ACE LTD

FORM 10-Q
(Quarterly Report)

Filed 08/14/01 for the Period Ending 06/30/01

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

ACE LTD

FORM 10-Q
(Quarterly Report)

Filed 8/14/2001 For Period Ending 6/30/2001

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2001

OR

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

For the Transition Period from ________________ to ________________

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

ACE LIMITED
(Incorporated in the Cayman Islands)

The ACE Building
30 Woodbourne Avenue
Hamilton HM 08
Bermuda

Telephone 441-295-5200

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

YES X NO

The number of registrant's Ordinary Shares ($0.041666667 par value) outstanding as of August 10, 2001 was 230,880,249.

ACE LIMITED

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ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30 2001 (unaudited)	December 31 2000
	(in thousands of U.S. dollars, except share and per share data)	
Assets		
Investments and cash		
Fixed maturities available for sale, at fair value (amortized cost - $11,255,915 and $10,640,937)	$ 11,381,882	$ 10,721,309
Equity securities, at fair value (cost - $511,593 and $495,049)	495,075	532,046
Short-term investments, at fair value (amortized cost - $1,015,211 and $1,369,784)	1,015,211	1,369,784
Other investments, at fair value (cost - $555,376 and $518,130)	578,215	531,116
Cash	677,319	608,069
Total investments and cash	14,147,702	13,762,324
Accrued investment income	192,869	183,011
Insurance and reinsurance balances receivable	2,412,871	2,095,573
Accounts and notes receivable	313,531	388,996
Reinsurance recoverable	9,404,961	8,994,940
Deferred policy acquisition costs	656,735	572,757
Prepaid reinsurance premiums	1,082,448	857,745
Goodwill	2,807,205	2,846,709
Deferred tax assets	1,126,611	1,144,261
Other assets	862,783	843,210
Total assets	$ 33,007,716	$ 31,689,526
Liabilities		
Unpaid losses and loss expenses	$ 17,952,252	$ 17,388,394
Unearned premiums	3,706,250	3,035,288
Premiums received in advance	64,999	63,123
Insurance and reinsurance balances payable	1,343,495	1,319,091
Contract holder deposit funds	107,670	139,056
Accounts payable, accrued expenses and other liabilities	1,256,708	1,316,449
Dividends payable	37,782	33,127
Short-term debt	403,265	364,509
Long-term debt	1,424,407	1,424,228
Trust preferred securities	875,000	875,000
Total liabilities	27,171,828	25,958,265
Commitments and contingencies		
Mezzanine equity	311,050	311,050
Shareholders' equity		
Ordinary Shares ($0.041666667 par value, 300,000,000 shares authorized; 231,442,862 and 232,346,579 shares issued and outstanding)	9,643	9,681
Additional paid-in capital	2,628,179	2,637,085
Unearned stock grant compensation	(43,442)	(29,642)
Retained earnings	2,873,562	2,733,633
Accumulated other comprehensive income	56,896	69,454
Total shareholders' equity	5,524,838	5,420,211
Total liabilities, mezzanine equity and shareholders' equity	$ 33,007,716	$ 31,689,526

See accompanying notes to interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months and Six Months Ended June 30, 2001 and 2000
(Unaudited)

	Three Months Ended June 30 2001	Three Months Ended June 30 2000	Six Months Ended June 30 2001	Six Months Ended June 30 2000
	(in thousands of U.S. dollars, except per share data)			
Revenues				
Gross premiums written	$ 2,402,661	$ 1,950,067	$ 4,964,299	$ 3,947,027
Reinsurance premiums ceded	(932,016)	(736,182)	(1,758,536)	(1,276,120)
Net premiums written	1,470,645	1,213,885	3,205,763	2,670,907
Change in unearned premiums	(85,458)	(46,049)	(451,460)	(398,265)
Net premiums earned	1,385,187	1,167,836	2,754,303	2,272,642
Net investment income	196,267	181,029	400,697	363,964
Net realized gains (losses) on investments	15,564	(30,044)	(3,811)	26,696
Total revenues	1,597,018	1,318,821	3,151,189	2,663,302
Expenses				
Losses and loss expenses	982,993	768,111	1,934,939	1,483,594
Policy acquisition costs	187,640	163,728	354,330	314,370
Administrative expenses	207,106	182,864	400,399	376,872
Amortization of goodwill	19,872	19,324	39,752	38,970
Interest expense	49,640	53,947	103,964	111,136
Total expenses	1,447,251	1,187,974	2,833,384	2,324,942
Income before income tax and cumulative effect of adopting a new accounting standard	149,767	130,847	317,805	338,360
Income tax expense	18,250	16,919	45,224	49,919
Income before cumulative effect of adopting a new accounting standard	131,517	113,928	272,581	288,441
Cumulative effect of adopting a new accounting standard (net of income tax)	-	-	(22,670)	-
Net income	$ 131,517	$ 113,928	$ 249,911	$ 288,441
Basic earnings per share before cumulative effect of adopting a new accounting standard	$ 0.54	$ 0.50	$ 1.12	$ 1.30
Basic earnings per share	$ 0.54	$ 0.50	$ 1.02	$ 1.30
Diluted earnings per share before cumulative effect of adopting a new accounting standard	$ 0.52	$ 0.49	$ 1.07	$ 1.28
Diluted earnings per share	$ 0.52	$ 0.49	$ 0.98	$ 1.28

See accompanying notes to interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Six Months Ended June 30, 2001 and 2000
(Unaudited)

	Six Months Ended June 30 2001	Six Months Ended June 30 2000
	(in thousands of U.S. dollars)	
Ordinary Shares		
Balance - beginning of period	$ 9,681	$ 9,061
Ordinary Shares issued	7	17
Exercise of stock options	35	18
Issued under Employee Stock Purchase Plan (ESPP)	4	1
Cancellation of Ordinary Shares	(21)	(28)
Repurchase of Shares	(63)	-
Balance - end of period	9,643	9,069
Additional paid-in capital		
Balance - beginning of period	2,637,084	2,214,989
Ordinary Shares issued	2,567	6,467
Exercise of stock options	16,439	5,773
Issued under ESPP	2,806	821
Repurchase of Ordinary Shares	(17,195)	-
Cancellation of Ordinary Shares	(13,522)	(19,007)
FELINE PRIDES issuance costs	-	(9,878)
Balance - end of period	2,628,179	2,199,165
Unearned stock grant compensation		
Balance - beginning of period	(29,642)	(28,908)
Stock grants awarded	(18,474)	(1,502)
Stock grants forfeited	133	-
Amortization	4,541	3,916
Balance - end of period	(43,442)	(26,494)
Retained earnings		
Balance - beginning of period	2,733,633	2,321,570
Net income	249,911	288,441
Dividends declared on Ordinary Shares	(64,797)	(52,154)
Dividends declared on FELINE PRIDES	(12,763)	(5,325)
Repurchase of Ordinary Shares	(32,422)	-
Balance - end of period	2,873,562	2,552,532
Accumulated other comprehensive income (loss)		
Net unrealized appreciation (depreciation) on investments		
Balance - beginning of period	102,335	(83,327)
Change in period, net of income tax	(4,846)	(37,246)
Balance - end of period	97,489	(120,573)
Cumulative translation adjustments		
Balance - beginning of period	(32,881)	17,175
Net adjustment for period, net of income tax	(7,712)	(41,823)
Balance - end of period	(40,593)	(24,648)
Accumulated other comprehensive income (loss)	56,896	(145,221)
Total shareholders' equity	$ 5,524,838	$ 4,589,051

See accompanying notes to interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the six months ended June 30, 2001 and 2000
(Unaudited)

	Six Months Ended June 30 2001	2000
	(in thousands of U.S. dollars)	
Net income	$ 249,911	$ 288,441
Other comprehensive income (loss)		
Net unrealized appreciation/(depreciation) on investments		
Unrealized appreciation/(depreciation) on investments	11,100	(14,525)
Less: reclassification adjustment for net realized gains included in net income	(9,167)	(18,121)
	1,933	(32,646)
Cumulative translation adjustments	(15,965)	(58,302)
Other comprehensive income (loss), before income tax	(14,032)	(90,948)
Income tax expense related to other comprehensive income items	1,474	11,879
Other comprehensive income (loss)	(12,558)	(79,069)
Comprehensive income	$ 237,353	$ 209,372

See accompanying notes to interim consolidated financial statements

ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2001 and 2000
(Unaudited)

	Six Months Ended June 30 2001	Six Months Ended June 30 2000
	(in thousands of U.S. dollars)	
Cash flows from operating activities		
Net income	$ 249,911	$ 288,441
Adjustments to reconcile net income to net cash provided by operating activities:		
Unearned premiums	686,575	593,965
Unpaid losses and loss expenses, net of reinsurance recoverable	183,575	359,886
Prepaid reinsurance premiums	(224,703)	(161,350)
Deferred income taxes	16,107	27,884
Net realized (gains) losses on investments	3,811	(26,696)
Amortization of premium/discounts on fixed maturities	(3,534)	(2,054)
Amortization of goodwill	39,752	38,970
Deferred policy acquisition costs	(90,373)	(70,005)
Insurance and reinsurance balances receivable	(333,000)	(255,843)
Premiums received in advance	1,876	2,952
Insurance and reinsurance balances payable	33,422	(485,207)
Accounts payable, accrued expenses and other liabilities	(52,737)	(250,754)
Net change in contract holder deposit funds	(24,826)	(10,356)
Cumulative effect of adopting a new accounting standard	22,670	-
Other	(35,181)	(253,710)
Net cash flows from (used for) operating activities	$ 473,345	$ (203,877)
Cash flows from investing activities		
Purchases of fixed maturities	(7,689,345)	(5,246,075)
Purchases of equity securities	(115,970)	(269,119)
Sales of fixed maturities	7,383,010	5,542,027
Sales of equity securities	113,672	563,473
Maturities of fixed maturities	24,000	38,265
Net realized gains (losses) on financial future contracts	(17,695)	(7,846)
Other investments	(37,246)	(166,350)
Net cash from (used for) investing activities	$ (339,574)	$ 454,375
Cash flows from financing activities		
Dividends paid on Ordinary Shares	$ (60,070)	$ (47,779)
Dividends paid on FELINE PRIDES	(12,835)	(2,424)
Net proceeds from (repayment of) short-term debt	38,780	(722,734)
Proceeds from exercise of options for Ordinary Shares	16,474	5,791
Proceeds from shares issued under ESPP	2,810	821
Repurchase of Ordinary Shares	(49,680)	-
Proceeds from issuance of trust preferred securities	-	300,000
Proceeds from issuance of FELINE PRIDES	-	311,050
Issuance costs of FELINE PRIDES	-	(9,878)
Net cash used for financing activities	$ (64,521)	$ (165,153)
Net increase in cash	69,250	85,345
Cash - beginning of period	608,069	599,232
Cash - end of period	$ 677,319	$ 684,577

See accompanying notes to interim consolidated financial statements

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

The interim consolidated financial statements, which include the accounts of the Company and its subsidiaries, have been prepared on the basis of accounting principles generally accepted in the United States of America and, in the opinion of management, reflect all adjustments (consisting of normally recurring accruals) necessary for a fair presentation of results for such periods. The results of operations and cash flows for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the consolidated financial statements, and related notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

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 insurance and reinsurance for a diverse group of customers worldwide. ACE operates through six business segments: ACE Bermuda, ACE Global Markets, ACE Global Reinsurance, ACE USA, ACE International and ACE Financial Services.

The analysis of gross premiums written by geographic regions is as follows:

	Six Months Ended June 30	
	2001	2000
North America	58%	54%
Europe	25	23
Australia and New Zealand	2	7
South America	5	4
Asia Pacific	9	7
Other (1)	1	5
	100%	100%

(1) includes world wide coverages

2. Significant Accounting Policies

New accounting prouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. As required, the Company will adopt FAS 142 on January 1, 2002 and will cease amortizing goodwill at that time. All goodwill recognized in the Company's consolidated balance sheet at January 1, 2002 should be assigned to one or more reporting units. Goodwill in each reporting unit should be tested for impairment by June 30, 2002. An impairment loss recognized as a result of a transitional impairment test of goodwill should be reported as the cumulative effect of a change in accounting principle. The Company does not expect any impairment in goodwill to arise from testing during initial adoption.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). FAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a fair value, cash flow or foreign currency hedge. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. Upon initial application of FAS 133, hedging relationships must be designated anew and documented pursuant to the provisions of this statement. The Company adopted FAS 133, as amended, as of January 1, 2001.

The Company maintains investments in derivative instruments such as futures, option contracts and foreign currency forward contracts for which the primary purposes are to manage duration and foreign currency exposure, yield enhancement or to obtain an exposure to a particular financial market. The Company has historically recorded the changes in market value of these instruments as realized gains or losses in the consolidated statements of operations and, accordingly, has estimated that FAS 133, as amended, is not expected to have a significant impact on the results of operations, financial condition or liquidity in future periods as it relates to these instruments.

Certain products (principally credit protection oriented) issued by the Company have been determined to meet the definition of a derivative under FAS 133. These products consist primarily of credit default swaps, index-based instruments and certain financial guarantee coverages. Effective January 1, 2001, the Company records these products at their fair value.

To reflect the adoption of FAS 133 on January 1, 2001, the Company recorded an expense related to the cumulative effect of adopting this standard of $23 million, net of income tax of $12 million. The Company has recorded in net realized gains (losses) on investments, pretax income of $15 million to reflect the change in the fair value of derivatives for the six months ended June 30, 2001. The level of gains and losses resulting from changes in the fair value of derivatives on a prospective basis will be dependent upon a number of factors including changes in interest rates, credit spreads and other market factors. The Company's involvement with derivative instruments and transactions is primarily to offer protection to others or to mitigate its own risk and is not considered speculative in nature.

3. Commitments and Contingencies

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

4. Restricted Stock Awards

Under the Company's long-term incentive plans, 484,300 restricted Ordinary Shares were awarded during the six months ended June 30, 2001, to officers of the Company and its subsidiaries. These shares vest at various dates through February 2005. In addition, during the period, 12,896 restricted Ordinary Shares were awarded to outside directors under the terms of the 1995 Outside Directors Plan. These shares vest in May 2002.

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.

5. Discontinued Operations

As part of the ACE INA Acquisition in July 1999, the Company planned to dispose of the operations of Commercial Insurance Services ("CIS"), a division of ACE INA. Following the acquisition, the Company sold the renewal rights for all of its CIS business and planned to sell the assets and liabilities pertaining to the in-force book of business which it still owned. Therefore, in accordance with Emerging Issues Task Force ("EITF") 87-11, "Allocation of Purchase Price to Assets to Be Sold," and EITF 90-6, "Accounting for Certain Events Not Addressed in Issue No. 87-11 Relating to an Acquired Operating Unit to Be Sold," the Company presented CIS as a discontinued operation, with effect from July 2, 1999.

On July 2, 1999, the Company reduced the consolidated balance sheet for all items that pertained specifically to CIS, together with the estimated proceeds on sale and estimated operating results over the twelve months from July 2, 1999, through July 1, 2000, into a net liability of approximately $170 million, which was recorded in accounts payable, accrued expenses and other liabilities.

As the CIS business was not sold within the allotted time period, the Company was required, as of July 2, 2000, to record the CIS balance sheet into its constituent parts in the balance sheet and to record any resulting income or loss from CIS in its statement of operations prospectively from July 2, 2000. The results of the CIS operations from July 2, 2000 are reflected in the ACE USA segment.

6. Earnings Per Share

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

	Three Months Ended June 30 2001	Three Months Ended June 30 2000	Six Months Ended June 30 2001	Six Months Ended June 30 2000
	(In thousands of U.S. dollars except share and per share data)			
Numerator				
Net income before cumulative effect of adopting a new accounting standard	$ 131,517	$ 113,928	$ 272,581	$ 288,441
Dividends on FELINE PRIDES	(6,415)	(5,325)	(12,763)	(5,325)
Net income available to the holders of Ordinary Shares before cumulative effect	125,102	108,603	259,818	283,116
Cumulative effect of adopting a new accounting standard	-	-	(22,670)	-
Net income available to the holders of Ordinary Shares	$ 125,102	$ 108,603	$ 237,148	$ 283,116
Denominator				
Denominator for basic earnings per share:				
Weighted average shares outstanding	231,175,889	217,257,524	231,790,182	217,058,392
Dilutive effect of FELINE PRIDES	3,256,112	-	3,326,176	-
Effect of other dilutive securities	6,695,811	4,688,677	6,785,925	3,266,194
Denominator for diluted earnings per share: Adjusted weighted average shares outstanding and assumed conversions	241,127,812	221,946,201	241,902,283	220,324,586
Basic earnings per share:				
Earnings per share before cumulative effect of adopting a new accounting standard	$ 0.54	$ 0.50	$ 1.12	$ 1.30
Earnings per share	$ 0.54	$ 0.50	$ 1.02	$ 1.30
Diluted earnings per share:				
Earnings per share before cumulative effect of adopting a new accounting standard	$ 0.52	$ 0.49	$ 1.07	$ 1.28
Earnings per share	$ 0.52	$ 0.49	$ 0.98	$ 1.28

7. Credit Facilities

In April 2001, the Company renewed its $800 million, 364-day revolving credit facility. This facility, together with the Company's $250 million, five-year revolving credit facility, which was last renewed in May 2000, is available for general corporate purposes and each of the facilities may also be used as commercial paper back-up facilities. The five-year facility also permits the issuance of letters of credit. Under these facilities the Company and various subsidiaries are named borrowers and guarantors. Each facility requires that the Company and/or certain of its subsidiaries maintain specific covenants, including a consolidated tangible net worth covenant and a maximum leverage covenant.

8. Debt

The following table sets forth the Company's consolidated debt position at June 30, 2001 and December 31, 2000.

	June 30, 2001	December 31, 2000
	(in millions of U.S. dollars)	
Short-term debt		
ACE INA commercial paper	$ 378	$ 340
ACE Financial Services Note	25	25
	$ 403	$ 365
Long-term debt		
ACE Financial Services Debentures due 2002	$ 75	$ 75
ACE INA Notes due 2004	400	400
ACE INA Notes due 2006	299	299
ACE US Holdings Senior Notes due 2008	250	250
ACE INA Subordinated Notes due 2009	300	300
ACE INA Debentures due 2029	100	100
	$ 1,424	$ 1,424
Trust Preferred Securities		
ACE INA RHINO Preferred Securities due 2002	$ 400	$ 400
Capital Re LLC Monthly Income Preferred Securities due 2044	75	75
ACE INA Trust Preferred Securities due 2029	100	100
ACE INA Capital Securities due 2030	300	300
	$ 875	$ 875

Commercial paper and money market facilities

In June 1999, the Company arranged certain commercial paper programs. The programs use revolving credit facilities as back-up facilities and provide for up to $2.8 billion in commercial paper issuance (subject to the availability of back-up facilities, which currently total $1.05 billion) for ACE and for ACE INA. Commercial paper rates averaged 4.6 percent during the three months ended June 30, 2001 and 5.2 percent during the six months ended June 30, 2001.

9. Reinsurance

The Company purchases reinsurance to manage various exposures including catastrophe risks. Although reinsurance agreements contractually obligate the Company's reinsurers to reimburse it for the agreed upon portion of its gross paid losses, they do not discharge the primary liability of the Company. The amounts for net premiums written and net premiums earned in the statements of operations are net of reinsurance. Direct, assumed and ceded amounts for these items for the three and six months ended June 30, 2001 and 2000 are as follows:

	Three Months Ended June 30 2001	Three Months Ended June 30 2000	Six Months Ended June 30 2001	Six Months Ended June 30 2000
	(in thousands of U.S. dollars)			
Premiums				
Premiums written				
Direct	$ 1,968,344	$ 1,581,089	$ 3,774,443	$ 3,049,756
Assumed	434,317	368,978	1,189,856	897,271
Ceded	(932,016)	(736,182)	(1,758,536)	(1,276,120)
Net premiums written	$ 1,470,645	$ 1,213,885	$ 3,205,763	$ 2,670,907
Premiums earned				
Direct	$ 1,900,568	$ 1,570,860	$ 3,378,991	$ 2,633,968
Assumed	422,007	346,896	915,695	748,819
Ceded	(937,388)	(749,920)	(1,540,383)	(1,110,145)
Net premiums earned	$ 1,385,187	$ 1,167,836	$ 2,754,303	$ 2,272,642

The Company's provision for reinsurance recoverable at June 30, 2001 and December 31, 2000, is as follows:

	June 30 2001	December 31 2000
	(in thousands of U.S. dollars)	
Reinsurance recoverable on paid losses and loss expenses	$ 990,727	$ 937,496
Reinsurance recoverable on unpaid losses and loss expenses	9,137,443	8,767,111
Provision for uncollectible balances on reinsurance recoverable	(723,209)	(709,667)
Reinsurance recoverable	$ 9,404,961	$ 8,994,940

10. Taxation

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

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

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

There can be no assurance that applicable laws, regulations or treaties will remain the same. If they were to change the Company might have to change the way it operates or become subject to taxation.

The income tax expense for the three and six months ended June 30, 2001 and 2000 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
	(in thousands of U.S. dollars)			
Current tax expense	$ 6,669	$ 13,307	$ 29,117	$ 22,035
Deferred tax expense	11,581	3,612	16,107	27,884
Total income tax expense	$ 18,250	$ 16,919	$ 45,224	$ 49,919

The components of the net deferred tax asset as of June 30, 2001 and December 31, 2000 are as follows:

	June 30 2001	December 31 2000
	(in thousands of U.S. dollars)	
Deferred tax assets		
Loss reserve discount	$ 485,109	$ 536,005
Foreign tax credits	152,943	137,765
Uncollectible reinsurance	28,297	28,297
Net operating loss carryforward	517,768	500,916
Other	199,373	199,689
Total deferred tax assets	1,383,490	1,402,672
Deferred tax liabilities		
Deferred policy acquisition costs	49,417	62,080
Unrealized appreciation on investments	23,452	25,861
Other	47,535	32,064
Total deferred tax liabilities	120,404	120,005
Valuation allowance	136,475	138,406
Net deferred tax asset	$ 1,126,611	$ 1,144,261

11. Subsidiary Issuer Information

The following tables present the condensed consolidating financial information for ACE Limited (the "Parent Guarantor"), ACE INA Holdings, Inc. and ACE Financial Services, Inc. (formerly Capital Re Corporation), (the "Subsidiary Issuers") as of June 30, 2001 and December 31, 2000 and for the three and six months ended June 30, 2001 and 2000. The Subsidiary Issuers are direct or indirect wholly-owned subsidiaries of the Parent Guarantor. Investments in subsidiaries are accounted for by the Parent Guarantor and the Subsidiary Issuers under the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are reflected in the Parent Guarantor's investment accounts and earnings. The Parent Guarantor fully and unconditionally guarantees certain of the debt of the Subsidiary Issuers (see Note 8).

Condensed Consolidating Balance Sheet as at June 30, 2001
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Assets						
Total investments and cash	$ 467,428	$ 6,229,229	$ 976,334	$ 6,474,711	$ -	$14,147,702
Insurance and reinsurance balances receivable	-	1,669,308	16,447	727,116	-	2,412,871
Reinsurance recoverable	-	7,889,527	67,916	1,447,518	-	9,404,961
Goodwill	-	2,211,778	98,826	496,601	-	2,807,205
Investments in subsidiaries	4,975,830	-	152,000	(152,000)	(4,975,830)	-
Due from subsidiaries and affiliates, net	438,788	(62,259)	(38,363)	100,622	(438,788)	-
Other assets	27,235	3,239,335	159,500	808,907	-	4,234,977
Total assets	$5,909,281	$21,176,918	$1,432,660	$9,903,475	$(5,414,618)	$33,007,716
Liabilities						
Unpaid losses and loss expenses	$ -	$12,983,582	$ 245,192	$4,723,478	$ -	$17,952,252
Unearned premiums	-	1,980,430	297,259	1,428,561	-	3,706,250
Short-term debt	-	378,265	25,000	-	-	403,265
Long-term debt	-	1,099,445	74,962	250,000	-	1,424,407
Trust preferred securities	-	800,000	75,000	-	-	875,000
Other liabilities	73,393	2,404,033	92,749	240,479	-	2,810,654
Total liabilities	73,393	19,645,755	810,162	6,642,518	-	27,171,828
Mezzanine equity	311,050	-	-	-	-	311,050
Total shareholders' equity	5,524,838	1,531,163	622,498	3,260,957	(5,414,618)	5,524,838
Total liabilities, mezzanine equity and shareholders' equity	$5,909,281	$21,176,918	$1,432,660	$9,903,475	$(5,414,618)	$33,007,716

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

Condensed Consolidating Balance Sheet as at December 31, 2000
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Assets						
Total investments and cash	$ 479,969	$ 6,655,182	$ 919,181	$ 5,707,992	$ -	$ 13,762,324
Insurance and reinsurance balances receivable	-	1,616,027	9,832	469,714	-	2,095,573
Reinsurance recoverable	-	7,603,352	76,087	1,315,501	-	8,994,940
Goodwill	-	2,240,505	100,928	505,276	-	2,846,709
Investments in subsidiaries	4,975,663	-	152,000	(152,000)	(4,975,663)	-
Due from subsidiaries and affiliates, net	318,806	(111,131)	1,596	109,535	(318,806)	-
Other assets	27,404	3,069,648	154,687	738,241	-	3,989,980
Total assets	$ 5,801,842	$ 21,073,583	$ 1,414,311	$ 8,694,259	$ (5,294,469)	$ 31,689,526
Liabilities						
Unpaid losses and loss expenses	$ -	$ 13,126,965	$ 246,174	$ 4,015,255	$ -	$ 17,388,394
Unearned premiums	-	1,680,166	293,618	1,061,504	-	3,035,288
Short-term debt	-	339,509	25,000	-	-	364,509
Long-term debt	-	1,099,417	74,942	249,869	-	1,424,228
Trust preferred securities	-	800,000	75,000	-	-	875,000
Other liabilities	70,581	2,497,734	78,874	223,657	-	2,870,846
Total liabilities	70,581	19,543,791	793,608	5,550,285	-	25,958,265
Mezzanine equity	311,050	-	-	-	-	311,050
Total shareholders' equity	5,420,211	1,529,792	620,703	3,143,974	(5,294,469)	5,420,211
Total liabilities, mezzanine equity and shareholders' equity	$ 5,801,842	$ 21,073,583	$ 1,414,311	$ 8,694,259	$ (5,294,469)	$ 31,689,526

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

ACE LIMITED AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)
(Unaudited)

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

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Net premiums written	$ -	$ 609,595	$ 28,171	$ 832,879	$ -	$ 1,470,645
Net premiums earned	-	619,706	19,501	745,980	-	1,385,187
Net investment income	13,741	88,208	11,485	89,716	(6,883)	196,267
Equity in earnings of subsidiaries	134,832	-	-	-	(134,832)	-
Net realized gains (losses) on investments	-	(26,800)	17,354	25,010	-	15,564
Losses and loss expenses	-	445,435	2,960	534,598	-	982,993
Policy acquisition costs and administrative expenses	17,417	185,087	9,227	183,412	(397)	394,746
Amortization of goodwill	-	14,490	1,051	4,331	-	19,872
Interest expense	(2,417)	44,529	3,275	5,319	(1,066)	49,640
Income tax expense	2,056	519	7,548	8,127	-	18,250
Net income (loss)	$ 131,517	$ (8,946)	$ 24,279	$ 124,919	$(140,252)	$ 131,517

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

Condensed Consolidating Statement of Operations
For the three months ended June 30, 2000
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Net premiums written	$ -	$ 606,731	$ 18,041	$ 589,113	$ -	$ 1,213,885
Net premiums earned	-	652,305	17,008	498,523	-	1,167,836
Net investment income	9,768	90,977	11,804	75,428	(6,948)	181,029
Equity in earnings of subsidiaries	125,104	-	-	-	(125,104)	-
Net realised gains (losses) on investments	(324)	(13,057)	2,054	(18,717)	-	(30,044)
Losses and loss expenses	-	480,356	1,785	285,970	-	768,111
Policy acquisition costs and administrative expenses	15,395	177,088	9,916	144,590	(397)	346,592
Amortization of goodwill	-	13,875	1,051	4,398	-	19,324
Interest expense	3,227	45,761	3,331	5,676	(4,048)	53,947
Income tax expense	1,998	6,939	3,840	4,142	-	16,919
Net income	$ 113,928	$ 6,206	$ 10,943	$ 110,458	$ (127,607)	$ 113,928

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

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

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Net premiums written	$ -	$ 1,209,775	$ 43,438	$ 1,952,550	$ -	$ 3,205,763
Net premiums earned	-	1,124,412	38,361	1,591,530	-	2,754,303
Net investment income	27,410	187,154	23,663	175,983	(13,513)	400,697
Equity in earnings of subsidiaries	251,560	-	-	-	(251,560)	-
Net realized gains (losses) on investments	-	(29,953)	23,658	2,484	-	(3,811)
Losses and loss expenses	-	791,235	5,776	1,137,928	-	1,934,939
Policy acquisition costs and administrative expenses	30,262	350,567	19,276	355,021	(397)	754,729
Amortization of goodwill	-	28,980	2,102	8,670	-	39,752
Interest expense	(5,248)	93,432	6,646	11,205	(2,071)	103,964
Income tax expense	4,045	14,325	14,752	12,102	-	45,224
Income before cumulative effect of adopting a new accounting standard	249,911	3,074	37,130	245,071	(262,605)	272,581
Cumulative effect of adopting a new accounting standard (net of income tax)	-	(50)	(22,800)	180	-	(22,670)
Net income	$ 249,911	$ 3,024	$ 14,330	$ 245,251	$ (262,605)	$ 249,911

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

Condensed Consolidating Statement of Operations
For the six months ended June 30, 2000
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Net premiums written	$ -	$ 1,269,860	$ 38,531	$ 1,362,516	$ -	$ 2,670,907
Net premiums earned	-	1,254,803	35,687	982,152	-	2,272,642
Net investment income	20,689	184,922	23,484	150,323	(15,454)	363,964
Equity in earnings of subsidiaries	270,825	-	-	-	(270,825)	-
Net realized gains (losses) on investments	43,379	15,206	(43,494)	11,605	-	26,696
Losses and loss expenses	-	890,910	3,188	589,496	-	1,483,594
Policy acquisition costs and administrative expenses	30,478	369,579	19,607	271,975	(397)	691,242
Amortization of goodwill	-	28,000	2,103	8,867	-	38,970
Interest expense	11,610	89,424	6,638	10,842	(7,378)	111,136
Income tax expense	4,364	30,326	7,629	7,600	-	49,919
Net income (loss)	$ 288,441	$ 46,692	$ (23,488)	$ 255,300	$ (278,504)	$ 288,441

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

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

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

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

Condensed Consolidating Statement of Cash Flows
For the six months ended June 30, 2000
(in thousands of U.S. dollars)

	ACE Limited (Parent Co. Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	ACE Financial Services, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Net cash flows from (used for) operating activities	$ (17,089)	$ (769,539)	$ 33,322	$ 549,429	$ -	$ (203,877)
Cash flow from investing activities						
Purchases of fixed maturities	(38,683)	(1,170,984)	(3,704,111)	(3,704,111)	-	(5,246,075)
Purchases of equity securities	-	(160,394)	-	(108,725)	-	(269,119)
Sales of fixed maturities	271,808	1,712,367	288,523	3,269,329	-	5,542,027
Sales of equity securities	-	357,969	-	205,504	-	563,473
Maturities of fixed maturities	-	-	2,000	36,265	-	38,265
Net realized gains (losses) on financial futures contracts	-	-	-	(7,846)	-	(7,846)
Sale (acquisition) of subsidiaries	82,244	-	10,200	(10,200)	(82,244)	-
Other investments	(6,953)	5,872	23,500	(188,769)	-	(166,350)
Net cash from (used for) investing activities	$ 308,416	$ 744,830	$ (8,074)	$ (508,553)	$ (82,244)	$ 454,375
Cash flow from financing activities						
Dividends paid on Ordinary Shares	(47,779)	-	-	-	-	(47,779)
Dividends paid on FELINE PRIDES	(2,424)	-	-	-	-	(2,424)
Repayment of bank debt, net	(424,886)	(293,610)	-	(4,238)	-	(722,734)
Proceeds from issuance of trust preferred securities	-	300,000	-	-	-	300,000
Proceeds from issuance of FELINE PRIDES	311,050	-	-	-	-	311,050
Issuance costs of FELINE PRIDES	(9,878)	-	-	-	-	(9,878)
Advances to (from) affiliate	(140,847)	-	-	140,847	-	-
Proceeds from exercise of options for Ordinary Shares	5,791	-	-	-	-	5,791
Proceeds from shares issued under ESPP	821	-	-	-	-	821
Capitalization of subsidiary	(5,000)	-	5,000	-	-	-
Dividends received from subsidiaries	81,147	-	-	(81,147)	-	-
Net cash from (used for)financing activities	$ (232,005)	$ 6,390	$ 5,000	$ 55,462	$ -	$ (165,153)
Net increase (decrease) in cash	59,322	(18,319)	30,248	96,338	(82,244)	85,345
Cash - beginning of period	15,942	282,426	231	300,633	-	599,232
Cash - end of period	$ 75,264	$ 264,107	$ 30,479	$ 396,971	$ (82,244)	$ 684,577

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

12. Segment Information

The following tables summarize the operations by segment for the three and six months ended June 30, 2001 and 2000. For segment reporting purposes, certain items have been presented in a different manner than in the consolidated financial statements. For segment reporting purposes, items considered non-recurring in nature have been aggregated and shown separately net of related taxes, and net realized gains (losses) have been presented net of related taxes.

Three months ended June 30, 2001

	ACE Bermuda	ACE Global Markets	ACE Global Reinsurance	ACE USA	ACE International	ACE Financial Services	Other (1)	ACE Consolidated
	(in thousands of U.S. dollars)							
Operations Data								
Gross premiums written	$ 196,866	$ 348,937	$ 98,555	$ 1,042,002	$ 591,110	$ 125,191	$ -	$ 2,402,661
Net premiums written	181,054	230,126	89,888	464,053	380,360	125,164	-	1,470,645
Net premiums earned	231,896	177,076	91,139	434,064	355,462	95,550	-	1,385,187
Losses and loss expenses	218,094	99,833	71,586	308,005	216,130	69,345	-	982,993
Policy acquisition costs	5,131	54,003	11,648	44,605	63,058	9,195	-	187,640
Administrative expenses	8,075	17,996	4,622	72,962	64,258	9,351	23,469	200,733
Underwriting income	596	5,244	3,283	8,492	12,016	7,659	(23,469)	13,821
Net investment income	38,193	11,113	16,252	81,714	21,625	25,294	2,076	196,267
Amortization of goodwill	(225)	919	3,502	135	-	1,051	14,490	19,872
Interest expense	29	631	-	8,067	-	3,275	37,638	49,640
Income tax expense (benefit)	680	5,008	-	26,326	6,083	4,470	(17,423)	25,144
Income (loss) excluding net realized gains (losses) and non-recurring expenses	38,305	9,799	16,033	55,678	27,558	24,157	(56,098)	115,432
Non-recurring expenses (net of income tax)	-	(4,461)	-	-	-	-	-	(4,461)
Income (loss) excluding net realized gains (losses)	38,305	5,338	16,033	55,678	27,558	24,157	(56,098)	110,971
Net realized gains (losses) (net of income tax	20,766	840	1,240	(10,108)	(6,604)	14,412	-	20,546
Net income (loss)	$ 59,071	$ 6,178	$ 17,273	$ 45,570	$ 20,954	$ 38,569	$ (56,098)	$ 131,517
Total Assets	$ 3,388,123	$ 2,290,257	$ 1,506,124	$16,981,293	$ 3,803,045	$ 2,323,198	$ 2,715,676	$ 33,007,716

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

Three months ended June 30, 2000

	ACE Bermuda	ACE Global Markets	ACE Global Reinsurance	ACE USA	ACE International	ACE Financial Services	Other (1)	ACE Consolidated
	(in thousands of U.S. dollars)							
Operations Data								
Gross premiums written	$ 137,968	$ 193,389	$ 42,607	$ 948,785	$ 544,300	$ 83,018	$ -	$ 1,950,067
Net premiums written	126,676	137,277	29,977	459,269	379,378	81,308	-	1,213,885
Net premiums earned	103,387	147,325	26,159	462,756	355,018	73,191	-	1,167,836
Losses and loss expenses	73,397	83,584	1,863	353,886	209,446	45,935	-	768,111
Policy acquisition costs	3,998	38,173	5,747	43,632	57,943	14,235	-	163,728
Administrative expenses	7,324	17,985	3,596	60,729	68,390	8,515	16,325	182,864
Underwriting income (loss)	18,668	7,583	14,953	4,509	19,239	4,506	(16,325)	53,133
Net investment income	36,162	7,300	14,783	78,521	23,372	24,474	(3,583)	181,029
Amortization of goodwill	(225)	985	3,503	135	-	1,051	13,875	19,324
Interest expense	6	978	-	8,336	-	3,331	41,296	53,947
Income tax expense (benefit)	638	2,591	(173)	23,561	8,332	2,928	(17,060)	20,817
Income (loss) excluding net realized gains (losses)	54,411	10,329	26,406	50,998	34,279	21,670	(58,019)	140,074
Net realized gain (loss) (net of income tax)	(10,922)	(174)	(5,825)	(6,449)	(3,040)	588	(324)	(26,146)
Net income (loss)	$ 43,489	$ 10,155	$ 20,581	$ 44,549	$ 31,239	$ 22,258	$ (58,343)	$ 113,928
Total Assets	$2,861,857	$1,850,119	$1,498,144	$15,709,214	$ 3,574,109	$ 2,236,564	$2,474,841	$30,204,848

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

Six months ended June 30, 2001

	ACE Bermuda	ACE Global Markets	ACE Global Reinsurance	ACE USA	ACE International	ACE Financial Services	Other (1)	ACE Consolidated
				(in thousands of U.S. dollars)				
Operations Data								
Gross premiums written	$ 573,469	$ 651,373	$ 264,989	$ 1,985,292	$ 1,211,877	$ 277,299	$ -	$4,964,299
Net premiums written	539,820	430,683	251,675	920,003	791,911	271,671	-	3,205,763
Net premiums earned	500,872	346,203	145,580	819,613	719,376	222,659	-	2,754,303
Losses and loss expenses	454,971	198,326	85,077	584,698	443,122	168,745	-	1,934,939
Policy acquisition costs	9,846	102,687	21,202	79,318	120,159	21,118	-	354,330
Administrative expenses	16,770	34,558	9,625	143,077	128,681	18,814	42,501	394,026
Underwriting income	19,285	10,632	29,676	12,520	27,414	13,982	(42,501)	71,008
Net investment income	77,846	20,287	32,085	171,724	43,746	49,812	5,197	400,697
Amortization of goodwill	(450)	1,845	7,005	270	-	2,102	28,980	39,752
Interest expense	29	1,425	-	17,348	-	6,646	78,516	103,964
Income tax expense (benefit)	1,349	9,435	-	52,333	12,631	9,683	(36,707)	48,724
Income (loss) excluding net realized gains (losses), non recurring expenses and cumulative effect	96,203	18,214	54,756	114,293	58,529	45,363	(108,093)	279,265
Non-recurring expenses (net of income tax)	-	(4,461)	-	-	-	-	-	(4,461)
Income(loss) excluding net realised gains (losses) and cumulative effect	96,203	13,753	54,756	114,293	58,529	45,363	(108,093)	274,804
Net realized gain (loss) (net of income tax)	13,375	3,030	(18,569)	(17,478)	(1,237)	18,656	-	(2,223)
Income (loss) excluding cumulative effect of adopting a new accounting standard	109,578	16,783	36,187	96,815	57,292	64,019	(108,093)	272,581
Cumulative effect of adopting a new accounting standard (net of income tax)	-	510	470	(50)		(23,600)	-	(22,670)
Net income (loss)	$ 109,578	$ 17,293	$ 36,657	$ 96,765	$ 57,292	$ 40,419	$ (108,093)	$ 249,911
Total Assets	$ 3,388,123	$ 2,290,257	$ 1,506,124	$ 16,981,293	$ 3,803,045	$ 2,323,198	$2,715,676	$33,007,716

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

Six months ended June 30, 2000

	ACE Bermuda	ACE Global Markets	ACE Global Reinsurance	ACE USA	ACE International	ACE Financial Services	Other (1)	ACE Consolidated
	(in thousands of U.S. dollars)							
Operations Data								
Gross premiums written	$ 311,047	$ 513,307	$ 147,473	$ 1,687,680	$ 1,056,900	$ 230,620	$ -	$ 3,947,027
Net premiums written	264,724	374,468	133,454	919,267	755,538	223,456	-	2,670,907
Net premiums earned	185,872	280,333	58,355	845,570	698,310	204,202	-	2,272,642
Losses and loss expenses	132,301	155,768	11,661	631,091	407,966	144,807	-	1,483,594
Policy acquisition costs	7,083	74,733	11,697	78,068	114,123	28,666	-	314,370
Administrative expenses	14,784	35,570	4,849	129,921	143,037	16,040	32,671	376,872
Underwriting income (loss)	31,704	14,262	30,148	6,490	33,184	14,689	(32,671)	97,806
Net investment income	72,334	15,488	29,783	161,943	44,886	46,834	(7,304)	363,964
Amortization of goodwill	(433)	2,025	7,005	270	-	2,103	28,000	38,970
Interest expense	690	2,183	-	16,605	-	6,638	85,020	111,136
Income tax expense (benefit)	1,265	5,446	(173)	46,753	14,835	9,261	(32,835)	44,552
Income (loss) excluding net realized gains (losses)	102,516	20,096	53,099	104,805	63,235	43,521	(120,160)	267,112
Net realized gain (loss) (net of income tax)	24,297	(948)	(7,945)	(10,847)	19,287	(464)	(2,051)	21,329
Net income (loss)	$ 126,813	$ 19,148	$ 45,154	$ 93,958	$ 82,522	$ 43,057	$ (122,211)	$288,441
Total Assets	$ 2,861,857	$1,850,119	$1,498,144	$15,709,214	$ 3,574,109	$ 2,236,564	$ 2,474,841	$30,204,848

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

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

The following is a discussion of the Company's results of operations, financial condition, liquidity and capital resources as of and for the three and six months ended June 30, 2001. The results of operations and cash flows for any interim period are not necessarily indicative of results for the full year. This discussion should be read in conjunction with the consolidated financial statements, related notes thereto and the Management's Discussion and Analysis of Results of Operations and Financial Condition included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Safe Harbor Disclosure

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

(i) uncertainties relating to government and regulatory policies (such as subjecting the Company to new insurance regulation or taxation in additional jurisdictions or amending or revoking or enacting any laws, regulations or treaties affecting the Company's current operations),

(ii) the occurrence of catastrophic events or other insured or reinsured events with a frequency or severity exceeding the Company's estimates,

(iii) legal, regulatory, and legislative developments,

(iv) the uncertainties of the loss reserving process including the difficulties associated with assessing environmental damage and latent injuries,

(v) the actual amount of new and renewal business and market acceptance of the Company's products,

(vi) loss of the services of any of the Company's executive officers,

(vii) changing rates of inflation and other economic conditions,

(viii) losses due to foreign currency exchange rate fluctuations,

(ix) the ability to collect reinsurance recoverable,

(x) the competitive environment in which the Company operates, related trends and associated pricing pressures, market perception, and developments,

(xi) the impact of mergers and acquisitions and new initiatives, including the ability to successfully integrate businesses, reduce volatility of earnings, competing demands for ACE's capital and the risk of undisclosed liabilities,

(xii) developments in global financial markets, including interest rate changes which could affect the Company's investment portfolio and financing plans,

(xiii) risks associated with the introduction of new products and services,

(xiv) the ability of technology to perform as anticipated,

(xv) the amount of dividends received from subsidiaries,

(xvi) and management's response to these factors.

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

General

The Company, through its various subsidiaries, provides a broad range of insurance and reinsurance for a diverse group of customers worldwide. ACE operates through six business segments: ACE Bermuda, ACE Global Markets, ACE Global Reinsurance, ACE USA, ACE International and ACE Financial Services.

On July 2, 1999, the Company, through a U.S. holding company, ACE INA Holdings, Inc. ("ACE INA"), acquired CIGNA Corporation's domestic property and casualty insurance operations including its run-off business and also its international property and casualty insurance companies and branches, including most of the accident and health business written through those companies for $3.45 billion in cash (the "ACE INA Acquisition").

On December 30, 1999, the Company acquired Capital Re Corporation, which is engaged in the financial guaranty reinsurance business. Following the acquisition, Capital Re Corporation was renamed ACE Financial Services, Inc. Under the terms of the acquisition agreement, the Company paid aggregate consideration of $110.3 million in cash and issued approximately 20.8 million ACE Ordinary Shares.

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

Results of Operations - Three Months Ended June 30, 2001 and 2000

Net Income

	Three Months Ended June 30 2001	Three Months Ended June 30 2000
	(in millions of U.S. dollars)	
Income excluding net realized gains (losses) on investments and non-recurring expenses	$ 115	$ 140
Non-recurring expenses (net of income tax)	(4)	-
Net realized gains (losses) on investments (net of income tax)	21	(26)
Net income	$ 132	$ 114

Income excluding net realized gains (losses) on investments and non-recurring expenses decreased by 18 percent to $115 million for the quarter ended June 30, 2001, compared with $140 million for the the quarter ended June 30, 2000. This decrease is primarily due to increased losses incurred as a result of an unusual number of insured catastrophes during the quarter, which adversely impacted the Company's earnings. The impact from storms in the Mid-Western United States and Tropical Storm Allison reduced net income by $55 million. In addition, the Company incurred non-recurring expenses of $4 million (net of income tax) during the quarter relating to a contractual obligation due to a departing employee. The decrease in underwriting income was offset somewhat by increased investment income and a decrease in interest expense.

Net realized gains on investments (net of income tax) were $21 million for the quarter ended June 30, 2001 compared with net realized losses of $26 million for the quarter ended June 30, 2000. The net realized gains were generated primarily as a result of gains realized on the equities, financial futures and option contracts and FAS 133 fair value adjustments on derivatives (see below).

As discussed later in this report, the Company implemented FAS 133 on January 1, 2001, which requires that all derivatives be recognized as either assets or liabilities in the consolidated balance sheet and measured at fair value. The change in fair value for the quarter ended June 30, 2001, as a result of FAS 133, was a pre-tax gain of $11 million and is reflected in net realized gains (losses) on investments.

Premiums

	Three Months Ended June 30 2001	Three Months Ended June 30 2000	Percentage Change From Prior Year
	(in millions of U.S. dollars)		
Gross premiums written:			
ACE Bermuda	$ 197	$ 138	43%
ACE Global Markets	349	193	80
ACE Global Reinsurance	99	43	131
ACE USA	1,042	949	10
ACE International	591	544	9
ACE Financial Services	125	83	51
Consolidated	$ 2,403	$ 1,950	23%
Net premiums written:			
ACE Bermuda	$ 181	$ 127	43%
ACE Global Markets	230	137	68
ACE Global Reinsurance	90	30	200
ACE USA	464	459	1
ACE International	380	380	-
ACE Financial Services	125	81	54
Consolidated	$ 1,470	$ 1,214	21%
Net premiums earned:			
ACE Bermuda	$ 232	$ 103	124%
ACE Global Markets	177	147	20
ACE Global Reinsurance	91	26	248
ACE USA	434	463	(6)
ACE International	355	355	-
ACE Financial Services	96	73	31
Consolidated	$ 1,385	$ 1,167	19%

Premiums: Gross premiums written for the quarter ended June 30, 2001, increased by $453 million to $2.4 billion from $1.9 billion for the same quarter last year. All operating segments contributed to the growth in gross premiums written. The growth resulted from new business opportunities, particularly in ACE Global Reinsurance and ACE Financial Services, ACE's increased participation in the Lloyd's syndicates managed by ACE Global Markets, as well as the global recovery of insurance pricing that has permeated nearly every sector of the Company's business. Net premiums written and net premiums earned increased by $256 million and $218 million respectively, compared with the same quarter last year. As with gross premiums written, these increases are due to the new business opportunities, the increased participation in Lloyd's and the price increases being experienced by all of the segments.

ACE Bermuda: Gross premiums written for the quarter ended June 30, 2001, increased by $59 million to $197 million, compared with the same quarter last year. This increase is primarily due to the financial solutions and the political risk divisions which had increases in gross premiums written of $65 million and $9 million, respectively. These increases were offset somewhat by decreases in satellite, aviation and excess liability. Included in gross premiums written by financial solutions for the current quarter was a large loss portfolio transfer ("LPT") contract of $115 million, which was fully earned in the quarter. The aviation and satellite businesses experienced reductions in gross premiums written due to the strategic decision to move these lines of business to their center of expertise. As disclosed in prior filings, the ACE Bermuda aviation business was moved to ACE Global Markets and a large part of the satellite business written by ACE Bermuda was moved to ACE USA. As a result of this and the reduction in satellite launches, gross premiums written were reduced by $19 million. Excess liability and professional lines are starting to see premium rate growth of 10 percent to 15 percent and 15 percent to 20 percent, respectively.

Net premiums written and earned for the quarter ended June 30, 2001 increased by $54 million and $129 million, respectively, compared with the same quarter last year. These increases are primarily due to the increase in premiums from financial solutions as discussed above.

ACE Global Markets: Gross premiums written for the quarter ended June 30, 2001 increased by $156 million to $349 million, compared with the same quarter last year. This increase is due to an increase in ACE's ownership of the Lloyd's syndicate and higher premium levels for the 2000 and 2001 years of account. For 2001, ACE's share of the capacity of syndicate 2488 is approximately 90 percent compared with 84 percent in 2000. The higher premium levels is largely due to the continued improvement in the London market and resulting rate increases on key renewals. In addition, in the March 2000 quarter, ACE Global Markets accelerated its reporting to a current basis from a quarter in arrears. On a comparable basis, both gross and net premiums written increased by 47 percent and 46 percent respectively.

Net premiums written and earned for the quarter increased by $93 million and $30 million, respectively,compared with the same quarter last year. As with gross premiums written, these increases are primarily due to the increase in our participation and higher premiums written by syndicate 2488 in 2001, offset somewhat by higher reinsurance costs.

ACE Global Reinsurance: Gross premiums written for the quarter ended June 30, 2001, increased by $56 million to $99 million, compared with the same quarter last year. This significant increase is a reflection of the improved pricing in the international property catastrophe marketplace, together with the continuing development of the life and U.S. property and casualty reinsurance businesses. Gross premiums written for property catastrophe reinsurance for the quarter were $60 million, an increase of 32 percent over the same quarter last year. New life and U.S. property and casualty reinsurance premiums contributed $30 million and $9 million, respectively. A large non-recurring life reinsurance contract contributed $20 million to the new life reinsurance premiums this quarter. Growth in the life reinsurance business will be based on a relatively small number of large deals; however, it is expected that the life reinsurance business will be a significant driver of future growth for the reinsurance operations.

Net premiums written for the quarter ended June 30, 2001, increased by $60 million to $90 million, and net premiums earned for the quarter ended June 30, 2001, increased by $65 million to $91 million, compared with the same quarter last year. As with gross premiums written, the increases are primarily due to the higher volume of property catastrophe business written in 2001. In addition, the life reinsurance contracts written in the quarter were fully earned when written.

ACE USA: Gross premiums written for the quarter ended June 30, 2001, increased by $93 million to $1.0 billion, compared with the same quarter last year. Most of the operating divisions within ACE USA achieved premium growth in the quarter; however, the professional risk, U.S. international, special risk facilities ("SRF") and Westchester Specialty were primarily responsible for the increase. Although financial solutions had good production in the quarter, year-over-year production declined by $98 million because of a large contract in the comparable quarter last year which generated over $100 million in non-renewable gross premium. Market conditions continued to be favorable in all divisions in the U.S. with price increases in U.S. international, strong client retention and growth in SRF and growth and price increases in Westchester Specialty's property and inland marine segments.

ACE USA's business expansion into professional risk continued to show strong results especially in the errors and omissions and directors' and officers' liability segments. ACE USA's new accident and health operation is pursuing opportunities and continues to make progress. ACE USA's business expansion initiatives showed positive results with growth in its professional risk unit, following the reorganization and reintroduction of its professional lines capabilities.

Net premiums written for the quarter ended June 30, 2001, of $464 million were essentially flat compared with $459 million for the quarter ended June 30, 2000, primarily due to the decline in financial solutions, discussed above. Excluding financial solutions, ACE USA's specialty business units experienced solid growth with net premiums written increasing by 26 percent over the same quarter last year.

Net premiums earned decreased by $29 million to $434 million for the current quarter, compared with the same quarter last year. Again, this was primarily due to the decline in financial solutions business. Excluding financial solutions, net premiums earned increased by $55 million or 15.4 percent over the same quarter last year.

ACE International: Gross premiums written for the quarter ended June 30, 2001, increased by $47 million to $591 million, compared with the same quarter last year. On a constant dollar basis, gross premiums written increased by 18 percent over the same quarter last year. This increase is primarily due to business expansion in the European sector and the timing of the recording of one large UK program. With the exception of Japan, strong premium growth was realized in all of our regional businesses driven primarily by growth in accident and health business.

For the quarter ended June 30, 2001, net premiums written and earned remained flat at $380 million and $355 million respectively, due to the continuing devaluation of the major currencies. On a constant dollar basis, net premiums written increased by 10 percent compared with the same quarter last year.

ACE Financial Services: Gross premiums written for the quarter ended June 30, 2001 increased by $42 million to $125 million, compared with the same quarter last year. Although premium growth was strong across all product lines, the increase in gross premiums written is mainly due to two LPT contracts covering long-term disability risk written in the quarter and increases in the municipal bond area as a result of strong cessions from primary insurers. The structured finance group generated new business by participating in various tranches of collateralized debt obligations ("CDO") sourced both domestically and internationally.

Net premiums written for the quarter ended June 30, 2001, increased by $44 million to $125 million from $81 million for the same quarter last year, and net premiums earned increased by $23 million to $96 million. The increases are due to the same influences described above for gross premiums written.

Underwriting Results

The underwriting results of a property and casualty insurer are discussed frequently by reference to its combined ratio, loss and loss expense ratio and underwriting and administrative expense ratio. Each ratio is derived by dividing the relevant expense amounts by net premiums earned. The combined ratio is the sum of the loss and loss expense ratio and the underwriting and administrative expense ratio. A combined ratio under 100 percent indicates underwriting income and a combined ratio exceeding 100 percent indicates underwriting losses.

	Three Months Ended June 30	
	2001	2000
Loss and loss expense ratio		
ACE Bermuda	94.0%	71.0%
ACE Global Markets	56.4	56.7
ACE Global Reinsurance	78.5	7.1
ACE USA	70.9	76.5
ACE International	60.8	59.0
ACE Financial Services	72.6	62.8
Consolidated	71.0%	65.8%
Underwriting and administrative expense ratio		
ACE Bermuda	5.7%	11.0%
ACE Global Markets	44.2	38.1
ACE Global Reinsurance	17.9	35.7
ACE USA	27.1	22.5
ACE International	35.8	35.6
ACE Financial Services	19.4	31.0
Consolidated	28.5%	29.7%
Combined Ratio		
ACE Bermuda	99.7%	82.0%
ACE Global Markets	100.6	94.8
ACE Global Reinsurance	96.4	42.8
ACE USA	98.0	99.0
ACE International	96.6	94.6
ACE Financial Services	92.0	93.8
Consolidated	99.5%	95.5%

Loss and Loss Expense Ratios

The Company establishes reserves for unpaid losses and loss expenses, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. The process of establishing reserves for property and casualty claims continues to be a complex and imprecise process, requiring the use of informed estimates and judgments. The Company's estimates and judgments may be revised as additional experience and other data becomes available and are reviewed, as new or improved methodologies are developed or as current laws or regulations change. 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.

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

During the quarter ended June 30, 2001 there were an unusual number of catastrophe losses that impacted the Company's results. The impact from the storms in the Mid-Western United States and Tropical Storm Allison reduced net income by $55 million. As a result, the loss and loss expense ratio increased to 71.0 percent from 65.8 percent for the same quarter last year. The loss and loss expense ratio was also influenced by the financial solutions and life reinsurance contracts written and earned in the quarter. The financial solutions and life reinsurance contracts are generally recorded at loss ratios close to 100 percent, which are higher loss ratios than ACE's other lines of business.

ACE Bermuda: The loss and loss expense ratio increased to 94.0 percent for the quarter ended June 30, 2001, from 71.0 percent for the same quarter last year. As a result of an inter-group reinsurance arrangement between ACE Bermuda and ACE Global Reinsurance, ACE Bermuda incurred $18 million of the $55 million of catastrophe losses noted above. The loss and loss expense ratio was also impacted by the large LPT contract, which is recorded at a loss ratio close to 100 percent. Excluding these transactions, the loss and loss expense ratio would have been 72.4 percent.

ACE Global Markets: The loss ratio is relatively unchanged from the comparable quarter at 56.4 percent compared with 56.7 percent for the same quarter last year.

ACE Global Reinsurance: The loss and loss expense ratio was 78.5 percent for the quarter ended June 30, 2001, compared with 7.1 percent for the same quarter last year. This increase is primarily the result of the property catastrophe losses incurred during the quarter and the high loss ratio booked on the life reinsurance contracts. There was no significant loss activity in the same quarter last year.

ACE USA: The loss and loss expense ratio decreased to 70.9 percent for the quarter ended June 30, 2001 from 76.5 percent for the quarter ended June 30, 2000. This decrease is related to the mix of business written in the current quarter compared with the prior year. A large financial solutions contract was recorded in the quarter ended June 30, 2000 with a loss ratio close to 100 percent. Excluding the financial solutions division, in both the current quarter and the same quarter last year, the loss and loss expense ratio would have been 70.4 percent and 71.6 percent, respectively.

ACE International: The loss and loss expense ratio for the quarter ended June 30, 2001 increased modestly to 60.8 percent from 59.0 percent for the same quarter last year. The increase is partly due to several non-catastrophe related property losses in the UK in the current quarter. In addition, the June 30, 2000 quarter was a good quarter with a loss and loss expense ratio better than expected.

ACE Financial Services: The loss and loss expense ratio increased to 72.6 percent for the quarter ended June 30, 2001, from 62.8 percent for the quarter ended June 30, 2000. The increase is the result of the LPT contracts recorded in the quarter at loss ratios close to 100 percent. Excluding LPT contracts in both the current quarter and the same quarter last year, the loss and loss expense ratio would have been 41.5 percent and 45.7 percent, respectively.

Underwriting and Administrative Expense Ratios

Underwriting and administrative expenses are comprised of the amortization of deferred policy acquisition costs, which include commissions, premium taxes, underwriting and other costs that vary with and are primarily related to the production of premium, and administrative expenses which include all other operating costs. The underwriting and administrative expense ratio decreased to 28.5 percent for the quarter ended June 30, 2001, from 29.7 percent for the quarter ended June 30, 2000. This decrease is primarily due to a decline in the underwriting and administrative ratio at ACE Bermuda, ACE Global Reinsurance and ACE Financial Services.

ACE Bermuda: The underwriting and administrative expense ratio decreased to 5.7 percent for the quarter ended June 30, 2001, from 11.0 percent for the quarter ended June 30, 2000. This decrease is primarily the result of the significant increase in net premiums earned as a result of the LPT contract written and fully earned in the quarter without a significant increase in expenses. The LPT contracts are generally written with no acquisition costs.

ACE Global Markets: The underwriting and administrative expense ratio increased to 44.2 percent for the quarter ended June 30, 2001, from 38.1 percent for the quarter ended June 30, 2000. This increase is primarily due to a higher acquisition cost ratio, which has resulted from increased reinsurance costs. The acquisition costs are based on gross premiums written while the acquisition cost ratio is based on net premiums earned. In addition, the administrative expense base increased for the current quarter due to a contractual obligation to a departing employee resulting in a higher administrative expense ratio.

ACE Global Reinsurance: The underwriting and administrative expense ratio decreased to 17.9 percent for the quarter ended June 30, 2001, from 35.7 percent for the quarter ended June 30, 2000. This decrease is primarily the result of higher premiums written and earned in the current quarter combined with lower than anticipated expenses on new business development.

ACE USA: The underwriting and administrative expense ratio increased to 27.1 percent for the current quarter, from 22.5 percent for the same quarter last year. Since most financial solutions contracts do not incur acquisition costs, the acquisition cost ratio will fluctuate depending on the level of financial solutions business earned in the quarter. In addition, as the administrative cost base is generally fixed, the administrative expense ratio will decline as net premiums earned increase. Excluding financial solutions in both the current quarter and the same quarter last year, the underwriting and administrative expense ratio would have been 28.6 percent and 29.3 percent, respectively.

ACE International: The underwriting and administrative expense ratio remained relatively unchanged at 35.8 percent for the current quarter compared with 35.6 percent for the same quarter last year.

ACE Financial Services: The underwriting and administrative expense ratio decreased to 19.4 percent for the quarter ended June 30, 2001, from 31.0 percent for the quarter ended June 30, 2000. The decrease is due primarily to the large LPT contracts written and earned in the quarter, which had no acquisition costs. In addition the administrative expense base has remained relatively constant as the earned premium base has increased, resulting in a lower administrative expense ratio.

Net Investment Income	Three Months Ended June 30 2001	Three Months Ended June 30 2000	Percentage Change from Prior Year
	(in millions of U.S. dollars)		
ACE Bermuda	$ 38	$ 36	6%
ACE Global Markets	11	7	52
ACE Global Reinsurance	16	15	10
ACE USA	82	79	4
ACE International	22	23	(7)
ACE Financial Services	25	25	-
Other	2	(4)	(158)
Total net investment income	$ 196	$ 181	8%

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

Net investment income increased by $15 million to $196 million for the quarter ended June 30, 2001, from $181 million for the quarter ended June 30, 2000. The primary reason for this change was an increase in the asset base due to the reclassification of the assets of Commercial Insurance Services ("CIS") on July 2, 2000 and the proceeds from the share offering in ACE Limited in September 2000.

ACE Bermuda: Net investment income increased by $2 million to $38 million for the quarter ended June 30, 2001, compared with the quarter ended June 30, 2000. This increase is primarily the result of a larger asset base and a change in investment strategy to a portfolio with a higher yield.

ACE Global Markets: Net investment income increased by $4 million to $11 million for the quarter ended June 30, 2001, compared with the quarter ended June 30, 2000. This increase is primarily the result of ACE's increased participation in the syndicate managed by ACE Global Markets and a modest increase in the level of investable assets.

ACE Global Reinsurance: Net investment income for the quarter ended June 30, 2001 increased slightly to $16 million. This increase reflected an increase in investable assets from operating cash flows, offset by dividends paid to ACE.

ACE USA: Net investment income increased by $3 million to $82 million for the quarter ended June 30, 2001 compared with the quarter ended June 30, 2000. This increase is primarily due to the presentation of the CIS activity in investment income in 2001. Prior to July 2, 2000, CIS was presented as a discontinued operation. As of July 2, 2000, the CIS operations had not been sold and its activity was reconsolidated into the Company's operations. On a comparable basis, net investment income decreased by approximately $10 million, primarily as a result of a decline in yields and a lower asset base due to negative cash-flows from businesses in run-off.

ACE International: Net investment income of $22 million remained relatively unchanged compared with the same quarter last year. The replacement of yen-based securities with higher-yielding U.S. dollar securities and the replacement of a portion of the equity holdings with interest-yielding bonds resulted in increased investment income, which was offset by the devaluation of the yen.

ACE Financial Services: Net investment income of $25 million was unchanged compared with the same quarter last year. Although the portfolio of invested assets has increased, investment yields declined during 2001. In addition, the timing of large transactions impacted the investment income earned.

Net Realized Gains (Losses) on Investments	Three Months Ended June 30 2001	2000
	(in millions of U.S. dollars)	
Fixed maturities and short-term investments	$ (19)	$ (18)
Equity securities	11	3
Financial futures and option contracts	11	(17)
Other investments	2	5
FAS 133	11	-
Currency	-	(3)
Total net realized gains (losses) on investments	$ 16	$ (30)

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

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

Sales proceeds for fixed maturity securities were generally lower than their amortized cost during the quarter. This resulted in net realized losses of $19 million being recognized on fixed maturities and short-term investments for the quarter ended June 30, 2001.

Sales proceeds for equity securities were generally higher than their cost during the quarter. This resulted in net realized gains of $11 million being recognized on equity investments for the quarter ended June 30, 2001, compared with net realized gains of $3 million for the quarter ended June 30, 2000.

Certain of the Company's external managers of fixed income securities use fixed income futures contracts to manage duration exposure; gains of $4 million were recognized on these for the quarter ended June 30, 2001. Net realized gains generated by the Company's equity index futures contracts amounted to $7 million for the quarter ended June 30, 2001. Total net realized gains attributable to the financial futures and option contracts for the quarter ended June 30, 2001, amounted to $11 million, compared with net realized losses of $17 million for the quarter ended June 30, 2000.

The Company implemented FAS 133 on January 1, 2001, which requires that all derivatives be recognized as either assets or liabilities in the consolidated balance sheet and measured at fair value. The change in fair value for the quarter ended June 30, 2001, as a result of FAS 133, was a gain of $11 million.

Other Expenses	Three Months Ended June 30 2001	2000	Percentage Change From Prior Year
	(in millions of U.S. dollars)		
Amortization of Goodwill	$ 20	$ 19	3%
Interest expense	$ 50	$ 54	(8)%
Income tax expense	$ 18	$ 17	8%

Interest expense decreased by $4 million to $50 million for the quarter ended June 30, 2001, from $54 million for the quarter ended June 30, 2000. The decrease results from a combination of lower commercial paper rates coupled with a decline in the average amount of commercial paper outstanding during the current quarter compared with the same quarter last year and a lower interest rate on the ACE INA RHINO preferred securities due to declining interest rates.

Income tax expense increased by $1 million to $18 million for the quarter ended June 30, 2001, from $17 million for the quarter ended June 30, 2000. For the current quarter, the Company's tax on operating income was $2 million higher than last year, offset by a tax benefit on net realized losses on investments of $1 million.

Results of Operations - Six Months Ended June 30, 2001

Net Income	Six Months Ended June 30 2001	Six Months Ended June 30 2000
	(in millions of U.S. dollars)	
Income excluding net realized gains (losses) on investments, non-recurring expenses and cumulative effect	$ 279	$ 267
Non-recurring expenses (net of income tax)	(4)	-
Net realized gains (losses) on investments (net of income tax)	(2)	21
Cumulative effect of adopting a new accounting standard (net of income tax)	(23)	-
Net income	$ 250	288

Income excluding net realized gains (losses) on investments, non-recurring expenses and the cumulative effect of adopting a new accounting standard increased by 4.5 percent to $279 million for the six months ended June 30, 2001, compared with $267 million for the six months ended June 30, 2000. Underwriting income for the period decreased primarily due to the unusual number of insured catastrophes during the second quarter of 2001 that impacted the Company's earnings. The impact from storms in the Mid-Western United States and Tropical Storm Allison reduced net income by $55 million. The increase in losses incurred was offset by an increase in investment income and a decrease in interest expense for the period. The Company incurred non-recurring expenses of $4 million (net of income tax) during the current quarter relating to a contractual obligation due to a departing employee.

Net realized losses on investments (net of income tax) were $2 million for the six months ended June 30, 2001, compared with net realized gains of $21 million for the six months ended June 30, 2000. The net realized losses were generated primarily as a result of losses realized on the financial futures and option contracts in the first quarter of 2001.

As previously noted, the Company implemented FAS 133 on January 1, 2001. The Company recorded an expense relating to the cumulative effect of adopting this standard of $23 million, net of income tax of $12 million. The cumulative effect of adopting this standard primarily related to fair value adjustments on the credit default swap portfolio held by ACE Financial Services. The change in fair value for the six months ended June 30, 2001, as a result of FAS 133, resulted in a pre-tax gain of $15 million and is reflected in net realized gains (losses) on investments.

Premiums	Six Months Ended June 30 2001	Six Months Ended June 30 2000	Percentage Change From Prior Year
	(in millions of U.S. dollars)		
Gross premiums written:			
ACE Bermuda	$ 574	$ 311	84%
ACE Global Markets	651	513	27
ACE Global Reinsurance	265	147	80
ACE USA	1,985	1,688	18
ACE International	1,212	1,057	15
ACE Financial Services	277	231	20
	$ 4,964	$ 3,947	26%
Net premiums written:			
ACE Bermuda	$ 539	$ 265	104%
ACE Global Markets	431	375	15
ACE Global Reinsurance	252	133	89
ACE USA	920	919	-
ACE International	792	756	5
ACE Financial Services	271	223	22
	$ 3,205	$ 2,671	20%
Net premiums earned:			
ACE Bermuda	$ 501	$ 186	169%
ACE Global Markets	346	280	23
ACE Global Reinsurance	145	58	149
ACE USA	820	846	(3)
ACE International	719	698	3
ACE Financial Services	223	204	9
	$ 2,754	$ 2,272	21%

Gross premiums written for the six months ended June 30, 2001 increased by $1 billion to $5.0 billion, compared with the six months ended June 30, 2000. All of the operating segments experienced premium growth during the current period. The most significant areas of growth were in ACE Global Reinsurance, the financial solutions division at ACE Bermuda, and the specialty business units at ACE USA. Net premiums written for the current period increased by $534 million to $3.2 billion, from $2.7 billion for the six months ended June 30, 2000 and net premiums earned for the current period increased by $482 million, from $2.3 million for the six months ended June 30, 2000. As with gross premiums written, these increases were primarily due to new business opportunities, the several financial solutions contracts written and fully earned in the period, and the price increases being experienced by most of the segments. ACE's increased participation in the Lloyd's syndicate managed by ACE Global Market also contributed to the increase in net premiums written and earned.

ACE Bermuda: Gross premiums written increased by $263 million to $574 million and net premiums written increased by $274 million to $539 million for the six months ended June 30, 2001, compared with the six months ended June 30, 2000. These increases are primarily due to growth in the financial solutions division, including two large LPT contracts of $255 million which were written and fully earned in the period. The increase in the financial solutions business was partially offset by declines in aviation and satellite business.

Net premiums earned for the six months ended June 30, 2001 increased by $315 million to $501 million for the same reasons discussed above.

ACE Global Markets: Gross premiums written increased by $138 million to $651 million for the six months ended June 30, 2001, compared with the six months ended June 30, 2000. This increase is primarily due to an increase in ACE's participation in the Lloyd's syndicate, as previously discussed, and higher premium levels for the 2001 year of account. In addition, in the March 2000 quarter, ACE Global Markets accelerated its reporting to a current basis from a quarter in arrears. On a comparable basis, both gross and net premiums written increased by 48 percent and 32 percent, respectively.

Net premiums written for the six months ended June 30, 2001 increased by $56 million to $431 million compared with the six months ended June 30, 2000. This increase is primarily due to an increase in participation but offset by higher reinsurance costs incepting at the start of the year.

Net premiums earned for the six months ended June 30, 2001 increased by $66 million to $346 million compared with the six months ended June 30, 2000. This increase is again primarily due to an increase in ACE's participation.

ACE Global Reinsurance: Gross premiums written increased by $118 million to $265 million and net premiums written increased by $119 million to $252 million for the six months ended June 30, 2001, compared with the six months ended June 30, 2000. Improved pricing in the international property catastrophe marketplace, together with the continuing development of the life and U.S. property and casualty reinsurance business resulted in the increase in gross and net premiums written in the current period. Gross premiums written for property catastrophe increased by $69 million or 43 percent over the same period last year and life reinsurance premiums contributed $30 million to gross premiums written in the period.

Net premiums earned for the current period increased by $87 million to $145 million from $58 million for the six months ended June 30, 2000. As with gross and net premiums written, the increase is primarily due to the higher property catastrophe volumes experienced and the new life reinsurance contracts written in the period.

ACE USA: Gross premiums written increased by $297 million to $2 billion for the six months ended June 30, 2001, compared with the six months ended June 30, 2000. Market conditions in the U.S. have been favorable and growth has been achieved through a combination of strong account retention, growth in new business and price increases in ACE USA's specialty business units. Although most ACE USA operating divisions have increased gross premiums written, the primary drivers of the production increase have been professional risk, U.S. international, SRF and Westchester Specialty. Production for financial solutions has been strong; however year-over-year gross premiums written declined by $113 million due to two large contracts written in the prior year, which combined, generated over $200 million in gross premiums written. Additionally, in the current period, ACE USA did not renew approximately $50 million in business that did not meet its underwriting standard.

Net premiums written increased by $1 million to $920 million for the six months ended June 30, 2001, compared with the six months ended June 30, 2000. Excluding financial solutions, ACE USA's specialty units experienced strong growth with net premiums written increasing by $109 million or 15 percent over the comparable period. This increase is primarily due to the lower amount of business written and retained by financial solutions in 2001. Two large contracts recorded by financial solutions in the prior year were not available for renewal in the current year.

Net premiums earned decreased by $26 million to $820 million for the six months ended June 30, 2001, compared with the six months ended June 30, 2000. This was primarily due to the two large contracts written by financial solutions in the prior year as noted above, which were fully earned when written. Excluding the financial solutions contracts, premiums earned increased by $98 million or 15 percent over the prior year. The increase is reflective of the increase in ACE USA's net premiums written in the latter half of 2000 and throughout the current period.

ACE International: Gross premiums written increased by $155 million to $1.2 billion for the six months ended June 30, 2001, compared with the six months ended June 30, 2000. The increase is primarily due to continuing growth across various regions including accident and health business in Europe.

For the six months ended June 30, 2001, net premiums written increased by $36 million to $792 million and net premiums earned increased by $21 million to $719 million, compared with the six months ended June 30, 2000. As with gross premiums written, the increases are a result of continued growth across various regions.

ACE Financial Services: Gross and net premiums written for the six months ended June 30, 2001 increased by $46 million and $48 million to $277 million and $271 million, respectively, compared with the six months ended June 30, 2000. These increases are a result of the large LPT contracts written in 2001 as well as growth in the structured finance business, offset by a decrease in accident and health business. New business from participations in various tranches of CDOs sourced in both Europe and the U.S. increased gross premiums written in the structured finance line.

Net premiums earned for the six months ended June 30, 2001 increased by $19 million to $223 million, compared with the six months ended June 30, 2000. This increase is primarily due to the LPT contracts, offset by a decrease in the accident and health line of business.

Underwriting Results

	Six Months Ended June 30 2001	Six Months Ended June 30 2000
Loss and loss expense ratio		
ACE Bermuda	90.8%	71.2%
ACE Global Markets	57.3	55.6
ACE Global Reinsurance	58.4	20.0
ACE USA	71.3	74.6
ACE International	61.6	58.4
ACE Financial Services	75.8	70.9
Consolidated	70.2%	65.3%
Underwriting and administrative expense ratio		
ACE Bermuda	5.3%	11.8%
ACE Global Markets	41.4	39.4
ACE Global Reinsurance	21.2	28.3
ACE USA	27.2	24.6
ACE International	34.6	36.8
ACE Financial Services	17.9	21.9
Consolidated	27.4%	30.4%
Combined Ratio		
ACE Bermuda	96.1%	83.0%
ACE Global Markets	98.7	95.0
ACE Global Reinsurance	79.6	48.3
ACE USA	98.5	99.2
ACE International	96.2	95.2
ACE Financial Services	93.7	92.8
Consolidated	97.6%	95.7%

The Company's loss and loss expense ratio increased to 70.2 percent for the six months ended June 30, 2001 from 65.3 percent for the same period last year. There were an unusual number of catastrophe losses that impacted the Company's results during the current period. The impact from the storms in the Mid-Western United States and Tropical Storm Allison reduced net income by $55 million. The financial solutions and life reinsurance contracts written and earned in the quarter also influenced the loss and loss expense ratio, as these contracts are generally recorded at loss ratios close to 100 percent, which are higher loss ratios than ACE's other lines of business.

ACE Bermuda: The loss and loss expense ratio increased to 90.8 percent for the six months ended June 30, 2001, from 71.2 percent for the six months ended June 30, 2000. This increase is primarily the result of the catastrophe losses ceded to ACE Bermuda from ACE Global Reinsurance and the LPT transactions, which are recorded at loss ratios close to 100 percent. Excluding the property catastrophe losses and the LPT transactions, the loss and loss expense ratio would have been 74.2 percent.

ACE Global Markets: The loss and loss expense ratio increased to 57.3 percent for the six months ended June 30, 2001, from 55.6 percent for the six months ended June 30, 2000. This increase is primarily the result of the mix of business across the years of account.

ACE Global Reinsurance: The loss and loss expense ratio increased to 58.4 percent for the six months ended June 30, 2001, from 20.0 percent for the six months ended June 30, 2000. This increase is primarily the result of property catastrophe losses experienced in the second quarter of 2001 compared with no significant property catastrophe loss activity in the first six months of 2000. The ratio has also been impacted by $28 million of losses incurred in the life reinsurance business.

ACE USA: The loss and loss expense ratio decreased to 71.3 percent for the six months ended June 30, 2001, from 74.6 percent for the six months ended June 30, 2000. This decrease is primarily related to the proportion of financial solutions business written in the current period compared with the prior year. Excluding financial solutions in both the current period and the same period last year, the loss and loss expense ratio would have been 69.9 percent and 68.5 percent, respectively.

ACE International: The loss and loss expense ratio increased to 61.6 percent for the six months ended June 30, 2001, from 58.4 percent for the six months ended June 30, 2000. This increase is primarily the result of additional losses in the UK property and casualty book.

ACE Financial Services: The loss and loss expense ratio increased to 75.8 percent for the six months ended June 30, 2001 from 70.9 percent for the six months ended June 30, 2000. The increase in the loss and loss expense ratio can be attributed to large LPT contracts, with loss ratios close to 100 percent.

Underwriting and administrative expenses

As with losses and loss expenses, total underwriting and administrative expenses increased significantly from $691 million for the six months ended June 2000 to $755 million for the six months ended June 2001 primarily due to increased policy acquisition costs in ACE Global Markets and ACE Global Reinsurance. Despite the increase in acquistion costs and higher administrative expenses, the underwriting and administrative expense ratio decreased from 30.4 percent to 27.4 percent primarily due to higher earned premiums in all segments except ACE USA.

ACE Bermuda: The underwriting and administrative expense ratio decreased to 5.3 percent for the six months ended June 30, 2001, from 11.8 percent for the six months ended June 30, 2000. Since most financial solutions contracts do not incur acquisition costs, the acquisition cost ratio will fluctuate depending on the level of financial solutions business earned in the quarter. In addition, as the administrative cost base is generally fixed, the administrative expense ratio will decline as net premiums earned increase.

ACE Global Markets: The underwriting and administrative expense ratio increased marginally to 41.4 percent for the six months ended June 30, 2001, from 39.4 percent for the six months ended June 30, 2000. This increase is primarily due to a higher acquisition cost ratio, which has resulted from the increased earned reinsurance costs lowering net earned premiums. In addition, the administrative expense base increased for the current period due to a contractual obligation to a departing employee.

ACE Global Reinsurance: The underwriting and administrative expense ratio decreased to 21.2 percent for the six months ended June 30, 2001, from 28.3 percent for the six months ended June 30, 2000. This decrease is primarily the result of higher earned premiums arising out of improved market conditions, the life reinsurance contracts and lower than anticipated expenses on new business development.

ACE USA: The underwriting and administrative expense ratio increased to 27.2 percent for the six months ended June 30, 2001, from 24.6 percent for the six months ended June 30, 2000. This increase is primarily the result of the year to date decline in the earned premium base. In the prior year, the earned premiums associated with the two financial solutions contracts reduced the underwriting and administrative expense ratio.

ACE International: The underwriting and administrative expense ratio decreased to 34.6 percent for the six months ended June 30, 2001, from 36.8 percent for the six months ended June 30, 2000. This decease is primarily the result of higher net premiums earned.

ACE Financial Services: The underwriting and administrative expense ratio decreased to 17.9 percent for the six months ended June 30, 2001, from 21.9 percent for the six months ended June 30, 2000. The large LPT contracts (discussed above) also impacted the underwriting and administrative expense ratio. The additional net premium earned decreased the underwriting and administrative expense ratio by 4 percentage points.

Net Investment Income	Six Months Ended June 30 2001	Six Months Ended June 30 2000	Percentage Change From Prior Year
	(in millions of U.S. dollars)		
ACE Bermuda	$ 78	$ 72	8%
ACE Global Markets	20	15	31
ACE Global Reinsurance	32	30	8
ACE USA	172	162	6
ACE International	44	45	(3)
ACE Financial Services	50	47	6
Other (1)	5	(7)	171
Total investment income	$ 401	$ 364	10%

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

Net investment income increased by $37 million for the six months ended June 30, 2001 compared with the six months ended June 30, 2000. The reasons for the increase were an increase in the asset base due to the reclassification of the assets of CIS on July 2, 2000, the proceeds from the share offering in ACE Limited in September 2000 and increased premium production in 2001.

ACE Bermuda: Net investment income increased by $6 million to $78 million for the six months ended June 30, 2001 compared with the six months ended June 30, 2000. This is primarily the result of a larger asset base and a change in investment strategy to a higher yielding portfolio.

ACE Global Markets: Net investment income increased by $5 million to $20 million for the six months ended June 30, 2001 compared with the six months ended June 30, 2000. This is primarily the result of ACE's increased participation in the syndicate managed by ACE Global Markets and to a lesser extent modest increases in the level of investable assets.

ACE Global Reinsurance: Net investment income increased by $2 million to $32 million for the six months ended June 30, 2001 compared with the six months ended June 30, 2000. The additional assets arising from higher production levels were offset by reductions in the invested asset base to pay dividends to ACE.

ACE USA: Net investment income increased by $10 million to $172 million for the six months ended June 30, 2001 compared with the six months ended June 30, 2000. This increase is primarily due to the presentation of the CIS activity in investment income in 2001. Prior to July 2, 2000, CIS was presented as a discontinued operation. As of July 2, 2000, the CIS operations had not been sold and its activity was reconsolidated into the Company's operations. On a comparable basis, net investment income decreased by approximately $18 million, primarily as a result of a decline in yields and a lower asset base due to negative cash-flows from businesses in run-off.

ACE International: Net investment income of $44 million for the six months ended June 30, 2001 was relatively unchanged, compared with the six months ended June 30, 2000.

ACE Financial Services: Net investment income for the six months ended June 30, 2001 is $50 million, marginally higher then the net investment income of $47 million for the same period in the prior year. Although the portfolio of invested assets has increased, investment yields declined during 2001.

Net Realized Gains (Losses) on Investments	Six Months Ended June 30	
	2001	2000
	(in millions of U.S. dollars)	
Fixed maturities and short-term investments	$ (11)	$ (58)
Equity securities	24	93
Financial futures and option contracts	(18)	(8)
Other	(10)	7
Currency	(4)	(7)
FAS 133	15	-
Net realized gains (losses) on investments	$ (4)	$ 27

Sales proceeds for fixed maturity securities were generally lower than their amortized cost during the six months ended June 30, 2001. This resulted in net realized losses of $11 million being recognized on fixed maturities and short-term investments compared with net realized losses of $58 million for the six months ended June 30, 2000.

Sales proceeds for equity securities were generally higher than their cost during the six months ended June 30, 2001, resulting in net realized gains of $24 million being recognized for the period compared with $93 million for the six months ended June 30, 2000.

Certain of the Company's external managers of fixed income securities use fixed income futures contracts to manage duration exposure, and losses of $3 million were recognized on these for the six months ended June 30, 2001. Net realized losses generated by the Company's equity index futures contracts amounted to $15 million for the six months ended June 30, 2001. Total net realized losses attributable to the financial futures and option contracts amounted to $18 million for the six months ended June 30, 2001, compared with net realized losses of $8 million for the six months ended June 30, 2000.

The Company implemented FAS 133 on January 1, 2001, which requires that all derivatives be recognized as either assets or liabilities in the consolidated balance sheet and measured at fair value. The change in fair value for the six months ended June 30, 2001, as a result of FAS 133, was a gain of $15 million.

Other Expenses	Six Months Ended June 30 2001	Six Months Ended June 30 2000	Percentage Change From Prior Year
	(in millions of U.S. dollars)		
Amortization of Goodwill	$ 40	$ 39	3%
Interest expense	$ 104	$ 111	(6)%
Income tax expense	$ 45	$ 50	(10)%

Interest expense for the six months ended June 30, 2001 decreased by $7 million compared with the same period last year. The decrease is due to lower commercial paper rates together with a decline in the average amount of commercial paper outstanding during the period compared with the same period last year and a lower interest rate on the ACE INA RHINO preferred securities due to declining interest rates.

Income tax expense decreased by $5 million to $45 million for the six months ended June 30, 2001 compared with the same period last year. The decrease is primarily due to net realized losses on the investment portfolio during the current period which generated an income tax benefit of $7 million offset by higher income taxes of $2 million on operating income.

CONSOLIDATED FINANCIAL POSITION

At June 30, 2001, total assets were $33.0 billion compared with $31.7 billion at December 31, 2000, an increase of $1.3 billion. This increase is due in part to an increase of $385 million on total investments and cash and increases in insurance and reinsurance balances receivable, reinsurance recoverables and prepaid reinsurance premiums of $317 million, $410 million and $225 million, respectively, as a result of insurance business transacted in the first six months of the year.

At June 30, 2001, total investments and cash amounted to $14.1 billion, compared with $13.8 billion at December 31, 2000. This increase is primarily a result of positive cash flows from operations for the six months ended June 30, 2001 due to strong premium volume.

The Company maintains reserves for the estimated unpaid ultimate liability for losses and loss expenses under the terms of its policies and agreements. The reserve for unpaid losses and loss expenses was $17.9 billion at June 30, 2001, compared with $17.4 billion at December 31, 2000, and includes $10.2 billion of case and loss expense reserves. While the Company believes that its reserve for unpaid losses and loss expenses at June 30, 2001 is adequate, future developments may result in ultimate losses and loss expenses significantly greater or less than the reserve provided.

One of the ways the Company manages its loss exposure is through the use of reinsurance. While reinsurance arrangements are designed to limit losses from large exposures and to permit recovery of a portion of direct losses, reinsurance does not relieve the Company of its liability to its insureds. Accordingly, the Company's loss reserves represent total gross losses, and reinsurance recoverable represents anticipated recoveries of a portion of those losses as well as amounts recoverable from reinsurers with respect to claims which have already been paid by the Company. The allowance for unrecoverable reinsurance is required principally due to the failure of reinsurers to indemnify the Company, primarily because of disputes under reinsurance contracts and insolvencies. Reinsurance disputes continue to be significant, particularly on larger and more complex claims, such as those related to asbestos and environmental pollution (discussed in more detail below) and London reinsurance market exposures. Allowances have been established for amounts estimated to be uncollectible. The Company's reinsurance recoverable was approximately $9.4 billion at June 30, 2001, and $9.0 billion at December 31, 2000, net of allowances for unrecoverable reinsurance of $723 million and $710 million, respectively.

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

At June 30, 2001, the total of the Company's short and long term debt, including trust preferred securities was unchanged from December 31, 2000 at $2.7 billion.

Fully diluted book value per share was $23.90 at June 30, 2001, compared with $23.25 at December 31, 2000, reflecting an increase in shareholders' equity during the period.

LIQUIDITY AND CAPITAL RESOURCES

As a holding company, ACE's assets consist primarily of the stock of its subsidiaries as well as other investments. In addition to investment income, its cash flows currently depend primarily on dividends or other statutorily permissible payments from its Bermuda-based operating subsidiaries (the "Bermuda subsidiaries"). There are currently no legal restrictions on the payment of dividends from retained earnings by the Bermuda subsidiaries, as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid-in capital of each of the Bermuda subsidiaries. However, the payment of dividends or other statutorily permissible distributions by the Bermuda subsidiaries is subject to the need to maintain shareholders' equity at a level adequate to support the level of insurance and reinsurance operations. During the six months ended June 30, 2001, dividends of $105 million and $119 million were declared by ACE Tempest Re and ACE Bermuda, respectively.

The payment of any dividends from ACE Global Markets or its subsidiaries would be subject to applicable United Kingdom insurance law including those promulgated by the Society of Lloyd's. No dividends were received from ACE Global Markets during the six months ended June 30, 2001, and the Company does not anticipate receiving dividends from ACE Global Markets during the remainder of 2001.

ACE INA has issued debt to provide partial financing for the ACE INA Acquisition and for other operating needs. Cash flow requirements to service this debt are expected to be met primarily by upstreaming dividend payments from ACE INA's insurance subsidiaries. ACE INA Holdings received dividends of $14 million from its subsidiaries during the six months ended June 30, 2001. Under various U.S. insurance laws to which ACE INA's U.S. insurance subsidiaries are subject, ACE INA's U.S. insurance subsidiaries may pay a dividend only from earned surplus subject to the maintenance of a minimum capital requirement, without prior regulatory approval. ACE INA's international subsidiaries are also subject to various insurance laws and regulations in the countries in which they operate. These regulations include restrictions that limit the amount of dividends that can be paid without prior approval of the insurance regulatory authorities. No dividends have been received by ACE Limited from ACE INA during the six months ended June 30, 2001, and the Company does not anticipate receiving dividends from ACE INA during the remainder of 2001.

ACE Financial Services' U.S. insurance subsidiaries are also subject to various U.S. insurance laws under which subsidiaries may pay a dividend only from earned surplus subject to the maintenance of a minimum capital requirement, without prior regulatory approval. No dividends have been received from ACE Financial Services during the six months ended June 30, 2001, and the Company does not anticipate receiving dividends from ACE Financial Services during the remainder of 2001.

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

The Company's insurance and reinsurance operations provide liquidity in that premiums are normally received substantially in advance of the time claims are paid. The Company's consolidated net cash flow from operating activities was $473 million for the six months ended June 30, 2001, compared with $(204) million for the six months ended June 30, 2000. The positive operating cash flows were generated from strong premium volume during the current year. Generally cash flows are affected by claim payments which, due to the nature of the Company's operations, may comprise large loss payments on a limited number of claims and therefore can fluctuate significantly from year to year. The irregular timing of these loss payments, for which the source of cash can be from operations, available net credit facilities or routine sales of investments, can create significant variations in cash flows from operations between periods. Although the Company's ongoing operations continue to generate positive cash flows from operations, the Company's cash flows are currently impacted by a large book of loss reserves from businesses in run-off. The run-off operations generated negative cash flows of $413 million and $409 million for the six months ended June 30, 2001 and 2000, respectively, primarily due to claim payments. The run-off book of business continues to require cash to meet its liabilities and cash flows are very dependent on the timing of claim settlements. Net loss and loss expense payments amounted to $1.9 billion and $1.7 billion for the six months ended June 30, 2001 and 2000, respectively.

The Board of Directors, on November 17, 2000 authorized the repurchase of any ACE issued debt or capital securities including ACE's Ordinary Shares, up to an aggregate total of $250 million. During the six months ended June 30, 2001, the Company repurchased and cancelled 1,515,000 Ordinary Shares under the program for an aggregate cost of $49.7 million. Subsequent to June 30, 2001, the Company repurchased and cancelled an additional 742,900 shares for an aggregate cost of $25 million leaving approximately $175 million of the Board authorization not utilized.

On January 12, 2001, and April 13, 2001, the Company paid dividends of 13 cents per share to shareholders of record on December 29, 2000, and March 30, 2001, respectively. On July 13, 2001, the Company paid dividends of 15 cents per share to shareholders of record on July 29, 2001. On August 10, 2001, the Company declared a quarterly dividend of 15 cents per Ordinary Share payable on October 12, 2001 to shareholders of record on September 28, 2001. The declaration and payment of future dividends is at the discretion of the Board of Directors and will be dependent upon the profits and financial requirements of the Company and other factors, including legal restrictions on the payment of dividends and such other factors as the Board of Directors deems relevant.

In April 2001, the Company renewed its $800 million, 364-day revolving credit facility. This facility, together with the Company's $250 million, five-year revolving credit facility, which was last renewed in May 2000, is available for general corporate purposes and each of the facilities may also be used as commercial paper back-up facilities. The five-year facility also permits the issuance of letters of credit. Under these facilities the Company and various subsidiaries are named borrowers and guarantors. Each facility requires that the Company and/or certain of its subsidiaries maintain specific covenants, including a consolidated tangible net worth covenant and a maximum leverage covenant.

In June 1999, the Company arranged certain commercial paper programs. The programs use revolving credit facilities as back-up facilities and provide for up to $2.8 billion in commercial paper issuance (subject to the availability of back-up facilities, which currently total $1.05 billion) for ACE and for ACE INA. At June 30, 2001, short-term debt consisted of $378 million of commercial paper issued by ACE INA and $25 million in bank borrowings by ACE Financial Services. Commercial paper rates during the quarter ended June 30, 2001 averaged 4.6 percent and 5.2 percent during the six months ended June 30, 2001.

Both internal and external forces influence the Company's 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 the Company and the settlement of the Company's liability for that loss. The Company believes that its cash balances, cash flow from operations, routine sales of investments and the liquidity provided by its credit facilities are adequate to meet the Company's expected cash requirements.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. As required, the Company will adopt FAS 142 on January 1, 2002 and will cease amortizing goodwill at that time. All goodwill recognized in the Company's consolidated balance sheet at January 1, 2002 should be assigned to one or more reporting units. Goodwill in each reporting unit should be tested for impairment by June 30, 2002. An impairment loss recognized as a result of a transitional impairment test of goodwill should be reported as the cumulative effect of a change in accounting principle. The Company does not expect any impairment in goodwill to arise from testing during initial adoption.

CUMULATIVE EFFECT OF ADOPTING A NEW ACCOUNTING STANDARD

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). FAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a fair value, cash flow or foreign currency hedge. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. Upon initial application of FAS 133, hedging relationships must be designated anew and documented pursuant to the provisions of this statement. The Company adopted FAS 133, as amended, as of January 1, 2001

The Company maintains investments in derivative instruments such as futures, option contracts and foreign currency forward contracts of which the primary purposes are to manage duration and foreign currency exposure, yield enhancement or to obtain an exposure to a particular financial market. The Company has historically recorded the changes in market value of these instruments as realized gains (losses) in the consolidated statement of operations and, accordingly, has estimated that FAS 133, as amended, is not expected to have a significant impact on the results of operations, financial condition or liquidity in future periods as it relates to these instruments.

Certain products (principally credit protection oriented) issued by the Company have been determined to meet the definition of a derivative under FAS
133. These products consist primarily of credit default swaps, index-based instruments and certain financial guarantee coverages. Effective January 1, 2001, the Company records these products at their fair value.

To reflect the adoption of FAS 133 on January 1, 2001, the Company recorded an expense related to the cumulative effect of adopting a new accounting standard of $23 million, net of income tax of $12 million. The Company has recorded in net realized gains (losses) on investments, pretax income of $15 million to reflect the change in the fair value of derivatives for the six months ended June 30, 2001. The level of such gains and losses will be dependent upon a number of factors including changes in interest rates, credit spreads and other market factors. The Company's involvement with derivative instruments and transactions is primarily to offer protection to others or to mitigate its own risk and is not considered speculative in nature.

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

1) The Annual General Meeting was held on May 11, 2001.

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

a) The following directors were elected.

	Term Expiring	Votes in Favour	Votes Withheld
Brian Duperreault	2004	190,217,538	142,209
Robert M. Hernandez	2004	190,213,911	145,836
Peter Menikoff	2004	190,213,942	145,805
Robert Ripp	2004	190,216,368	143,379
Dermot F. Smurfit	2004	190,214,555	145,192

b) An amendment to the ACE Limited 1998 Long Term Incentive Plan was voted upon.

The holders of 118,218,978 shares voted in favour, 71,116,479 shares voted against and 1,024,290 shares abstained.

c) The appointment of PricewaterhouseCoopers LLP as independent accountants for the Company for the year ended December 31, 2001 was ratified and approved.

The holders of 189,217,730 shares voted in favour, 1,109,145 shares voted against and 32,872 shares abstained.

ITEM 5. OTHER INFORMATION

1) On August 10, 2001, the Company declared a quarterly dividend of $0.15 per Ordinary Share payable on October 12, 2001 to shareholders of record on September 28, 2001.

2) On August 10, 2001, the Company announced the appointment of John A. Krol to its Board of Directors. Mr. Krol is the former chairman and chief executive officer of E.I. du Pont de Nemours & Company. He worked at du Pont in Wilmington, Delaware, from 1963 to 1999, when he retired.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

1) Exhibits.

10.1 The Compromise Agreement dated May 16, 2001 between ACE and John Charman *

10.2 The ACE Limited 1995 Outside Directors Plan (as amended through the Fourth Amendment)*

10.3 The ACE Limited 1995 Long Term Incentive Plan (as amended through the Second Amendment)*

* Management Contract or Compensation Plan

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

SIGNATURES

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

ACE LIMITED

August 14, 2001	*/s/ Brian Duperreault*
	--
	Brian Duperreault *Chairman and Chief* *Executive Officer*
August 14, 2001	*/s/ Robert A. Blee*
	--
	Robert A. Blee *Chief Accounting Officer*

EXHIBIT INDEX

Exhibit Number	Description	Numbered Page
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* Management Contract or Compensation Plan

Exhibit 10.1

16 May 2001

WITHOUT PREJUDICE
SUBJECT TO CONTRACT

John Charman

BY HAND

Dear John,

Compromise Agreement

I am writing to set out the terms relating to the termination of your employment with ACE London Services Limited (the "Company") on 17 March 2001 (the "Termination Date").

1. The Company confirms that you have been paid your basic salary and have received your other contractual benefits (including pension contributions) up to and including the Termination Date. Your P45 form and final payslip were sent to you on 5 April 2001.

2. You will be reimbursed all expenses incurred in the performance of your duties in accordance with normal policy.

3. On receipt by Allen & Overy, for and on behalf of the Company, of your signed acceptance of these terms and a letter from your solicitor to us in the form attached as Appendix 1 you will receive a payment from the Company by direct credit into your bank account of (pound) 3,597,241 ("the Notice Payment"), as a payment in lieu of notice, pursuant to your Service Agreement dated 9 July 1998 ("the Service Agreement"). Tax will be deducted from the Notice Payment at UK basic rate only, the P45 form having been delivered. You acknowledge that the Notice Payment must be declared in full in your tax return and that any further tax that may be due on the Notice Payment will be payable by you. You undertake to indemnify the Company in respect of any additional tax for which the Company has to account in respect of these terms in accordance with paragraph 19 below.

4. The Company will pay you the sum of (pound)51,700 as compensation for loss of employment ("the Compensation Payment" which together with the Notice Payment is referred to as "the Payment"). The first (pound)30,000 of the Compensation Payment will be paid to you tax free for the time being and tax will be deducted from the remainder of the Compensation Payment at UK basic rate only, the P45 form having been delivered. You acknowledge that the Compensation Payment must be declared in full in your tax return and that any further tax that may be due on the Compensation Payment will be payable by you. You undertake to indemnify the Company in respect of any additional tax for which the Company has to account in respect of these terms in accordance with paragraph 19 below.

5. On receipt by Allen & Overy, for and on behalf of the Company, of your signed acceptance of these terms and a letter from your solicitor to us in the form attached as Appendix 1 the Company will make (subject always to Inland Revenue permitted limits and any restrictions imposed by the pension provider) a payment of up to (pound) 500,000 into the Company sponsored executive pension scheme for your benefit with Scottish Life Assurance (Members Policy No. E\628069 Scheme Ref. No. DPP-L/1190) and will provide you with simultaneous written confirmation of such payment. If the Company is unable to pay the full amount of (pound)500,000 into your personal pension plan, it shall pay the balance of (pound)500,000 by direct credit into your bank account after deduction of tax at UK basic rate only. Where payment is made to your bank account, you undertake to indemnify the Company in respect of any additional tax for which the Company has to account in respect of these terms in accordance with paragraph 19 below.

6. The Company will continue the private healthcare cover for you and your family with BUPA until and including 30 April 2002 on the same basis as it did immediately prior to the Termination Date

7. By signing the letter of even date attached as Appendix 2 you resign as a director and as a trustee and officer (with effect from the Termination Date) of each Group Company, including, without limitation, those listed in Appendix 2. In these terms "Group Company" means any one of the Company, its subsidiaries, ACE Limited and any subsidiary (as defined by section 736 of the Companies Act 1985) of ACE Limited and all ACE managed Lloyds' syndicates and any predecessor or incidental syndicates and "the Group" has the corresponding meaning.

8. The Company will pay you forthwith the sum of (pound)8,300 as compensation for the personal items that were removed from your office and have not been replaced, provided that (1) you have notified the Police of the disappearance of these items prior to the date of this Agreement who have given the report a crime reference number and (2) you have provided to the Company a certified copy of a receipt confirming the identity and value of the said personal items in relation to the bracelets and in the case of the DVD player, evidence to show the cost of replacing the item. This sum is not subject to deduction of tax as it is not an emolument of your employment. It is further agreed that if payment of compensation has taken place and the items are subsequently

discovered by any person, they will belong to the Company and you will forthwith deliver the items to it, should they be located by or on your behalf. You further confirm that you have now retrieved all other valuable personal items from the Company and that you have no further claim to make in this regard. You are not aware of whether all personal documents have been returned to you. Should any personal documents belonging to you be recovered by the Company they will be returned to you forthwith.

9. You confirm that you have returned to the Company all documents and computer disks and other media in your possession or provided to you or created in the course of your employment or your holding office with any Group Company or relating to, or containing information relating to, any Group Company, all credit or charge cards, keys, personal computers and all other property belonging to any Group Company in your possession, custody or control. You also confirm that you have not kept or made a copy of anything referred to in this paragraph.

10. By entering into this Agreement, you affirm that Clauses 12 and 14 of the Service Agreement shall remain in force and confirm that that you will continue to owe to the Company the obligations set out in those clauses and you abide by them in their entirety. As the "Restriction Period" as defined in clause 14 of your Service Agreement is for twelve months from the Termination Date, this "Restriction Period" shall expire on 16 March 2002, after which time clauses 14.2(a) and 14.2(b) of your Service Agreement shall no longer apply. You also confirm that you will abide by the obligations imposed upon you by the Deed of Covenant dated 9th July, 1998 between yourself, Tarquin Limited, Charman Group Limited, Tarquin Underwriters Limited, Charman Underwriting Agencies Limited and their successors and assigns. As the "Restriction Period" as defined in the Deed of Covenant is the later of 24 months from the date of the Deed or twelve months from the Termination Date, this "Restriction Period" shall expire on 16 March 2002 after which time clauses 4.1 and 4.2 of the Deed of Covenant shall no longer apply.

11. Having resigned as a director of the Company and from such other offices which you hold within the Group, you will not conduct yourself in any way which is inconsistent with having surrendered your authority, whether in matters of the internal administration of any Group Company or externally. You will not represent yourself as being a director of, employed by or connected in any way with, any Group Company.

12. Both parties agree:

(a) to keep the terms of this Agreement and all discussions and other correspondence on this subject confidential and not to disclose them to any other person, except to a professional adviser who has agreed to be bound by this restriction (and in your case your immediate family) and except as may be required by law or regulatory authorities or with the other party's prior written consent;

(b) not (except where legally required to do so as part of any legal or regulatory investigation or proceedings) to make, publish or issue or cause to be made, published or issued any untrue or disparaging or derogatory statements whatsoever concerning you or the Company and/or any Group Company or its or their business, products, practices, policies or any other internal Company or Group matter or otherwise in respect of the Company or any Group Company in its or their relations with its/their suppliers, customers, clients, investors, shareholders, bankers, brokers or advisers or concerning any of the officers, directors, agents or employees of the Company or any Group Company.

(c) not (except where legally required to do so as part of any legal or regulatory investigation or proceedings) to make any statement which may have the effect of damaging or lowering the reputation of either party (in the Company's case this includes any Group Company or any of its officers or employees).

13. You further agree that you will not:

(a) (except where legally required to do so by any legal or regulatory investigation or proceedings) make, publish or issue or cause to be made, published or issued any statement whatsoever (whether to the Company's shareholders or to investors, investment analysts or to journalists or to the press or to any other person whatsoever) concerning the private affairs of the Company and any Group Company including, without limitation, finances or business dealings (including previous business negotiations and/or strategic discussions with any party) dealings, accounts, accounting policies, reporting methods, forecasts, business plans or any similar confidential information concerning or belonging to the Company or any Group Company of which you were aware by reason of your employment by or office within the Company or any Group Company.

14. You confirm that:

(a) in so far as you are aware you have not withheld any material information concerning matters of which you were solely aware on behalf of the Company up to the Termination Date where withholding such information would reasonably be expected to be materially detrimental to the financial results of the Company;

(b) to the best of your knowledge and belief you are not in breach and have not breached any material term (express or implied) of your contract of employment;

(c) your advisers have given the Company's advisers brief details of every complaint that you have or may have against the Company or any Group Company or any of its officers or employees arising out of your employment or its termination, or otherwise about which you are aware at the date of the Agreement ("the Complaints");

(d) you have not presented an originating application to an office of the employment tribunals or issued a claim form in the High Court or County Court in connection with your employment or its termination,

and you undertake that neither you nor anyone acting on your behalf will present any further such complaint or present or issue an originating application or claim form.

15.1 These terms are offered without any admission of liability whatsoever (save as to the basis upon which the Notice Payment is made, namely as a payment in lieu of notice) and are in full and final settlement of all claims in all jurisdictions that you may have as at the date hereof against any Group Company (or any of its officers or employees) arising out of or in connection with your position as a director of any Group Company, any other offices you hold within the Group and your contract of employment with any Group Company or its termination or in any other respect save as provided for in paragraphs 15.2 and 15.3 below and with the exception of accrued pension. Specifically you acknowledge that you have carefully considered the facts and circumstances relating to your employment by the Company and its termination and you accept that the Payment is paid as compensation in full and final settlement of any costs, claims, expenses and/or rights of action you have or may have arising against the Company and any Group Company howsoever arising (whether under common law, statute or otherwise and whether arising in the United Kingdom or elsewhere in the world) and including but not limited to a claim for unfair dismissal arising from the fact and/or the manner of your dismissal and/or any other claims under the Equal Pay Act 1970, Sex Discrimination Act 1975, Race Relations Act 1976, Trade Union and Labour Relations (Consolidation) Act 1992, Employment Rights Act 1996, Disability Discrimination Act 1995, Working Time Regulations 1998, Human Rights Act 1998, Public Interest Disclosure Act 1998, Employment Relations Act 1999 and/or in respect of which a Conciliation Officer is authorised to act or any claims arising as a consequence of the United Kingdom's membership of the European Union, any claim for payment or pension loss, payment in lieu of notice, holiday pay, or any other benefit or remuneration accrued during your employment which you have or may have against the Company and any Group Company and any directors, employees and/or consultants of such parties whether arising directly or indirectly out of your employment or its termination and you hereby waive such costs, claims, expenses and/or rights of action.

15.2 The waiver of rights given by you in paragraph 15.1 includes any rights of action that you have or may have against the Company, any Group Company or any of its officers or employees in connection with the Complaints.

15.3 The waiver of rights given by you in paragraph 15.1 above does not include any rights of action that you have or may have as a shareholder of ACE Limited or of any Group Company against any Group Company or any of its or their officers or employees), save in relation to the Complaints, where your rights as a shareholder of ACE Limited and any Group Company are hereby waived. In all other respects, your rights as a shareholder of ACE Limited are unaffected by this Agreement.

15.4 It is the understanding of both parties that as at 17 March 2001 the known shareholdings in ACE Limited of yourself and your family trusts are as follows:

(a) your personal holding is 844,420 shares, including the tranche of 5000 Restricted Stock Awards vested on 18 November 2000 and excluding all of the other unvested Restricted Stock Awards and all of the Stock Options (whether exercised or not) granted to you under the ACE 1995 Long-Term Incentive Plan referred to in paragraph 18 of this agreement;

(b) the holding of Dragon Holdings Trust (account reference JT49) is 1,713,688 shares; and

(c) the holding of the JRC Children's Settlement Trust (account reference JT48) is 259, 969 shares.

16. The Company confirms to you that it has notified you in writing of all complaints and that it is not aware of any claims that it or any Group Company or any of its or their officers or employees has or may have against you as at the date hereof.

17. The Company agrees to pay your legal fees up to (pound)86,000 plus the VAT thereon in connection with taking advice on the termination of your employment and the terms of this Agreement to be paid directly to your lawyer (after receipt by the Company of an invoice addressed to you and marked payable by the Company within 14 days of the receipt of that invoice).

18. Both parties acknowledge that you have been awarded stock options and restricted stock awards in respect of ACE Limited under the ACE 1995 Long-Term Incentive Plan (as amended) ("Plan").

(a) We will procure that the Board of ACE Limited will exercise its discretion under the Plan to procure that the restricted stock in ACE Limited awarded to you and summarised below will, notwithstanding the termination of your employment, continue to vest (which for the avoidance of doubt shall mean that the Restricted Period in relation to each award of such restricted stock will cease and such stock may be dealt with by you in accordance with the terms of the awards of such restricted stock) as if your employment with the Company were to continue until and including 8 July 2003. Any restricted stock awards that have not vested on 8 July 2003 shall lapse and be forfeited with immediate effect on that date. The decision to and the exercise of this discretion shall be unconditional and irrevocable and evidenced by the delivery to you of a certified copy extract of the minutes of the board meeting of ACE Limited dated 11 May 2001 to that effect on which you may rely for these purposes together with an agreement (in the form approved by you as annexed to this Agreement as Appendix 3) executed by or on behalf of ACE Limited, you and the Company on the date of this Agreement which varies the agreements pursuant to which awards of restricted stock have been granted to you.

(b) We will procure that the board of ACE Limited will exercise its discretion to procure that the stock options in ACE Limited awarded to you and summarised below will, notwithstanding the termination of your employment, continue to vest and may be exercisable by you in full without restriction under the rules of the Plan either in relation to exercise or once exercised in relation to dealings or otherwise and may be exercised by you in accordance with their terms after vesting, as if your employment with the Company were to continue until and including 8 July 2003. Any stock option awards that have not vested on 8 July 2003 shall lapse and be forfeited on that date. The period for the exercise of all stock options awarded to you that have become exercisable shall be extended to any time on or before the tenth anniversary of the date of grant of each such option. The decision to and the exercise of this discretion shall be unconditional and irrevocable and evidenced by the delivery to you of a certified copy extract of the minutes of the board meeting of ACE Limited dated 11 May 2001 to that effect on which you may rely for these purposes together with an agreement (in the form approved by you as annexed to this Agreement as Appendix 3) executed by or on behalf of ACE Limited, you and the Company on the date of this Agreement which varies the agreements pursuant to which awards of stock options have been granted to you.

(c) You acknowledge that you will incur an income tax liability for which the Company may be liable in whole or in part to account to the Inland Revenue upon the exercise of your stock option(s) and/or on the vesting of your restricted stock award(s). For the avoidance of doubt any liability for secondary class 1 National Insurance Contributions shall be borne by the Company.

(d) This paragraph (d) will apply if you do not wish to utilise ACE Limited's and the Company's cashless exercise facility in respect of your stock options. At the same time as you give any notice to ACE Limited to exercise some or all of your stock options(s) (the "Exercise Notice") accompanied by a remittance in US dollars for the full exercise price, you will provide a copy of the Exercise Notice to the Company together with a remittance in pounds sterling in favour of the Company of an amount equal to your best estimate of the amount in respect of your income tax liability arising as a result of that exercise for which the Company is required to account to the Inland Revenue ("the Estimated Tax Amount"). Subject to any changes in the law or the published practice of the Inland Revenue after the date of this agreement, the Estimated Tax Amount will be computed by reference to the basic rate of UK income tax prevailing at the time of the Exercise Notice and your gain on exercise of the relevant stock option(s) determined by reference to the latest quoted price of the relevant underlying shares on the day of the Exercise Notice available to you after consulting the most up to date sources and the rate of exchange from US dollars to Sterling based on the spot rate quoted by Barclays Bank on that day for amounts exceeding (pound)50,000. If the Company's liability to account in respect of your income tax in respect of the exercise of your stock option(s) falls to be computed on a different basis at the time of the Exercise Notice from the basis set out above you will provide a remittance to the Company based on your best estimate of the amount the Company is liable to account for to the Inland Revenue in respect of your income tax liability arising as a result of the exercise in place of the remittance computed on the basis set out above. If the Estimated Tax Amount is less or greater than the actual amount of tax for which the Company is required to account to the Inland Revenue you will pay the difference to the Company, or the Company will refund the difference to you (the "Adjustment Payment"), as appropriate, within 10 business days of demand. The Company will account to the Inland Revenue for the amount for which the Company is required to account to the Revenue in respect of your income tax liability arising as a result of the exercise of your relevant stock options. The Company will account to the Inland Revenue in respect of your income tax liability arising on exercise of your stock option(s) even if you claim that you are not resident in the United Kingdom at the time of exercise and the Estimated Tax Amount (and actual tax amount) will be so computed. If, as a consequence of a change in the law or a change in the published Inland Revenue practice, it is established that the Company is not liable to account to the Inland Revenue in respect of the exercise of your stock option(s) if you are not resident in the United Kingdom and you provide satisfactory evidence to the Company that the Inland Revenue accepts that you are not United Kingdom resident at the time of exercise, then you will not be required to account to the Company for the Estimated Tax Amount (or actual tax amount) under this paragraph (d).

(e) This paragraph (e) will apply if you wish to utilise ACE Limited's and the Company's cashless exercise facility in respect of your stock options. At the same time as you give any notice to ACE Limited of your intention to exercise some or all of your stock options(s) (the " Notice of Intention to Exercise"), you will provide a copy of the Notice of Intention to Exercise to the Company together with several signed but undated formal notices of exercise and a remittance in favour of the Company of an amount equal to your best estimate of the tax liability which would arise if the relevant stock options were exercised at the time of the Notice of Intention to Exercise and for which the Company would have been required to account to the Inland Revenue (the "Estimated Tax Amount"). Subject to any changes in the law or the published practice of the Inland Revenue after the date of this agreement the Estimated Tax Amount will be computed by reference to the basic rate of UK income tax prevailing at the time of the Notice of Intention to Exercise and your gain on exercise of the relevant stock option(s) determined by reference to the latest available quoted price of the relevant underlying shares on the day of the Notice of Intention to Exercise and the rate of exchange from US dollars to Sterling based on the spot rate quoted by Barclays Bank on that day for amounts exceeding(pound)50,000. If the Company's liability to account in respect of your income tax in respect of the exercise of your stock option(s) falls to be computed on a different basis at the time you give the Notice of Intention to Exercise from the basis set out above you will provide a remittance to the Company based on your best estimate of the amount of the Company's liability to account to the Inland Revenue in respect of your income tax liability arising as a result of such exercise in place of the remittance computed on the basis set out above. When ACE Limited and/or the Company confirms that the relevant stock option(s) will be treated as being exercised in one or more tranches and notifies ACE Limited's and/or your agents to that effect, the relevant stock option(s) shall be exercised in one or more tranches (and the relevant formal notice(s) of exercise will be dated accordingly) and the aggregate amount in respect of your income tax liability in respect of the exercise of the relevant stock options for which the Company is required to account to the Inland Revenue will be recomputed based on the achieved sale price(s) (representing the market value(s)) on the relevant day or days on which each tranche was exercised and the Company will account to the Inland Revenue for that amount as being the amount which the Company is required to account in respect of your income tax liability arising on the exercise of the relevant stock options. If the aggregate tax liability exceeds the Estimated Tax Amount remitted to the Company on the day the Notice of Intention to Exercise was given, you will remit the additional tax liability to the Company within 10 business days of demand. If the aggregate tax liability is less than the Estimated Tax Amount remitted to the Company on the day the Notice of Intention to Exercise was given the Company will reimburse you for that difference within 10 business days of demand. The Company will provide you with details of the aggregate tax liability. The Company will account to the Inland Revenue in respect of your income tax liability arising on the exercise of your stock option(s) even if you claim that you are not resident in the United Kingdom at the time of exercise and, the Estimated Tax Amount (and actual tax amount) will be so computed. If, as a consequence of a change in the law or a change in the published Inland Revenue practice, it is established that the Company is not liable to account to the Inland Revenue in respect of the exercise of your stock option(s) if you are not resident in the United Kingdom and you provide satisfactory evidence to the Company that the Inland Revenue accepts you are not United Kingdom resident at the time of exercise, then you will not be required to account to the Company for the Estimated Tax Amount (or actual tax amount) under this paragraph (e). If ACE Limited and/or the Company establishes arrangements for its employees and former employees generally under which the cashless exercise facility may be used to recoup an amount equal to the amount for which the Company is liable to account to the Inland Revenue in respect of the tax liability arising on exercise of the stock option(s), the Company and/or ACE Limited will notify you of such arrangements promptly and they will be extended to you at your request.

(f) Unless paragraph (g) below applies ACE Limited and the Company shall operate all their normal procedures in respect of restricted stock award(s) so as to recoup an amount equal to the amount of your income tax arising on the vesting of your restricted stock awards for which the Company is required to account to the Inland Revenue. This would be the retention or cancellation or non-issue to you of such proportion of the shares underlying the restricted stock award which has vested with a market value (on the date of vesting) equal to the amount for which the Company is required by law to account to the Inland Revenue in respect of your income tax liability arising on the vesting of the relevant restricted stock award.

(g) This paragraph (g) applies if you give notice in writing to the Company and ACE Limited not later than the thirtieth day before the date on which any of your restricted stock awards is due to vest that you wish to receive the gross number of shares comprised in the restricted stock award on vesting (rather than the net amount after tax in accordance with paragraph (f)) ("Gross Vesting Notice"). If you give a Gross Vesting Notice you shall remit to the Company an amount equal to your best estimate the amount in respect of your income tax liability arising as a result of that vesting for which the Company is required to account to the Inland Revenue (the "Estimated Tax Amount"). Subject to any changes in the law or the published practice of the Inland Revenue after the date of this Agreement the Estimated Tax Amount will be computed by reference to the basic rate of UK income tax prevailing at the time the relevant restricted stock award vests and the latest available quoted price of the shares comprised in the relevant stock award and the latest available rate of exchange from US dollars to sterling based on the spot rate quoted by Barclays Bank for amounts exceeding(pound)50,000. Provided the Company receives the Estimated Tax Amount on or before the date on which the relevant restricted stock award vests paragraph (f) above shall not apply and you shall be entitled to the gross amount of the restricted stock award on the relevant vesting date (but if the Estimated Tax Amount has not been received by that date the normal procedures for recouping the Company's liability to account for income tax in respect of the restricted stock award that vests shall apply). All necessary adjustments shall apply as at the date on which the relevant restricted stock award vests and shall be based on the market value of the underlying stock concerned and the appropriate exchange rate on that day (and you shall account to the Company for any deficiency and the Company shall account to you for any excess compared to the Estimated Tax Amount) and the Company shall account to the Inland Revenue accordingly. The Company will account to the Inland Revenue in respect of your income tax liability arising on the vesting of your restricted stock award(s) even if you claim that you are not resident in the United Kingdom at the time of vesting and the Estimated Tax Amount (and actual tax amount) will be so computed. If, as a consequence of a change in the law or a change in the published Inland Revenue practice, it is established that the Company is not liable to account to the Inland Revenue in respect of the vesting of your restricted stock award(s) if you are not resident in the United Kingdom and you provide satisfactory evidence to the Company that the Inland Revenue accepts that you are not United Kingdom resident at the time of vesting, then you will not be required to account to the Company for the Estimated Tax Amount (or actual tax amount) under this paragraph (g).

(h) If the Company's liability to account for any amount in respect of your income tax in respect of the exercise of stock option(s) or the vesting of restricted stock award(s) exceeds the amount which the Company recoups under the procedures set out above in this clause you agree to indemnify, and keep indemnified, the Company against any such excess liability. The Company shall not be entitled to recover twice from you in respect of the same liability.

(i) If you use the cashless exercise facility in respect of any of your stock option(s) or if you wish to retain any shares you acquire on exercise of your stock option(s) or any of your restricted stock after it has vested and you consider that there has been delay by any agent acting on behalf of ACE Limited in implementing any of the procedures required to deal with your instructions, you may notify us in writing of your concerns. If you so notify us we will transmit your concerns to that agent and use all reasonable endeavours to encourage that agent to carry out your instructions efficiently and without further delay. Any such agent operates its own procedures over which ACE Limited does not have any control.

(j) Both parties agree that the following table summarises the stock options and restricted stock to which you are entitled and to which this paragraph 18 applies:

Stock Options			Vesting	
Date of Grant	No. of Shares	Exercise Price	No.	Date
12 November, 1998	100,000	$29.625	33,333	12 November, 1999
			33,333	12 November, 2000
			33,334	12 November, 2001
18 November, 1999	60,000	$19.3125	20,000	18 November, 2000
			20,000	18 November, 2001
			20,000	18 November, 2002
22 February, 2001	66,000	$36.30	22,000	22 February, 2002
			22,000	22 February, 2003
			22,000	22 February 2004

Restricted Stock Awards		Vesting	
Date of Award	No. of Shares	No.	Date
18 November, 1999	20,000	5,000	18 November, 2000
		5,000	18 November, 2001
		5,000	18 November, 2002
		5,000	18 November, 2003
22 February, 2001	27,500	6,875	22 February, 2002
		6,875	22 February, 2003
		6,875	22 February, 2004
		6,875	22 February, 2005

For the avoidance of doubt, the table on Stock Options includes all Stock Options whether vested or unvested and the table on Restricted Stock Awards includes all Restricted Stock awards whether vested or unvested.

(k) We have provided duplicate copies of each of the agreements reflecting the awards of restricted stock and stock options referred to above.

(l) The Company confirms to you that the exercise price of $36.30 for the stock options which were granted to you on 22 February 2001 is the same exercise price for all employees of the Company who were granted stock options at that time.

(m) The Company confirms that you have not been granted options under the ACE Limited Approved UK Stock Option Programme approved on 24 November 1997.

19. You will be liable for and will indemnify and hold harmless the Company in respect of any liability incurred by the Company to account for any of your income tax in respect of the Payment under or by virtue of any regulations made under Section 203 Income and Corporation Tax Act 1988 or otherwise and/or any penalty, fine and/or amount of any interest payable by the Company to the Inland Revenue as a result of any delay, non-disclosure or other fault by you arising from any liability for such taxation, whether arising under or by virtue of the said Section 203 Income and Corporation Tax Act 1988 or otherwise provided that before meeting any assessment raised against the Company by any competent authority, the Company will inform you of any such assessment within 21 days of receiving the same and will provide you with its reasonable co-operation to challenge any such assessment

20. It is confirmed that, subject to any relevant restrictions at law, you are free and unrestricted to deal in stock of ACE Limited.

21. You agree to give all reasonable assistance (at all reasonable times on reasonable notice save where a witness order has been served at short notice) to the Group upon request, with disputes which may arise or have arisen (whether or not proceedings of any kind have been instituted) with any Group Company where you have relevant knowledge in relation to that dispute, including without limitation, attending meetings, providing statements and acting as a witness for the Company or any Group Company, as appropriate. The Company agrees to meet your reasonable expenses incurred in providing such assistance and in addition shall pay you a daily rate of (pound)5,000 plus VAT for any day or part of a day spent providing such assistance save that if you spend less than one hour on one occasion in any 24 hour period providing such

assistance then the fee for this time spent shall be(pound)1,000 plus VAT. For the avoidance of doubt, the obligation to pay for assistance shall extend to any case where you are named as a representative party in proceedings (whether in court or in arbitration) arising out of or in connection with the operation of any Group Company's business.

22. You warrant that at the time of entering into this Agreement save for the Complaints you are not aware of any reason why any other matter could represent a "protected and qualifying disclosure" for the purposes of the provisions of the Public Interest Disclosure Act 1998, or of the Employment Rights Act 1996 which (1) arose or may have arisen during the period of your employment with the Company and (2) could be the subject of any claim on your part.

23. The Company will on any reasonable request by a prospective employer or employment agency or regulatory authority or prospective business partner or prospective investor provide a written reference in the form attached as Appendix 4 and will respond to any oral or written enquiries in a manner consistent with this reference and without adding a gloss of any kind.

24. The Company will maintain in force on a continuing basis Directors' and Officers' liability insurance in respect of the period during which you were a director of the Company or any Group Company at the same level of cover as that enjoyed by members of the Board of ACE Limited or the relevant Group Company, as appropriate. You shall not be required to pay any part of the Company's retention or aggregate deductible relating to this insurance.

25. Except as expressly stated in paragraphs 15.1 and 28.1 of this letter, a person who is not a party to this agreement may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999.

26. There are in place various employee trusts and schemes (the "trusts"), for the benefit of employees of Group Companies. For the avoidance of doubt such trusts include the Charman Group Limited 1993 Executive Share Option Scheme, the Methuen Employee Trust and any of their successors or assigns. You do not qualify as a beneficiary of and you confirm that you waive all rights and entitlements which you may have to receive, or otherwise seek, any payment or benefit in relation to those trusts.

27. These terms are governed by English law. You and the Company agree to submit to the exclusive jurisdiction of the English courts as regards any claim or matter arising in connection with these terms.

28.1. The provisions of these paragraphs 28.1 and 28.2 are recited here for the avoidance of doubt, and do not limit the foregoing provisions of this Agreement. Except for a claim based upon a breach of this Agreement, you, on behalf of yourself and the other Employee Releasors, release and forever discharge the Company and the other Company Releasees from any and all Claims which you now have or claim, or might hereafter have or claim (or the other Employee Releasors may have, to the extent that it is derived from a Claim which you may have), against the Company Releasees based upon or arising out of any matter or thing whatsoever, occurring or arising on or before the date of this Agreement, to the extent that the Claim arises out of or relates to your employment by any Group Company (including your service as a director of any of the Group Companies) and/or your termination or resignation therefrom (with the exception of accrued pension rights), and shall include, without limitation, Claims arising out of or related to the Service Agreement, and Claims arising under (or alleged to have arisen under) the following laws or requirements of the United States (including the states therein) (a) Title VII of the Civil Rights Act of 1964, as amended; (b) The Civil Rights Act of 1991;
(c) Section 1981 through 1988 of Title 42 of the United States Code, as amended; (d) the Employee Retirement Income Security Act of 1974, as amended; (e) The Immigration Reform Control Act, as amended; (f) The Americans with Disabilities Act of 1990, as amended; (g) The National Labor Relations Act, as amended; (h) The Fair Labor Standards Act, as amended; (I) The Occupational Safety and Health Act, as amended; (j) The Family and Medical Leave Act of 1993; (k) any state anti-discrimination law; (l) any state wage and hour law; (m) any other local, state or federal law, regulation or ordinance; (n) any public policy, contract, tort, or common law; or (o) any allegation for costs, fees, or other expenses including attorneys' fees incurred in these matters. For the avoidance of doubt this waiver of rights by you does not include any claim which you have or may have (or the Employee Releasors may have to the extent that it is derived from a claim which you may have) as a shareholder of ACE Limited against any Group Company or any of the Company Releasees, save in relation to the Complaints where your rights as a shareholder are waived.

28.2 For purposes of the General Release and Waiver, the terms set forth below shall have the following meanings:

- the term "Claims" shall include any and all rights, claims, demands, debts, dues, sums of money, accounts, attorneys' fees, complaints, judgements, executions, actions and causes of action of any nature whatsoever, cognizable at law or equity;

- the term "Company Releasees" shall include each of the Group Companies and their officers, directors, trustees, members, representatives, agents, employees, shareholders, partners, attorneys, assigns, administrators and fiduciaries under any employee benefit plan of any of the Group Companies, and insurers, and their predecessors and successors; and

- the term "Employee Releasors" shall include you and your family, heirs, executors, representatives, agents, insurers, administrators, successors, assigns, and any other person claiming through you.

29 To the extent that you are entitled to continuing benefit under clause 100 of the Articles of Association of ACE Limited and any indemnity on similar terms contained in the Articles of Association, Bye Laws or other constitutional documents of any Group Company the Company will procure that you shall continue to enjoy that benefit.

30. The Company is entering into this Agreement on behalf of itself and its Group Companies. The Company warrants that the signature and performance of the Agreement are within the corporate powers of the Company, have been duly authorised by all necessary corporate action and do not contravene either the Memorandum or Articles of Association of the Company nor any law, rule, regulation or requirement applicable to the Company.

Please signify your agreement to these terms by signing and returning to me the enclosed duplicate of this letter.

Yours sincerely,

BRIAN DUPERREAULT
Brian Duperreault
Director of ACE London Services Limited and of ACE Limited For and on behalf of the Company and all of the Group Companies

I agree to the terms set out in the Company's letter above and confirm that the conditions regulating compromise agreements under the Employment Rights Act 1996, the Disability Discrimination Act 1995, the Sex Discrimination Act 1975, the Race Relations Act 1976, the Equal Pay Act 1970, the Trade Union and Labour Relations (Consolidation) Act 1992, the Working Time Regulations 1998, the Human Rights Act 1998, the Public Interest Disclosure Act 1998 have been satisfied in relation to this Agreement.

In particular I confirm that I have taken independent legal advice from Jane Mann of Fox Williams on the terms and effect of this letter and my rights against the Company and any other Group Company and on the basis of that advice I accept those terms. Ms Mann has confirmed to me that she is a qualified solicitor holding a current practising certificate and that she or her firm has an insurance policy in force covering the risk of a claim by me in respect of any loss arising in consequence of her advice, less any deductible, uninsurable or excess.

Signature: JOHN CHARMAN

Date: 16TH MAY 2001

APPENDIX 1

16 May 2001

FORM OF SOLICITOR'S LETTER

I , Jane Mann. of Fox Williams refer to the letter dated 16 May 2001 from Ace London Services Limited to John Charman (the "Letter"). I am a qualified solicitor holding a current practising certificate as a partner in the firm of Fox Williams. The firm has an insurance policy in force covering the risk of a claim by Mr Charman in respect of any loss arising in consequence of my advice, less any deductible, uninsurable or excess. I have advised Mr Charman regarding his rights against the Company (and any Group company as referred to in the Letter) (including his rights under the statutes referred to in the Letter) and the effect of agreeing to the terms set out in the Letter.

APPENDIX 2

[Resignation of directorships and other offices letter]

16 May, 2001

To whom it may concern:

Resignation of directorships and other offices letter

Without claim for compensation for loss of office or otherwise (but without prejudice to any claim I may have for damages for breach of my employment agreement with ACE London Services Limited dated 9 July 1998), I hereby resign and if requested by the Company will at the cost of the Company do all things reasonably necessary to resign, effective from 17 March, 2001, from all positions I currently hold (including directorships, officerships, trusteeships, active underwriter positions and powers-of-attorney) with all subsidiaries and managed syndicates of ACE Limited, a Cayman Islands company, including, without limitation, the following companies and syndicates:

ACE London Aviation Limited
ACE London Underwriting Limited
ACE Underwriting Agencies Limited
ACE UK Underwriting Limited
ACE Capital Limited
ACE Capital II Limited
ACE Capital III Limited
ACE Capital IV Limited
ACE Capital V Limited
ACE Capital VI Limited
ACE Capital VII Limited
ACE European Markets Reinsurance Limited ACE European Markets Insurance Limited
ACE Financial Services Limited
ACE London Holdings Limited
ACE London Investments Limited
ACE London Group Limited
ACE (CG) Limited
ACE Group Holdings Limited
ACE Global Markets Limited
ACE Insurance SA NV
ACE UK Limited
ACE UK Holdings Limited
ACE Tarquin
ACE Tempest Reinsurance Limited
ACE London Services Limited
ACE Underwriting Services Limited
ACE (PM) Limited
AGM Underwriting Limited
ACE Trustees Limited
ACE (CR) Holdings

ACE (RGB) Holdings Limited
Ridge Underwriting Agencies Limited
ACE Holdings (Gibraltar) Limited
ACE Underwriting Agencies Limited Retirement Benefits Scheme Charman Underwriting Agencies Retirement Benefits Scheme All ACE managed Lloyd's syndicates including but not limited to 488, 2488, 483, 375, 112, 490, 47, 122, 219, 484, 1171, 48, 925, 960, and any predecessor or incidental syndicate.

John Charman

APPENDIX 3

<u>DATED 2001</u>

ACE LIMITED (1)

JOHN CHARMAN (2)

- and -

ACE LONDON SERVICES LIMITED (3)

DEED OF VARIATION IN RELATION
TO AWARDS OF STOCK OPTIONS
AND RESTRICTED STOCK IN ACE LIMITED

TABLE OF CONTENTS

THIS DEED OF VARIATION is made 2001
BETWEEN:

(1) ACE LIMITED a company incorporated under the laws of the Cayman Islands whose address is The ACE Building, 30 Woodbourne Avenue, Hamilton HM08 Bermuda ("ACE");

(2) JOHN CHARMAN of Dell House, Wildernesse Avenue, Sevenoaks, Kent TN15 OEA ("Mr Charman"); and

(3) ACE LONDON SERVICES LIMITED a company incorporated in England and Wales (Company no: 3205604) whose registered office is at Crosby Court, 38 Bishopsgate, London EC2N 4DL ("Ace London").

INTRODUCTION

(A) Mr Charman has been awarded stock options in ACE in accordance with the terms of the Plan (as defined below) and pursuant to the provisions of the relevant stock option agreement, brief particulars of which are summarised in Schedule 1 ("Stock Option Awards"). Copies of such stock option agreements are annexed hereto ("Stock Option Agreements").

(B) Mr Charman has been awarded restricted stock in ACE in accordance with the terms of the Plan (as defined below) and pursuant to the provisions of the relevant restricted stock agreement, brief particulars of which are summarised in Schedule 2 ("Restricted Stock Awards"). Copies of such restricted stock agreements are annexed hereto ("Restricted Stock Agreements").

(C) This Deed of Variation is entered into pursuant and is supplemental to the provisions of a compromise agreement entered into today between ACE London and Mr Charman which sets out the terms relating to the termination of Mr Charman's employment with ACE London ("Compromise Agreement").

(D) Amongst other things, it is a requirement of the Compromise Agreement that the terms on which the Stock Option Awards and the Restricted Stock Awards have been granted are varied in accordance with this Deed of Variation.

(E) The Board of ACE, acting by its Compensation Committee, has exercised its discretions under the Plan to procure that the terms on which the Stock Option Awards and the Restricted Stock Awards have been granted are varied in accordance with the terms of the Compromise Agreement and this Deed of Variation.

NOW THIS DEED WITNESSES
IT IS AGREED as follows:

1. INTERPRETATION

1.1 In this Deed of Variation and its recitals and schedules, save where otherwise expressly provided or unless the context provides otherwise:-

"Compromise Agreement"	has the meaning given in recital (C);
"Plan"	means the ACE Limited 1995 Long-Term Incentive Plan dated 15 February 1996 as amended;

"Restricted Stock Agreements"	has the meaning given in recital (B);
"Restricted Stock Awards"	has the meaning given in recital (B);
"Stock Option Agreements"	has the meaning given in recital (A);
"Stock Option Awards"	has the meaning given in recital (A);

1.2 In this Deed of Variation and its recitals and schedules, save where otherwise expressly provided or unless the context provides otherwise:

1.2.1 words importing one gender shall be treated as importing any gender, words importing individuals shall be treated as importing bodies corporate, corporations, unincorporated associations and partnerships and vice versa, words importing the singular include the plural and vice versa and words importing the whole shall be treated as including a reference to any part;

1.2.2 clause, schedule and annexe headings and the list of contents are inserted for ease of reference only and shall not affect construction;

1.2.3 references to recitals, clauses, schedules and annexures are to the recitals and clauses of and the schedules and annexures to this Deed of Variation.

2. VARIATIONS

2.1 Notwithstanding the earlier termination of the employment of Mr Charman, it is agreed that for the purposes of the Stock Option Awards and the Restricted Stock Awards, the Date of Termination (as such expression is defined and used in the Plan, Stock Option Agreements and the Restricted Stock Agreements) of Mr Charman's employment with ACE London shall be deemed to be 8 July 2003 to the effect that:-

2.2 all Stock Option Awards shall continue to vest in accordance with the terms of the Stock Option Agreements as if Mr Charman's employment with Ace London continues until and including 8 July 2003; and

2.3 all Restricted Stock Awards shall continue to vest (which for the avoidance of doubt shall mean that the Restricted Period (as such expression is defined in the Plan and used in the Restricted Stock Agreements) in relation to each award of such restricted stock will cease and such stock may be dealt with by Mr Charman at that time) in accordance with the terms of the Restricted Stock Agreements as if Mr Charman's employment with ACE London continues until and including 8 July 2003.

2.4 For the avoidance of doubt, no restrictions will be imposed under the rules of the Plan on Mr Charman's dealings or otherwise in relation to stock in ACE comprising restricted stock that has vested or stock options that have been exercised.

2.5 Once exercisable in accordance with their terms, all Stock Option Awards may be exercised at any time within the period of ten years from the date of grant of each such Stock Option Award.

2.6 The Stock Option Agreements and the Restricted Stock Agreements shall in each case, to the extent relevant, be varied in accordance with the provisions referred to above, but in all other respects the terms on which the Stock Option Awards and Restricted Stock Awards have been granted shall be unchanged. The variation of each such Stock Option Agreement and Restricted Stock Agreement (as applicable) is made unconditionally and irrevocably as from the date of this Deed of Variation.

2.7 For the avoidance of doubt, all Restricted Stock Awards that have not vested and Stock Option Awards that have not become exercisable by 8 July 2003 shall be forfeited on that date and shall lapse.

3. WARRANTIES

3.1 ACE and ACE London jointly and severally warrant to Mr Charman in the following terms:-

3.1.1 the Board of ACE, acting by its Compensation Committee, has lawfully and properly exercised its discretion under the Plan and the Stock Option Agreements to vary the terms on which the Stock Option Awards have been granted in accordance with the provisions of clause 2 above;

3.1.2 the Board of ACE, acting by its compensation committee, has lawfully and properly exercised its discretion under the Plan and the Restricted Stock Agreements to vary the terms on which Restricted Stock Awards have been granted in accordance with the provisions of clause 2 above;

3.1.3 the information given in the Schedules to this Deed of Variation is a true and accurate summary of all the awards of restricted stock and stock options in ACE that have been granted to Mr Charman under the Plan and he has not been granted restricted Stock and Stock options in ACE under any other plan of ACE;

3.1.4 as at the date hereof each of them has full authority, power and capacity under their respective memorandum and articles of association or other constitutional documents to enter into and perform the terms of this Deed of Variation;

3.1.5 the execution and performance by each of them of the terms of this Deed of Variation have been duly authorised by all necessary corporate action on their respective parts without any further proceedings or action being required;

3.1.6 this Deed of Variation has been duly executed and delivered by each of them and constitutes a valid, legal and binding legal obligation enforceable against each of them in accordance with the terms of this Deed of Variation;

3.1.8 each of their Directors or other persons executing on their behalf this Deed of Variation are duly authorised;

3.1.8 the execution and performance by each of them of this Deed of Variation is not subject to the approval or consent of any third party, governmental authority or regulatory body or otherwise, or if such approval or consent is required, it has been duly obtained.

4. NO WAIVER

4.1. No failure to exercise and no delay in exercising on the part of any party any right, power of privilege under this Deed of Variation shall operate as a waiver, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise of it or the exercise of any other right, power or privilege.

4.2 In the event that any party shall expressly waive any breach, default or omission under this Deed of Variation, no such waiver shall apply to, or shall operate as, a waiver of similar breaches, defaults or omissions or be deemed a waiver of any other breach, default or omission under this Deed of Variation.

4.3 The rights and remedies of each of the parties in connection with this Deed of Variation are cumulative and are not exclusive of any rights or remedies provided by law.

5. MISCELLANEOUS

5.1 ACE and ACE London shall jointly and severally do all such things as may be within their power to ensure that the provisions of this Deed of Variation are observed and performed and shall indemnify and keep Mr Charman indemnified against any costs or losses suffered by him as a result of any failure so to do.

5.2 In the event of any provision contained in this Deed of Variation or any part of it being declared invalid or unenforceable, all other clauses contained in this Deed of Variation shall remain in full force and effect and shall not be affected by it.

5.3 Save in the case of fraud, this Deed of Variation, the Compromise Agreement, the Stock Option Agreements, the Restricted Stock Agreements and the Plan embody the entire understanding between the parties in relation to their subject matter and there are no promises, terms, conditions or obligations, oral or written, expressed or implied, other than those contained herein or therein and together they supersede any prior agreement between the parties.

6. THIRD PARTY RIGHTS

6.1 A person who is not a party to this Deed of Variation has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Deed of Variation. This clause does not affect any right or remedy of a third party which exists or is available otherwise than by operation of that Act.

7. VARIATION

7.1 This Deed of Variation may only be varied in writing signed by all the parties or their respective duly authorised representatives.

8. COUNTERPARTS

8.1 This Deed of Variation may be executed in any number of counterparts all of which when executed shall constitute one and the same agreement.

9. ENGLISH LAW

9.1 This Deed of Variation shall be governed by and construed in accordance with English Law and the parties submit to the non-exclusive jurisdiction of the English courts in relation to all matters, claims and disputes arising out of or in connection with this Deed of Variation or any document supplemental to it.

EXECUTED AS A DEED the day and year first before written

SCHEDULE 1

Stock Options			Vesting	
Date of Grant	No. of Shares	Exercise Price	No.	Date
12th November, 1998	100,000	$29.625	33,333	12th November, 1999
			33,333	12th November, 2000
			33,334	12th November, 2001
18th November, 1999	60,000	$19.3125	20,000	18th November, 2000
			20,000	18th November, 2001
			20,000	18th November, 2002
22th February, 2001	66,000	$36.30	22,000	22th February, 2002
			22,000	22th February, 2003
			22,000	22th February 2004

For the avoidance of doubt, the table of Stock Options includes all Stock Options whether vested or unvested.

The awards of stock options were made pursuant to the Stock Option Agreements under the Plan made between Mr Charman and ACE dated 12 November 1998, 18 November 1999 and 22 February 2001.

SCHEDULE 2

Restricted Stock Awards		Vesting	
Date of Award	No. of Shares	No.	Date
18 November, 1999	20,000	5,000	18 November, 2000
		5,000	18 November, 2001
		5,000	18 November, 2002
		5,000	18 November 2003
22 February, 2001	27,500	6,875	22 February, 2002
		6,875	22 February, 2003
		6,875	22 February 2004
		6,875	22 February 2005

For the avoidance of doubt, the table of Restricted Stock awards includes all Restricted Stock awards whether vested or unvested.

The awards of restricted stock were made pursuant to Restricted Stock Agreements under the Plan made between Mr Charman and ACE and dated 18 November 1999 and 22 February 2001.

EXECUTED and DELIVERED by ACE)
Limited by means of these signatures)

and delivered:)

Director

Director/Secretary

EXECUTED and DELIVERED by ACE)
London Services Limited by means of)

these signatures and delivered:)

Director

Director/Secretary

EXECUTED as a DEED by)
John Charman in the presence of:)

APPENDIX 4

Agreed Reference

John Charman was employed by ACE London Services Limited as Chief Executive Officer from 9 July 1988 (when ACE Limited acquired Charman Underwriting Agencies Limited) until 17 March 2001. During this time he was responsible for the management of the Lloyd's operations. He was appointed President, ACE International and assumed responsibility for all of the ACE Group's operations outside Bermuda and the US with effect from 1 February 2001.

ACE Limited and ACE London Services Limited have no reason to doubt Mr Charman's honesty and integrity and are not aware of any impropriety in his financial or other dealings.

This reference is given without liability on the part of ACE Limited and ACE London Services Limited and the writer.

Exhibit 10.2

ACE LIMITED 1995
OUTSIDE DIRECTORS PLAN
(As Amended Through the Fourth Amendment)

GENERAL

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

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

SECTION 2

RETAINER AWARDS

2.1. General.

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

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

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

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

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

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

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

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

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

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

SECTION 3

COMMITTEE CHAIRMAN AWARDS

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

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

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

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

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

SECTION 3A

MEETING AWARDS

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

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

(c) Except as otherwise provided in this paragraph (c), an election to receive a Meeting Award in lieu of cash compensation for attendance at Board and committee meetings shall be filed prior to the first day of the Plan Year in which such meetings occur. An individual who becomes an Eligible Director on a date other than the first day of the Plan Year may elect to receive a Meeting Award in lieu of cash compensation for the remainder of the year by filing a Meeting Award election prior to the date on which he becomes an Eligible Director. With respect to meetings occurring in the 1999 Plan Year but after August 6, 1999, an Eligible Director may elect to receive a Meeting Award in lieu of cash compensation by filing an election no later than September 6, 1999; provided, however, that such election shall be effective only with respect to compensation for meetings occurring after the date such election is filed. An election to receive a Meeting Award rather than cash compensation shall apply to all Board and committee meetings in the Plan Year for which the election is made.

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

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

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

SECTION 3B

OPTION AWARDS

3B.1. General.

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

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

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

3B.2. Terms of Option Awards.

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

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

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

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

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

SECTION 4

OPERATION AND ADMINISTRATION

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

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

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

REDUCED BY

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

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

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

4.4. Adjustments to Shares.

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

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

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

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

4.5. Limit on Distribution. Distribution of shares of Stock or other amounts under the Plan shall be subject to the following:

(a) Notwithstanding any other provision of the Plan, the Company shall have no liability to issue any shares of Stock under the Plan or make any other distribution of benefits under the Plan unless such delivery or distribution would comply with all applicable laws and the applicable requirements of any securities exchange or similar entity.

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

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

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

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

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

4.9. Administration. The authority to control and manage the operation and administration of the Plan shall be vested in a committee (the "Committee") in accordance with Section 5.

4.10. Form and Time of Elections. Any election required or permitted under the Plan shall be in writing, and shall be deemed to be filed when delivered to the Secretary of the Company. Any deferral election made under Supplement A shall be irrevocable after it is filed.

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

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

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

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

SECTION 5

COMMITTEE

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

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

5.3. Information to be Furnished to Committee. The Company shall furnish the Committee with such data and information as may be required for it to discharge its duties. The records of the Company as to the period of a Director's service shall be conclusive on all persons unless determined to be incorrect. Participants and other persons entitled to benefits under the Plan must furnish the Committee such evidence, data or information as the Committee considers desirable to carry out the terms of the Plan.

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

SECTION 6

AMENDMENT AND TERMINATION

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

SECTION 7

DEFINED TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SUPPLEMENT A
ELECTIVE DEFERRAL

SECTION A-1

DEFERRAL ELECTION

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

A-1-2. Stock Deferral Election.

(a) An election to defer the receipt of Stock awarded as the Retainer Award for any Plan Year, to defer receipt of Stock awarded as the Meeting Award for any Plan Year, or to defer the receipt of Stock awarded as a Committee Chairman Award for any quarter of a Plan Year, shall be filed prior to the first day of that year.

(b) An individual who becomes an Eligible Director on a date other than the first day of a Plan Year may elect to defer all or a portion of the Retainer Award for the remainder of the year by filing a deferral election prior to the date on which he becomes an Eligible Director.

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

(d) An individual who becomes an Eligible Director on a date other than the first day of a Plan Year may elect to defer all or a portion of the Meeting Award for the remainder of the year by filing a deferral election prior to the date on which he becomes an Eligible Director.

A-1-3. Deferral Election.

(a) An election to defer the receipt of Cash Compensation for any Plan Year shall be filed prior to the first day of that year.

(b) An individual who becomes an Eligible Director on a date other than the first day of a Plan Year may elect to defer all or a portion of the Cash Compensation for the remainder of the year by filing a deferral election prior to the date on which he becomes an Eligible Director.

ACCOUNTS

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

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

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

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

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

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

DISTRIBUTIONS

A-3-1. General.

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

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

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

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

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

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

Exhibit 10.3

ACE LIMITED 1995
LONG-TERM INCENTIVE PLAN
(As Amended Through the Second Amendment)

SECTION 1

GENERAL

1.1 Purpose. The ACE Limited 1995 Long-Term Incentive Plan (the "Plan") has been established by ACE Limited (the "Company") to:

(a) attract and retain Directors of the Company and employees of the Company and Related Companies;

(b) motivate participating employees and Directors, by means of appropriate incentives, to achieve long-range goals;

(c) provide incentive compensation opportunities that are competitive with those of other major corporations; and

(d) further identify Participants' interests with those of the Company's other shareholders through compensation that is based on the Company's common stock;

and thereby promote the long-term financial interest of the Company and the Related Companies, including the growth in value of the Company's equity and enhancement of long-term shareholder return.

1.2 Participation. Subject to the terms and conditions of the Plan, the Committee shall determine and designate, from time to time from among the employees of the Employers and from among the Directors of the Company those persons who will be granted one or more Awards under the Plan, and thereby become "Participants" in the Plan. In the discretion of the Committee, and subject to the terms of the Plan, a Participant may be granted any Award permitted under the provisions of the Plan, and more than one Award may be granted to a Participant. Except as otherwise agreed by the Committee and the Participant, or except as otherwise provided in the Plan, an Award under the Plan shall not affect any previous Award under the Plan or an award under any other plan maintained by the Company or the Related Companies.

1.3 Operation and Administration. The operation and administration of the Plan, including the Awards made under the Plan, shall be subject to the provisions of Section 6. Capitalized terms in the Plan shall be defined as set forth in Section 10 or elsewhere in the Plan.

SECTION 2

OPTIONS

2.1 Definitions. The grant of an Option under this Section 2 entitles the Participant to purchase shares of Stock at a price fixed at the time the Option is granted, or at a price determined under a method established at the time the Option is granted, subject to the terms of this Section 2. Options granted under this Section 2 may be either Incentive Stock Options or Non-Qualified Stock Options, as determined in the discretion of the Committee, except that, to the extent required by the Code, a Director who is not an employee of the Company or a Related Company may not be granted an Incentive Stock Option. An "Incentive Stock Option" is an Option that is intended to satisfy the requirement applicable to an "incentive stock option" described in section 422(b) of the Code. A "Non-Qualified Option" is an Option that is not intended to be an "incentive stock option" as that term is described in section 422(b) of the Code.

2.2 Eligibility. The Committee shall designate the Participants to whom Options are to be granted under this Section 2 and shall determine the number of shares of Stock to be subject to each such Option. To the extent that the aggregate fair market value of Stock with respect to which Incentive Stock Options are exercisable for the first time by any individual during any calendar year (under all plans of the Company and all Related Companies) exceeds $100,000, such options shall be treated as Non-Qualified Stock Options, to the extent required by section 422 of the Code.

2.3 Price. The determination and payment of the purchase price of a share of Stock under each Option granted under this Section 2 shall be subject to the following:

(a) The purchase price shall be established by the Committee or shall be determined by a method established by the Committee at the time the Option is granted; provided, however, that in no event shall such price be less than the greater of (i) 100% of the Fair Market Value of a share of Stock as of the date on which the Option is granted; or (ii) the par value of a share of Stock on such date.

(b) Subject to the following provisions of this subsection 2.3, the full purchase price of each share of Stock purchased upon the exercise of any Option shall be paid at the time of such exercise and, as soon as practicable thereafter, a certificate representing the shares so purchased shall be delivered to the person entitled thereto.

(c) The purchase price shall be payable in cash or in shares of Stock (valued at Fair Market Value as of the day of exercise), or in any combination thereof, as determined by the Committee.

(d) A Participant may elect to pay the purchase price upon the exercise of an Option through a cashless exercise arrangement as may be established by the Committee.

2.4 Exercise. Except as otherwise expressly provided in the Plan, an Option granted under this Section 2 shall be exercisable in accordance with the following terms of this subsection 2.4:

(a) The terms and conditions relating to exercise of an Option shall be established by the Committee, and may include, without limitation, conditions relating to completion of a specified period of service, achievement of performance standards, or achievement of Stock ownership objectives by the Participant.

(b) No Option may be exercised by a Participant: (i) prior to the date on which the Participant completes one Year of Service with the Company or any Related Company after the date as of which the Option is granted (provided, however, that the Committee may permit exercise following the Participant's Date of Termination for any period, ending not later than the Expiration Date for the Option as the Committee determines, regardless of whether the Participant had completed one Year of Service at the Date of Termination); or (ii) after the Expiration Date applicable to that Option.

(c) The exercise of an Option will result in the surrender of the corresponding rights under a tandem Stock Appreciation Right, if any.

2.5 Post-Exercise Limitations. The Committee, in its discretion, may impose such restrictions on shares of Stock acquired pursuant to the exercise of an Option (including stock acquired pursuant to the exercise of a tandem Stock Appreciation Right) as it determines to be desirable, including, without limitation, restrictions relating to disposition of the shares and forfeiture restrictions based on service, performance, Stock ownership by the Participant, and such other factors as the Committee determines to be appropriate.

2.6 Expiration Date. The "Expiration Date" with respect to an Option means the date established as the Expiration Date by the Committee at the time of the grant; provided, however, that the Expiration Date with respect to any Option shall not be later than the earliest to occur of:

(a) the ten-year anniversary of the date on which the Option is granted;

(b) if the Participant's Date of Termination occurs by reason of death or Disability, the one-year anniversary of such Date of Termination; or

(c) if the Participant's Date of Termination occurs by reason of Retirement, the date on which the Expiration Date would expire if the Participant's Date of Termination occurred on the ten-year anniversary of such date on which the Option is granted or, if earlier, the date of the Participant's death; or

(d) if the Participant's Date of Termination occurs for reasons other than Retirement, death or Disability, the three-month anniversary of such Date of Termination.

Notwithstanding any provision of the Plan to the contrary, the Committee may provide that, following a Participant's Date of Termination, regardless of the reason for such Date of Termination, the Expiration Date with respect to any Option granted to such Participant shall be any date determined by the Committee, provided that such Expiration Date may not be later than the ten-year anniversary of the date on which the Option was granted.

2.7 Restoration Option. In the event the Participant exercises an Option and pays all or a portion of the purchase price in Common Stock, in the manner permitted by subsection 2.3, such Participant may, in the Committee's discretion, be issued a new Option to purchase additional shares of Stock equal to the number of shares of Stock surrendered to the Company in such payment plus the number of shares surrendered to satisfy the Participant's tax liability. Such new Option shall have an exercise price equal to the Fair Market Value per share on the date such new Option is granted, shall first be exercisable not less than six months from the date of grant of the new Option and shall have an Expiration Date that is the same as the Expiration Date of the original Option so exercised by payment of the purchase price in shares of Stock.

2.8 Limited Stock Appreciation Rights. The Committee may award Limited Stock Appreciation Rights in tandem with an Option, regardless of whether the Option is in tandem with a Stock Appreciation Right. An award of Limited Stock Appreciation Rights entitles the Participant to receive, in connection with a Change in Control, a cash payment in cancellation of the tandem Options (and any Stock Appreciation Rights in tandem with such Options) which are outstanding on the date the Change in Control occurs (regardless of whether such Options are then presently exercisable). The payment amount shall be equal to the difference between the exercise price per share of any Stock covered by the tandem Option and the "Market Price" of a share of Stock. For purposes of this subsection 2.8, the term "Market Price" shall mean the greater of (a) the highest price per share of Stock paid in connection with the Change in Control and (b) the highest price per share of Stock as reported on the Composite Transaction Reporting System on the New York Stock Exchange (which includes other participating exchanges and over-the-counter markets) during the 30-day period ending on the date of the Change in Control.

SECTION 3

STOCK APPRECIATION RIGHTS

3.1 Definition. Subject to the terms of this Section 3, a Stock Appreciation Right granted under the Plan entitles the Participant to receive, in cash or Stock (as determined in accordance with subsection 3.4), value equal to all or a portion of the excess of: (a) the Fair Market Value of a specified number of shares of Stock at the time of exercise; over (b) a specified price which shall not be less than 100% of the Fair Market Value of the Stock at the time the Stock Appreciation Right is granted, or, if granted in tandem with an Option, the exercise price with respect to shares under the tandem Option.

3.2 Eligibility. Subject to the provisions of the Plan, the Committee shall designate the Participants to whom Stock Appreciation Rights are to be granted under the Plan, shall determine the exercise price or a method by which the price shall be established with respect to each such Stock Appreciation Right, and shall determine the number of shares of Stock on which each Stock Appreciation Right is based. A Stock Appreciation Right may be granted in connection with all or any portion of a previously or contemporaneously granted Option or not in connection with an Option. If a Stock Appreciation Right is granted in connection with an Option, then, in the discretion of the Committee, the Stock Appreciation Right may, but need not be granted in tandem with the Option.

3.3 Exercise. The exercise of Stock Appreciation Rights shall be subject to the following:

(a) The terms and conditions relating to exercise of a Stock Appreciation Right shall be established by the Committee, and may include, without limitation, conditions relating to completion of a specified period of service, achievement of performance standards, or achievement of Stock ownership objectives by the Participant.

(b) If a Stock Appreciation Right is not in tandem with an Option, then the Stock Appreciation Right shall be exercisable in accordance with the terms established by the Committee in connection with such rights; provided, however, that except as otherwise expressly provided in the Plan, no Stock Appreciation Right may be exercised by a Participant (i) prior to the date on which he completes one Year of Service with the Company or any Related Company after the date as of which the Stock Appreciation Right is granted (provided, however, that the Committee may permit earlier exercise following the Participant's Date of Termination by reason of death or Disability); or (ii) after the Expiration Date applicable to that Stock Appreciation Right.

(c) If a Stock Appreciation Right is in tandem with an Option, then the Stock Appreciation Right shall be exercisable at the time the tandem Option is exercisable. The exercise of a Stock Appreciation Right will result in the surrender of the corresponding rights under the tandem Option.

3.4 Settlement of Award. Upon the exercise of a Stock Appreciation Right, the value to be distributed to the Participant, in accordance with subsection 3.1, shall be distributed in shares of Stock (valued at their Fair Market Value at the time of exercise), in cash, or in a combination thereof, in the discretion of the Committee.

3.5 Post-Exercise Limitations. The Committee, in its discretion, may impose such restrictions on shares of Stock acquired pursuant to the exercise of a Stock Appreciation Right as it determines to be desirable, including, without limitation, restrictions relating to disposition of the shares and forfeiture restrictions based on service, performance, ownership of Stock by the Participant, and such other factors as the Committee determines to be appropriate.

3.6 Expiration Date. If a Stock Appreciation Right is in tandem with an Option, then the "Expiration Date" for the Stock Appreciation Right shall be the Expiration Date for the related Option. If a Stock Appreciation Right is not in tandem with an Option, then the "Expiration Date" for the Stock Appreciation Right shall be the date established as the Expiration Date by the Committee; provided, however, that subject to the following provisions of this subsection 3.6, the Expiration Date with respect to any Stock Appreciation Right shall not be later than the earliest to occur of:

(a) the ten-year anniversary of the date on which the Stock Appreciation Right is granted;

(b) if the Participant's Date of Termination occurs by reason of death or Disability, the one-year anniversary of such Date of Termination; or

(c) if the Participant's Date of Termination occurs by reason of Retirement, the three-year anniversary of such Date of Termination; or

(d) if the Participant's Date of Termination occurs for reasons other than Retirement, death or Disability, the three-month anniversary of such Date of Termination.

SECTION 4

RESTRICTED STOCK

4.1 Definition. Subject to the terms of this Section 4, Restricted Stock Awards under the Plan are grants of Stock to Participants, the vesting of which is subject to such conditions as may be established by the Committee, with some or all of those conditions relating to performance or events occurring after the date of grant.

4.2 Eligibility. The Committee shall designate the Participants to whom Restricted Stock is to be granted, and the number of shares of Stock that are subject to each such Award. The Award of shares under this Section 4 may, but need not be made in conjunction with a cash-based incentive compensation program maintained by the Company, and may, but need not, be in lieu of cash otherwise awardable under such program.

4.3 Terms and Conditions of Awards. Shares of Restricted Stock granted to Participants under the Plan shall be subject to the following terms and conditions:

(a) Restricted Stock granted to Participants may not be sold, assigned, transferred, pledged or otherwise encumbered, except as hereinafter provided, for a period of not less than one year after the time of the grant of such Stock (the "Restricted Period"). Except for such restrictions, the Participant as owner of such shares shall have all the rights of a shareholder, including but not limited to the right to vote such shares and, except as otherwise provided by the Committee, the right to receive all dividends paid on such shares.

(b) Except as otherwise determined by the Committee, a Participant whose Date of Termination occurs prior to the end of the Restricted Period for any reason shall forfeit all shares of Restricted Stock remaining subject to any outstanding Restricted Stock Award.

(c) The Committee may, in its discretion, condition the vesting of shares of Restricted Stock on the achievement of performance goals.

(d) Each certificate issued in respect of such Stock shall be registered in the name of the Participant and deposited in a bank designated by the Committee. Each such certificate shall bear the following (or a similar) legend:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) contained in the ACE Limited 1995 Long-Term Incentive Plan and an agreement entered into between the registered owner and ACE Limited. A copy of such plan and agreement is on file in the office of the General Counsel of ACE Limited, The ACE Building, 30 Woodbourne Avenue, Hamilton HM 08, Bermuda."

(e) Subject to the limitations of the Plan and the Award of Restricted Stock, at the end of the Restricted Period for Restricted Stock, such Restricted Stock will be transferred free of all restrictions to a Participant (or his or her legal representative, beneficiary or heir).

SECTION 5

STOCK PURCHASE PROGRAM

5.1 Purchase of Stock. The Committee may, from time to time, establish one or more programs under which Participants will be permitted to purchase shares of Stock under the Plan on a periodic basis, and shall designate the Participants eligible to participate under such Stock purchase programs. The purchase price for shares of Stock available under such programs, and other terms and conditions of such programs, shall be established by the Committee. The purchase price may not be less than the Fair Market Value of the Stock at the time of purchase (or, in the Committee's discretion, the value of the Stock based on the average Fair Market Value for a number of days determined by the Committee); provided, however, that with respect to shares of Stock purchased under a program that do not result in an award of matching shares (as provided in subsection 5.2), the purchase price may not be less than 50% of the Fair Market Value of the Stock at the time of purchase (or, in the Committee's discretion, the value of the Stock based on the average Fair Market Value for a number of days determined by the Committee).

5.2 Matching Shares. Except as otherwise provided in subsection 5.1, any Stock purchase program established by the Committee under this Section 5 may provide for the award of matching shares of Stock, except that in no event shall the matching rate exceed one share for each one share purchased by the Participant.

5.3 Restrictions on Shares. The Committee may impose such restrictions with respect to shares purchased under subsection 5.1, or matching shares awarded pursuant to subsection 5.2, as the Committee determines to be appropriate. Such restrictions may include, without limitation, restrictions of the type that may be imposed with respect to Restricted Stock under Section 4.

SECTION 6

OPERATION AND ADMINISTRATION

6.1 Effective Date. Subject to the approval of the shareholders of the Company at the Company's 1996 annual meeting of its shareholders, the Plan shall be effective as of the date on which it is adopted by the Board; provided, however, that to the extent that Awards are made under the Plan prior to its approval by shareholders, they shall be contingent on approval of the Plan by the shareholders of the Company. The Plan shall be unlimited in duration and, in the event of Plan termination, shall remain in effect as long as any Awards under it are outstanding; provided, however, that no new Awards shall be made under the Plan after the tenth anniversary of the Effective Date.

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

(a) 5% of the adjusted average of the outstanding Stock, as that number is determined by the Company to calculate fully diluted earnings per share for the preceding fiscal year;

REDUCED BY

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

provided, however, that no reduction shall be made in the number of shares otherwise available under paragraph 6.2(a) for any shares of Stock subject to an Award under the Plan to the extent that such shares are not issued by reason of a lapse, forfeiture, expiration or termination of the Award for any reason without issuance of shares (whether or not cash or other consideration is paid to a Participant in respect of such shares); and further provided that no more than 2,300,000 shares of Common Stock shall be cumulatively available for issuance under the Plan for the Award of Incentive Stock Options.

6.3 Adjustments to Shares.

(a) If the Company shall effect any subdivision or consolidation of shares of Stock or other capital readjustment, payment of stock dividend, stock split, combination of shares or recapitalization or other increase or reduction of the number of shares of Stock outstanding without receiving compensation therefor in money, services or property, then the Committee shall adjust (i) the number of shares of Stock available under the Plan; (ii) the number of shares available under any limits; (iii) the number of shares of Stock subject to outstanding Awards; and (iv) the per-share price under any outstanding Award to the extent that the Participant is required to pay a purchase price per share with respect to the Award.

(b) If the Company is reorganized, merged or consolidated or is party to a plan of exchange with another corporation, pursuant to which reorganization, merger, consolidation or plan of exchange the shareholders of the Company receive any shares of stock or other securities or property, or the Company shall distribute securities of another corporation to its shareholders, there shall be substituted for the shares subject to outstanding Awards an appropriate number of shares of each class of stock or amount of other securities or property which were distributed to the shareholders of the Company in respect of such shares, subject to the following:

(i) If the Committee determines that the substitution described in accordance with the foregoing provisions of this paragraph (b) would not be fully consistent with the purposes of the Plan or the purposes of the outstanding Awards under the Plan, the Committee may make such other adjustments to the Awards to the extent that the Committee determines such adjustments are consistent with the purposes of the Plan and of the affected Awards.

(ii) All or any of the Awards may be cancelled by the Committee on or immediately prior to the effective date of the applicable transaction, but only if the Committee gives reasonable advance notice of the cancellation to each affected Participant, and only if either: (A) the Participant is permitted to exercise the Award for a reasonable period prior to the effective date of the cancellation; or (B) the Participant receives payment or other benefits that the Committee determines to be reasonable compensation for the value of the cancelled Awards.

(iii) Upon the occurrence of a reorganization of the Company or any other event described in this paragraph (b), any successor to the Company shall be substituted for the Company to the extent that the Company and the successor agree to such substitution.

(c) Upon (or, in the discretion of the Committee, immediately prior to) the sale to (or exchange with) a third party unrelated to the Company of all or substantially all of the assets of the Company, all Awards shall be cancelled. If Awards are cancelled under this paragraph (c), then, with respect to any affected Participant, either:

(i) the Participant shall be provided with reasonable advance notice of the cancellation, and the Participant shall be permitted to exercise the Award for a reasonable period prior to the effective date of the cancellation; or

(ii) the Participant shall receive payment or other benefits that the Committee determines to be reasonable compensation for the value of the cancelled Awards.

The foregoing provisions of this paragraph (c) shall also apply to the sale of all or substantially all of the assets of the Company to a related party, if the Committee determines such application is appropriate.

(d) In determining what action, if any, is necessary or appropriate under the foregoing provisions of this subsection 6.3, the Committee shall act in a manner that it determines to be consistent with the purposes of the Plan and of the affected Awards and, where applicable or otherwise appropriate, in a manner that it determines to be necessary to preserve the benefits and potential benefits of the affected Awards for the Participants and the Employers.

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

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

(g) Awards under the Plan are subject to adjustment under this subsection 6.3 only during the period in which they are considered to be outstanding under the Plan. For purposes of this subsection 6.3, an Award is considered "outstanding" on any date if the Participant's ability to obtain all benefits with respect to the Award is subject to limits imposed by the Plan (including any limits imposed by the Agreement reflecting the Award). The determination of whether an Award is outstanding shall be made by the Committee.

6.4 Limit on Distribution. Distribution of shares of Stock or other amounts under the Plan shall be subject to the following:

(a) Notwithstanding any other provision of the Plan, the Company shall have no liability to issue any shares of Stock under the Plan or make any other distribution of benefits under the Plan unless such delivery or distribution would comply with all applicable laws and the applicable requirements of any securities exchange or similar entity.

(b) In the case of a Participant who is subject to Section 16(a) and 16(b) of the Securities Exchange Act of 1934, the Committee may, at any time, add such conditions and limitations to any Award to such Participant, or any feature of any such Award, as the Committee, in its sole discretion, deems necessary or desirable to comply with Section 16(a) or 16(b) and the rules and regulations thereunder or to obtain any exemption therefrom.

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

6.5 Liability for Cash Payments. Subject to the provisions of this
Section 6, an Employer shall be liable for payment of cash due under the Plan with respect to any Participant to the extent that such benefits are attributable to the services rendered for that Employer by the Participant and the Company shall be liable for payment of cash due under the Plan with respect to any Participant to the extent that such benefits are attributable to the services rendered for the Company as a Director. Any disputes relating to liability of Employers and the Company for cash payments shall be resolved by the Committee.

6.6 Withholding. All Awards and other payments under the Plan are subject to withholding of all applicable taxes, which withholding obligations may be satisfied, with the consent of the Committee, through the surrender of shares of Stock which the Participant already owns, or to which a Participant is otherwise entitled under the Plan.

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

6.8 Transferability. Awards under the Plan are not transferable except as designated by the Participant by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code, Title I of the Employee Retirement Income Security Act, or the rules thereunder (a "QDRO"). To the extent that the Participant who receives an Award under the Plan has the right to exercise such Award, the Award may be exercised during the lifetime of the Participant only by the Participant. Notwithstanding the foregoing provisions of this subsection 6.8, the Committee may permit Awards under the Plan to be transferred to or for the benefit of the Participant's family (including, without limitation, to a trust for the benefit of a Participant's family), subject to such limits as the Committee may establish. In no event shall an Incentive Stock Option be transferable to the extent that such transferability would violate the requirements applicable to such option under Code section 422.

6.9 Administration. The authority to control and manage the operation and administration of the Plan shall be vested in a committee (the "Committee") in accordance with Section 8.

6.10 Notices. Any notice or document required to be filed with the Committee under the Plan will be properly filed if delivered or mailed by registered mail, postage prepaid, to the Committee, in care of the Company, at its principal executive offices. The Committee may, by advance written notice to affected persons, revise such notice procedure from time to time. Any notice required under the Plan (other than a notice of election) may be waived by the person entitled to notice.

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

6.12 Agreement With Company. At the time of an Award to a Participant under the Plan, the Committee will require a Participant to enter into an agreement with the Company in a form specified by the Committee, agreeing to the terms and conditions of the Plan and to such additional terms and conditions, not inconsistent with the Plan, as the Committee may, in its sole discretion, prescribe.

6.13 Limitation of Implied Rights.

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

(b) The Plan does not constitute a contract of employment, and neither the Plan nor Awards granted under the Plan, nor selection as a Participant, shall confer any right upon a Participant to be retained in the employ of an Employer or any Related Company or to be retained as a Director of the Company, nor any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan. Except as otherwise provided in the Plan, no Award under the Plan shall confer upon the holder thereof any right as a shareholder of the Company prior to the date on which he fulfills all service requirements and other conditions for receipt of such rights.

6.14 Benefits Under Qualified Retirement Plans. Awards to a Participant (including the grant and the receipt of benefits) under the Plan shall be disregarded for purposes of determining the Participant's benefits under any Qualified Retirement Plan.

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

6.16 Action by Employers. Any action required or permitted to be taken by any Employer shall be by resolution of its board of directors, or by action of one or more members of the board (including a committee of the board) who are duly authorized to act for the board, or (except to the extent prohibited by the provisions of Rule 16b-3, applicable local law, the applicable rules of any stock exchange, or any other applicable rules) by a duly authorized officer of the Employer.

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

SECTION 7

CHANGE IN CONTROL

Subject to the provisions of subsection 6.3 (relating to the adjustment of shares), and except as otherwise provided in the Plan or the Agreement reflecting the applicable Award, upon the occurrence of a Change in Control:

(a) All outstanding Options (regardless of whether in tandem with Stock Appreciation Rights) shall become fully exercisable, except to the extent that the right to exercise the Option is subject to any restrictions established in connection with a Limited Stock Appreciation Right that is in tandem with the Option.

(b) All outstanding Stock Appreciation Rights (regardless of whether in tandem with Options) shall become fully exercisable, except that if Stock Appreciation Rights are in tandem with an Option, and the Option is in tandem with a Limited Stock Appreciation Right, the right to exercise the Stock Appreciation Right shall be subject to any restrictions established in connection with the Limited Stock Appreciation Right.

(c) All shares of Restricted Stock shall become fully vested.

(d) All vesting restrictions imposed under subsection 5.3 (relating to restrictions on shares purchased by the Participants, and matching shares awarded to Participants) shall cease to apply, and the Participant shall become fully vested in those shares.

SECTION 8

COMMITTEE

8.1 Selection of Committee. The Committee shall be selected by the Board, and shall consist of not less than two members of the Board, or such greater number as may be required for compliance with SEC Rule 16b-3.

8.2 Powers of Committee. The authority to manage and control the operation and administration of the Plan shall be vested in the Committee, subject to the following:

(a) Subject to the provisions of the Plan, the Committee will have the authority and discretion to select employees and Directors to receive Awards, to determine the time or times of receipt, to determine the types of Awards and the number of shares covered by the Awards, to establish the terms, conditions, performance criteria, restrictions, and other provisions of such Awards, and to cancel or suspend Awards. In making such Award determinations, the Committee may take into account the nature of services rendered by the respective employee or Director, his present and potential contribution to the Company's success and such other factors as the Committee deems relevant."

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

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

(d) Except as otherwise expressly provided in the Plan, where the Committee is authorized to make a determination with respect to any Award, such determination shall be made at the time the Award is made, except that the Committee may reserve the authority to have such determination made by the Committee in the future (but only if such reservation is made at the time the Award is granted and is expressly stated in the Agreement reflecting the Award).

8.3 Delegation by Committee. Except to the extent prohibited by the provisions of Rule 16b-3, applicable local law, the applicable rules of any stock exchange, or any other applicable rules, the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it. Any such allocation or delegation may be revoked by the Committee at any time.

8.4 Information to be Furnished to Committee. The Employers and Related Companies shall furnish the Committee with such data and information as may be required for it to discharge its duties. The records of the Employers and Related Companies as to an employee's or Participant's employment, a Director's term of service, termination of employment, termination as a Director, leave of absence, reemployment and compensation shall be conclusive on all persons unless determined to be incorrect. Participants and other persons entitled to benefits under the Plan must furnish the Committee such evidence, data or information as the Committee considers desirable to carry out the terms of the Plan.

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

SECTION 9

AMENDMENT AND TERMINATION

The Board may, at any time, amend or terminate the Plan, provided that, subject to subsection 6.3 (relating to certain adjustments to shares), no amendment or termination may adversely affect the rights of any Participant or beneficiary under any Award made under the Plan prior to the date such amendment is adopted by the Board.

SECTION 10

DEFINED TERMS

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

(a) Award. The term "Award" shall mean any award or benefit granted to any Participant under the Plan, including, without limitation, the grant of Options, Stock Appreciation Rights, Restricted Stock, or Stock acquired through purchase or through matching allocations under Section 5.

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

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

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

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

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

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

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

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

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

(e) Date of Termination. A Participant's "Date of Termination" shall be, with respect to an employee, the date on which his employment with all Employers and Related Companies terminates for any reason, and with respect to a Director, the date immediately following the last day on which he serves as a Director; provided that a Date of Termination shall not be deemed to occur by reason of a Participant's transfer of employment between the Company and a Related Company (including an Employer) or between two Related Companies (including Employers); further provided that a Date of Termination shall not be deemed to occur by reason of a Participant's cessation of service as a Director if immediately following such cessation of service he becomes or continues to be employed by the Company or a Related Company, nor by reason of a Participant's termination of employment with the Company or a Related Company if immediately following such termination of employment he becomes or continues to be a Director; and further provided that a Participant's employment shall not be considered terminated while the Participant is on a leave of absence from an Employer or a Related Company approved by the Participant's employer.

(f) Director. The term "Director" means a member of the Board, who may or may not be an employee of the Company or a Related Company."

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

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

(i) Effective Date. The "Effective Date" shall be the date on which the Plan is adopted by the Board.

(j) Employer. The Company and each Related Company which, with the consent of the Company, adopts the Plan for the benefit of its eligible employees are referred to collectively as the "Employers" and individually as an "Employer".

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

(l) Option. The term "Option" shall mean any Incentive Stock Option or Non-Qualified Stock Option granted under the Plan.

(m) Qualified Retirement Plan. The term "Qualified Retirement Plan" means any plan of the Company or a Related Company that is intended to be qualified under section 401(a) of the Code.

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

(o) Retirement. "Retirement" of a Participant shall mean with respect to an employee of the Company or a Related Company, the occurrence of a Participant's Date of Termination with the consent of the Participant's employer after the Participant is eligible for early retirement or normal retirement under the ACE Limited Employee Retirement Plan (or any other retirement plan maintained by the Company or the Related Companies) and with respect to a Director, the Participant's Date of Termination with the consent of the Company after the Participant would be eligible for retirement under any retirement plan maintained by the Company or a Related Company if the Director were an employee of the Company or a Related Company; provided, however, that the Committee may impose such additional or alternative conditions or restrictions on Retirement as it determines to be appropriate.

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

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

(r) Year of Service. The term "Year of Service" means one continuous year of employment with the Company or a Related Company, one continuous year of service as a Director of the Company, or one continuous year of any combination of employment with the Company or a Related Company and service as a Director.