 30, 2005, includes an increase in the fair value due to changes in the level and volatility of interest rates and equity markets offset by changes in some assumptions used to calculate the fair value of the GMIB liability primarily related to expectations of future policyholder lapse and mortality rates in various economic scenarios. The impact of the changes in assumptions was a $108 million decrease in the fair value of the GMIB liability, recorded during the second quarter of 2005. These changes in assumptions were prompted by emerging experience and are in line with industry standards; such changes may occur periodically.

On September 30, 2005, we entered into a derivative transaction, which has the effect of reducing our net exposure to equity and interest rate market movements. The derivative has an expiration date of September 30, 2015 and an associated premium payment of $31 million. Including the effect of the derivative, we estimate that at September 30, 2005, a 10 percent decline in

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the S&P 500 index would result in a realized loss from GMIB fair value adjustments of $3 million and that a downward parallel shift of the yield curve of 50 basis points would result in a realized loss from GMIB fair value adjustments of $19 million. Theses estimated fair value adjustments would be recorded as net realized losses in our net income.

Financial Services

The Financial Services segment consists of our financial solutions business and our proportionate share of Assured Guaranty's earnings, which is 100 percent through April 28, 2004, and approximately 35 percent thereafter. The financial solutions operations provide customized insurance and reinsurance solutions to clients with unique or complex risks which are not adequately addressed in the traditional insurance market. Each financial solutions contract is structured to meet the needs of each client. Some of these customized contracts provide coverage for multiple exposure lines, may include profit-sharing features and often insure events over a multi-year period, including loss sensitive multi-year retrocessional catastrophe contracts. Some of these products do not meet established criteria for insurance or reinsurance accounting under GAAP and are recorded using the deposit method of accounting. Deposit accounting requires that consideration received be recorded in the balance sheet as opposed to gross premiums written in the income statement and any non-refundable fees are recorded in the income statement. Assured Guaranty provides credit enhancement products to the municipal finance, structured finance and mortgage markets.

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

From April 29, 2004, our proportionate share of Assured Guaranty's earnings is reflected in "Other (income) expense" in our consolidated statement of operations. The equity in net income recorded from Assured Guaranty in the three and nine months ended September 30, 2005, was $30 million and $55 million, respectively. The current quarter included our share of a loss recovery resulting from Assured Guaranty's settlement of a long-standing litigation matter.

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Net premiums written	$ 212	$ 68	$ 388	$ 289
Net premiums earned	257	111	439	424
Losses and loss expenses	310	116	463	291
Policy acquisition costs	2	2	5	22
Administrative expenses	3	4	14	38
Underwriting income (loss)	$ (58)	$ (11)	$ (43)	$ 73
Net investment income	35	29	97	118
Net realized gains (losses)	7	(2)	16	(29)
Interest expense	—	2	—	5
Other (income) expense	(30)	(14)	(55)	(10)
Income tax expense	10	1	23	32
Net income	$ 4	$ 27	$ 102	$ 135
Loss and loss expense ratio	120.7%	104.7%	105.4%	68.6%
Policy acquisition cost ratio	0.9%	2.3%	1.3%	5.3%
Administrative expense ratio	1.4%	2.7%	3.2%	8.8%
Combined ratio	123.0%	109.7%	109.9%	82.7%

Financial Services' reported significant increases in net premiums written and earned in the three months ended September 30, 2005, compared with the same quarter in 2004, primarily, due to premiums written and earned on multi-year contracts in connection with catastrophe losses. For the three months ended September 30, 2005, net premiums written and earned were bolstered by $131 million and $163 million, respectively, in connection with multi-year contracts consistent with the accounting guidance under EITF Abstract 93-6. This abstract requires that companies writing multi-year contracts recognize an asset to the extent that the ceding company has an obligation to pay cash to the reinsurer that would not have been required absent experience under the contract. To the extent these obligations relate to future underwriting years, recognizing the asset generates premium written and earned. Excluding these premiums written on multi-year contracts, Financial Services reported a decline in production in the three and nine months ended September 30, 2005, which reflects the decrease in underwriting opportunities in some lines of business. Premium volume in the financial solutions business can vary significantly from period to period and therefore premiums written in any one period are not indicative of premiums to be written in future periods.

Financial Services reported underwriting losses in the three and nine months ended September 30, 2005, primarily due to Hurricane Katrina, which contributed $77 million to this segment’s underwriting loss in the current periods. Excluding the impact of Hurricane Katrina, underwriting income improved in the current periods primarily due to a loss recovery in connection with the long-standing litigation matter (in addition to our share of Assured Guaranty’s recovery, discussed above), which added $16 million to this segment’s underwriting income. In connection with products accounted for using the deposit method of accounting, we recorded $5 million of non-refundable fees, in the nine months ended September 30, 2005.

Financial Services incurred net adverse prior period development of $2 million and net favorable prior period development of $5 million in the three and nine months ended September 30, 2005, respectively. These amounts represented 0.1 percent and 0.2 percent of this segment’s net unpaid loss and loss expense reserves at June 30, 2005 and December 31, 2004, respectively. In comparison net favorable prior development in the three and nine months ended September 30, 2004 was $14 million and $21 million respectively. The net adverse development in the three months ended September 30, 2005, was the net result of several underlying modest favorable and adverse movements. The most significant movement was $12 million of adverse development on a loss portfolio transfer due to greater than expected loss development. This program is now reserved at full limits. The favorable movement in the three months ended September 30, 2004, was mainly attributable to a multi-year claims-made insurance policy for which it was determined that certain previously recognized claims would fall below attachment points.

Net Investment Income

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Insurance – North American	$ 139	$ 123	$ 412	$ 337
Insurance – Overseas General	82	51	236	159
Global Reinsurance – P&C	45	32	124	88
Global Reinsurance – Life	10	8	29	24
Financial Services	35	29	97	118
Corporate and Other	9	3	12	5
Net investment income	$ 320	$ 246	$ 910	$ 731

Net investment income is influenced by a number of factors, including the amounts and timing of inward and outward cash flows, the level of interest rates, and changes in overall asset allocation. Net investment income increased 30 percent and 24 percent in the three and nine months ended September 30, 2005, compared with the same periods in 2004. The increase in net investment income was primarily due to positive operating cash flows, which have resulted in a higher overall average invested asset base. The sale of Assured Guaranty in 2004 reduced the average invested asset base for Financial Services and resulted in a decline in net investment income for that segment of 18 percent in the nine months ended September 30, 2005, compared with the same period in 2004. The investment portfolio’s average yield on fixed maturities was 4.6 percent at September 30, 2005, compared with 4.0 percent at September 30, 2004.

Net Realized Gains (Losses)

Our investment strategy takes a long-term view, and our investment portfolio is actively managed to maximize total return within certain specific guidelines, designed to minimize risk. The bulk of our investment portfolio is available for sale and reported at fair value. During the quarter ended March 31, 2005, we transferred securities that we have the ability and intent to hold to maturity or redemption from the available for sale classification to the held to maturity classification. The transfer was made at the fair value at the date of transfer (refer to the section entitled “Investments” for more information). Our held to maturity investment portfolio is reported at amortized cost.

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The effect of market movements on our available for sale investment portfolio impacts net income (through net realized gains (losses)) when securities are sold or when “other than temporary” impairments are recorded on invested assets. Additionally, net income is impacted through the reporting of changes in the fair value of derivatives, including financial futures, options, spread lock swaps, GMIB reinsurance, and credit-default swaps. Changes in unrealized appreciation and depreciation on available for sale securities, which result from the revaluation of securities held, are reported as a separate component of accumulated other comprehensive income in shareholders’ equity.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Fixed maturities and short-term investments	$ 11	$ 20	$ 32	$ 67
Equity securities	23	7	58	75
Other investments	1	(10)	5	(21)
Currency	(1)	1	(2)	(2)
Derivatives:				
Financial futures, options, and swaps	41	(6)	(2)	23
Fair value adjustment on insurance derivatives	8	(44)	10	(75)
Subtotal derivatives	49	(50)	8	(52)
Total net realized gains (losses)	$ 83	$ (32)	$ 101	$ 67

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

FAS 133 requires us to recognize all derivatives as either assets or liabilities on our consolidated balance sheet and measure them at fair value. We record the gains and losses resulting from the fair value measurement of derivatives in net realized gains (losses). We participate in derivative instruments in two principal ways as follows: i) to mitigate our own risk, principally arising from our investment holdings; or ii) to offer protection to others as the seller or writer of the derivative, such as our GMIB reinsurance contracts that are treated as derivatives for accounting purposes and our credit derivatives. We do not consider either type of transaction to be speculative. In the three and nine months ended September 30, 2005, we recorded net realized gains of $49 million and $8 million, respectively, on derivative transactions. This compares with net realized losses of $50 million and $52 million, in the three and nine months ended September 30, 2004, respectively. For a sensitivity discussion of the effect of changes in interest rates and equity indices on the fair value of derivatives and the resulting impact on our net income, refer to Item 7A. of our Annual Report on Form 10-K/A for the year ended December 31, 2004.

With respect to our GMIB reinsurance and credit derivatives, we record a portion of the change in fair value in future policy benefits for life and annuity contracts and unpaid loss and loss expenses, respectively, representing our best estimate of loss pay-outs related to fees or premiums earned, and a portion in net realized gains (losses), representing other changes in fair value. The fair value adjustments related to GMIB reinsurance and credit derivatives included in net realized gains (losses) in the three and nine months ended September 30, 2005, were net realized gains of $8 million and $10 million, respectively. The fair value adjustments related to GMIB reinsurance and credit derivatives included in net realized gains (losses) for the three and nine months ended September 30, 2004 were net realized losses of $44 million and $75 million, respectively. The change in fair values related to GMIB reinsurance was realized gains of $7 million and $13 million in the three and nine months ended September 30, 2005, respectively. This compares with net realized loss of $41 million and a net realized loss of $51 million in the three and nine months ended September 30, 2004, respectively, related to GMIB reinsurance. The gain or loss created by the estimated fair value adjustment will rise or fall each period based on estimated market pricing and may not be an indication of ultimate claims. Fair value is defined as the amount at which an asset or liability could be bought or sold in a current transaction between willing parties. We generally plan to hold derivative financial instruments to maturity. Where we hold derivative financial instruments to maturity, these fair value adjustments would generally be expected to reverse resulting in no gain or loss over the entire term of the contract. However, in the event that we terminate a derivative contract prior to maturity, as a result of a decision to exit a line of business or for risk management purposes, the difference between the final settlement of cash inflows and outflows and financial statement accruals for premiums and losses will be reflected as premiums earned and losses incurred, respectively. Additionally, at termination, any unrealized gain or loss, previously classified as a realized gain or loss, will be reversed and classified as a realized loss or gain, respectively. The changes in the fair value of GMIBs are determined using internal valuation models. Such valuations require considerable judgment and are subject to significant uncertainty. The valuation of these products is subject to fluctuations arising from, among other factors, changes in interest rates, changes in the equity markets, and changes in the allocation of the investments underlying annuitant’s account value. These models and the related assumptions are continually reviewed by management and enhanced, as appropriate, based upon improvements in modeling techniques and availability of more timely information, such as market conditions and demographics of in-force annuities.

The net realized gain of $41 million and net realized loss of $2 million on financial futures, options, and swaps in the three and nine months ended September 30, 2005, were primarily driven by gains (losses) on derivative transactions structured to manage our investment portfolio’s credit and interest rate risks. For the three and nine months ended September 30, 2004, we experienced a net realized loss of $6 million and a net realized gain of $23 million, respectively, related to financial futures, options, spread lock swaps and interest rate swaps. We use foreign currency forward contracts to minimize the effect of fluctuating foreign currencies on certain non-U.S. dollar holdings in our portfolio that are not specifically matching foreign currency liabilities. These contracts are not designated as specific hedges and we record all realized and unrealized gains and losses on these contracts as net realized gains (losses) in the period in which the currency values change.

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

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

Our net realized gains in the three and nine months ended September 30, 2005, included write-downs of $10 million and $36 million, respectively, as a result of conditions which caused us to conclude that the decline in fair value was “other than temporary”. This compares with write-downs of $24 million and $30 million for the three and nine months ended September 30, 2004, respectively. A breakdown of write-downs by security type is included in Note 3 of the Consolidated Financial Statements.

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Other Income and Expense Items

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
	(in millions of U.S. dollars)			
Equity in net income of partially-owned companies	$ (30)	$ (14)	$ (55)	$ (30)
Minority interest expense (benefit)	4	(2)	17	10
Other	1	—	2	9
Goodwill impairment	—	2	—	13
Other (income) expense	$ (25)	$ (14)	$ (36)	$ 2

Other income for the three and nine months ended September 30, 2005, and 2004, primarily comprises our equity in net income of Assured Guaranty (included in equity in net income of partially-owned companies), and minority interest expense (benefit) due to profitability (losses) associated with our consolidated joint ventures. The nine months ended September 30, 2004, included $8 million in compensation expense in connection with the settlement of ACE stock awards held by employees of Assured Guaranty. Additionally, during the nine months ended September 30, 2004, we recognized $13 million of goodwill impairments, following a review of our goodwill balance during the first quarter of 2004. For the nine months ended September 30, 2005, we reported a net increase in our goodwill balance of $3 million, primarily due to our purchase of the remaining interest of a previously partially-owned subsidiary.

Investments

Our principal investment objective is to ensure that funds are available to meet our insurance and reinsurance obligations. Within this broad liquidity constraint, the purpose of our investment portfolio’s structure is to maximize total return subject to specifically approved guidelines of overall asset classes, credit quality, liquidity and volatility of expected returns. Our investment portfolio is invested primarily in fixed income securities with an average credit quality of AA, as rated by the independent investment rating service S&P. The portfolio is externally managed by independent, professional investment managers. The average duration of our fixed income securities, including the effect of options and swaps, declined to 3.2 years at September 30, 2005, compared with 3.4 years at December 31, 2004. We estimate that a 100 basis point increase in interest rates would reduce our book value by approximately $860 million. Our “other investments” principally comprise direct investments, investments in investment funds and investments in limited partnerships.

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

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

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

	September 30, 2005		December 31, 2004	
	Fair Value	Cost/ Amortized Cost	Fair Value	Cost/ Amortized Cost
	(in millions of U.S. dollars)			
Fixed maturities available for sale	$22,551	$ 22,434	$22,891	$ 22,422
Fixed maturities held to maturity	3,126	3,125	—	—
Short-term investments	2,212	2,212	2,163	2,163
	27,889	27,771	25,054	24,585
Equity securities	1,436	1,210	1,265	1,061
Other investments	651	575	606	551
Total investments	$29,976	$ 29,556	$26,925	$ 26,197

We also gain exposure to equity markets through the use of derivative instruments. The combined equity exposure through both our equity portfolio and derivative instruments was valued at $1.4 billion at September 30, 2005, and December 31, 2004. The fair value of our total investments increased $3.1 billion during the nine months ended September 30, 2005, primarily due to positive cash flows from operations, partially offset by unrealized depreciation of $287 million, mainly on fixed maturities, due to an overall increase in U.S. interest rates during the period.

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

	September 30, 2005		December 31, 2004	
	Market Value	Percentage of Total	Market Value	Percentage of Total
	(in millions of U.S. dollars)		(in millions of U.S. dollars)	
Treasury	$ 2,274	8%	$ 1,551	7%
Agency	1,492	5%	1,547	7%
Corporate	7,718	28%	7,614	30%
Mortgage-backed securities	6,780	24%	5,034	20%
Asset-backed securities	1,420	5%	1,225	5%
Municipal	565	2%	566	2%
Non-US	5,428	20%	5,376	21%
Cash and cash equivalents	2,212	8%	2,141	8%
Total	$ 27,889	100%	$ 25,054	100%

	September 30, 2005		December 31, 2004	
	Market Value	Percentage of Total	Market Value	Percentage of Total
	(in millions of U.S. dollars)		(in millions of U.S. dollars)	
AAA	$ 16,994	61%	$ 13,890	55%
AA	2,369	8%	2,634	11%
A	4,325	16%	4,397	18%
BBB	2,054	7%	2,275	9%
BB	1,013	4%	774	3%
B	1,093	4%	1,041	4%
Other	41	—	43	—
Total	$ 27,889	100%	$ 25,054	100%

In accordance with our investment process, we invest in below-investment grade securities through dedicated investment portfolios managed by external investments managers that have investment professionals specifically dedicated to this asset class. At September 30, 2005, our fixed income investment portfolio included below-investment grade and non-rated securities which, in total, comprised approximately eight percent of our fixed income portfolio. We define a security as being below-investment grade if it has an S&P credit rating of BB or less. Our below investment-grade and non-rated portfolio includes approximately 800 issues, with the top 15 holdings making up approximately 11 percent of the $2.2 billion balance at September 30, 2005. The highest single exposure in this portfolio of securities is $30 million. Below-investment grade securities have different characteristics than investment grade corporate debt securities. Risk of loss from default by the borrower is greater with below-investment grade securities. Below-investment grade securities are generally unsecured and are often subordinated to other creditors of the issuer. Also, issuers of below-investment grade securities usually have higher levels of debt and are more sensitive to adverse economic conditions such as recession or increasing interest rates, than are investment grade issuers. We reduce the overall risk in the below-investment grade portfolio, as in all investments, through careful credit analysis, strict investment policy guidelines, and diversification by issuer and/or guarantor as well as by industry.

Unpaid Losses and Loss Expenses

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

	Gross Losses	Reinsurance Recoverable	Net Losses
	(in millions of U.S. dollars)		
Balance at December 31, 2004	$31,483	$ 13,966	$17,517
Losses and loss expenses incurred	10,366	3,927	6,439
Losses and loss expenses paid	(6,259)	(2,407)	(3,852)
Other (including foreign exchange revaluation)	(916)	(721)	(195)
Balance at September 30, 2005	$34,674	$ 14,765	$19,909

The process of establishing reserves for claims can be complex and is subject to considerable variability as it requires the use of informed estimates and judgments. Our estimates and judgments may be revised as additional experience and other data become available and are reviewed; as new or improved methodologies are developed; or as current laws change. Catastrophe losses incurred during the current quarter significantly impacted our total reserves – the three months ended September 30, 2005, included gross and net catastrophe losses of $2.4 billion and $996 million, respectively. The following table shows our total reserves segregated between case reserves and IBNR reserves.

	September 30, 2005			December 31, 2004		
	Gross	Ceded	Net	Gross	Ceded	Net
	(in millions of U.S. dollars)					
Case reserves	$ 14,209	$ 5,751	$ 8,458	$ 14,797	$ 6,003	$ 8,794
IBNR	20,465	9,014	11,451	16,686	7,963	8,723
Total	$ 34,674	$ 14,765	$ 19,909	$ 31,483	$ 13,966	$ 17,517

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

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

Insurance - North American

Given the long reporting and paid development pattern, the tail factors used to project actual current losses to ultimate losses for claims covered by our middle market workers' compensation policies require considerable judgment that could be material to consolidated losses and loss expense reserves. Specifically, a one percent change in the tail factor could cause approximately a $50 million change, either positively or negatively, for the selected net loss and loss expense ultimate for that segment. We believe that our selected tail factors represent the most likely loss development based on historical loss payment patterns of this and other comparable long-tail lines of business as well as the current legal and economic environment. The actual tail factor could vary by several percentage points from the tail factor selected. Because tail factors are stated in terms of decimals (e.g., 1.125) and often, the actuary's choice regarding reasonably supportable tail factors range within percentages of each other, the realistic change in tail factors can be expressed in percentage points.

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

Insurance – Overseas General

Certain international long tail lines, such as casualty and professional lines, are particularly susceptible to changes in loss trend and claim inflation. Heightened perceptions of tort and settlement awards around the world are increasing the demand for these products as well as contributing to the uncertainty of the reserving estimates. Our reserving methods rely heavily on loss development patterns estimated from historical data and while we attempt to adjust such factors for known changes in the current tort environment, it is possible that such factors may not entirely reflect all recent trends in tort environments. For example, a six month delay of our selected loss development patterns could increase reserve estimates on long tail casualty and professional lines by approximately $195 million.

Global Reinsurance

Typically there is inherent uncertainty around the length of paid and reporting development patterns, especially for certain casualty lines such as excess workers' compensation or general liability, which may take up to 30 years to fully develop. This uncertainty is accentuated by the need to supplement client development patterns with industry development patterns as justified by the credibility of the data. The underlying source and selection of the final development pattern can thus have a significant impact on the selected net loss and loss expense ultimate. For example, a ten percent slowing or quickening of the development pattern for US long-tail lines could cause the ultimate loss derived by the reported Bornhuetter-Ferguson method for these lines to change by as much as four percent, or $42 million.

Assumed Reinsurance

At September 30, 2005, net unpaid losses and loss expenses for the Global Reinsurance segment aggregated to $2.18 billion, consisting of $445 million of case reserves and $1.74 billion of IBNR. For the current quarter, increases in Global Reinsurance's net unpaid losses and loss expenses were partially offset by claim payments made in connection with third quarter 2004 storms.

On occasion, there will be differences between our carried loss reserves and unearned premium reserves and the amount of loss reserves and unearned premium reserves reported by the ceding companies. This is due to the fact that we only receive consistent and timely information from ceding companies with respect to case reserves. For IBNR, we use historical experience and other statistical information, depending on the type of business, to estimate the ultimate loss (see Unpaid Losses and Loss Expenses for more information). We estimate our unearned premium reserve by applying estimated earning patterns to net premiums written for each treaty based upon that treaty's coverage basis (i.e. risks attaching or losses occurring). At September 30, 2005, the case reserves reported to us by our ceding companies were $429 million, compared with the $445 million we recorded. We do, on occasion, post additional case reserves in addition to the amounts reported by our cedants when our evaluation of the ultimate value of a reported claim is different than the evaluation of that claim by our cedant.

Asbestos and Environmental Liabilities

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

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

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

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

Westchester Specialty

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

Brandywine Run-off Entities

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

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

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

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

Effective December 31, 2004, ACE INA Holdings contributed $100 million to Century in exchange for a surplus note. After giving effect to the contribution and issuance of the surplus note, the statutory surplus of Century at June 30, 2005 was $25 million and approximately $451 million in statutory-basis losses were ceded to the Aggregate Excess of Loss Agreement. Century reports the amount ceded under the Aggregate Excess of Loss Agreement in accordance with statutory accounting principles, which differ from GAAP by, among other things, allowing Century to discount its asbestos and environmental reserves. For GAAP reporting purposes, intercompany reinsurance recoverables related to the Aggregate Excess of Loss Agreement are eliminated in consolidation. To estimate ACE’s remaining claim exposure under the Aggregate Excess of Loss Agreement under GAAP, we adjust the statutory cession to exclude the discount embedded in statutory loss reserves. At June 30, 2005, approximately $764 million in GAAP basis losses were ceded under the Aggregate Excess of Loss Agreement, leaving a remaining limit of coverage under that agreement of approximately $36 million. While we believe ACE has no legal obligation to fund losses above the Aggregate Excess of Loss Agreement limit of coverage, ACE’s consolidated results would nevertheless continue to report any losses above the limit of coverage for so long as those Brandywine companies remain consolidated subsidiaries of ACE.

Uncertainties Relating to ACE’s Ultimate Brandywine Exposure

In addition to the Dividend Retention Fund and Aggregate Excess of Loss Agreement commitments described above, certain ACE entities are primarily liable for asbestos, environmental and other exposures that they have reinsured to Century. Accordingly, if Century were to become insolvent and ACE were to lose control of Century, some or all of the recoverables due to these ACE companies from Century could become uncollectible, yet those ACE entities would continue to be responsible to pay claims to their insureds or reinsureds. Under such circumstances, ACE would recognize a loss in its consolidated statement of operations. As of September 30, 2005, the aggregate reinsurance balances ceded by the active ACE companies to Century were approximately $1.6 billion. At September 30, 2005, Century’s carried gross reserves (including reserves ceded by the active ACE companies to Century) were $5.1 billion. We believe the intercompany reinsurance recoverables, which relate to liabilities payable over many years (i.e., 25 years or more), are not impaired at this time. A substantial portion of the liabilities ceded to Century by its affiliates have in turn been ceded by Century to NICO and, as of September 30, 2005, approximately $1.9 billion of cover remains on a paid basis. As a result, any economic exposure there may be to adverse developments in the future is substantially less than the nominal value of the reinsurance recoverables. The impact of the transaction described below would reduce the balance due from Century to active ACE Companies by $ 90 million. Should Century's loss reserves experience adverse development in the future and should Century be placed into rehabilitation or liquidation, the reinsurance recoverables due to Century's affiliates would be payable only after the payment in full of certain expense and liabilities, including administrative expenses and direct policy liabilities. Thus, the intercompany reinsurance recoverables would be at risk to the extent of the shortage of assets remaining to pay these recoverables. As of June 30, 2005, reserves ceded by Century to the active ACE companies and other amounts owed to Century by the ACE active companies were approximately $775 million in the aggregate.

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

Pending Sale of Certain Brandywine Companies

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

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

Legislative Initiatives

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

Reinsurance

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

	September 30 2005	December 31 2004
	(in millions of U.S. dollars)	
Reinsurance recoverable on paid losses and loss expenses	$ 1,174	$ 1,210
Bad debt reserve on paid losses and loss expenses	(290)	(309)
Reinsurance recoverable on future policy benefits	13	15
Reinsurance recoverable on unpaid losses and loss expenses	15,254	14,585
Bad debt reserve on unpaid losses and loss expenses	(489)	(619)
Net reinsurance recoverable	$ 15,662	$ 14,882

Our reinsurance recoverable on unpaid losses and loss expenses increased during the nine months ended September 30, 2005, primarily due to catastrophe losses in the current quarter which added approximately $1.3 billion to the balance. This impact was partially offset by the novation of approximately $600 million of reinsurance recoverable on unpaid losses and loss expenses as intended under our 1999 agreement in connection with the purchase of CIGNA's P&C businesses. During the current quarter we wrote-off approximately $130 million of reinsurance recoverable on unpaid losses and loss expenses (and associated bad debt reserves of the same amount) which we believe to be uncollectible. This action had no impact on our net income.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

As an insurance company, one of our principal responsibilities to our clients is to ensure that we have ready access to funds to settle large unforeseen claims. Given anticipated growth in premiums and a lengthening of the average duration of our claim liabilities due to a higher proportionate growth in long-tail relative to short-tail business, we expect that positive cash flow from operations (underwriting activities and investment income) will be sufficient to cover cash outflows under most loss scenarios through 2006. To further ensure the sufficiency of funds to settle unforeseen claims, we hold a certain amount of invested assets in cash and short-term investments and maintain available credit facilities (see section entitled, "Credit Facilities", below). In addition, for certain insurance, reinsurance, or deposit contracts that tend to have relatively large and reasonably predictable cash outflows, such as loss portfolio contracts, we attempt to establish dedicated portfolios of assets that are duration-matched with the related liabilities. With respect to the duration of our overall investment portfolio, we manage asset durations to both maximize return given current market conditions and provide sufficient liquidity to cover future loss payments. In a low rate environment, the overall duration of our fixed maturity investments tends to be shorter and in a high rate environment, such durations tend to be longer.

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

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

We assess which subsidiaries to draw dividends from based on a number of factors. Considerations such as regulatory and legal restrictions as well as the subsidiary's financial condition are paramount to the dividend decision. The legal restrictions on the payment of dividends from retained earnings by our Bermuda subsidiaries are currently satisfied by the share capital and additional paid-in capital of each of the Bermuda subsidiaries. During the nine months ended September 30, 2005, ACE Bermuda and ACE Tempest Life Reinsurance Ltd declared and paid dividends of $548 million and $32 million, respectively. During the nine months ended September 30, 2004, ACE Bermuda and ACE Tempest Life Reinsurance Ltd declared and paid dividends of $227 million and $225 million, respectively. We expect that a majority of our cash inflows for the remainder of 2005 will be from our Bermuda subsidiaries.

The payment of any dividends from ACE Global Markets or its subsidiaries is subject to applicable U.K. insurance laws and regulations. In addition, the release of funds by Syndicate 2488 to subsidiaries of ACE Global Markets is subject to regulations promulgated by the Society of Lloyd's. ACE INA's U.S. insurance subsidiaries may pay dividends, without prior regulatory approval, subject to restrictions set out in state law of the subsidiary's domicile (or, if applicable, "commercial domicile"). Typically, restrictions state that dividends may only be paid from earned surplus (unassigned funds) and are subject to (i) certain limitations based upon the policyholder surplus and/or net income or investment income of the insurer (specific threshold set by state law of insurer's domicile); (ii) total dividends paid during a twelve month period, and (iii) the maintenance of minimum capital requirements. ACE INA's international subsidiaries are also subject to insurance laws and regulations particular to the countries in which the subsidiaries operate. These laws and regulations sometimes include restrictions that limit the amount of dividends payable without prior approval of regulatory insurance authorities.

ACE Limited did not receive any dividends from ACE Global Markets or ACE INA during the nine months ended September 30, 2005 and 2004. ACE INA issued debt to provide partial financing for the ACE INA acquisition and for other operating needs. This debt is serviced by statutorily permissible distributions by ACE INA's insurance subsidiaries to ACE INA as well as other group resources.

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

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

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

- Our consolidated net cash flows from operating activities were $3.5 billion for the nine months ended September 30, 2005, compared with $4.1 billion for the same period in 2004. These amounts reflect net income for each period, adjusted for non-cash items and changes in working capital. Net income decreased $83 million for the nine months ended September 30, 2005, compared with the same period in 2004. The nine months ended September 30, 2005, were significantly impacted by the current quarter's catastrophe losses, which increased unpaid loss and loss expenses by approximately $2.6 billion, partially offset by approximately $1.3 billion of additions to the reinsurance recoverable balance. Our net losses and loss expenses paid increased to $3.9 billion in the nine months ended September 30, 2005, compared with $3.4 billion for the same period in 2004. Additionally, the nine months ended September 30, 2004, were bolstered by the net impact of commutations. Non-cash items for the nine months ended September 30, 2005, reflect the impact of the novation of approximately $600 million of gross and ceded reserves, which had no impact on our net cash flows from operating activities.
- Our consolidated net cash flows used for investing activities were $3.4 billion for the nine months ended September 30, 2005 compared with $3.9 billion in the same period in 2004. For the indicated periods, net cash flows used for investing activities were related principally to purchases of fixed maturities and equity securities. Net purchases of fixed maturities and equity securities were $3.5 billion in the nine months ended September 30, 2005, compared with $4.7 billion in the same period in 2004. Net cash flows used for investing activities for the nine months ended September 30, 2004, also included $953 million from the sale of Assured Guaranty (net of cash sold of $82 million).

- Our consolidated net cash flows used for financing activities were $118 million in the nine months ended September 30, 2005, compared with consolidated net cash flows used for financing activities of $94 million in the same period in 2004. For the indicated periods, net cash flows usage for financing activities were primarily related to dividends paid, partially offset by proceeds from exercise of options.

Although our ongoing operations continue to generate positive cash flows, our cash flows are currently impacted by a large book of loss reserves from businesses in run-off. The run-off operations generated negative operating cash flows of $72 million in the nine months ended September 30, 2005, compared with $45 million in the same period in 2004.

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

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

Financial strength ratings represent the opinions of the rating agencies on the financial strength of a company and its capacity to meet the obligations of insurance policies. Independent ratings are one of the important factors that establish our competitive position in the insurance markets. The rating agencies consider many factors in determining the financial strength rating of an insurance company, including the relative level of statutory surplus necessary to support the business operations of the company. These ratings are based upon factors relevant to policyholders, agents and intermediaries and are not directed toward the protection of investors. Such ratings are not recommendations to buy, sell or hold securities.

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

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

Capital Resources

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

	September 30 2005	December 31 2004
	(in millions of U.S. dollars)	
Short-term debt	$ 446	$ 146
Long-term debt	1,564	1,849
Total debt	2,010	1,995
Trust preferred securities	412	412
Preferred shares	557	557
Ordinary shareholders' equity	9,672	9,288
Total shareholders' equity	10,229	9,845
Total capitalization	$ 12,651	$ 12,252
Ratio of debt to total capitalization	15.9%	16.3%
Ratio of debt plus trust preferreds to total capitalization	19.1%	19.6%

The current period's long-term debt balance includes a reclassified loan of $5 million from the City of Philadelphia under the Urban Development Action Grant (UDAG) and a new loan of $10 million from the Pennsylvania Industrial Development Authority (PIDA). Both of these loans support real-estate used in the day to day operations of subsidiaries. Additionally, the ACE INA-issued $300 million, 8.3 percent notes due August 15, 2006, were reclassified from long-term debt to short-term debt.

We believe our financial strength provides us with the flexibility and capacity to obtain funds externally through debt or equity financing on both a short-term and long-term basis. Our ability to access the capital markets is dependent on, among other things, market conditions and our perceived financial strength. We have accessed both the debt and equity markets from time to time. On October 4, 2005, we completed a public offering of 32.91 million Ordinary Shares (which included the over-allotment option of 4.29 million Ordinary Shares) at a price per share of $45.58, for total gross proceeds of approximately $1.5 billion. We expect to use the net proceeds of the offering for growth opportunities in the global insurance and reinsurance markets.

Our diluted book value per Ordinary Share increased to $33.62 at September 30, 2005, compared with $32.51 at December 31, 2004. In calculating our diluted book value per Ordinary Share, we include in the denominator, in-the-money options. The expected proceeds from the in-the-money options are included in the numerator. Shareholders' equity increased $384 million in the nine months ended September 30, 2005, primarily due to net income of $792 million, partially offset by unrealized deprecation on our investment portfolio of $233 million net of income tax and dividends declared of $226 million.

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

As part of our capital management program, in November 2001, our Board of Directors authorized the repurchase of any ACE issued debt or capital securities including Ordinary Shares, up to $250 million. At September 30, 2005, this authorization had not been utilized. During 2004, we filed a shelf registration statement with the SEC relating to the issuance of up to $1.5 billion of certain types of debt and equity securities. This registration became effective during the first quarter of 2005, and was exhausted upon completion of our approximately $1.5 billion public offering in October 2005. We generally maintain shelf capacity at all times, in order to allow capital market access for refinancing as well as for unforeseen capital needs. Consistent with this policy, we intend to file a new shelf registration statement with the SEC during the fourth quarter of 2005.

Credit Facilities

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

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

	Credit Line [1]	Usage	Expiry Date
	(in millions of U.S. dollars)		
Unsecured Liquidity Facilities			
ACE Limited [2]	$ 600	$ 64	April 2007
Secured Operational LOC Facilities			
ACE Limited	500	292	July 2010
Other [3]	69	69	Various
Unsecured Operational LOC Facilities			
ACE Limited	1,000	613	July 2010
Unsecured Capital Facilities			
ACE Limited [4]	501	501	Dec. 2009
Total	$ 2,670	$1,539	

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

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

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

(4) Supports ACE Global Markets underwriting capacity for Lloyd's Syndicate 2488-2005 capacity of £400 million (approximately $710 million).

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

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

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

At September 30, 2005, (a) the minimum consolidated net worth requirement under the covenant described in (i) above was $6.7 billion and our actual consolidated net worth as calculated under that covenant was $9.8 billion; and (b) our ratio of debt to total capitalization was 0.16 to 1.

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

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

American Jobs Creation Act of 2004

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

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

During the three months ended September 30, 2005, we did not repatriate any additional foreign earnings. During the nine months ended September 30, 2005, we repatriated foreign earnings of approximately $367 million subject to Domestic Reinvestment Plans that would qualify under the Act based on the guidance issued to date. Of the $367 million repatriated foreign earnings to date, approximately $250 million will qualify for preferential tax treatment. For the nine months ended September 30, 2005, the tax benefit associated with these repatriations was $27 million and was a result of the reduction of the net deferred tax liability associated with these repatriated earnings, based on guidance issued to date.

Additional earnings repatriations up to the limitation under the Act of $500 million may be completed through the remainder of 2005. Based on guidance issued to date, we are evaluating potential additional repatriations and are not in a position to complete the evaluation or determine the total associated tax impact as a result of the Act. However, based on our analysis to date, it is possible that we may ultimately repatriate up to an additional $250 million, up to the limitation of qualifying dividends, with an associated tax benefit of up to $47 million. We expect to finalize our assessment during the fourth quarter of 2005.

Item 4. Controls and Procedures

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

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

ACE LIMITED
PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Information on the Company's legal proceedings is set forth in Note 7 c) of the Consolidated Financial Statements included under Part I, Item 1.

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

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

Issuer's Purchases of Equity Securities

Period	Total Number of Shares Purchased**	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan*	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan*
July 1 through July 30, 2005	255,609	46.14	—	$ 250 million
August 1 through August 31, 2005	2,796	44.76	—	$ 250 million
September 1 through September 30, 2005	46,194	44.99	—	$ 250 million
Total	304,599			

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

** For the three months ended September 30, 2005, this column includes the surrender to the Company of 52,315 Ordinary Shares to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees, the surrender to the Company of 194,283 Ordinary Shares to satisfy the option cost on options exercised, and the surrender to the Company of 58,001 Ordinary Shares to satisfy the tax withholdings obligations in connection with the exercise of employee stock options.

Item 6. Exhibits

Exhibits

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

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

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

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

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ACE LIMITED
SIGNATURES

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

	ACE LIMITED
November 8, 2005	/s/ Evan G. Greenberg
	Evan G. Greenberg President and Chief Executive Officer
November 8, 2005	/s/ Philip V. Bancroft
	Philip V. Bancroft Chief Financial Officer

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ACE LIMITED
EXHIBITS

Exhibit Number	Description
	Exhibits
31.1	Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
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ACE LIMITED
EXHIBITS

Exhibit 31.1

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

I, Evan G. Greenberg, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date November 8, 2005

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

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

I, Philip V. Bancroft, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date November 8, 2005

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

Exhibit 32.1

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

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

Dated: November 8, 2005

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

Exhibit 32.2

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

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

Dated: November 8, 2005

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