

ACE LTD

FORM 10-Q (Quarterly Report)

Filed 08/14/03 for the Period Ending 06/30/03

| | |
|-------------|---|
| 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 8/14/2003 For Period Ending 6/30/2003

| | |
|-------------|---|
| 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

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

For the Quarterly Period Ended June 30, 2003

OR

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

For the Transition Period from _____ to _____

1-11778
Commission File No.

98-0091805
I.R.S. Employer Identification No.

ACE LIMITED

(Incorporated in the Cayman Islands)

ACE Global Headquarters

17 Woodbourne Avenue

Hamilton HM 08

Bermuda

Telephone 441-295-5200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES NO

The number of registrant's Ordinary Shares (\$0.041666667 par value) outstanding as of August 8, 2003 was 278,253,683.

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ACE LIMITED PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ACE LIMITED AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

| | June 30 2003 | December 31 2002 |
|---|---|---------------------|
| | (Unaudited) (in thousands of U.S. dollars, except share and per share data) | |
| Assets | | |
| Investments and cash | | |
| Fixed maturities, at fair value (amortized cost—\$15,974,883 and \$13,790,742) | \$16,884,368 | \$14,419,741 |
| Equity securities, at fair value (cost—\$400,471 and \$442,266) | 471,098 | 411,031 |
| Securities on loan, at fair value (amortized cost/cost—\$497,982 and \$285,569) | 546,304 | 292,973 |
| Short-term investments, at fair value | 2,048,250 | 1,884,760 |
| Other investments (cost—\$625,662 and \$621,715) | 661,275 | 652,048 |
| Cash | 575,774 | 663,355 |
| | <u>21,187,069</u> | <u>18,323,908</u> |
| Total investments and cash | | |
| Accrued investment income | 221,645 | 216,941 |
| Insurance and reinsurance balances receivable | 3,185,594 | 2,653,990 |
| Accounts and notes receivable | 211,165 | 250,956 |
| Reinsurance recoverable | 13,890,918 | 13,991,453 |
| Deferred policy acquisition costs | 983,790 | 831,580 |
| Prepaid reinsurance premiums | 1,452,277 | 1,721,267 |
| Funds withheld | 292,423 | 300,106 |
| Value of reinsurance business assumed | 360,059 | 367,275 |
| Goodwill | 2,710,830 | 2,716,860 |
| Deferred tax assets | 1,093,675 | 1,287,983 |
| Other assets | 1,036,309 | 788,618 |
| | <u>\$46,625,754</u> | <u>\$43,450,937</u> |
| Total assets | | |
| Liabilities | | |
| Unpaid losses and loss expenses | \$24,939,926 | \$24,315,182 |
| Unearned premiums | 6,393,994 | 5,585,524 |
| Future policy benefits for life and annuity contracts | 469,927 | 442,264 |
| Funds withheld | 235,834 | 214,535 |
| Insurance and reinsurance balances payable | 1,988,987 | 1,870,264 |
| Contract holder deposit funds | 74,488 | 89,843 |
| Securities lending collateral | 561,242 | 301,016 |
| Accounts payable, accrued expenses and other liabilities | 1,360,370 | 1,514,972 |
| Dividends payable | 52,774 | 47,724 |
| Short-term debt | 146,039 | 145,940 |
| Long-term debt | 1,749,069 | 1,748,937 |
| Trust preferred securities | 475,000 | 475,000 |
| | <u>38,447,650</u> | <u>36,751,201</u> |
| Total liabilities | | |
| Commitments and contingencies | | |
| Mezzanine equity | — | 311,050 |
| Shareholders' equity | | |
| Preferred Shares (\$1.00 par value, 2,300,000 shares authorized, issued and outstanding) | 2,300 | — |
| Ordinary Shares (\$0.041666667 par value, 500,000,000 shares authorized; 277,755,290 and 262,679,356 shares issued and outstanding) | 11,573 | 10,945 |
| Additional paid-in capital | 4,710,886 | 3,781,112 |

| | | |
|--|---------------------|---------------------|
| Unearned stock grant compensation | (69,008) | (42,576) |
| Retained earnings | 2,709,714 | 2,199,313 |
| Deferred compensation obligation | 18,967 | 18,631 |
| Accumulated other comprehensive income | 812,639 | 439,892 |
| Ordinary Shares issued to employee trust | (18,967) | (18,631) |
| | <u>8,178,104</u> | <u>6,388,686</u> |
| Total shareholders' equity | | |
| | <u>\$46,625,754</u> | <u>\$43,450,937</u> |
| Total liabilities, mezzanine equity and shareholders' equity | | |

See accompanying notes to the interim consolidated financial statements

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ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and six months ended June 30, 2003 and 2002
(Unaudited)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|-----------------------------|---|-------------------|-----------------------------|-------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands of U.S. dollars, except per share data) | | | |
| Revenues | | | | |
| Gross premiums written | \$3,404,918 | \$ 2,928,955 | \$ 7,517,682 | \$ 6,047,101 |
| Reinsurance premiums ceded | (998,925) | (1,053,577) | (2,181,637) | (2,185,695) |
| Net premiums written | 2,405,993 | 1,875,378 | 5,336,045 | 3,861,406 |
| Change in unearned premiums | (99,401) | (299,671) | (957,921) | (925,890) |
| Net premiums earned | 2,306,592 | 1,575,707 | 4,378,124 | 2,935,516 |
| Net investment income | 211,947 | 200,804 | 418,359 | 400,939 |
| Other income (expense) | 726 | (12,068) | (5,428) | (7,269) |
| Net realized gains (losses) | 106,561 | (139,721) | 66,472 | (165,602) |
| Total revenues | 2,625,826 | 1,624,722 | 4,857,527 | 3,163,584 |
| Expenses | | | | |
| Losses and loss expenses | 1,459,379 | 960,949 | 2,742,212 | 1,814,094 |
| Life and annuity benefits | 43,559 | 23,311 | 92,058 | 46,307 |
| Policy acquisition costs | 333,282 | 234,208 | 629,176 | 432,003 |
| Administrative expenses | 287,288 | 229,726 | 546,960 | 426,929 |
| Interest expense | 43,681 | 51,952 | 88,610 | 97,954 |
| Total expenses | 2,167,189 | 1,500,146 | 4,099,016 | 2,817,287 |
| Income before income tax | 458,637 | 124,576 | 758,511 | 346,297 |
| Income tax expense | 88,169 | 20,676 | 140,599 | 44,592 |
| Net income | \$ 370,468 | \$ 103,900 | \$ 617,912 | \$ 301,705 |
| Basic earnings per share | \$ 1.35 | \$ 0.37 | \$ 2.28 | \$ 1.11 |
| Diluted earnings per share | \$ 1.32 | \$ 0.36 | \$ 2.23 | \$ 1.06 |

See accompanying notes to the interim consolidated financial statements

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ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the six months ended June 30, 2003 and 2002
(Unaudited)

| | <u>2003</u> | <u>2002</u> |
|--|--------------------------------|------------------|
| | (in thousands of U.S. dollars) | |
| Preferred Shares | | |
| Balance—beginning of period | \$ — | \$ — |
| Shares issued | 2,300 | — |
| | <u>2,300</u> | <u>—</u> |
| Balance—end of period | 2,300 | — |
| Ordinary Shares | | |
| Balance—beginning of period | 10,945 | 10,828 |
| Shares issued | 561 | 35 |
| Exercise of stock options | 86 | 74 |
| Issued under Employee Stock Purchase Plan (ESPP) | 6 | 5 |
| Cancellation of Shares | (25) | (15) |
| | <u>11,573</u> | <u>10,927</u> |
| Balance—end of period | 11,573 | 10,927 |
| Additional paid-in capital | | |
| Balance—beginning of period | 3,781,112 | 3,710,698 |
| Ordinary Shares issued | 46,076 | 35,598 |
| Exercise of stock options | 24,465 | 37,466 |
| Ordinary Shares issued under ESPP | 3,390 | 3,739 |
| Cancellation of Ordinary Shares | (20,319) | (12,422) |
| Preferred shares issued, net | 554,587 | — |
| Conversion of Mezzanine equity, net | 310,466 | — |
| Tax benefit on employee stock options | 11,109 | — |
| | <u>4,710,886</u> | <u>3,775,079</u> |
| Balance—end of period | 4,710,886 | 3,775,079 |
| Unearned stock grant compensation | | |
| Balance—beginning of period | (42,576) | (37,994) |
| Stock grants awarded | (44,899) | (37,313) |
| Stock grants forfeited | 2,671 | 6,111 |
| Amortization | 15,796 | 16,907 |
| | <u>(69,008)</u> | <u>(52,289)</u> |
| Balance—end of period | (69,008) | (52,289) |
| Retained earnings | | |
| Balance—beginning of period | 2,199,313 | 2,321,576 |
| Net income | 617,912 | 301,705 |
| Dividends declared on Ordinary Shares | (97,738) | (83,867) |
| Dividends declared on Mezzanine equity | (9,773) | (12,830) |
| | <u>2,709,714</u> | <u>2,526,584</u> |
| Balance—end of period | 2,709,714 | 2,526,584 |
| Deferred compensation obligation | | |
| Balance—beginning of period | 18,631 | 16,497 |
| Net change in period | 336 | 2,353 |
| | <u>18,967</u> | <u>18,850</u> |
| Balance—end of period | \$ 18,967 | \$ 18,850 |

See accompanying notes to the interim consolidated financial statements

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ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (cont'd)
For the six months ended June 30, 2003 and 2002
(Unaudited)

| | 2003 | 2002 |
|---|--------------------------------|--------------------|
| | (in thousands of U.S. dollars) | |
| Accumulated other comprehensive income | | |
| Net unrealized appreciation (depreciation) on investments | | |
| Balance—beginning of period | \$ 476,411 | \$ 136,916 |
| Change in period, net of income tax | 351,870 | 22,695 |
| | 828,281 | 159,611 |
| Minimum pension liability | | |
| Balance—beginning of period | — | — |
| Change in period, net of income tax | (40,000) | — |
| | (40,000) | — |
| Cumulative translation adjustment | | |
| Balance—beginning of period | (36,519) | (35,317) |
| Change in period, net of income tax | 60,877 | (788) |
| | 24,358 | (36,105) |
| Accumulated other comprehensive income | 812,639 | 123,506 |
| Ordinary Shares issued to employee trust | | |
| Balance—beginning of period | (18,631) | (16,497) |
| Net change in period | (336) | (2,353) |
| | (18,967) | (18,850) |
| Total shareholders' equity | \$8,178,104 | \$6,383,807 |

See accompanying notes to the interim consolidated financial statements

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ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the six months ended June 30, 2003 and 2002
(Unaudited)

| | <u>2003</u> | <u>2002</u> |
|---|---|-------------------|
| | <small>(in thousands of U.S. dollars)</small> | |
| Net income | \$ 617,912 | \$ 301,705 |
| Other comprehensive income | | |
| Net unrealized appreciation (depreciation) on investments | | |
| Unrealized appreciation (depreciation) on investments | 466,152 | 29,633 |
| Reclassification adjustment for net realized (gains) losses included in net income | (37,606) | 14,874 |
| | <u>428,546</u> | <u>44,507</u> |
| Cumulative translation adjustment | 83,846 | (358) |
| Minimum pension liability | (59,000) | — |
| | <u>453,392</u> | <u>44,149</u> |
| Other comprehensive income, before income tax | 83,846 | (358) |
| Income tax expense related to other comprehensive income items | (80,645) | (22,242) |
| | <u>372,747</u> | <u>21,907</u> |
| Other comprehensive income | 372,747 | 21,907 |
| Comprehensive income | <u>\$ 990,659</u> | <u>\$ 323,612</u> |

See accompanying notes to the interim consolidated financial statements

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ACE LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2003 and 2002
(Unaudited)

| | <u>2003</u> | <u>2002</u> |
|---|--------------------------------|---------------------|
| | (in thousands of U.S. dollars) | |
| Cash flows from operating activities | | |
| Net income | \$ 617,912 | \$ 301,705 |
| Adjustments to reconcile net income to net cash flows from (used for) operating activities: | | |
| Net realized (gains) losses | (66,472) | 165,602 |
| Amortization of premium/discounts on fixed maturities | 38,673 | 17,563 |
| Deferred income taxes | 116,880 | 39,735 |
| Unpaid losses and loss expenses | 502,243 | (79,203) |
| Unearned premiums | 706,387 | 1,070,943 |
| Future policy benefits for life and annuity contracts | 27,663 | 9,895 |
| Insurance and reinsurance balances payable | (50,554) | 287,278 |
| Accounts payable, accrued expenses and other liabilities | (93,358) | (97,022) |
| Insurance and reinsurance balances receivable | (446,356) | (666,713) |
| Reinsurance recoverable | 100,535 | (238,201) |
| Deferred policy acquisition costs | (125,155) | (98,525) |
| Prepaid reinsurance premiums | 298,073 | (150,270) |
| Funds withheld, net | 32,825 | 67,563 |
| Value of reinsurance business assumed | 7,216 | (3,421) |
| Other | (87,609) | (55,834) |
| | <u>\$ 1,578,903</u> | <u>\$ 571,095</u> |
| Cash flows from investing activities | | |
| Purchases of fixed maturities | \$(9,463,854) | \$(8,712,886) |
| Purchases of equity securities | (65,057) | (128,903) |
| Sales of fixed maturities | 7,253,066 | 8,373,776 |
| Sales of equity securities | 62,844 | 84,287 |
| Maturities of fixed maturities | 94,612 | 139,875 |
| Net realized gains (losses) on investment derivatives | 5,249 | (60,800) |
| Other | (35,816) | (43,250) |
| Settlement of an acquisition-related lawsuit | — | 54,728 |
| | <u>\$(2,148,956)</u> | <u>\$ (293,173)</u> |
| Cash flows from financing activities | | |
| Dividends paid on Ordinary Shares | \$ (92,688) | \$ (78,264) |
| Dividends paid on Mezzanine equity | (9,773) | (12,830) |
| Net proceeds from issuance of preferred shares | 556,887 | — |
| Net proceeds from (repayment of) short-term debt | 99 | (271,044) |
| Proceeds from exercise of options for Ordinary Shares | 24,551 | 37,540 |
| Proceeds from Ordinary Shares issued under ESPP | 3,396 | 3,744 |
| Repayment of trust preferred securities | — | (200,000) |
| Net proceeds from long-term debt | — | 449,330 |
| | <u>\$ 482,472</u> | <u>\$ (71,524)</u> |
| Net increase (decrease) in cash | (87,581) | 206,398 |
| Cash—beginning of period | 663,355 | 671,381 |
| Cash—end of period | <u>\$ 575,774</u> | <u>\$ 877,779</u> |

See accompanying notes to the interim consolidated financial statements

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

1. General

The interim unaudited consolidated financial statements, which include the accounts of the Company and its subsidiaries, have been prepared in accordance with accounting principles generally accepted in the United States of America and, in the opinion of management, reflect all adjustments (consisting of normally recurring accruals) necessary for a fair presentation of results for such periods. The results of operations and cash flows for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the consolidated financial statements, and related notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

ACE Limited (ACE or the Company) is a holding company incorporated with limited liability under the Cayman Islands Companies Law and maintains its business office in Bermuda. The Company, through its various subsidiaries, provides a broad range of insurance and reinsurance products to insureds worldwide. ACE operates through four business segments: Insurance – North American, Insurance – Overseas General, Global Reinsurance and Financial Services. These segments are described in Note 15.

The following table summarizes the Company's gross premiums written by geographic region for the six months ended June 30, 2003 and 2002. Allocations have been made on the basis of location of risk.

| Six Months Ended | North America | Europe | Australia & New Zealand | Asia Pacific | Latin America |
|------------------|---------------|--------|-------------------------|--------------|---------------|
| June 30, 2003 | 60% | 26% | 2% | 8% | 4% |
| June 30, 2002 | 62% | 24% | 2% | 8% | 4% |

2. New accounting pronouncements

In July 2003, the Accounting Standards Executive Committee issued Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" (SOP 03-1). This Statement of Position provides guidance on accounting and reporting by insurance enterprises for certain nontraditional long-duration contracts and for separate accounts and is effective for financial statements for fiscal years beginning after December 15, 2003. At the date of initial application of this SOP, the Company is required to make various determinations, such as qualification for separate account treatment, classification of securities in separate account arrangements, significance of mortality and morbidity risk, adjustments to contract holder liabilities, and adjustments to estimated gross profits as defined in SFAS No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments". The Company is currently evaluating the impact of adoption of SOP 03-1 on its consolidated financial statements.

In May 2003, Financial Accounting Standards Board (FASB) issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (FAS 150), which establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. FAS 150 requires the classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). FAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect the adoption of FAS 150 to have a material impact on its consolidated financial statements.

In April 2003, FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (FAS 149), which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FAS No. 133. FAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company does not expect the adoption of FAS 149 to have a material impact on its consolidated financial statements.

In January 2003, FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), which requires consolidation of all variable interest entities (VIE) by the primary beneficiary, as these terms are defined in FIN 46, effective immediately for VIEs created after January 31, 2003. The consolidation requirements apply to VIEs existing on January 31, 2003 for reporting periods beginning after June 15, 2003. In addition, it requires expanded disclosure for all VIEs. The Company does not expect the adoption of FIN 46 to have a material impact on its consolidated financial statements.

In December 2002, FASB issued FAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" (FAS 148). FAS 148 provides alternative methods of transitioning for a voluntary change to the fair-value based method of accounting for stock-based employee compensation. FAS 148 amends the disclosure requirements of FAS No. 123 (FAS 123) to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company continues to account for stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25 (APB 25).

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

Following is a summary of options issued and outstanding for the three and six months ended June 30, 2003 and 2002:

| | Average | | | Average | | |
|-----------------------------|---|----------------|-----------------------------|---|----------------|-----------------------------|
| | Year of Expiration | Exercise Price | Options for Ordinary Shares | Year of Expiration | Exercise Price | Options for Ordinary Shares |
| | Three Months Ended June 30, 2003 | | | Three Months Ended June 30, 2002 | | |
| Balance—beginning of period | | | 22,403,136 | | | 19,751,391 |
| Options granted | 2013 | \$32.05 | 100,250 | 2012 | \$40.67 | 439,417 |
| Options exercised | 2003-2011 | \$34.46 | (1,887,558) | 2005-2011 | \$41.79 | (360,292) |
| Options forfeited | 2007-2013 | \$38.39 | (170,966) | 2007-2012 | \$32.85 | (219,079) |
| Balance—end of period | | | <u>20,444,862</u> | | | <u>19,611,437</u> |
| | Six Months Ended June 30, 2003 | | | Six Months Ended June 30, 2002 | | |
| Balance—beginning of period | | | 19,312,287 | | | 17,070,630 |
| Options granted | 2013 | \$27.74 | 3,483,962 | 2012 | \$43.35 | 4,866,542 |
| Options exercised | 2003-2011 | \$34.06 | (2,071,371) | 2003-2011 | \$42.15 | (1,789,909) |
| Options forfeited | 2003-2013 | \$39.47 | (280,016) | 2006-2012 | \$30.96 | (535,826) |
| Balance—end of period | | | <u>20,444,862</u> | | | <u>19,611,437</u> |

The following table outlines the Company's net income available to holders of Ordinary Shares and diluted earnings per share for the three and six months ended June 30, 2003 and 2002, had the compensation cost been determined in accordance with the fair value method recommended in FAS 123.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|-------------|-------------------------------------|-------------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands of U.S. dollars, except per share data) | | | |
| Net income available to holders of Ordinary Shares: | | | | |
| As reported | \$363,424 | \$97,485 | \$604,453 | \$288,875 |
| Compensation expense, net of income tax | \$ 7,735 | \$ 9,852 | \$ 14,124 | \$ 17,592 |
| Pro forma | \$355,689 | \$87,633 | \$590,329 | \$271,283 |
| Basic earnings per share: | | | | |
| As reported | \$ 1.35 | \$ 0.37 | \$ 2.28 | \$ 1.11 |
| Pro forma | \$ 1.32 | \$ 0.34 | \$ 2.23 | \$ 1.04 |
| Diluted earnings per share: | | | | |
| As reported | \$ 1.32 | \$ 0.36 | \$ 2.23 | \$ 1.06 |
| Pro forma | \$ 1.29 | \$ 0.32 | \$ 2.18 | \$ 1.00 |

The fair value of the options issued is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants for the three months ended June 30, 2003 and 2002, respectively: dividend yield of 2.15 percent and 1.84 percent, expected volatility of 32.95 percent and 34.23 percent, risk free interest rate of 2.25 percent and 4.27 percent. The following weighted-average assumptions were used for the six months ended June 30, 2003 and 2002, respectively: dividend yield of 2.46 percent and 1.39 percent, expected volatility of 32.74 percent and 35.27 percent, risk free interest rate of 2.33 percent and 4.06 percent. The expected life for both years is four years and the forfeiture rate is 5 percent and 7 percent for 2003 and 2002, respectively.

3. Goodwill

FAS No. 142, "Goodwill and Other Intangible Assets" (FAS 142) primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. All goodwill recognized in the Company's consolidated balance sheet at January 1, 2002 was

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

assigned to one or more reporting units. FAS 142 requires that goodwill in each reporting unit be tested for impairment annually. Based on a profitability review performed in 2003, it was determined that two majority owned warranty program administration companies were not currently profitable. As a result of that review, updated forecasts supported indications that these companies would not under current market conditions achieve sufficient contract sales volumes to generate and sustain future profitable results. As a consequence of these revised expectations, the Company recognized a goodwill impairment loss of \$6 million during the first quarter of 2003.

4. 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, 2003 and 2002 are as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------|--------------------------------|---------------------|-----------------------------|---------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands of U.S. dollars) | | | |
| Premiums written | | | | |
| Direct | \$ 2,769,337 | \$ 2,347,328 | \$ 5,853,386 | \$ 4,462,455 |
| Assumed | 635,581 | 581,627 | 1,664,296 | 1,584,646 |
| Ceded | (998,925) | (1,053,577) | (2,181,637) | (2,185,695) |
| Net | <u>\$ 2,405,993</u> | <u>\$ 1,875,378</u> | <u>\$ 5,336,045</u> | <u>\$ 3,861,406</u> |
| Premiums earned | | | | |
| Direct | \$ 3,001,987 | \$ 2,130,803 | \$ 5,600,789 | \$ 3,842,723 |
| Assumed | 588,593 | 517,318 | 1,174,191 | 1,088,396 |
| Ceded | (1,283,988) | (1,072,414) | (2,396,856) | (1,995,603) |
| Net | <u>\$ 2,306,592</u> | <u>\$ 1,575,707</u> | <u>\$ 4,378,124</u> | <u>\$ 2,935,516</u> |

The composition of the Company's reinsurance recoverable at June 30, 2003 and December 31, 2002, is as follows:

| | June 30 2003 | December 31 2002 |
|--|--------------------------------|---------------------|
| | (in thousands of U.S. dollars) | |
| Reinsurance recoverable on paid losses and loss expenses | \$ 1,303,510 | \$ 1,363,247 |
| Bad debt reserve on paid losses and loss expenses | (378,297) | (377,804) |
| Reinsurance recoverable on future policy benefits | 12,221 | 8,846 |
| Reinsurance recoverable on unpaid losses and loss expenses | 13,501,325 | 13,558,623 |
| Bad debt reserve on unpaid losses and loss expenses | (547,841) | (561,459) |
| Net reinsurance recoverable | <u>\$13,890,918</u> | <u>\$13,991,453</u> |

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

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

Following is a breakdown of the Company's reinsurance recoverable on paid losses at June 30, 2003:

| Category | Amount | Bad Debt | % of Total |
|---------------------|-------------------------------|----------|------------|
| | | Reserve | Reserve |
| | (in millions of U.S. dollars) | | |
| General collections | \$ 795 | \$ 51 | 6.4% |
| Other | 508 | 327 | 64.4% |
| Total | \$1,303 | \$ 378 | 29.0% |

The general collections category represents amounts in the process of collection in the normal course of business. These are balances which the Company has no indication of dispute or credit-related issues. The Company provides bad debt reserves based primarily on the application of historical loss experience to credit categories.

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

5. Commitments, contingencies and guarantees

The Company invests in private equity partnerships with a carrying value of \$82 million included in other investments. In connection with these investments, the Company has commitments that may require funding of up to \$78 million over the next several years.

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

The Company provides and reinsures financial guaranties issued to support public and private borrowing arrangements. Financial guaranty insurance provides an unconditional and irrevocable guaranty that indemnifies the insured against non-payment of principal and interest on an insured debt obligation when due. The Company's potential liability in the event of non-payment by the issuer of the insured obligation is represented by its proportionate share of the aggregate outstanding principal and interest payable (insurance in force) on such insured obligation. In synthetic transactions, the Company guarantees payment obligations of counterparties under credit default swaps. The Company does not record a carrying value for future installment premiums on financial guaranties as they are recognized over the term of the contract. The net par outstanding exposure as at June 30, 2003 and December 31, 2002, of financial guaranty aggregate insured portfolios was \$82 billion, which includes credit default swap exposures of \$22 billion and \$21 billion, respectively.

6. Credit facilities

In April 2003, the Company renewed, at substantially the same terms, its \$500 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. The five-year facility also permits the issuance of letters of credit (LOCs). At June 30, 2003, the outstanding LOCs issued under these facilities was \$64 million. There were no other drawings or LOCs issued under these facilities.

At June 30, 2003, ACE Guaranty Corp. was party to a non-recourse credit facility which provides up to \$175 million specifically supporting the company's municipal portfolio and designed to provide rating agency qualified capital to support ACE Guaranty Corp.'s claims paying resources. During 2002, the facility's expiry date was extended to November 2009. ACE Guaranty Corp. has

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

not borrowed under this credit facility. In May 2003, ACE Guaranty Corp. entered into a \$140 million, 364-day revolving credit facility that is available for general corporate purposes. ACE Guaranty Corp. has not borrowed under this credit facility.

7. Debt

The following table outlines the Company's debt at June 30, 2003 and December 31, 2002.

| | June 30 2003 | December 31 2002 |
|---|-------------------------------|---------------------|
| | (in millions of U.S. dollars) | |
| Short-term debt | | |
| ACE INA commercial paper | \$ 146 | \$ 146 |
| Long-term debt | | |
| ACE INA Notes due 2004 | \$ 400 | \$ 400 |
| ACE INA Notes due 2006 | 300 | 300 |
| ACE Limited Senior Notes due 2007 | 499 | 499 |
| ACE US Holdings Senior Notes due 2008 | 250 | 250 |
| ACE INA Subordinated Notes due 2009 | 200 | 200 |
| ACE INA Debentures due 2029 | 100 | 100 |
| | <u>\$ 1,749</u> | <u>\$ 1,749</u> |
| Trust Preferred Securities | | |
| 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 |
| | <u>\$ 475</u> | <u>\$ 475</u> |

8. Mezzanine equity

In 2000, the Company publicly offered and issued 6,221,000 FELINE PRIDES for aggregate net proceeds of \$311 million. Each FELINE PRIDE initially consisted of a unit referred to as an Income PRIDE. Each Income PRIDE consisted of (i) one 8.25 percent Cumulative Redeemable Preferred Share, Series A, liquidation preference \$50 per share, and (ii) a purchase contract pursuant to which the holder of the Income PRIDE agreed to purchase from the Company, on May 16, 2003, \$311 million of Ordinary Shares at the applicable settlement rate. On May 16, 2003, the Company issued approximately 11.8 million Ordinary Shares, in satisfaction of the purchase contracts underlying its FELINE PRIDES. In consideration, on June 16, 2003, all of its 8.25 percent Cumulative Redeemable Preferred Shares, Series A, were redeemed at a rate representing an issuance of 1.8991 Ordinary Shares per preferred share.

9. Preferred shares

On May 30, 2003, the Company sold in a public offering 20 million depository shares, each representing one-tenth of one of its 7.80 percent Cumulative Redeemable Preferred Shares, for \$25 per depository share. Underwriters exercised their over-allotment option, which resulted in the issuance of an additional three million depository shares. Gross proceeds from the sale of the preferred shares were \$575 million and related expenses were \$18 million.

The shares have an annual dividend rate of 7.80 percent with the first quarterly dividend payable on September 1, 2003. The shares will not be convertible into or exchangeable for the Company's Ordinary Shares. The Company may redeem these shares at any time after May 30, 2008 at a redemption value of \$25.00 per depository share or at any time under certain limited circumstances.

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

10. Defined benefit plans

In accordance with FAS No. 87, "Employers' Accounting for Pensions", the Company was required to record a minimum pension liability for underfunded plans representing the excess of the unfunded accumulated benefit obligation over the fair value of trust assets and previously recorded pension cost liabilities. The minimum pension liability is included in accounts payable, accrued expenses and other liabilities and in accumulated other comprehensive income. The principal cause of the accrual for additional minimum pension liability was a decline in the value of equity securities held by the pension trusts in Europe.

11. Restricted stock awards

Under the Company's long-term incentive plans, 1,660,985 restricted Ordinary Shares were awarded during the six months ended June 30, 2003, to officers of the Company and its subsidiaries. These shares vest at various dates through June 2007.

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.

In addition, during the period, 11,165 restricted Ordinary Shares were awarded to outside directors under the terms of the 1995 Outside Directors Plan. These shares vest in May 2004.

12. Earnings per share

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|---|--------------------|-----------------------------|--------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands of U.S. dollars, except share and per share data) | | | |
| Numerator: | | | | |
| Net income | \$ 370,468 | \$ 103,900 | \$ 617,912 | \$ 301,705 |
| Dividends on Mezzanine equity | (3,358) | (6,415) | (9,773) | (12,830) |
| Dividends on preferred shares | (3,686) | — | (3,686) | — |
| Net income available to holders of Ordinary Shares | <u>\$ 363,424</u> | <u>\$ 97,485</u> | <u>\$ 604,453</u> | <u>\$ 288,875</u> |
| Denominator: | | | | |
| Denominator for basic earnings per share: | | | | |
| Weighted average shares outstanding | 268,260,244 | 259,863,879 | 264,957,203 | 259,460,287 |
| Dilutive effect of Mezzanine equity | — | 3,416,695 | — | 3,758,796 |
| Effect of other dilutive securities | 6,972,095 | 7,900,655 | 5,761,774 | 8,030,284 |
| Denominator for diluted earnings per share: | | | | |
| Adjusted weighted average shares outstanding and assumed conversions | <u>275,232,339</u> | <u>271,181,229</u> | <u>270,718,977</u> | <u>271,249,367</u> |
| Basic earnings per share | <u>\$ 1.35</u> | <u>\$ 0.37</u> | <u>\$ 2.28</u> | <u>\$ 1.11</u> |
| Diluted earnings per share | <u>\$ 1.32</u> | <u>\$ 0.36</u> | <u>\$ 2.23</u> | <u>\$ 1.06</u> |

13. 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.

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

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

ACE Prime Holdings and ACE Cap Re USA Holdings, and their respective subsidiaries 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.

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

The income tax provision for the three and six months ended June 30, 2003 and 2002 is as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|----------------------|---------------------------------------|-----------------|-------------------------------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>(in thousands of U.S. dollars)</i> | | | |
| Current tax expense | \$17,046 | \$ 5,370 | \$ 23,719 | \$ 4,857 |
| Deferred tax expense | 71,123 | 15,306 | 116,880 | 39,735 |
| | \$88,169 | \$20,676 | \$140,599 | \$44,592 |

The weighted average expected tax provision has been calculated using pre-tax accounting income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. A reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate for the three and six months ended June 30, 2003 and 2002, is provided below.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---------------------------------------|-----------------|-------------------------------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>(in thousands of U.S. dollars)</i> | | | |
| Expected tax provision at weighted average rate | \$85,758 | \$19,237 | \$138,054 | \$43,792 |
| Permanent differences | | | | |
| Tax-exempt interest | (3,840) | (2,939) | (7,642) | (7,082) |
| Other | 1,964 | 586 | 1,454 | 561 |
| Goodwill | 525 | — | 1,050 | — |
| Net withholding taxes | 3,762 | 3,792 | 7,683 | 7,321 |
| | \$88,169 | \$20,676 | \$140,599 | \$44,592 |

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

The components of the net deferred tax asset at June 30, 2003 and December 31, 2002 are as follows:

| | June 30 2003 | December 31 2002 |
|--|--------------------------------|---------------------|
| | (in thousands of U.S. dollars) | |
| Deferred tax assets | | |
| Loss reserve discount | \$ 516,651 | \$ 500,061 |
| Unearned premium reserve | 117,413 | 94,566 |
| Foreign tax credits | 149,314 | 133,811 |
| Investments | 110,347 | 123,410 |
| Bad debts | 177,197 | 177,197 |
| Net operating loss carryforward | 438,371 | 518,879 |
| Other | 125,513 | 199,461 |
| | <u>1,634,806</u> | <u>1,747,385</u> |
| Deferred tax liabilities | | |
| Deferred policy acquisition costs | 154,585 | 148,811 |
| Unrealized appreciation on investments | 211,252 | 135,627 |
| Other | 39,702 | 39,372 |
| | <u>405,539</u> | <u>323,810</u> |
| Valuation allowance | <u>135,592</u> | <u>135,592</u> |
| Net deferred tax asset | <u>\$1,093,675</u> | <u>\$1,287,983</u> |

The valuation allowance of \$135.6 million at June 30, 2003 and December 31, 2002, reflects management's assessment, based on available information, that it is more likely than not that a portion of the deferred tax asset will not be realized due to the inability of certain foreign subsidiaries to generate sufficient taxable income. Adjustments to the valuation allowances are made when there is a change in management's assessment of the amount of deferred tax asset that is realizable.

At June 30, 2003, the Company has net operating loss carryforwards for U.S. federal income tax purposes of approximately \$1.3 billion. The net operating loss carryforwards are available to offset future U.S. federal taxable income and, if unutilized, will expire in the years 2018-2022.

14. 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") at June 30, 2003 and December 31, 2002 and for the three and six months ended June 30, 2003 and 2002. 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.

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

Condensed Consolidating Balance Sheet at June 30, 2003
(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 | \$ 146,901 | \$ 9,036,380 | \$ 1,183,199 | \$ 10,820,589 | \$ — | \$21,187,069 |
| Insurance and reinsurance balances receivable | — | 2,093,508 | 31,247 | 1,060,839 | — | 3,185,594 |
| Reinsurance recoverable | — | 11,730,757 | — | 2,160,161 | — | 13,890,918 |
| Goodwill | — | 2,130,908 | 96,723 | 483,199 | — | 2,710,830 |
| Investments in subsidiaries | 8,356,289 | — | 152,000 | (152,000) | (8,356,289) | — |
| Due from subsidiaries and affiliates, net | 309,520 | (112,975) | (50,668) | 163,643 | (309,520) | — |
| Other assets | 49,750 | 4,368,312 | 176,204 | 1,057,077 | — | 5,651,343 |
| Total assets | \$8,862,460 | \$29,246,890 | \$ 1,588,705 | \$ 15,593,508 | \$(8,665,809) | \$46,625,754 |
| Liabilities | | | | | | |
| Unpaid losses and loss expenses | \$ — | \$17,604,863 | \$ 83,228 | \$ 7,251,835 | \$ — | \$24,939,926 |
| Unearned premiums | — | 3,769,633 | 374,318 | 2,250,043 | — | 6,393,994 |
| Future policy benefits for life and annuity contracts | — | — | — | 469,927 | — | 469,927 |
| Short-term debt | — | 146,039 | — | — | — | 146,039 |
| Long-term debt | 499,366 | 999,703 | — | 250,000 | — | 1,749,069 |
| Trust preferred securities | — | 400,000 | 75,000 | — | — | 475,000 |
| Other liabilities | 184,990 | 2,768,005 | 189,670 | 1,131,030 | — | 4,273,695 |
| Total liabilities | 684,356 | 25,688,243 | 722,216 | 11,352,835 | — | 38,447,650 |
| Total shareholders' equity | 8,178,104 | 3,558,647 | 866,489 | 4,240,673 | (8,665,809) | 8,178,104 |
| Total liabilities and shareholders' equity | \$8,862,460 | \$29,246,890 | \$ 1,588,705 | \$ 15,593,508 | \$(8,665,809) | \$46,625,754 |

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

(2) Includes ACE Limited parent company eliminations.

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

Condensed Consolidating Balance Sheet at December 31, 2002
(in thousands of U.S. dollars)

| | ACE Limited (Parent Co. Guarantor) | ACE INA Holdings, Inc. (Subsidiary Issuer) | ACE Financial Services, Inc. (Subsidiary Issuer) | Other ACE Limited Subsidiaries and Eliminations ⁽¹⁾ | Consolidating Adjustments ⁽²⁾ | ACE Limited Consolidated |
|---|--|---|---|---|---|-----------------------------|
| Assets | | | | | | |
| Total investments and cash | \$ 77,506 | \$ 7,413,714 | \$ 1,023,777 | \$ 9,808,911 | \$ — | \$18,323,908 |
| Insurance and reinsurance balances receivable | — | 1,729,439 | 28,252 | 896,299 | — | 2,653,990 |
| Reinsurance recoverable | — | 11,616,228 | 11,420 | 2,363,805 | — | 13,991,453 |
| Goodwill | — | 2,130,908 | 96,723 | 489,229 | — | 2,716,860 |
| Investments in subsidiaries | 7,095,429 | — | 152,000 | (152,000) | (7,095,429) | — |
| Due from subsidiaries and affiliates, net | 162,314 | 50,967 | (49,681) | (1,286) | (162,314) | — |
| Other assets | 42,703 | 4,235,625 | 210,477 | 1,275,921 | — | 5,764,726 |
| Total assets | \$7,377,952 | \$27,176,881 | \$ 1,472,968 | \$ 14,680,879 | \$ (7,257,743) | \$43,450,937 |
| Liabilities | | | | | | |
| Unpaid losses and loss expenses | \$ — | \$17,057,979 | \$ 75,960 | \$ 7,181,243 | \$ — | \$24,315,182 |
| Unearned premiums | — | 3,233,614 | 352,551 | 1,999,359 | — | 5,585,524 |
| Future policy benefits for life and annuity contracts | — | — | — | 442,264 | — | 442,264 |
| Short-term debt | — | 145,940 | — | — | — | 145,940 |
| Long-term debt | 499,282 | 999,655 | — | 250,000 | — | 1,748,937 |
| Trust preferred securities | — | 400,000 | 75,000 | — | — | 475,000 |
| Other liabilities | 178,934 | 2,574,801 | 160,238 | 1,124,381 | — | 4,038,354 |
| Total liabilities | 678,216 | 24,411,989 | 663,749 | 10,997,247 | — | 36,751,201 |
| Mezzanine equity | 311,050 | — | — | — | — | 311,050 |
| Total shareholders' equity | 6,388,686 | 2,764,892 | 809,219 | 3,683,632 | (7,257,743) | 6,388,686 |
| Total liabilities, mezzanine equity and shareholders' equity | \$7,377,952 | \$27,176,881 | \$ 1,472,968 | \$ 14,680,879 | \$ (7,257,743) | \$43,450,937 |

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

(2) Includes ACE Limited parent company eliminations.

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

Condensed Consolidating Statement of Operations
For the three months ended June 30, 2003
(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 | \$ — | \$ 1,167,368 | \$ 100,400 | \$ 1,138,225 | \$ — | \$2,405,993 |
| Net premiums earned | — | 1,127,136 | 52,493 | 1,126,963 | — | 2,306,592 |
| Net investment income | 6,364 | 89,718 | 11,402 | 110,208 | (5,745) | 211,947 |
| Other income (expense) | — | (449) | — | 1,175 | — | 726 |
| Equity in earnings of subsidiaries | 406,799 | — | — | — | (406,799) | — |
| Net realized gains (losses) on investments | (5,370) | 53,110 | 12,428 | 46,393 | — | 106,561 |
| Losses and loss expenses | — | 778,039 | 15,762 | 665,578 | — | 1,459,379 |
| Life and annuity benefits | — | — | — | 43,559 | — | 43,559 |
| Policy acquisition costs and administrative expenses | 26,415 | 291,133 | 21,304 | 284,538 | (2,820) | 620,570 |
| Interest expense | 9,186 | 32,048 | 1,682 | 5,393 | (4,628) | 43,681 |
| Income tax expense | 1,724 | 55,450 | 10,966 | 20,029 | — | 88,169 |
| Net income | \$ 370,468 | \$ 112,845 | \$ 26,609 | \$ 265,642 | \$ (405,096) | \$ 370,468 |

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

| | ACE Limited (Parent Co. Guarantor) | ACE INA Holdings, Inc. (Subsidiary Issuer) | ACE Financial Services, Inc. (Subsidiary Issuer) | Other ACE Limited Subsidiaries and Eliminations ⁽¹⁾ | Consolidating Adjustments ⁽²⁾ | ACE Limited Consolidated |
|--|--|---|---|---|---|-----------------------------|
| Net premiums written | \$ — | \$ 988,125 | \$ 34,882 | \$ 852,371 | \$ — | \$1,875,378 |
| Net premiums earned | — | 759,974 | 26,708 | 789,025 | — | 1,575,707 |
| Net investment income | 12,626 | 80,066 | 11,961 | 104,089 | (7,938) | 200,804 |
| Other income (expense) | — | (11,071) | — | (997) | — | (12,068) |
| Equity in earnings of subsidiaries | 148,903 | — | — | — | (148,903) | — |
| Net realized losses on investments | (29,959) | (8,680) | (23,762) | (77,320) | — | (139,721) |
| Losses and loss expenses | — | 526,724 | 3,113 | 431,112 | — | 960,949 |
| Life and annuity benefits | — | — | — | 23,311 | — | 23,311 |
| Policy acquisition costs and administrative expenses | 18,985 | 208,972 | 12,709 | 224,149 | (881) | 463,934 |
| Interest expense | 6,436 | 39,006 | 3,238 | 5,415 | (2,143) | 51,952 |
| Income tax expense | 2,249 | 14,194 | (3,789) | 8,022 | — | 20,676 |
| Net income (loss) | \$ 103,900 | \$ 31,393 | \$ (364) | \$ 122,788 | \$ (153,817) | \$ 103,900 |

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

(2) Includes ACE Limited parent company eliminations.

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

Condensed Consolidating Statement of Operations
For the six months ended June 30, 2003
(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 | \$ — | \$ 2,580,396 | \$ 152,744 | \$ 2,602,905 | \$ — | \$5,336,045 |
| Net premiums earned | — | 2,103,194 | 87,503 | 2,187,427 | — | 4,378,124 |
| Net investment income | 11,796 | 175,229 | 22,803 | 219,898 | (11,367) | 418,359 |
| Other income (expense) | — | (1,449) | — | (3,979) | — | (5,428) |
| Equity in earnings of subsidiaries | 689,384 | — | — | — | (689,384) | — |
| Net realized gains (losses) on investments | (13,980) | 36,842 | 9,591 | 34,019 | — | 66,472 |
| Losses and loss expenses | — | 1,440,495 | 23,817 | 1,277,900 | — | 2,742,212 |
| Life and annuity benefits | — | — | — | 92,058 | — | 92,058 |
| Policy acquisition costs and administrative expenses | 46,351 | 541,940 | 36,560 | 555,535 | (4,250) | 1,176,136 |
| Interest expense | 19,526 | 65,018 | 3,369 | 10,854 | (10,157) | 88,610 |
| Income tax expense | 3,411 | 90,309 | 15,315 | 31,564 | — | 140,599 |
| Net income (loss) | <u>\$ 617,912</u> | <u>\$ 176,054</u> | <u>\$ 40,836</u> | <u>\$ 469,454</u> | <u>\$ (686,344)</u> | <u>\$ 617,912</u> |

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

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

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

(2) Includes ACE Limited parent company eliminations.

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

Condensed Consolidating Statement of Cash Flows
For the six months ended June 30, 2003
(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⁾ | ACE Limited Consolidated |
|---|--|---|--|---|-----------------------------|
| Net cash flows from (used for) operating activities | \$ (82,943) | \$ 693,843 | \$ 119,452 | \$ 848,551 | \$ 1,578,903 |
| Cash flows from investing activities | | | | | |
| Purchases of fixed maturities | (105,686) | (3,216,333) | (243,478) | (5,898,357) | (9,463,854) |
| Purchases of equity securities | — | (42,850) | — | (22,207) | (65,057) |
| Sales of fixed maturities | 60,133 | 1,677,681 | 131,695 | 5,383,557 | 7,253,066 |
| Sales of equity securities | — | 35,048 | — | 27,796 | 62,844 |
| Maturities of fixed maturities | — | — | 3,000 | 91,612 | 94,612 |
| Net realized gains (losses) on investment derivatives | (14,642) | — | — | 19,891 | 5,249 |
| Other | — | (38,233) | — | 2,417 | (35,816) |
| Net cash flows from (used for) investing activities | \$ (60,195) | \$(1,584,687) | \$ (108,783) | \$ (395,291) | \$(2,148,956) |
| Cash flows from financing activities | | | | | |
| Dividends paid on Ordinary Shares | (92,688) | — | — | — | (92,688) |
| Dividends paid on Mezzanine equity | (9,773) | — | — | — | (9,773) |
| Net proceeds from issuance of preferred shares | 556,887 | — | — | — | 556,887 |
| Proceeds from short-term debt, net | — | 99 | — | — | 99 |
| Advances to (from) affiliates | 32,289 | — | — | (32,289) | — |
| Proceeds from exercise of options for Ordinary Shares | 24,551 | — | — | — | 24,551 |
| Proceeds from Ordinary Shares issued under ESPP | 3,396 | — | — | — | 3,396 |
| Capitalization of subsidiaries | (653,407) | 662,759 | — | (9,352) | — |
| Dividends received from subsidiaries | 306,000 | — | — | (306,000) | — |
| Net cash flows from (used for) financing activities | \$ 167,255 | \$ 662,858 | \$ — | \$ (347,641) | 482,472 |
| Net increase (decrease) in cash | 24,117 | (227,986) | 10,669 | 105,619 | (87,581) |
| Cash—beginning of period | 2,150 | 478,161 | 4,438 | 178,606 | 663,355 |
| Cash—end of period | \$ 26,267 | \$ 250,175 | \$ 15,107 | \$ 284,225 | \$ 575,774 |

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

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

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

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

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

ACE LIMITED SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
(Unaudited)

15. Segment information

The Company operates through four business segments: Insurance—North American, Insurance—Overseas General, Global Reinsurance and Financial Services. These segments distribute their products through various forms of brokers and agencies. Insurance - North American, Insurance—Overseas General and Global Reinsurance utilize direct marketing programs to reach clients, while Financial Services operates with major U.S. financial guaranty insurers, mortgage guaranty insurers in the U.S., U.K. and Australia, title insurers and European trade credit insurers. Additionally, Insurance—North American has formed Internet distribution channels for some of its products and Global Reinsurance and Financial Services have established relationships with reinsurance intermediaries.

The Insurance—North American segment includes the operations of ACE USA, ACE Canada and ACE Bermuda, excluding the financial solutions business in both the U.S. and Bermuda, which are included in the Financial Services segment. ACE USA comprises the U.S. and Canadian operations of ACE INA, which were acquired in 1999 and the operations of ACE US Holdings, which were acquired in 1998. These operations provide a broad range of property and casualty insurance and reinsurance products, including excess liability, excess property, professional lines, aerospace, accident and health coverages and claim and risk management products and services, to a diverse group of commercial and non-commercial enterprises and consumers. The operations of ACE USA also include the run-off operations, which include Brandywine, Commercial Insurance Services, residual market workers' compensation business, pools and syndicates not attributable to a single business group, the run-off of open market facilities and the run-off results of various other smaller exited lines of business. Run-off operations do not actively sell insurance products, but are responsible for the management of existing policies and related claims.

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

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

The Financial Services segment includes the financial guaranty business of ACE Guaranty Corp. and ACE Capital Re International and the financial solutions business in the U.S. and Bermuda. The financial guaranty businesses serve the U.S. domestic and international financial guaranty insurance and reinsurance markets. Their principal business is the insurance and reinsurance of investment grade public finance and asset-backed debt issues (insured and ceded by the primary bond insurance companies), and insurance and reinsurance of credit-default swaps. In addition to financial guaranty business, the companies provide trade credit reinsurance and highly structured solutions to problems of financial and risk management through reinsurance and other forms of credit enhancement products, as well as mortgage guaranty reinsurance and title reinsurance. The financial solutions business includes insurance and reinsurance solutions to complex risks that generally cannot be adequately addressed by the traditional insurance marketplace. It consists of securitization and risk trading, finite and structured risk products, and retroactive contracts in the form of loss portfolio transfers.

- a) The following tables summarize the operations by segment for the three and six months ended June 30, 2003 and 2002.
- b) For segment reporting purposes, certain items have been presented in a different manner than in the consolidated financial statements. For segment reporting purposes, net realized gains (losses) and the tax of net realized gains (losses) have been shown separately.

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

Statement of Operations by Segment
For the three months ended June 30, 2003
(in thousands of U.S. Dollars)

| | Insurance— North American | Insurance— Overseas General | Global Reinsurance | Corporate and Other ⁽¹⁾ | Consolidated Property & Casualty ⁽²⁾ | Financial Services | ACE Consolidated |
|--|---------------------------------|-----------------------------------|-----------------------|--|---|-----------------------|---------------------|
| Operations Data | | | | | | | |
| Gross premiums written | \$1,648,210 | \$1,243,884 | \$ 349,194 | \$ — | \$3,241,288 | \$117,330 | \$3,358,618 |
| Net premiums written | 968,735 | 916,290 | 345,414 | — | 2,230,439 | 132,034 | 2,362,473 |
| Net premiums earned | 919,787 | 860,142 | 269,351 | — | 2,049,280 | 215,023 | 2,264,303 |
| Losses and loss expenses | 636,569 | 518,617 | 143,122 | — | 1,298,308 | 161,071 | 1,459,379 |
| Policy acquisition costs | 100,686 | 162,581 | 50,764 | — | 314,031 | 16,709 | 330,740 |
| Administrative expenses | 102,091 | 120,975 | 14,330 | 28,597 | 265,993 | 20,423 | 286,416 |
| Underwriting income (loss) | 80,441 | 57,969 | 61,135 | (28,597) | 170,948 | 16,820 | 187,768 |
| <i>Life</i> | | | | | | | |
| Gross premiums written | — | — | 46,300 | — | — | — | 46,300 |
| Net premiums written | — | — | 43,520 | — | — | — | 43,520 |
| Net premiums earned | — | — | 42,289 | — | — | — | 42,289 |
| Life and annuity benefits | — | — | 43,559 | — | — | — | 43,559 |
| Policy acquisition costs | — | — | 2,542 | — | — | — | 2,542 |
| Administrative expenses | — | — | 872 | — | — | — | 872 |
| Net investment income | — | — | 8,006 | — | — | — | 8,006 |
| Underwriting income | — | — | 3,322 | — | — | — | 3,322 |
| Net investment income | 103,610 | 37,443 | 21,115 | (7,543) | 154,625 | 49,316 | 203,941 |
| Other income (expense) | 174 | (293) | 255 | — | 136 | 590 | 726 |
| Interest expense | 7,357 | 520 | — | 34,078 | 41,955 | 1,726 | 43,681 |
| Income tax expense (benefit) | 42,901 | 24,430 | 3,778 | (13,069) | 58,040 | 7,783 | 65,823 |
| Income (loss) excluding net realized gains (losses) | 133,967 | 70,169 | 82,049 | (57,149) | 225,714 | 57,217 | 286,253 |
| Net realized gains (losses) | 24,923 | 1,077 | 13,310 | (5,370) | 33,940 | 72,621 | 106,561 |
| Tax effect of net realized gains (losses) | (2,681) | 103 | 292 | — | (2,286) | (20,060) | (22,346) |
| Net income (loss) | \$ 156,209 | \$ 71,349 | \$ 95,651 | \$(62,519) | \$ 257,368 | \$109,778 | \$ 370,468 |

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

(2) Excludes life reinsurance business.

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

Statement of Operations by Segment
For the three months ended June 30, 2002
(in thousands of U.S. Dollars)

| | Insurance— North American | Insurance— Overseas General | Global Reinsurance | Corporate and Other ⁽¹⁾ | Consolidated Property & Casualty ⁽²⁾ | Financial Services | ACE Consolidated |
|--|---------------------------------|-----------------------------------|-----------------------|--|---|-----------------------|---------------------|
| Operations Data | | | | | | | |
| Gross premiums written | \$1,427,608 | \$ 941,103 | \$ 214,209 | \$ — | \$2,582,920 | \$318,322 | \$2,901,242 |
| Net premiums written | 718,301 | 616,378 | 197,510 | — | 1,532,189 | 316,518 | 1,848,707 |
| Net premiums earned | 605,985 | 565,339 | 149,921 | — | 1,321,245 | 228,153 | 1,549,398 |
| Losses and loss expenses | 396,135 | 345,313 | 52,491 | — | 793,939 | 167,010 | 960,949 |
| Policy acquisition costs | 50,346 | 127,838 | 29,217 | — | 207,401 | 21,876 | 229,277 |
| Administrative expenses | 86,612 | 87,857 | 9,430 | 27,110 | 211,009 | 16,922 | 227,931 |
| Underwriting income (loss) | 72,892 | 4,331 | 58,783 | (27,110) | 108,896 | 22,345 | 131,241 |
| <i>Life</i> | | | | | | | |
| Gross premiums written | — | — | 27,713 | — | — | — | 27,713 |
| Net premiums written | — | — | 26,671 | — | — | — | 26,671 |
| Net premiums earned | — | — | 26,309 | — | — | — | 26,309 |
| Life and annuity benefits | — | — | 23,311 | — | — | — | 23,311 |
| Policy acquisition costs | — | — | 4,931 | — | — | — | 4,931 |
| Administrative expenses | — | — | 1,795 | — | — | — | 1,795 |
| Net investment income | — | — | 5,930 | — | — | — | 5,930 |
| Underwriting income | — | — | 2,202 | — | — | — | 2,202 |
| Net investment income | 103,383 | 27,615 | 18,717 | (960) | 148,755 | 46,119 | 194,874 |
| Other income (expense) | (674) | 22 | — | (11,071) | (11,723) | (345) | (12,068) |
| Interest expense | 8,080 | 479 | — | 40,115 | 48,674 | 3,278 | 51,952 |
| Income tax expense (benefit) | 41,134 | 4,987 | 1,858 | (20,720) | 27,259 | 7,927 | 35,186 |
| Income (loss) excluding net realized gains (losses) | 126,387 | 26,502 | 77,844 | (58,536) | 169,995 | 56,914 | 229,111 |
| Net realized gains (losses) | (32,136) | (5,962) | (26,560) | (29,959) | (94,617) | (45,104) | (139,721) |
| Tax effect of net realized gains (losses) | 3,550 | 1,576 | 121 | — | 5,247 | 9,263 | 14,510 |
| Net income (loss) | \$ 97,801 | \$ 22,116 | \$ 51,405 | \$(88,495) | \$ 80,625 | \$ 21,073 | \$ 103,900 |

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

(2) Excludes life reinsurance business.

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

Statement of Operations by Segment
For the six months ended June 30, 2003
(in thousands of U.S. Dollars)

| | Insurance— North American | Insurance— Overseas General | Global Reinsurance | Corporate and Other ⁽¹⁾ | Consolidated Property & Casualty ⁽²⁾ | Financial Services | ACE Consolidated |
|--|---------------------------------|-----------------------------------|-----------------------|--|---|-----------------------|---------------------|
| Operations Data | | | | | | | |
| Gross premiums written | \$3,312,394 | \$2,649,742 | \$ 811,184 | \$ — | \$6,773,320 | \$649,401 | \$7,422,721 |
| Net premiums written | 1,902,080 | 1,897,213 | 788,158 | — | 4,587,451 | 657,763 | 5,245,214 |
| Net premiums earned | 1,672,768 | 1,673,845 | 517,397 | — | 3,864,010 | 424,264 | 4,288,274 |
| Losses and loss expenses | 1,148,928 | 1,012,215 | 258,912 | — | 2,420,055 | 322,157 | 2,742,212 |
| Policy acquisition costs | 183,739 | 314,807 | 96,860 | — | 595,406 | 27,686 | 623,092 |
| Administrative expenses | 189,454 | 235,141 | 29,293 | 53,043 | 506,931 | 38,440 | 545,371 |
| Underwriting income (loss) | 150,647 | 111,682 | 132,332 | (53,043) | 341,618 | 35,981 | 377,599 |
| <i>Life</i> | | | | | | | |
| Gross premiums written | — | — | 94,961 | — | — | — | 94,961 |
| Net premiums written | — | — | 90,831 | — | — | — | 90,831 |
| Net premiums earned | — | — | 89,850 | — | — | — | 89,850 |
| Life and annuity benefits | — | — | 92,058 | — | — | — | 92,058 |
| Policy acquisition costs | — | — | 6,084 | — | — | — | 6,084 |
| Administrative expenses | — | — | 1,589 | — | — | — | 1,589 |
| Net investment income | — | — | 15,647 | — | — | — | 15,647 |
| Underwriting income | — | — | 5,766 | — | — | — | 5,766 |
| Net investment income | 206,368 | 72,997 | 39,795 | (16,875) | 302,285 | 100,427 | 402,712 |
| Other income (expense) | (6,269) | (1,293) | 1,286 | — | (6,276) | 848 | (5,428) |
| Interest expense | 14,900 | 866 | 72 | 69,201 | 85,039 | 3,571 | 88,610 |
| Income tax expense (benefit) | 81,574 | 47,812 | 7,509 | (27,127) | 109,768 | 16,858 | 126,626 |
| Income (loss) excluding net realized gains (losses) | 254,272 | 134,708 | 171,598 | (111,992) | 442,820 | 116,827 | 565,413 |
| Net realized gains (losses) | 6,858 | (11,435) | 16,176 | (13,980) | (2,381) | 68,853 | 66,472 |
| Tax effect of net realized gains (losses) | 68 | 5,172 | 540 | — | 5,780 | (19,753) | (13,973) |
| Net income (loss) | \$ 261,198 | \$ 128,445 | \$ 188,314 | \$(125,972) | \$ 446,219 | \$165,927 | \$ 617,912 |

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

(2) Excludes life reinsurance business.

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

Statement of Operations by Segment
For the six months ended June 30, 2002
(in thousands of U.S. Dollars)

| | Insurance— North American | Insurance— Overseas General | Global Reinsurance | Corporate and Other ⁽¹⁾ | Consolidated Property & Casualty ⁽²⁾ | Financial Services | ACE Consolidated |
|--|---------------------------------|-----------------------------------|-----------------------|--|---|-----------------------|---------------------|
| Operations Data | | | | | | | |
| Gross premiums written | \$2,692,686 | \$1,903,375 | \$ 588,175 | \$ — | \$5,184,236 | \$805,954 | \$5,990,190 |
| Net premiums written | 1,231,164 | 1,230,586 | 551,832 | — | 3,013,582 | 792,874 | 3,806,456 |
| Net premiums earned | 1,078,931 | 1,074,584 | 264,826 | — | 2,418,341 | 462,454 | 2,880,795 |
| Losses and loss expenses | 723,632 | 637,073 | 91,679 | — | 1,452,384 | 361,710 | 1,814,094 |
| Policy acquisition costs | 92,328 | 241,523 | 45,669 | — | 379,520 | 40,419 | 419,939 |
| Administrative expenses | 157,573 | 174,455 | 15,880 | 49,320 | 397,228 | 27,067 | 424,295 |
| Underwriting income (loss) | 105,398 | 21,533 | 111,598 | (49,320) | 189,209 | 33,258 | 222,467 |
| <i>Life</i> | | | | | | | |
| Gross premiums written | — | — | 56,911 | — | — | — | 56,911 |
| Net premiums written | — | — | 54,950 | — | — | — | 54,950 |
| Net premiums earned | — | — | 54,721 | — | — | — | 54,721 |
| Life and annuity benefits | — | — | 46,307 | — | — | — | 46,307 |
| Policy acquisition costs | — | — | 12,064 | — | — | — | 12,064 |
| Administrative expenses | — | — | 2,634 | — | — | — | 2,634 |
| Net investment income | — | — | 12,197 | — | — | — | 12,197 |
| Underwriting income | — | — | 5,913 | — | — | — | 5,913 |
| Net investment income | 205,301 | 48,590 | 42,900 | (2,925) | 293,866 | 94,876 | 388,742 |
| Other income (expense) | (20) | 3,822 | — | (11,071) | (7,269) | — | (7,269) |
| Interest expense | 16,692 | 921 | 227 | 72,860 | 90,700 | 7,254 | 97,954 |
| Income tax expense (benefit) | 74,066 | 12,538 | 1,951 | (38,564) | 49,991 | 16,942 | 66,933 |
| Income (loss) excluding net realized gains (losses) | 219,921 | 60,486 | 158,233 | (97,612) | 335,115 | 103,938 | 444,966 |
| Net realized gains (losses) | (51,446) | (11,175) | (30,643) | (22,684) | (115,948) | (49,654) | (165,602) |
| Tax effect of net realized gains (losses) | 11,721 | 2,778 | 160 | — | 14,659 | 7,682 | 22,341 |
| Net income (loss) | \$ 180,196 | \$ 52,089 | \$ 127,750 | \$(120,296) | \$ 233,826 | \$ 61,966 | \$ 301,705 |

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

(2) Excludes life reinsurance business.

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

The following tables summarize the revenues of each segment by product offering for the three and six months ended June 30, 2003 and 2002.

Net premiums earned by type of premium

Three Months Ended June 30, 2003

| | Property & Casualty | Life, Accident & Health | Financial Guaranty | Financial Solutions | ACE Consolidated |
|----------------------------|-------------------------------|----------------------------|-----------------------|------------------------|---------------------|
| | (in millions of U.S. dollars) | | | | |
| Insurance—North American | \$ 893 | \$ 27 | \$ — | \$ — | \$ 920 |
| Insurance—Overseas General | 673 | 187 | — | — | 860 |
| Global Reinsurance | 269 | 42 | — | — | 311 |
| Financial Services | — | — | 82 | 133 | 215 |
| | <u>\$ 1,835</u> | <u>\$ 256</u> | <u>\$ 82</u> | <u>\$ 133</u> | <u>\$ 2,306</u> |

Three Months Ended June 30, 2002

| | Property & Casualty | Life, Accident & Health | Financial Guaranty | Financial Solutions | ACE Consolidated |
|----------------------------|-------------------------------|----------------------------|-----------------------|------------------------|---------------------|
| | (in millions of U.S. dollars) | | | | |
| Insurance—North American | \$ 586 | \$ 20 | \$ — | \$ — | \$ 606 |
| Insurance—Overseas General | 433 | 133 | — | — | 566 |
| Global Reinsurance | 150 | 26 | — | — | 176 |
| Financial Services | — | — | 81 | 147 | 228 |
| | <u>\$ 1,169</u> | <u>\$ 179</u> | <u>\$ 81</u> | <u>\$ 147</u> | <u>\$ 1,576</u> |

Six Months Ended June 30, 2003

| | Property & Casualty | Life, Accident & Health | Financial Guaranty | Financial Solutions | ACE Consolidated |
|----------------------------|-------------------------------|----------------------------|-----------------------|------------------------|---------------------|
| | (in millions of U.S. dollars) | | | | |
| Insurance—North American | \$ 1,616 | \$ 57 | \$ — | \$ — | \$ 1,673 |
| Insurance—Overseas General | 1,306 | 368 | — | — | 1,674 |
| Global Reinsurance | 517 | 90 | — | — | 607 |
| Financial Services | — | — | 160 | 264 | 424 |
| | <u>\$ 3,439</u> | <u>\$ 515</u> | <u>\$ 160</u> | <u>\$ 264</u> | <u>\$ 4,378</u> |

Six Months Ended June 30, 2002

| | Property & Casualty | Life, Accident & Health | Financial Guaranty | Financial Solutions | ACE Consolidated |
|----------------------------|-------------------------------|----------------------------|-----------------------|------------------------|---------------------|
| | (in millions of U.S. dollars) | | | | |
| Insurance—North American | \$ 1,036 | \$ 43 | \$ — | \$ — | \$ 1,079 |
| Insurance—Overseas General | 818 | 257 | — | — | 1,075 |
| Global Reinsurance | 265 | 55 | — | — | 320 |
| Financial Services | — | — | 155 | 307 | 462 |
| | <u>\$ 2,119</u> | <u>\$ 355</u> | <u>\$ 155</u> | <u>\$ 307</u> | <u>\$ 2,936</u> |



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

The following table summarizes the identifiable assets for the property and casualty underwriting operations, including the Financial Services segment, the life reinsurance operations and corporate holding companies, including ACE Limited and ACE INA Holdings at June 30, 2003 and December 31, 2002.

| | June 30 | December 31 |
|-----------------------|--------------------------------------|--------------------|
| | 2003 | 2002 |
| | (in millions of U.S. dollars) | |
| Property and casualty | \$ 43,534 | \$ 40,651 |
| Life reinsurance | 682 | 610 |
| Corporate | 2,410 | 2,190 |
| | _____ | _____ |
| Total assets | \$ 46,626 | \$ 43,451 |
| | _____ | _____ |

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

The following is a discussion of our results of operations, financial condition, and liquidity and capital resources as of and for the three and six months ended June 30, 2003. Our results of operations and cash flows for any interim period are not necessarily indicative of our results for the full year. This discussion should be read in conjunction with our consolidated financial statements and related notes and our Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2002.

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 our behalf may include forward-looking statements which reflect our current views with respect to future events and financial performance. These forward-looking statements are subject to certain uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other factors (which are described in more detail elsewhere herein and in other documents we file with the Securities and Exchange Commission (SEC)) include, but are not limited to:

- global political conditions, the occurrence of any terrorist attacks, including any nuclear, biological or chemical events, or the outbreak and effects of war, and possible business disruption or economic contraction that may result from such events;
- the effects of public company bankruptcies and/or accounting restatements, as well as disclosures by and investigations of public companies relating to possible accounting irregularities, and other corporate governance issues, including the effects of such events on:
 - the capital markets;
 - the markets for directors and officers and errors and omissions insurance; and
 - claims and litigation arising out of such disclosures or practices by other companies;
- the ability to collect reinsurance recoverable, credit developments of reinsurers and any delays with respect thereto;
- the occurrence of catastrophic events or other insured or reinsured events with a frequency or severity exceeding our estimates;
- actual loss experience from insured or reinsured events;
- the uncertainties of the loss reserving and claims settlement processes, including the difficulties associated with assessing environmental damage and asbestos-related latent injuries, the impact of aggregate policy coverage limits and the impact of bankruptcy protection sought by various asbestos producers and other related businesses;
- judicial decisions and rulings, new theories of liability and legal tactics;
- the impact of the September 11 tragedy and its aftermath on our insureds and reinsureds, on the insurance and reinsurance industry, and on the economy in general;
- uncertainties relating to governmental, legislative and regulatory policies, developments and treaties, which, among other things, could affect coverage and liability for asbestos claims, subject us to insurance regulation or taxation in additional jurisdictions or affect our current operations;
- the actual amount of new and renewal business, market acceptance of our products, and risks associated with the introduction of new products and services and entering new markets;
- the competitive environment in which we operate, including trends in pricing or in policy terms and conditions, which may differ from our projections;
- actions that rating agencies may take from time to time, such as changes in our claims-paying, financial strength or credit ratings;
- developments in global financial markets, including changes in interest rates, stock markets and other financial markets, and foreign currency exchange rate fluctuations, which could affect our investment portfolio and financing plans;
- changing rates of inflation and other economic conditions;
- the amount of dividends received from subsidiaries;
- loss of the services of any of our executive officers without suitable replacements being recruited in a reasonable time frame;
- the ability of technology to perform as anticipated; and
- management's response to these factors.

The words "believe", "anticipate", "estimate", "project", "should", "plan", "expect", "intend", "hope", "will likely result" or "will continue", and variations thereof and similar expressions, identify forward-looking statements. Readers are cautioned not to place

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undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future events or otherwise.

Critical Accounting Policies

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

- unpaid losses and loss expense reserves, including asbestos reserves;
- reinsurance recoverable, including our bad debt provision;
- impairments to the fair value of our investment portfolio;
- the fair value of certain derivatives; and
- the valuation of goodwill.

We believe our accounting policies for these items are of critical importance to our consolidated financial statements. More information regarding the estimates and assumptions required to arrive at these amounts is included in our Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2002.

Results of Operations—Three and Six Months Ended June 30, 2003 and 2002

Consolidated Operating Results

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|-------------------------------|-------------------------------|---------|-----------------------------|---------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions of U.S. dollars) | | | |
| Gross premiums written | \$3,405 | \$2,929 | \$7,518 | \$6,047 |
| Net premiums written | 2,406 | 1,875 | 5,336 | 3,861 |
| Net premiums earned | 2,306 | 1,576 | 4,378 | 2,936 |
| Losses and loss expenses | 1,459 | 961 | 2,742 | 1,814 |
| Life and annuity benefits | 44 | 23 | 92 | 46 |
| Policy acquisition costs | 334 | 234 | 630 | 432 |
| Administrative expenses | 287 | 231 | 547 | 428 |
| Underwriting income | \$ 182 | \$ 127 | \$ 367 | \$ 216 |
| Net investment income | 211 | 201 | 417 | 401 |
| Net realized gains (losses) | 107 | (140) | 67 | (166) |
| Other income (expense) | 1 | (12) | (5) | (7) |
| Interest expense | 43 | 52 | 88 | 98 |
| Income tax expense | 87 | 20 | 140 | 44 |
| Net income | \$ 371 | \$ 104 | \$ 618 | \$ 302 |
| Loss and loss expense ratio | 64.5% | 62.0% | 63.9% | 63.0% |
| Policy acquisition cost ratio | 14.6% | 14.8% | 14.5% | 14.5% |
| Administrative expense ratio | 12.6% | 14.7% | 12.7% | 14.7% |
| Combined ratio | 91.7% | 91.5% | 91.1% | 92.2% |

Gross premiums written increased 16 percent and 24 percent for the three and six months ended June 30, 2003, respectively, compared with the same periods in 2002. Gross premiums written reflect the premiums paid by our customers to secure insurance or reinsurance protection from us. Gross premiums written in our property and casualty businesses (P&C) increased 25 percent and 31 percent for the three and six months ended June 30, 2003, respectively while our Financial Services business had decreases of 63 percent and 19 percent, respectively. Insurance and reinsurance rates in the P&C market increased steadily throughout 2002 and have

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continued to do so through the first six months of 2003. Property rates in the U.S. have stabilized in 2003, while property rates in Europe continue to increase. We believe the property catastrophe reinsurance market has also now stabilized due to the absorption of new capacity and adequate levels of pricing in most areas. We believe casualty rates will continue to rise for the remainder of 2003. Demand for new products we offer has been good and contributed to the growth in premiums in 2003. Terrorism coverage has been modest and largely limited to insureds that seek the coverage to meet third-party requirements.

Net premiums written, which reflect the premiums we retain after purchasing reinsurance protection, increased 28 percent and 38 percent for the three and six months ended June 30, 2003, respectively. Net premiums written in our P&C businesses increased 46 percent and 52 percent for the three and six months ended June 30, 2003, respectively while our Financial Services business had decreases of 58 percent and 17 percent, respectively. Our net premiums written are growing more than our gross written premiums as we are retaining more of the business we write.

Net premiums earned, which reflect the portion of net premiums written that were recorded as revenues for the period, increased 46 percent and 49 percent for the three and six months ended June 30, 2003, respectively. Net premiums earned in our P&C businesses increased 55 percent and 60 percent for the three and six months ended June 30, 2003, respectively while our Financial Services business had decreases of four percent and nine percent, respectively. The growth in earned premiums is a result of the growth in net premiums written.

Underwriting results for our P&C and Financial Services business are discussed by reference to the combined ratio, the loss and loss expense ratio, the policy acquisition cost ratio, and the administrative expense ratio. We calculate these ratios by dividing the respective expense amounts of our P&C and Financial Services business by net premiums earned from our P&C and Financial Services business. We do not calculate these ratios for the life reinsurance business, because they are not appropriate measures of the underwriting results for that business. The combined ratio is determined by adding the loss and loss expense ratio, the policy acquisition cost ratio and the administrative expense ratio. A combined ratio under 100 percent indicates underwriting income, and a combined ratio exceeding 100 percent indicates underwriting losses.

Despite rate increases over the past 12 months in many of our lines of businesses, our loss and loss expense ratio is relatively unchanged from last year. This is due in part to changes in the mix of business written. We have taken advantage of increasing rates and market opportunities and most of these opportunities are in the casualty insurance and reinsurance areas, where rate increases are accelerating. Casualty business is typically written at higher loss ratios than property business because the loss settlement period for casualty business is longer in duration, and thus we earn more investment income on premiums invested. We have also increased our loss ratio assumptions over the past year in some of our casualty lines in connection with increases we have made in our retained risk levels. Also impacting our loss and loss expense ratio to a lesser degree is adverse prior period development. For the three months ended June 30, 2003 and 2002, we had adverse prior period development of \$12 million and \$19 million, respectively. For the six months ended June 30, 2003 and 2002 adverse prior period development was \$46 million and \$65 million, respectively. Our segment discussions below contain more information about prior period development.

Our policy acquisition costs include commissions, premium taxes, underwriting and other costs that vary with, and are primarily related to, the production of premium. The policy acquisition cost ratio, which can be influenced by changes in the mix of business written, was relatively stable compared with last year. Administrative expenses include all other operating costs. Administrative expenses increased to support the growth in our business and partially due to the depreciation of the U.S. dollar, which had the effect of increasing administrative expenses for Insurance—Overseas General. The administrative expense ratio has improved for the three and six months ended June 30, 2003 due to the significant increase in net premiums earned.

As discussed later in this report, net investment income increased for the three and six months ended June 30, 2003, due to higher average invested assets.

Our net income increased \$267 million and \$316 million for the three and six months ended June 30, 2003, respectively. This increase is a result of the substantial increase in net premiums earned, a stable loss and loss expense ratio and net realized gains during the first six months of 2003.

Segment Operating Results—Three and Six Months Ended June 30, 2003 and 2002

The performance of our management for the P&C and Financial Services segments are measured based on the results achieved in underwriting income and income excluding net realized gains (losses).

Insurance—North American

The Insurance—North American segment comprises our P&C insurance operations in the U.S., Bermuda and Canada. Our Insurance—North American segment writes a variety of insurance products including property, liability (general liability and workers' compensation), professional lines (directors and officers (D&O) and errors and omissions coverages (E&O)), marine, program business, accident and health (A&H), warranty, aerospace, consumer-oriented products and other specialty lines.

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| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|---------|-----------------------------|---------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions of U.S. dollars) | | | |
| Gross premiums written | \$1,648 | \$1,428 | \$3,312 | \$2,693 |
| Net premiums written | 969 | 718 | 1,902 | 1,231 |
| Net premiums earned | 920 | 606 | 1,673 | 1,079 |
| Losses and loss expenses | 637 | 396 | 1,149 | 723 |
| Policy acquisition costs | 101 | 50 | 184 | 92 |
| Administrative expenses | 102 | 87 | 190 | 158 |
| Underwriting income | \$ 80 | \$ 73 | \$ 150 | \$ 106 |
| Net investment income | 103 | 103 | 206 | 205 |
| Other income (expense) | — | (1) | (6) | — |
| Interest expense | 7 | 8 | 15 | 17 |
| Income tax expense | 42 | 41 | 81 | 74 |
| Income (loss) excluding net realized gains (losses) | \$ 134 | \$ 126 | \$ 254 | \$ 220 |
| Net realized gains (losses) | 25 | (32) | 7 | (52) |
| Tax effect of net realized gains (losses) | (3) | 4 | — | 12 |
| Net income | \$ 156 | \$ 98 | \$ 261 | \$ 180 |
| Loss and loss expense ratio | 69.2% | 65.4% | 68.7% | 67.1% |
| Policy acquisition cost ratio | 10.9% | 8.3% | 11.0% | 8.5% |
| Administrative expense ratio | 11.1% | 14.3% | 11.3% | 14.6% |
| Combined ratio | 91.2% | 88.0% | 91.0% | 90.2% |

Insurance—North American increased gross premiums written 15 percent and 23 percent for the three and six months ended June 30, 2003, respectively, compared with the same periods in 2002. Rates for longer-tail U.S. casualty lines continue to rise but, with the exception of professional risk coverage, at a lower pace than in 2002. Rates for property and other shorter tailed lines of business in the U.S. have stabilized following substantial increases over the past two years.

ACE USA's gross premiums written increased 14 percent to \$1.5 billion and 21 percent to \$3 billion for the three and six months ended June 30, 2003, respectively, compared with same periods in 2002. These increases are attributed in part to new business and higher rates on renewal casualty business, generally with favorable changes in policy terms and conditions. Diversified Risk, which writes D&O, E&O, professional risk and aviation business, reported strong demand for its products with renewal rate increases for the six months ended June 30, 2003 averaging 37 percent. With a large proportion of its business in the property lines, ACE Westchester Specialty still managed to increase gross premiums written by 11 percent in the current quarter by increasing crop and casualty coverages. We expect demand for casualty business to remain strong for the remainder of 2003, as low interest rates discourage new competing capacity. ACE Global Accident and Health also contributed to ACE USA's increased production, reporting a 127 percent increase in gross premiums written to \$123 million for the six months ended June 30, 2003. ACE Risk Management (ARM) reported a slight decline in gross premiums written to \$795 million for the six months ended June 30, 2003 compared with \$802 million for the same period in 2002. This decline is primarily related to group casualty business being placed into run-off.

ACE Bermuda's gross premiums written increased 27 percent to \$143 million and 42 percent to \$284 million for the three and six months ended June 30, 2003, compared with the same periods in 2002. Driving these increases primarily are the professional lines and excess liability business which together comprise 70 percent of ACE Bermuda's gross premiums written for the six months ended June 30, 2003. ACE Bermuda benefited from both higher renewal rates and increased volume of new business on both these lines, partially offset by a decline in excess property business.

Net premiums written increased at a significantly higher rate than gross premiums written for the three and six months ended June 30, 2003. ACE USA and ACE Bermuda have both retained more of their gross premiums written in order to take advantage of improved market conditions for rates and terms. The retention ratio (the ratio of net premiums written to gross premiums written) for Insurance—North American increased to 57 percent for the six months ended June 30, 2003, compared with 46 percent for the same period in 2002. Additionally, ARM has shifted its business mix away from heavily reinsured group casualty business and has increased retention of corporate risk business.

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The loss and loss expense ratio has increased for the three and six months ended June 30, 2003 compared with the same periods in 2002. This increase is the result of a more normalized loss and loss expense ratio for property business, writing more casualty business which typically has higher loss ratios than property business and also the increase in the retention ratio. Additionally, Insurance—North American incurred adverse prior period development of \$22 million and \$5 million for the three months ended June 30, 2003 and 2002, respectively. This was primarily due to the ARM business including a \$6 million loss attributed to a recent unexpected arbitration decision, adverse development in casualty, warranty and lines of business in run-off. For the six months ended June 30, 2003 and 2002, Insurance—North American experienced adverse prior period development of \$47 million and \$18 million, respectively, primarily due to casualty lines.

The policy acquisition cost ratio increased for the three and six months ended June 30, 2003 compared with the same periods in 2002. This increase is due to the increase in production and additionally because of our decision to purchase less reinsurance, which has resulted in reduced ceding commissions for ACE USA. The administrative expense ratio declined due to the increase in net premiums earned. Administrative expenses increased mainly due to the increased costs associated with servicing the growth in Insurance—North American's product lines.

Income excluding net realized gains (losses) increased six percent and 15 percent for the three and six months ended June 30, 2003.

Insurance—Overseas General

The Insurance—Overseas General segment comprises ACE International, our network of indigenous insurance operations, and the insurance operations of ACE Global Markets, our Lloyd's operation. The Insurance—Overseas General segment writes a variety of insurance products including property, liability, financial lines (D&O and E&O), marine, A&H, aerospace and consumer-oriented products.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|--------|-----------------------------|---------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions of U.S. dollars) | | | |
| Gross premiums written | \$1,244 | \$ 941 | \$2,650 | \$1,903 |
| Net premiums written | 916 | 616 | 1,897 | 1,230 |
| Net premiums earned | 860 | 566 | 1,674 | 1,075 |
| Losses and loss expenses | 518 | 345 | 1,012 | 637 |
| Policy acquisition costs | 163 | 128 | 315 | 242 |
| Administrative expenses | 121 | 89 | 235 | 175 |
| Underwriting income | \$ 58 | \$ 4 | \$ 112 | \$ 21 |
| Net investment income | 38 | 28 | 73 | 49 |
| Other income (expense) | — | — | (1) | 4 |
| Interest expense | 1 | 1 | 1 | 1 |
| Income tax expense | 25 | 5 | 48 | 13 |
| Income (loss) excluding net realized gains (losses) | \$ 70 | \$ 26 | \$ 135 | \$ 60 |
| Net realized gains (losses) | 2 | (6) | (11) | (11) |
| Tax effect of net realized gains (losses) | — | 2 | 5 | 3 |
| Net income | \$ 72 | \$ 22 | \$ 129 | \$ 52 |
| Loss and loss expense ratio | 60.3% | 61.1% | 60.5% | 59.3% |
| Policy acquisition cost ratio | 18.9% | 22.6% | 18.8% | 22.5% |
| Administrative expense ratio | 14.0% | 15.5% | 14.0% | 16.2% |
| Combined ratio | 93.2% | 99.2% | 93.3% | 98.0% |

Insurance—Overseas General reported 32 percent and 39 percent increases in gross premiums written for the three and six months ended June 30, 2003, respectively, compared with the same periods in 2002. ACE International and ACE Global Markets both experienced higher rates across most lines of business. A&H rates have remained relatively flat over the last twelve months.

ACE International's gross premiums written increased 31 percent to \$822 million and 46 percent to \$1.9 billion for the three and six months ended June 30, 2003, respectively. The increases are partly driven by higher rates and new business. Part of the increase is due to the weakening of the U.S. dollar against the pound sterling, Euro and yen during the period. The weakening of the U.S. dollar accounted for approximately 10 percentage points and 11 percentage points of the increase in gross premiums written for the three and six months ended June 30, 2003, respectively. ACE Europe, which accounts for about 60 percent of ACE International's gross

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premiums written, reported 36 percent and 61 percent growth in gross premiums written for the three and six months ended June 30, 2003, respectively. ACE Europe is experiencing particularly strong demand for its fire and financial lines. Property rates in Europe are increasing at a slower rate, while casualty lines rate increases are accelerating. We expect no significant change in P&C rate momentum in Europe for the remainder of 2003. ACE Asia Pacific increased its gross premiums written 51 percent and 59 percent for the three and six months ended June 30, 2003, respectively. Driven by rate increases in Australia and New Zealand, and new business in Hong Kong, Korea and Thailand, ACE Asia Pacific reported strong growth across all of its P&C and A&H lines. ACE Latin America reported strong demand for P&C coverage in Brazil, Puerto Rico and Mexico and grew its Mexican and Brazilian A&H books. ACE Far East showed modest gains in its A&H book, which was negatively impacted in 2002 by the downturn in the travel industry, following the September 11 tragedy.

ACE Global Markets' gross premiums written increased by 34 percent to \$422 million and 25 percent to \$768 million for the three and six months ended June 30, 2003, respectively. Market conditions continue to improve for ACE Global Markets, which had significant growth in the financial lines, marine, energy and property portfolios. We expect renewal rates to continue to increase, particularly in marine and financial lines. The retention ratio at ACE Global Markets has increased substantially in 2003, compared with 2002. This increase is due to the costs we incurred in 2002 associated with reinsurance arrangements put into place following a revision of our underwriting strategy and the rebuilding of our reinsurance cover following the September 11 tragedy. In late 2002, we received approval from the U.K. insurance regulator, the Financial Services Authority (FSA-U.K.), to use ACE INA UK, as our London-based FSA-U.K.-regulated company to underwrite U.K. and Continental Europe insurance and reinsurance business. For the 2003 underwriting year, 25 percent of ACE Global Markets' gross premiums written has been underwritten through ACE INA UK, with most of this business emanating from the energy, financial lines and property classes.

The loss and loss expense ratio for Insurance – Overseas General was relatively stable for the three and six months ended June 30, 2003, compared with the same periods in 2002. Adverse prior period development for the three months ended June 30, 2003 and 2002 was \$12 million and \$11 million, respectively. For the six months ended June 30, 2003 and 2002, Insurance-Overseas General experienced adverse development of \$11 million and \$25 million, respectively. The development for the three and six months ended June 30, 2003 relates primarily to ACE International's casualty and consumer lines while the development for the three and six months ended June 30, 2002 related to ACE Global Markets' political risk and satellite lines.

The policy acquisition cost ratio for Insurance – Overseas General improved for the three and six months ended June 30, 2003, primarily due to a change in business mix at ACE Global Markets. ACE International's administrative expenses have increased 36 percent in the current quarter; this is due mainly to increased costs associated with supporting business growth across all regions of the world and the depreciation of the U.S. dollar.

Underwriting income increased \$54 million and \$91 million for the three and six months ended June 30, 2003, respectively primarily due to the increase in net premium earned. Income excluding net realized gains (losses) has increased significantly for the three and six months ended June 30, 2003 driven by increased underwriting income and greater net investment income, partially offset by higher income tax expense.

Global Reinsurance

The Global Reinsurance segment comprises ACE Tempest Re Bermuda, ACE Tempest Re USA, ACE Tempest Re Europe, and ACE Tempest Life Re (ACE Life Re). ACE Life Re is our Bermuda-based life reinsurance operation and is addressed separately.

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Property and Casualty

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|--------|-----------------------------|--------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions of U.S. dollars) | | | |
| Gross premiums written | \$ 349 | \$ 214 | \$ 811 | \$ 588 |
| Net premiums written | 345 | 197 | 788 | 552 |
| Net premiums earned | 269 | 150 | 517 | 265 |
| Losses and loss expenses | 143 | 53 | 259 | 92 |
| Policy acquisition costs | 51 | 29 | 97 | 46 |
| Administrative expenses | 14 | 9 | 29 | 15 |
| Underwriting income | \$ 61 | \$ 59 | \$ 132 | \$ 112 |
| Net investment income | 21 | 19 | 40 | 43 |
| Other income | — | — | 1 | — |
| Interest expense | — | — | — | 1 |
| Income tax expense | 3 | 2 | 7 | 2 |
| Income (loss) excluding net realized gains (losses) | \$ 79 | \$ 76 | \$ 166 | \$ 152 |
| Net realized gains (losses) | 25 | (18) | 28 | (21) |
| Tax effect of net realized gains (losses) | 1 | — | 1 | — |
| Net income | \$ 105 | \$ 58 | \$ 195 | \$ 131 |
| Loss and loss expense ratio | 53.1% | 35.0% | 50.0% | 34.6% |
| Policy acquisition cost ratio | 18.8% | 19.5% | 18.7% | 17.2% |
| Administrative expense ratio | 5.3% | 6.3% | 5.7% | 6.0% |
| Combined ratio | 77.2% | 60.8% | 74.4% | 57.8% |

Gross premiums written for Global Reinsurance increased 63 percent and 38 percent for the three and six months ended June 30, 2003, respectively, compared with the same periods in 2002. Over the past two years, the Global Reinsurance segment has expanded into a multi-line global reinsurer that offers a diversified portfolio of products to satisfy client demand. This shift has enabled it to take advantage of the improved P&C market, especially on the casualty side. Significant increases in production were recorded at ACE Tempest Re USA and ACE Tempest Re Europe as these units benefited from higher rates and increased volume for P&C lines first offered in 2002. ACE Tempest Re Bermuda is facing increased competition and lower rates on property catastrophe business following two years of rising prices, and additionally, the Terrorism Risk Insurance Act (TRIA) has reduced demand for its specialty catastrophe business. The table below shows gross premiums written by each of the Global Reinsurance segment's key components for the three and six months ended June 30, 2003 and 2002.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------------|-------------------------------|-------|-----------------------------|-------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions of U.S. dollars) | | | |
| ACE Tempest Re USA | \$ 133 | \$ 47 | \$ 233 | \$ 79 |
| ACE Tempest Re Europe | 97 | 67 | 220 | 160 |
| ACE Tempest Re Bermuda | 119 | 100 | 358 | 349 |

Global Reinsurance's net premiums written increased 75 percent and 43 percent for the three and six months ended June 30, 2003, respectively, compared with the same periods in 2002. Retention ratios for this segment have increased from 92.1 percent to 98.9 percent in the second quarter of 2003 compared with 2002, and from 93.9 percent to 97.2 percent in the first six months of 2003, compared with 2002. The increase in retention ratios reflects the decline in reinsurance purchased at ACE Tempest Re Bermuda and ACE Tempest Re Europe. ACE Tempest Re Bermuda's retention ratio has increased compared with 2002 due primarily to changes in timing of reinsurance purchases. ACE Tempest Re Europe increased its retention in order to take advantage of improved market conditions.

The loss and loss expense ratio increased significantly primarily due to the growth in P&C business at ACE Tempest Re USA and ACE Tempest Re Europe. P&C business typically has higher loss ratios in comparison with property catastrophe business (except in periods with high catastrophe losses), which is written at ACE Tempest Re Bermuda. As Global Reinsurance increases P&C writing, we expect its loss and loss expense ratio to continue to increase in line with what would be expected from a traditional multi-line

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reinsurer. Additionally, Global Reinsurance incurred catastrophe-related losses totaling \$30 million in the current quarter, compared with \$11 million in the same quarter in 2002. Partially offsetting these increases, this segment experienced favorable prior year development of \$13 million and \$5 million for the three months ended June 30, 2003 and 2002, respectively. For the six months ended June 30, 2003 and 2002 favorable development was \$13 million and \$2 million, respectively. The development is related to property catastrophe business at ACE Tempest Re Bermuda and certain short-tail property lines at ACE Tempest Re USA where loss reserves for certain contracts have been determined to be in excess of the reserves required based on the latest assessment.

The policy acquisition costs for Global Reinsurance increased 76 percent and 111 percent for the three and six months ended June 30, 2003, respectively, compared with the same periods in 2002. This increase is due to higher volume and changes in mix of business. Administrative expenses increased \$5 million and \$14 million for the three and six months ended June 30, 2003, respectively. The increases are due to increased staffing levels to support the growth in business. The decline in the administrative expense ratio is attributable to the large increase in net premiums earned.

Global Reinsurance's underwriting income increased three percent and 18 percent for the three and six months ended June 30, 2003, respectively, compared with the same periods in 2002. The increases are a result of higher net premiums earned in the current periods. We expect increased pressure on underwriting income for Global Reinsurance due to its shift of business towards P&C. Over time, however, we expect its income excluding net realized gains (losses) will increase, reflecting more investment income due to higher average invested assets. Income excluding net realized gains (losses) for Global Reinsurance increased four percent and nine percent for the three and six months ended June 30, 2003, respectively. This increase is a result of higher underwriting income partially offset by lower net investment income, and higher income tax expense for the three and six months ended June 30, 2003.

Life Reinsurance

Our strategic focus at ACE Life Re is to differentiate ourselves in this market, principally by providing reinsurance coverage to other life insurance companies, focusing on guarantees included in certain fixed and variable annuity products. We do not compete on a traditional basis for pure mortality business. The reinsurance transactions we undertake typically help clients—ceding companies—to manage mortality, morbidity, and/or lapse risks embedded in their book of business. We price life reinsurance using actuarial and investment models that incorporate a number of factors, including assumptions for mortality, morbidity, expenses, demographics, persistency, investment returns and inflation.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|--------|-----------------------------|--------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions of U.S. dollars) | | | |
| Gross premiums written | \$ 46 | \$ 28 | \$ 95 | \$ 57 |
| Net premiums written | 44 | 27 | 91 | 55 |
| Net premiums earned | 42 | 26 | 90 | 55 |
| Life and annuity benefits | 44 | 23 | 92 | 46 |
| Policy acquisition costs | 2 | 5 | 6 | 12 |
| Administrative expenses | 1 | 2 | 2 | 3 |
| Net investment income | 8 | 6 | 15 | 12 |
| Income excluding net realized gains (losses) | \$ 3 | \$ 2 | \$ 5 | \$ 6 |
| Net realized losses | (11) | (9) | (12) | (9) |
| Net income | \$ (8) | \$ (7) | \$ (7) | \$ (3) |

ACE Life Re's gross premiums written increased 64 percent and 67 percent for the three and six months ended June 30, 2003, respectively, primarily because of new variable annuity and life (mortality) business. The six-month period ended June 30, 2003 included \$10 million from a non-recurring variable annuity deal. ACE Life Re's gross premiums written for the three and six months ended June 30, 2002 included \$22 million and \$48 million, respectively, of long-term disability business, which has been discontinued and, therefore, did not recur in 2003. Income excluding net realized gains (losses) increased in the current quarter due to higher investment income.

Financial Services

The Financial Services segment consists of two broad categories: financial guaranty business and financial solutions business. The financial guaranty business provides insurance and reinsurance of financial guaranty exposures, including municipal and non-municipal obligations, credit default swaps (CDSs), mortgage guaranty reinsurance, title cover, and trade credit reinsurance. The financial solutions business includes insurance and reinsurance solutions to complex risks that generally cannot be adequately

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addressed in the traditional insurance marketplace. Most financial solutions contracts are unique and specifically tailored for an individual client, but generally they are multi-year and contain some form of client participation.

Certain products we issue in the Financial Services segment—mainly those related to credit protection—meet the definition of a derivative under Financial Accounting Standards (FAS) No. 133 “Accounting for Derivative Instruments and Hedging Activities” (FAS 133), and must be recorded at fair value. These products consist primarily of CDSs. We recorded, in net realized gains (losses), a gain of \$50 million for the six months ended June 30, 2003, due principally to changes in the market value of these instruments and the reclassification of losses from net realized gains (losses) to losses and loss expenses as a result of recording loss reserves on certain contracts. This compares with a loss of \$46 million for the same period in 2002. The level of such gains and losses is dependent upon a number of factors including changes in credit spreads, probability of default and other market factors. Net premiums earned relating to CDS transactions for the six months ended June 30, 2003 were \$80 million compared with \$54 million for the same period in 2002. Net losses incurred relating to CDSs for the six months ended June 30, 2003 were \$50 million compared with \$40 million for the same period in 2002.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|--------|-----------------------------|--------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions of U.S. dollars) | | | |
| Gross premiums written | \$ 118 | \$ 318 | \$ 650 | \$ 806 |
| Net premiums written | 132 | 317 | 658 | 793 |
| Net premiums earned | 215 | 228 | 424 | 462 |
| Losses and loss expenses | 161 | 167 | 322 | 362 |
| Policy acquisition costs | 17 | 22 | 28 | 40 |
| Administrative expenses | 20 | 17 | 38 | 27 |
| Underwriting income | \$ 17 | \$ 22 | \$ 36 | \$ 33 |
| Net investment income | 49 | 46 | 100 | 95 |
| Other income | 1 | — | 1 | — |
| Interest expense | 1 | 3 | 3 | 7 |
| Income tax expense | 8 | 8 | 17 | 17 |
| Income (loss) excluding net realized gains (losses) | \$ 58 | \$ 57 | \$ 117 | \$ 104 |
| Net realized gains (losses) | 72 | (45) | 69 | (50) |
| Tax effect of net realized gains (losses) | (20) | 9 | (20) | 8 |
| Net income | \$ 110 | \$ 21 | \$ 166 | \$ 62 |
| Loss and loss expense ratio | 74.9% | 73.2% | 75.9% | 78.2% |
| Policy acquisition cost ratio | 7.8% | 9.6% | 6.5% | 8.7% |
| Administrative expense ratio | 9.5% | 7.4% | 9.1% | 5.9% |
| Combined ratio | 92.2% | 90.2% | 91.5% | 92.8% |

Gross premiums written decreased 63 percent and 19 percent for the three and six months ended June 30, 2003, respectively, compared with the same periods in 2002. This decline in production is primarily attributed to the financial solutions operations, which wrote very little new business in the current quarter. Production results for the financial solutions operations are often volatile because this business unit writes a limited number of large, complex, custom-tailored transactions, which generally are not renewable on an annual basis.

Gross premiums written for the financial guaranty operations increased 45 percent and 62 percent for the three and six months ended June 30, 2003, respectively, compared with the same periods in 2002. Municipal and non-municipal production was strong as low interest rates continue to drive strong issuance activity domestically and internationally. Trade credit gross premiums written increased due to higher volume and favorable pricing. During the current quarter we reduced writing funded-equity layers of collateralized debt obligations (CDOs) due to unfavorable pricing terms in this line. We continue to participate in highly-rated senior layer CDO business (our risk typically attaches at or above S&P AAA rating level), as we feel pricing in this area is adequate. Senior layer CDO business has increased to 17.7 percent of our total exposure at June 30, 2003 compared with 15.6 percent at December 31, 2002. Additionally, our exposure to single-name corporate CDSs declined to 4.5 percent of our total exposure at June 30, 2003 compared with 5.4 percent at December 31, 2002, and we expect this trend to continue as we reduce our writing in this area and the portfolio runs-off. Mortgage production declined due to the higher level of refinancing activity in the U.S. mortgage market and additionally due to the natural run-off of older business. The financial guaranty operations' underwriting income decreased 16 percent for the three months ended June 30, 2003 compared with the same period in 2002. The decrease in underwriting income for the current quarter is due to an increase in policy acquisition costs and administrative expenses. The policy acquisition cost ratio rose due to the increase in municipal and non-municipal business, which incurs commission costs, and the decline in certain lines of the CDS

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business, which do not incur commission costs. Administrative expenses were greater as a result of an increase in staff needed to support the growing direct business in the financial guaranty operations. For the six months ended June 30, 2003 the financial guaranty operations' underwriting income increased 13 percent compared with the same period in 2002. The increase in underwriting income is attributed to higher net premiums earned, and a decline in losses and loss expenses, partially offset by greater policy acquisition costs and administrative expenses.

The financial solutions operations reported decreases in underwriting income of \$3 million and \$1 million for the three and six months ended June 30, 2003, respectively, compared with the same periods in 2002. In 2002, we wrote several non-recurring, multi-year programs providing first-loss protection on synthetic CDOs. During the current quarter our U.S. operations strengthened reserves in the discontinued life book by \$1.5 million and experienced deterioration of a credit transaction of \$1.6 million in the securitization and risk trading line. The policy acquisition cost ratio declined as the three and six months ended June 30, 2002 included life business, which has been discontinued and typically incurred higher commissions than other business. The administrative expense ratio for the three and six months ended June 30, 2003 increased as a result of the decline in net premiums earned and higher staffing costs.

Financial Services experienced favorable prior period development in the current quarter of \$9 million compared with adverse development in the prior year quarter of \$8 million. For the six months ended June 30, 2003 and 2002 adverse prior period development was \$1 million and \$24 million, respectively. The development for all the referenced periods is primarily attributable to the financial solutions business. Financial Services' decline in underwriting income was offset by higher net investment income and reduced interest expense for the three and six months ended June 30, 2003 compared with the same periods in 2002. Net investment income increased due to higher average invested assets and interest expense decreased due to repayment of debt in the fourth quarter of 2002.

Net Investment Income

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|----------------------------|-------------------------------|--------|-----------------------------|--------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions of U.S. dollars) | | | |
| Insurance—North American | \$ 103 | \$ 103 | \$ 206 | \$ 205 |
| Insurance—Overseas General | 38 | 28 | 73 | 49 |
| Global Reinsurance—P&C | 21 | 19 | 40 | 43 |
| Global Reinsurance—Life | 8 | 6 | 15 | 12 |
| Financial Services | 49 | 46 | 100 | 95 |
| Corporate and other | (8) | (1) | (17) | (3) |
| Net investment income | \$ 211 | \$ 201 | \$ 417 | \$ 401 |

Net investment income is influenced by a number of factors, including the amounts and timing of inward and outward cash flows; the level of interest rates; and changes in overall asset allocation. Net investment income increased five percent and four percent for the three and six months ended June 30, 2003, respectively, compared with the same periods in 2002. The increased net investment income is due to the positive cash flows during 2003 and 2002 that resulted in a higher average invested asset base. This positive impact on investment income was partially offset by a decline in the investment portfolio's yield due to the impact of lower interest rates on investment of new cash and reinvestment of maturing securities. The average yield on fixed maturities declined to 3.8 percent at June 30, 2003 compared with 4.4 percent at December 31, 2002.

Net Realized Gains (Losses)

Our investment strategy takes a long-term view, and our portfolio is actively managed to maximize total return within certain specific guidelines, designed to minimize risk. Our investment portfolio is reported at fair value. However, the effect of market movements on our portfolio impact income (through net realized gains (losses)) when securities are sold, when "other than temporary" impairments are recorded on invested assets or when derivatives, including financial futures and options, interest rate swaps and credit-default swaps, are marked to fair value or are settled. Changes in unrealized appreciation and depreciation, which result from the revaluation of securities held, are reported as a separate component of accumulated other comprehensive income in shareholders' equity. The following table presents our pre-tax net realized gains (losses) for the three and six months ended June 30, 2003 and 2002.

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| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|---------|-----------------------------|---------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions of U.S. dollars) | | | |
| Fixed maturities and short-term investments | \$ 49 | \$ (26) | \$ 61 | \$ (40) |
| Equity securities | (4) | 4 | (54) | 2 |
| Financial futures, options and interest rate swaps | 15 | (88) | 6 | (84) |
| Fair value adjustment on credit derivatives | 52 | (33) | 50 | (46) |
| Currency | 6 | 3 | 15 | 2 |
| Other investments | (11) | — | (11) | — |
| | \$107 | \$(140) | \$ 67 | \$(166) |

Given our total return objective for our investment portfolio, we may sell securities at a loss due to changes in the investment environment, our expectation that fair value may deteriorate further, our desire to reduce our exposure to an issuer or an industry, and changes in the credit quality of the security.

FAS 133 requires us to recognize all derivatives as either assets or liabilities on our consolidated balance sheet, and measure them at fair value. We record the gains and losses resulting from the fair value measurement of derivatives in net realized gains and losses. Our involvement with derivative instruments and transactions is primarily to offer protection to others or to mitigate our own risk; we do not consider such transactions to be speculative. For the three and six months ended June 30, 2003, we recorded net realized gains of \$67 million and \$56 million, respectively on derivative transactions, compared with net realized losses of \$121 million and \$130 million for the same periods in 2002.

For the three and six months ended June 30, 2003, we recorded net realized gains of \$15 million and \$6 million, respectively on financial futures and option contracts and interest rate swaps, compared with net realized losses of \$88 million and \$84 million for the same periods in 2002. The interest rate swaps are designed to reduce the negative impact of increases in interest rates on our fixed maturity portfolio. We recorded gains of \$20 million on our Standard and Poor's (S&P) equity index futures contracts as the S&P 500 equity index increased 15 percent during the current quarter. We use foreign currency forward contracts to minimize the effect of fluctuating foreign currencies on certain non-U.S. dollar holdings in our portfolio that are not specifically matching foreign currency liabilities. These contracts are not designated as specific hedges and, therefore, we record all realized and unrealized gains and losses on these contracts as net realized gains (losses) in the period in which the currency values change. For the six months ended June 30, 2003, we recorded net realized losses of \$11 million on other investments which consisted of \$16 million in impairments, partially offset by \$5 million in trading gains.

We regularly review our investments for possible impairment based on criteria including economic conditions, credit loss experience and issuer-specific developments. If there is a decline in a security's net realizable value, we must determine whether that decline is temporary or "other than temporary". If we believe a decline in the value of a particular investment is temporary, we record it as an unrealized loss in our shareholders' equity. If we believe the decline is "other than temporary", we write down the carrying value of the investment and record a realized loss in our statement of operations. The decision to recognize a decline in the value of a security carried at fair value as "other than temporary" rather than temporary has no impact on our book value.

Our net realized gains (losses) for the three months ended June 30, 2003 included \$1 million of write-downs of fixed maturity investments, \$8 million of equity securities and \$16 million of other investments as a result of conditions which caused us to conclude the decline in fair value of the investment was "other than temporary". This compares with \$27 million of fixed maturity investments in the same quarter last year. During the six months ended June 30, 2003, we recognized losses of \$19 million of fixed maturity investments, \$54 million of equity securities and \$16 million of other investments compared with \$43 million of fixed maturity investments and \$1 million of equity securities in the prior year.

The process of determining whether a decline in value is temporary or "other than temporary" is subjective and differs by type of security. In addition to company-specific financial information and general market or industry conditions, we also consider our ability and intent to hold the security to maturity or until market value recovers to a level in excess of cost. As a result of our periodic review process, we have determined that there currently is no need to sell any of these securities to fund anticipated payments. We have described below, by type of security, our process for reviewing our investments for possible impairment.

Fixed Maturities and Securities on Loan

We review all of our fixed income securities, including securities on loan, for potential impairment each quarter. Generally, we focus on those fixed-maturity securities with a market value of less than 80 percent of amortized cost for the previous nine months.

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Outlined below are the main factors we use in evaluating a fixed income security for potential impairment:

- the degree to which any appearance of impairment is attributable to an overall change in market conditions such as interest rates rather than changes in the individual factual circumstances and risk profile of the issuer;
- the performance of the relevant industry sector;
- whether an issuer is current in making principal and interest payments on the debt securities in question;
- the issuer's financial condition and our assessment (using available market information) of its ability to make future scheduled principal and interest payments on a timely basis; and
- current financial strength or debt rating, analysis and guidance provided by rating agencies and analysts.

Equity Securities and Securities on Loan

On a quarterly basis, these investments are also reviewed for impairment. In general, attention is focused on equity securities with a market value of less than 80 percent of cost for the previous nine months. Any equity that has been in a loss position for more than 12 months is considered impaired.

Outlined below are the main factors we use in evaluating an equity security for potential impairment:

- whether the decline appears to be related to general market or industry conditions or is issuer-specific; and
- the financial condition and near-term prospects of the issuer, including specific events that may influence the issuer's operations.

Other Investments

With respect to publicly and non-publicly traded venture capital investments, the portfolio managers, as well as our internal valuation committee, review and consider a variety of factors in determining the potential for loss impairment on a quarterly basis. Factors considered are:

- the issuer's most recent financing events;
- an analysis of whether fundamental deterioration has occurred; and
- the issuer's progress, and whether it has been substantially less than expected.

The following table summarizes, for all securities in an unrealized loss position at June 30, 2003 (including securities on loan), the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

| June 30, 2003 Gross Unrealized Loss | | | | |
|--|-----------------|--------------|----------------|--------------|
| Fair value | 0-6 months | 7-12 months | Over 12 months | Total |
| (in millions of U.S. dollars) | | | | |
| Fixed maturities | \$ 25 | \$ 7 | \$ 1 | \$ 33 |
| Equities | 71 | 9 | 5 | 85 |
| Other investments | 89 | — | 1 | 90 |
| Total | \$ 2,206 | \$ 34 | \$ 13 | \$ 50 |

Other Income and Expense Items

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|-------------------------------|-------------------------------|--------|-----------------------------|-------|
| | 2003 | 2002 | 2003 | 2002 |
| (in millions of U.S. dollars) | | | | |
| Other income (expense) | \$ 1 | \$(12) | \$(5) | \$(7) |
| Interest expense | \$43 | \$ 52 | \$88 | \$ 98 |
| Income tax expense | \$87 | \$ 20 | \$140 | \$ 44 |

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The majority of the \$5 million in other expense for the six months ended June 30, 2003 relates to goodwill impairments during the first quarter. Goodwill was re-tested for impairment during the three months ended March 31, 2003. Based on a profitability review, we recognized a goodwill impairment of \$6 million pertaining to two majority-owned warranty program administration companies.

The decrease in interest expense is a result of a reduction in our outstanding trust preferred securities by \$400 million in 2002 and less average short-term debt outstanding for the three and six months ended June 30, 2003 compared with 2002.

The increase in income tax expense is attributable to the increase in income in taxable jurisdictions for the three and six months ended June 30, 2003. Our effective tax rate on income excluding net realized gains (losses) for the six months ended June 30, 2003 was 18.2 percent, compared with 13.1 percent for the same period in 2002. Our effective tax rate is dependent upon the mix of earnings from different jurisdictions with various tax rates; a different geographic mix of actual earnings would change the effective tax rate. For the remainder of 2003, we expect that our effective tax rate will be in the 18-20 percent range. We expect continued growth in taxable jurisdictions throughout 2003.

Investments and Cash

Our principal investment objective is to ensure that funds are available to meet our insurance and reinsurance obligations. Within this broad liquidity constraint, the purpose of our investment portfolio's structure is to maximize return subject to specifically approved guidelines of overall asset classes; credit quality; and liquidity and volatility of expected returns. Our investment portfolio is invested primarily in fixed income securities with an average credit quality of AA, as rated by the independent investment rating service S&P. The portfolio is externally managed by independent, professional, investment managers. The average duration of our fixed income securities, including the effect of interest rate swaps, is 3.2 years at June 30, 2003 compared with 3.1 years at December 31, 2002. Our other investments principally comprise direct investments, investments in investment funds and investments in limited partnerships.

The following table identifies our invested assets at fair value, by type held, at June 30, 2003 and December 31, 2002.

| | June 30 2003 | December 31 2002 |
|----------------------------|----------------------------------|---------------------|
| | (in millions of U.S. dollars) | |
| Fixed maturities | \$16,884 | \$ 14,420 |
| Equity securities | 471 | 411 |
| Securities on loan | 546 | 293 |
| Short-term investments | 2,048 | 1,885 |
| Other investments | 661 | 652 |
| Cash | 576 | 663 |
| | <hr/> | <hr/> |
| Total investments and cash | \$21,186 | \$ 18,324 |

We also gain exposure to equity markets through the use of derivative instruments. The combined equity exposure through both our equity portfolio and derivative instruments was valued at \$573 million and \$603 million at June 30, 2003 and December 31, 2002, respectively. The increase of \$2.9 billion in total investments and cash is due to positive cash flows from operations due to strong premium volume, increased unrealized gains and the issuance of preferred shares. Offsetting these increases, were dividends of \$102 million paid during the six months ended June 30, 2003.

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The following tables show the market value of our fixed income portfolio, short-term investments, securities on loan and cash at June 30, 2003. The first table lists elements according to type, and the second according to S&P credit rating.

| | Market Value | Percentage of Total |
|---------------------------------|----------------------------------|------------------------|
| | (in millions of U.S. dollars) | |
| Treasury | \$ 886 | 4.4% |
| Agency | 1,383 | 6.9% |
| Corporate | 7,796 | 38.9% |
| Mortgage-backed securities | 3,825 | 19.0% |
| Asset-backed securities | 439 | 2.3% |
| Municipal | 1,346 | 6.7% |
| Non-U.S. | 1,755 | 8.7% |
| Cash and short-term investments | 2,624 | 13.1% |
| Total | \$ 20,054 | 100% |

| | Market Value | Percentage of Total |
|--------------|----------------------------------|------------------------|
| | (in millions of U.S. dollars) | |
| AAA | \$ 9,841 | 49.1% |
| AA | 3,623 | 18.1% |
| A | 3,162 | 15.7% |
| BBB | 1,592 | 7.9% |
| BB | 782 | 3.9% |
| B | 939 | 4.7% |
| Other | 115 | 0.6% |
| Total | \$ 20,054 | 100% |

At June 30, 2003, our fixed maturity investment portfolio included non-investment grade securities and non-rated securities which, in total, comprised approximately nine percent of our fixed income portfolio. Below-investment grade securities have different characteristics than investment grade corporate debt securities. Risk of loss from default by the borrower is significantly greater with below-investment grade securities. Below-investment grade securities are generally unsecured and are often subordinated to other creditors of the issuer. Also, issuers of below-investment grade securities usually have higher levels of debt and are more sensitive to adverse economic conditions such as recession or increasing interest rates, than are investment grade issuers. We attempt to reduce the overall risk in the below-investment grade portfolio, as in all investments, through careful credit analysis, strict investment policy guidelines, and diversification by issuer and/or guarantor as well as by industry.

Unpaid Losses and Loss Expenses

We establish reserves for the estimated unpaid ultimate liability for losses and loss expenses under the terms of our policies and agreements. These reserves take into account estimates both for claims that have been reported and for incurred but not reported (IBNR), and include estimates of expenses associated with processing and settling claims. The table below presents a rollforward of our unpaid losses and loss expenses for the six months ended June 30, 2003.

| | Reinsurance | | |
|--|-------------------------------|------------------|-----------------|
| | Gross Losses | Recoverable | Net Losses |
| | (in millions of U.S. dollars) | | |
| Balance at December 31, 2002 | \$24,315 | \$ 12,997 | \$11,318 |
| Losses and loss expenses incurred | 4,901 | 2,159 | 2,742 |
| Losses and loss expenses paid | (4,570) | (2,341) | (2,229) |
| Other (including foreign exchange revaluation) | 294 | 139 | 155 |
| Balance at June 30, 2003 | \$24,940 | \$ 12,954 | \$11,986 |

The process of establishing reserves for claims can be complex and imprecise as it requires the use of informed estimates and judgments. Our estimates and judgments may be revised as claims develop; as additional experience and other data become available;

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as new or improved methodologies are developed; and as current laws change. As part of our evaluation of loss reserves, we annually engage independent actuarial firms to review the methods and assumptions we use in estimating unpaid losses and loss expenses. These annual reviews cover different portions of our operating businesses on a rotating basis within each year and are an independent check on our loss reserves. In addition, the Pennsylvania Insurance Department requires a biennial, external actuarial review of liabilities residing in the various subsidiaries of Brandywine Holdings (Brandywine), which we acquired when we purchased the P&C business of CIGNA in 1999 (the ACE INA Acquisition). That review was completed during the first quarter of 2003. See Asbestos and Environmental Claims, below for more information.

We continually evaluate our reserve estimates taking into account new information and discussion and negotiation with our insureds. While we believe our reserve for unpaid losses and loss expenses at June 30, 2003 is adequate, new information or trends may lead to future developments in ultimate losses and loss expenses significantly greater or less than the reserve provided, which could have a material adverse effect on future operating results. More information relating to our loss reserves is included in our Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2002.

Reinsurance

One of the ways we manage our loss exposure is through the use of reinsurance. While reinsurance agreements are designed to limit our losses from large exposures and permit recovery of a portion of direct unpaid losses, reinsurance does not relieve us of liability to our insureds. Accordingly, the loss and loss expense reserves on our balance sheet represent our total unpaid gross losses. The reinsurance recoverable represents anticipated recoveries of a portion of those gross unpaid losses as well as amounts recoverable from reinsurers with respect to claims paid. The table below presents our net reinsurance recoverable at June 30, 2003 and December 31, 2002.

| | June 30 2003 | December 31 2002 |
|--|----------------------------------|---------------------|
| | (in millions of U.S. dollars) | |
| Reinsurance recoverable on paid losses and loss expenses | \$ 1,303 | \$ 1,363 |
| Bad debt reserve on paid losses and loss expenses | (378) | (378) |
| Reinsurance recoverable on future policy benefits | 12 | 9 |
| Reinsurance recoverable on unpaid losses and loss expenses | 13,502 | 13,558 |
| Bad debt reserve on unpaid losses and loss expenses | (548) | (561) |
| Net reinsurance recoverable | <u>\$13,891</u> | <u>\$ 13,991</u> |

We evaluate the financial condition of our reinsurers and potential reinsurers on a regular basis and also monitor concentrations of credit risk with reinsurers. The provision for unrecoverable reinsurance is required principally due to the failure of reinsurers to indemnify us, primarily because of disputes under reinsurance contracts and insolvencies. Provisions have been established for amounts estimated to be uncollectible.

Following is a breakdown of our reinsurance recoverable on paid losses at June 30, 2003:

| Category | Amount | Bad Debt Reserve | % of Total Reserve |
|---------------------|-------------------------------|---------------------|-----------------------|
| | (in millions of U.S. dollars) | | |
| General collections | \$ 795 | \$ 51 | 6.4% |
| Other | 508 | 327 | 64.4% |
| Total | <u>\$1,303</u> | <u>\$ 378</u> | <u>29.0%</u> |

The *general collections* category represents amounts in the process of collection in the normal course of business. These are balances for which we have no indication of dispute or credit-related issues. We provide bad debt reserves based primarily on the application of historical loss experience to credit categories.

The *other* category includes amounts recoverable that are in dispute, or are from companies in supervision, rehabilitation or liquidation. Our estimation of this reserve takes into account the credit quality of the reinsurer, and whether we have received collateral or other credit protections such as parental guarantees.

More information relating to reinsurance and our reinsurers is included in our Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2002.

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Asbestos and Environmental Claims

Included in our liabilities for losses and loss expenses are liabilities for asbestos, environmental and latent injury damage claims and expenses (A&E). These claims are principally related to claims arising from remediation costs associated with hazardous waste sites and bodily-injury claims related to asbestos products and environmental hazards. These amounts include provision for both reported and IBNR claims. In January 2003, we completed an internal review of our A&E reserves. This review resulted in us increasing our gross A&E reserve, for the year ended December 31, 2002, by \$2.2 billion, offset by \$1.9 billion of reinsurance recoverable, including \$533 million of reinsurance purchased from the National Indemnity Company (NICO) as part of the ACE INA Acquisition. After an addition to our bad debt provision of \$145 million and our ten percent participation in the NICO cover, our net incurred loss was \$516 million (\$354 million after income tax) and was recorded in the fourth quarter of 2002. In addition to our internal review, the normal, biennial, reserve review by an independent, actuarial consulting firm, required by the Pennsylvania Insurance Department when Brandywine was established, was completed in February 2003. Our A&E reserves, taking into account the additions for the quarter ended December 31, 2002, represent the high end of our internal indication of range of liability and is consistent with the best estimate of the external actuary. We experienced no new A&E incurred losses for the six months ended June 30, 2003.

In 1996, in a restructuring approved by the Pennsylvania Department of Insurance, CIGNA Corporation split its property and casualty insurance operations into INA Holdings, its active, ongoing insurance operations, and Brandywine Holdings, its insurance operations placed into run-off.

The Pennsylvania Insurance Department's approval of the restructuring was challenged by certain competitors but was upheld in a decision by the Pennsylvania Supreme Court in 1999. A lawsuit was then filed in the state of California in December 1999 by those same competitors. This subsequent litigation, which is more limited in scope than the prior challenge, seeks a determination that the restructuring violated California's unfair competition law and claims that an active INA Holdings company, Insurance Company of North America (INA), should remain liable to its former California policyholders whose policies were transferred to a Brandywine Holdings company in the restructuring.

Following initial dismissal of the case by the trial court, the California Court of Appeals ruled that a cause of action could be maintained by the challengers, despite approval of the restructuring by the Pennsylvania and California Insurance Departments. On July 29, 2003, the trial court ruled that INA remains contractually obligated for losses associated with the California policies transferred to the Brandywine Holdings company. ACE intends to appeal this decision. The liabilities that are the subject of this California litigation are included within our recorded A&E reserves for Brandywine Holdings companies. We continue to believe that ACE's obligation is limited to that set forth in the Brandywine restructuring order and that any potential additional impact on future earnings, if there is ultimately an adverse decision in the California lawsuit, is not material.

The table below presents selected loss reserve data for A&E exposures at June 30, 2003 and December 31, 2002.

| | June 30, 2003 | | December 31, 2002 | |
|---|-------------------------------|-------|----------------------|-------|
| | Gross | Net | Gross | Net |
| | (in millions of U.S. dollars) | | | |
| Asbestos | \$3,083 | \$381 | \$3,192 | \$446 |
| Environmental and or other latent exposures | 1,232 | 315 | 1,352 | 403 |
| Total A&E | \$4,315 | \$696 | \$4,544 | \$849 |

Paid losses for the six months ended June 30, 2003 for asbestos claims were \$109 million on gross reserves and \$65 million on net reserves. Environmental and other latent exposure claim payments were \$120 million on gross reserves and \$88 million on net reserves for the six months ended June 30, 2003.

More information relating to our A&E exposure, including our A&E reserving process is included in our Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity is a measure of a company's ability to generate cash flows sufficient to meet short-term and long-term cash requirements of its business operations. As a holding company, ACE possesses assets that consist primarily of the stock of its subsidiaries, and of other investments. In addition to net investment income, our cash flows currently depend primarily on dividends or other statutorily permissible payments. Historically, these dividends and other payments have come from our Bermuda-based operating subsidiaries, which we refer to as our Bermuda subsidiaries. During the six months ended June 30, 2003, we were able to meet all of our obligations, including the payment of dividends declared on our Ordinary Shares and FELINE PRIDES, with our net cash flow and dividends received. Should the need arise, we generally have access to the debt markets and other available credit facilities which are discussed below.

The payments of dividends or other statutorily permissible distributions from our operating companies are subject to the laws and regulations applicable to each jurisdiction, as well as the need to maintain capital levels adequate to support the insurance and reinsurance operations,

including financial strength ratings issued by independent rating agencies, which are discussed later.

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We assess which subsidiaries to draw dividends from based on a number of factors. Considerations such as regulatory and legal restrictions as well as the subsidiary's financial condition are paramount to the dividend decision. The legal restrictions on the payment of dividends from retained earnings by our Bermuda subsidiaries are currently satisfied by the share capital and additional paid-in capital of each of the Bermuda subsidiaries. During the six months ended June 30, 2003, ACE Bermuda declared and paid dividends of \$281 million, compared with \$195 million for the same period in 2002. We received dividends of \$25 million from ACE Cap Re International Ltd. in the six months ended June 30, 2003, compared with no dividends in 2002. We expect that a majority of our cash inflows for 2003 will be from our Bermuda subsidiaries.

The payment of any dividends from ACE Global Markets or its subsidiaries would be subject to applicable U.K. insurance laws and regulations including those promulgated by the Society of Lloyd's. ACE INA's and ACE Financial Services' U.S. insurance subsidiaries may pay dividends, without prior regulatory approval, only from earned surplus and subject to certain annual limitations and the maintenance of a minimum capital requirement. ACE INA's international subsidiaries are also subject to insurance laws and regulations particular to the countries in which the subsidiaries operate. These laws and regulations include restrictions that limit the amount of dividends payable without prior approval of regulatory insurance authorities.

We did not receive any dividends in the current quarter from ACE Global Markets or ACE INA nor do we expect to receive dividends from these subsidiaries during the remainder of 2003. Under the Lloyd's accounting model, syndicates in Lloyd's operate each year as an annual venture. Each year of account is held open for three years. At the end of three years, the year of account purchases reinsurance from the next open year which is known as reinsurance to close or RITC and distributes the remaining funds to the investors in the syndicate. ACE Global Markets has historically retained these funds for operational purposes. ACE INA issued debt to provide partial financing for the ACE INA Acquisition and for other operating needs. This debt is serviced by dividends paid by ACE INA's insurance subsidiaries to ACE INA as well as other group resources. ACE Financial Services' U.S. insurance subsidiaries are limited in their dividend paying abilities due to their need to maintain their AA and AAA financial strength ratings.

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

Our insurance and reinsurance operations provide liquidity in that premiums are received in advance, sometimes substantially in advance, of the time claims are paid. Our consolidated net cash flow from operating activities was \$1.6 billion for the six months ended June 30, 2003, compared with \$571 million for the same period last year. The positive operating cash flows were generated from an increase in net premiums written of \$1.5 billion for the six months ended June 30, 2003, offset by an increase in net losses and loss expenses paid of \$928 million. Generally cash flows are affected by claim payments which, due to the nature of our operations, may comprise large loss payments on a limited number of claims and therefore can fluctuate significantly from year to year. The irregular timing of these loss payments can create significant variations in cash flows from operations between periods. Sources of liquidity include cash from operations, financing arrangements or routine sales of investments. Although our ongoing operations continue to generate positive cash flows, our cash flows are currently impacted by a large book of loss reserves from businesses in run-off. The run-off operations generated negative operating cash flows of \$359 million for the six months ended June 30, 2003, compared with \$309 million for the same period in 2002, primarily due to claim payments. The run-off book of business continues to require cash to meet its liabilities and cash flows are very dependent on the timing of claim settlements.

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

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

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

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

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

Capital Resources

Capital resources consist of funds deployed or available to be deployed to support our business operations. The following table summarizes the components of our capital resources at June 30, 2003 and December 31, 2002.

| | June 30 2003 | December 31 2002 |
|---------------------------------------|-------------------------------|---------------------|
| | (in millions of U.S. dollars) | |
| Shareholders' equity | \$ 8,178 | \$6,389 |
| Mezzanine equity | — | 311 |
| Trust preferred securities | 475 | 475 |
| Long-term debt | 1,749 | 1,749 |
| Short-term debt | 146 | 146 |
| Total capitalization | \$10,548 | \$9,070 |
| Ratio of debt to total capitalization | 18.0% | 20.9% |

We believe our financial strength provides us with the flexibility and capacity to obtain funds externally through debt or equity financing on both a short-term and long-term basis. Our ability to access the capital markets is dependent on, among other things, market conditions and our perceived financial strength. We have accessed both the debt and equity markets from time to time.

Shareholders' Equity

In May 2003, we sold in a public offering 23 million depository shares, each representing one-tenth of one of our 7.80 percent Cumulative Redeemable Preferred Shares for \$25 per depository share for net proceeds of \$557 million. Gross proceeds from the sale of the preferred shares were \$575 million and related expenses were \$18 million. We used the net proceeds to make additional capital contributions to some of our subsidiaries and for general corporate purposes. This offering was made under our universal shelf registration statement with the SEC, which became effective in February 2003, allowing us to offer a number of different types of debt and equity securities up to a total offering price of \$1.5 billion. This completes our previously announced financing plans without using common equity or equity-linked securities.

Our diluted book value per Ordinary Share increased to \$27.24 at June 30, 2003 compared with \$24.16 at December 31, 2002. In calculating our diluted book value per Ordinary Share, we include in-the-money options together with the 11.8 million shares issued upon conversion of the FELINE PRIDES in the denominator. The expected proceeds from the in-the-money options are included in the numerator. Shareholders' equity increased by \$1.8 billion during the six months ended June 30, 2003. This increase is due to the issuance of the preferred shares; our net income, conversion of the FELINE PRIDES which increased shareholder's equity by \$311 million, and unrealized gains on our investment portfolio of \$352 million. Partially offsetting these increases, were \$108 million of dividends declared during the six months ended June 30, 2003.

As part of our capital management program, in November 2001, our Board of Directors authorized the repurchase of any ACE issued debt or capital securities including Ordinary Shares, up to \$250 million. At June 30, 2003, this authorization had not been utilized.

On January 10, 2003 and April 14, 2003, we paid dividends of 17 cents per share to shareholders of record on December 27, 2002 and March 31, 2003, respectively. On July 14, 2003, we paid dividends of 19 cents per share to shareholders of record on June 30, 2003. On August 7, 2003, we declared a quarterly dividend of 19 cents per share payable on October 14, 2003, to shareholders of record on September 30, 2003. We have paid dividends each quarter since we became a public company in 1993. However, the declaration, payment and value of future dividends is at the discretion of our Board of Directors and will be dependent upon our profits, financial requirements and other factors, including legal restrictions on the payment of dividends and such other factors as our Board of Directors deems relevant.

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Mezzanine Equity

In 2000, we publicly offered and issued 6,221,000 FELINE PRIDES for aggregate net proceeds of \$311 million. Each FELINE PRIDE initially consisted of a unit referred to as an Income PRIDE. Each Income PRIDE consisted of (i) one 8.25 percent Cumulative Redeemable Preferred Share, Series A, liquidation preference \$50 per share, and (ii) a purchase contract pursuant to which the holder of the Income PRIDE agreed to purchase from us, on May 16, 2003, \$311 million of Ordinary Shares at the applicable settlement rate. On May 16, 2003, we issued approximately 11.8 million Ordinary Shares, in satisfaction of the purchase contracts underlying our FELINE PRIDES. In consideration, on June 16, 2003, we redeemed all of our 8.25 percent Cumulative Redeemable Preferred Shares, Series A, at a rate representing an issuance of 1.8991 Ordinary Shares per preferred share.

Credit Facilities

In April 2003, we renewed, at substantially the same terms, our \$500 million, 364-day revolving credit facility. This facility, together with our \$250 million five-year revolving credit facility, which was last renewed in May 2000, is available for general corporate purposes. Both facilities may also be used for commercial paper back up. The five-year facility also permits the issuance of letters of credit, which we refer to as LOCs. At June 30, 2003 and December 31, 2002 the outstanding LOCs issued under these facilities was \$64 million. There were no other drawings or LOCs issued under these facilities.

In November 2002, to fulfill the requirements of Lloyd's for open years of account, we renewed our uncollateralized, five-year LOC facility for £380 million (approximately \$612 million). We provide funds at Lloyd's, primarily in the form of LOCs, to support underwriting capacity for our wholly-owned Lloyd's Syndicate 2488. Syndicate 2488 has a 2003 capacity of £725 million (approximately \$1.2 billion). In addition to the covenants noted below, the facility requires that collateral be posted if the financial strength rating of the guarantor, ACE Bermuda, falls to less than S&P BBB+.

As our Bermuda subsidiaries are not admitted insurers and reinsurers in the U.S., the terms of certain insurance and reinsurance contracts require them to provide LOCs to clients. In addition, ACE Global Markets is required to satisfy certain U.S. regulatory trust fund requirements which can be met by the issuance of LOCs. In September 2002, we arranged a \$500 million unsecured, one-year LOC facility for general business purposes, including the issuance of insurance and reinsurance LOCs. Usage under this facility was \$350 million at June 30, 2003 compared with \$455 million at December 31, 2002. In September 2002, we also arranged a \$350 million secured, one-year LOC facility for general business purposes, including the issuance of insurance and reinsurance LOCs. Usage under this facility was \$283 million at June 30, 2003 compared with \$276 million at December 31, 2002. The LOCs issued under both of these facilities principally support unpaid losses and loss expenses already included in our balance sheet.

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

- (i) maintenance of a minimum consolidated net worth covenant of not less than \$4.4 billion plus 25 percent of cumulative net income since March 31, 2002, and
- (ii) maintenance of a maximum debt to total capitalization ratio of not greater than 0.35 to 1. Under this covenant, debt does not include trust preferred securities or mezzanine equity, except where the ratio of the sum of trust preferred securities and mezzanine equity to total capitalization is greater than 15 percent. In this circumstance, the amount greater than 15 percent would be included in the debt to total capitalization ratio.

At June 30, 2003, (a) the minimum consolidated net worth requirement under the covenant described in (i) above was \$4.6 billion and our actual consolidated net worth as calculated under that covenant was \$7.3 billion; and (b) our ratio of debt to total capitalization was 0.18 to 1.

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

At June 30, 2003, ACE Guaranty Corp. was party to a non-recourse credit facility which provides up to \$175 million specifically supporting the company's municipal portfolio and designed to provide rating agency qualified capital to support ACE Guaranty Corp.'s claims paying resources. During 2002, the facility's expiry date was extended to November 2009. ACE Guaranty Corp. has not borrowed under this credit facility. In May 2003, ACE Guaranty Corp. entered into a \$140 million, 364-day revolving credit facility which is available for general corporate purposes. ACE Guaranty Corp. has not borrowed under this credit facility.

We also maintain various other LOC facilities, both collateralized and uncollateralized, for general corporate purposes. At June 30, 2003, the aggregate availability under these facilities was \$519 million and usage was \$410 million.

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New Accounting Pronouncements

In July 2003, the Accounting Standards Executive Committee issued Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" (SOP 03-1). This Statement of Position provides guidance on accounting and reporting by insurance enterprises for certain nontraditional long-duration contracts and for separate accounts and is effective for financial statements for fiscal years beginning after December 15, 2003. At the date of initial application of this SOP, we are required to make various determinations, such as qualification for separate account treatment, classification of securities in separate account arrangements, significance of mortality and morbidity risk, adjustments to contract holder liabilities, and adjustments to estimated gross profits as defined in SFAS No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments". We are currently evaluating the impact of adoption of SOP 03-1 on our financial condition and results of operations.

In May 2003, Financial Accounting Standards Board (FASB) issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (FAS 150), which establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. FAS 150 requires the classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). FAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We do not expect the adoption of FAS 150 to have a material impact on our financial condition and results of operations.

In April 2003, FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (FAS 149), which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FAS No. 133. FAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. We do not expect the adoption of FAS 149 to have a material impact on our financial condition and results of operations.

In January 2003, FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), which requires consolidation of all variable interest entities (VIE) by the primary beneficiary, as these terms are defined in FIN 46, effective immediately for VIEs created after January 31, 2003. The consolidation requirements apply to VIEs existing on January 31, 2003 for reporting periods beginning after June 15, 2003. In addition, it requires expanded disclosure for all VIEs. We do not expect the adoption of FIN 46 to have a material impact on our financial condition and results of operations.

In December 2002, FASB issued FAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" (FAS 148). FAS 148 provides alternative methods of transitioning for a voluntary change to the fair-value based method of accounting for stock-based employee compensation. FAS 148 amends the disclosure requirements of FAS No. 123 (FAS 123) to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. We continue to account for stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25 (APB 25).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Sensitive Instruments and Risk Management

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

Duration Management and Market Exposure Management

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

Our exposure to interest rate risk is concentrated in our investment portfolio, and to a lesser extent, our debt obligations. A hypothetical adverse parallel shift in the yield curve of 100 basis points would have resulted in a decrease in total return of 3.2 percent on our fixed income portfolio at June 30, 2003 and 3.1 percent at December 31, 2002. This equates to a decrease in market value of approximately \$580 million on a fixed income portfolio valued at \$18.1 billion at June 30, 2003, and approximately \$488 million on a fixed income portfolio valued at \$15.7 billion at December 31, 2002. An immediate time horizon was used as this presents the worst case scenario.

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Our portfolio of equity securities, which we carry on our balance sheet at fair value, has exposure to price risk. This risk is defined as the potential loss in fair value resulting from adverse changes in stock prices. In addition, we attain exposure to the equity markets through the use of derivative instruments which also have exposure to price risk. Our U.S. equity exposure in the portfolio is highly correlated with the S&P 500 index and changes in this index would approximate the impact on our portfolio. Our international equity portfolio has exposure to a broad range of non-U.S. equity markets, primarily in those countries where we have insurance operations. These portfolios are correlated to movement in each country's broad equity market. The combined equity exposure through both our equity portfolio and derivative instruments was valued at \$573 million at June 30, 2003. A hypothetical 10 percent decline in the price of each stock in these portfolios and the index correlated to the derivative instruments would have resulted in a \$57 million decline in fair value. Changes in fair value of these derivative instruments are recorded as net realized gains or losses in the consolidated statements of operations. Changes in the fair value of our equity portfolio are recorded as unrealized appreciation (depreciation) and are included as other comprehensive income in shareholders' equity.

Our exposure to foreign exchange risk is concentrated in our net invested assets denominated in foreign currencies. Our international operations use cash flows to purchase investments to match insurance reserves and other liabilities denominated in the same currencies. At June 30, 2003, our net asset exposure to foreign currencies was not material.

Derivatives

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, and requires that an entity recognize all derivatives as either assets or liabilities on the consolidated balance sheet and measure those instruments at fair value.

We maintain investments in derivative instruments such as futures, options, interest rate swaps and foreign currency forward contracts for which the primary purposes are to manage duration and foreign currency exposure, yield enhancement or to obtain an exposure to a particular financial market. 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 application of FAS 133, hedging relationships must be designated and documented pursuant to the provisions of this statement. We had no derivatives that were designated as hedges at June 30, 2003 and December 31, 2002.

Certain products—principally credit protection oriented—issued by the Financial Services segment have been determined to meet the definition of a derivative under FAS 133. These products consist primarily of credit-default swaps. We record these products at their fair values, which are determined principally through obtaining quotes from independent dealers and counterparties.

During the six months ended June 30, 2003, we recorded in net realized gains (losses), a pretax gain of \$50 million due principally to changes in the market value of these instruments and the reclassification of losses from net realized gains (losses) to losses and loss expenses as a result of recording loss reserves on certain contracts. This compares with a pretax loss of \$46 million for the same period in 2002. The level of gains and losses resulting from changes in the fair value of derivatives on a prospective basis is dependent upon a number of factors including changes in probability of default, credit spreads and other market factors. Our involvement with derivative instruments and transactions is primarily to offer protection to others or to mitigate our own risk; we do not consider such transactions to be speculative.

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures as defined in Rule 13a-15 under the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in allowing information required to be disclosed in reports filed under the Securities and Exchange Act of 1934 to be recorded, processed, summarized and reported within time periods specified in the rules and forms of the SEC. The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

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ACE LIMITED PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 4. Submissions of Matters to a Vote of Security Holders

The Annual General Meeting was held on May 15, 2003.

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

- a) The following directors were elected.

| | Term Expiring | Shares with Votes in Favor | Shares with Votes Withheld |
|-------------------|---------------|-------------------------------|-------------------------------|
| Michael G. Atieh | 2006 | 208,433,539 | 6,004,745 |
| Bruce L. Crockett | 2006 | 212,370,129 | 2,068,155 |
| Thomas J. Neff | 2006 | 212,410,336 | 2,027,948 |
| Robert W. Staley | 2006 | 209,096,589 | 5,341,695 |
| Gary M. Stuart | 2006 | 208,474,021 | 5,964,263 |
| Evan G. Greenberg | 2005 | 212,378,144 | 2,060,140 |

The number of shares abstained was 2,021,783 and the number of broker non-votes was NIL.

- b) The appointment of PricewaterhouseCoopers LLP as independent auditors for the Company for the year ended December 31, 2003 was ratified and approved.

The holders of 204,306,408 shares voted in favor, 8,808,882 shares voted against and 1,322,994 shares abstained. There were no broker non-votes.

Item 5. Other Information

- On May 15, 2003, the Company declared a quarterly dividend of \$0.19 per Ordinary Share payable on July 14, 2003 to shareholders of record on June 30, 2003.
- On August 7, 2003, the Company declared a quarterly dividend of \$0.19 per Ordinary Share payable on October 14, 2003, to shareholders of record on September 30, 2003.

Item 6. Exhibits and Reports on Form 8-K

1. Exhibits

- 10.1* The ACE Limited 1995 Outside Directors Plan (As amended through the seventh amendment)
- 10.2 Credit agreement dated May 22, 2003 by and among ACE Guaranty Corp., ACE Guaranty (UK) Ltd., certain lenders, ABN AMRO BANK N.V., in its capacity as administrative agent and ABN AMRO INCORPORATED as syndication agent, lead arranger and book runner.
- 31.1 Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
- 31.2 Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.

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ACE LIMITED PART II OTHER INFORMATION

- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes–Oxley Act of 2002.
32.2 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes–Oxley Act of 2002.
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* Management Contract or Compensation Plan

2. Reports on Form 8-K

The Company filed a Form 8-K current report (date of earliest event reported: May 30, 2003) pertaining to ACE Limited's intention to sell pursuant to an underwritten public offering 23 million Depository Shares.

The Company filed a Form 8-K current report (date of earliest event reported: June 20, 2003) pertaining to ACE Limited's announcement that the Board of Directors has elected Evan Greenberg to the position of President and Chief Operating Officer of ACE Limited and that Dominic Frederico will become Vice Chairman of ACE Limited.

The Company filed a Form 8-K current report (date of earliest event reported: July 28, 2003) pertaining to ACE Limited's press release reporting its second quarter 2003 results and the availability of its second quarter financial supplement.

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**ACE LIMITED
SIGNATURES**

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

August 12, 2003

ACE LIMITED

/s/ Brian Duperreault

Brian Duperreault
Chairman and Chief Executive Officer

August 12, 2003

/s/ Philip V. Bancroft

Philip V. Bancroft
Chief Financial Officer

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EXHIBITS**

| <u>Exhibit Number</u> | <u>Description</u> | <u>Numbered Page</u> |
|---------------------------|--|--------------------------|
| | Exhibits | |
| 10.1* | The ACE Limited 1995 Outside Directors Plan (As amended through the seventh amendment) | |
| 10.2 | Credit agreement dated May 22, 2003 by and among ACE Guaranty Corp., ACE Guaranty (UK) Ltd., certain lenders, ABN AMRO BANK N.V., in its capacity as administrative agent and ABN AMRO INCORPORATED as syndication agent, lead arranger and book runner. | |
| 31.1 | Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002. | |
| 31.2 | Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002. | |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002. | |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002. | |
| * | Management Contract or Compensation Plan | |

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

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ACE LIMITED 1995
OUTSIDE DIRECTORS PLAN

(AS AMENDED THROUGH THE SEVENTH AMENDMENT)

SECTION 1

GENERAL

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

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

SECTION 2

RETAINER AWARDS

2.1. General.

(a) For each Plan Year, each Director who is an Eligible Director on the first day of that Plan Year shall be granted a "Retainer Award" for the year, which shall be in the form of shares of Stock having a Fair Market Value of \$35,000. Except as otherwise provided in this subsection 2.1, the Retainer Award for any Plan Year shall be made as of the later of (i) the Award Date for the Meeting Awards granted with respect to the board meetings which occur concurrent with the annual general meeting of the Company shareholders, or (ii) the first day of the Plan Year (either being the "Award Date" for that Retainer Award), 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 2.2.

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

2.2. 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 2.2, 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.

2.3. 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 Award Date used for the Meeting Awards granted with respect to first board meeting (of the full board or any committee

thereof) of the next following Plan Year Quarter (the "Award Date" for that Committee Chairman 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

(f) 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. In the event that one or more committee or Board meetings are scheduled to occur within four consecutive business days of each other (the "Consecutive Meetings"), then the Meeting Awards for all such Consecutive Meetings shall be granted as of the first business day coincident with or next following the date of the last scheduled meeting in such four day period, which shall be the "Award Date" for that Meeting Award. (A committee or Board meeting that occurs within four consecutive business days of some but not all the Consecutive Meetings, or that is scheduled after the Meeting Awards for the prior meetings have been issued, will not be part of the preceding group of Consecutive Meetings, although, if applicable it could be part of another group of Consecutive Meetings.) In the event that the Company's annual general meeting of shareholders is scheduled to occur on the date coincident with or next following the date of the last scheduled meeting in such four day period, the date of such shareholder meeting shall be the "Award Date" for that Meeting Award. All other Meeting Awards 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 that Meeting Award.

(g) 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.

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

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

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

(k) 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.

(l) 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 later of (i) the Award Date used for the Meeting Awards granted with respect to the board meetings which occur concurrent with the annual general meeting of

the Company shareholders, or (ii) the first day of the Plan Year (either being the "Award Date" for that Option Award).

(m) 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).

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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;

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(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; provided, however, that in the event that the Participant elects to defer receipt of any Award under the Plan pursuant to Supplement A of the Plan, the fractional amounts will be calculated and recorded in the Participant's Stock Account. The subsequent distribution of a Participant's deferred Stock Awards shall be subject to payment in whole Shares with the fractional Shares distributed in cash, with the Fair Market Value determined as of the date the fractional share would otherwise have been distributable. For purposes of the foregoing sentence, if more than one Award or type of Award under the Plan is to be distributed in Shares on a single date, such Shares shall be aggregated prior to determining the number of whole and fractional shares to be distributed.

4.4. Adjustments to Shares.

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

(b) If the Company is reorganized, merged or consolidated or is party to a plan of exchange with another corporation, pursuant to which reorganization, merger, consolidation or plan of exchange the shareholders of the Company receive any shares of stock or other securities or property, or the Company shall distribute securities of another corporation to its shareholders, there shall be substituted for the shares subject to outstanding (non-vested) Awards and to deferred Stock Awards an appropriate number of shares of each class of stock or amount of other

securities or property which were distributed to the shareholders of the Company in respect of such shares; provided that, upon the occurrence of a reorganization of the Company or any other event described in this paragraph (b), any successor to the Company shall be substituted for the Company.

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

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

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

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

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

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

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

4.7. Distributions to Disabled Persons. Notwithstanding any other provision of the Plan, if, in the Committee's opinion, a Participant or other person entitled to benefits under the

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

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

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

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

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

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

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

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

SECTION 5

COMMITTEE

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

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

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

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

SECTION 6

AMENDMENT AND TERMINATION

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

SECTION 7

DEFINED TERMS

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

- (a) Award. The term "Award" shall mean the Retainer Award, the Option Award, the Committee Chairman Award, and the Meeting Award granted to any person under the Plan.
- (b) Board. The term "Board" shall mean the Board of Directors of the Company.
- (c) Change in Control. The term "Change in Control" shall mean the occurrence of any one of the following events:
 - (i) any "person," as such term is used in Sections 3(a)(9) and 13(d) of the Securities Exchange Act of 1934, becomes a "beneficial owner," as such term is used in Rule 13d-3 promulgated under that act, of 50% or more of the Voting Stock (as defined below) of the Company;
 - (ii) the majority of the Board consists of individuals other than Incumbent Directors, which term means the members of the Board on the date of this Agreement; provided that any person becoming a director subsequent to such date whose election or nomination for election was supported by three-quarters of the directors who then comprised the Incumbent Directors shall be considered to be an Incumbent Director;
 - (iii) the Company adopts any plan of liquidation providing for the distribution of all or substantially all of its assets;
 - (iv) all or substantially all of the assets or business of the Company is disposed of pursuant to a merger, consolidation or other transaction (unless the shareholders of the Company immediately prior to such merger, consolidation or other transaction beneficially own, directly or indirectly, in substantially the same proportion as they owned the Voting Stock of the Company, all of the Voting Stock or other ownership interests of the entity or entities, if any, that succeed to the business of the Company); or
 - (v) the Company combines with another company and is the surviving corporation but, immediately after the combination, the shareholders of the Company immediately prior to the combination hold, directly or indirectly, 50% or less of the Voting Stock of the combined company (there being excluded from the number of shares held by such shareholders, but not from the Voting Stock of the combined company, any shares received by Affiliates (as defined below) of such other company in exchange for stock of such other company).

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

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

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

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

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

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

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

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

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

(l) Plan Year. The term "Plan Year" means the period (i) beginning on the date on which members of the Board begin their yearly term as Board members following the election of Directors at the Company's annual general meeting of shareholders, which, unless otherwise specifically provided, shall be the date of such shareholder meeting, and (ii) ending on the day immediately prior to 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

[Diamond]

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-

A-1-2. Stock Deferral Election.

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

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

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.

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

A-1-3. Cash Deferral Election.

(a) An election to defer the receipt of all or a portion of the Cash Compensation for any Plan year shall be filed with respect to a Plan Year at such time and in such form as

established by the Committee; provided, however, that such election shall be effective only with respect to Cash Compensation payable after the date such election is filed.

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

[Diamond]

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:

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.

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.

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.

. 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.

. 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.

. 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.

. In determining a Participant's right to distributions of stock under this Section A-3, the vesting provisions of subsection 2.2 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.

. 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.

\$140,000,000

364-DAY REVOLVING CREDIT FACILITY

CREDIT AGREEMENT

Among

ACE GUARANTY CORP.,

ACE GUARANTY (UK) LTD.

and

THE BANKS PARTY HERETO

and

**ABN AMRO BANK N.V.,
As Administrative Agent**

Dated as of May 22, 2003

ABN AMRO INCORPORATED
As Syndication Agent,
Lead Arranger, and Bookrunner

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CREDIT AGREEMENT

THIS CREDIT AGREEMENT is dated as of May 22, 2003, and is made by and among ACE GUARANTY CORP., a Maryland corporation (the "Company"), ACE GUARANTY (UK) LTD., a company organized under the laws of England and Wales (the "UK Borrower"), the BANKS (as hereinafter defined), and ABN AMRO BANK N.V., in its capacity as administrative agent for the Banks under this Agreement (hereinafter referred to in such capacity as the "Agent") and sole bookrunner.

WITNESSETH:

WHEREAS, the Borrowers have requested the Banks to provide a 364-day revolving credit facility to the Borrowers in an aggregate principal amount not to exceed the Commitments of the Banks; and

WHEREAS, such revolving credit facility shall be used for the general corporate purposes of the Borrowers; and

WHEREAS, the Banks are willing to provide such credit upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, the parties hereto, in consideration of their mutual covenants and agreements hereinafter set forth, hereby covenant and agree as follows:

ARTICLE I

CERTAIN DEFINITIONS

Section 1.01 Certain Definitions. In addition to words and terms defined elsewhere in this Agreement, the following words and terms shall have the following meanings, respectively, unless the context hereof clearly requires otherwise:

ABN AMRO Bank or ABN AMRO shall mean ABN AMRO Bank N.V., its successors and assigns.

ACE shall mean ACE Limited, a Cayman Islands company.

Affiliate as to any Person shall mean any other Person (i) which directly or indirectly controls, is controlled by, or is under common control with, such Person, (ii) which beneficially owns or holds 5% or more of any class of the voting or other equity interests of such Person, or (iii) 5% or more of any class of voting interests or other equity interests of which is beneficially owned or held, directly or indirectly, by such Person. Control, as used in this definition, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting

securities, by contract or otherwise, including the power to elect a majority of the directors or trustees of a corporation or trust, as the case may be.

Agent shall mean ABN AMRO Bank N.V., and its successors and assigns, in its capacity as administrative agent for the Banks under this Agreement.

Agent's Fee shall have the meaning assigned to that term in Section 9.15.

Agent's Letter shall have the meaning assigned to that term in Section 9.15.

Aggregate Loan Outstandings shall have the meaning assigned to that term in Section 4.10(a).

Agreement shall mean this Credit Agreement, as the same may be supplemented or amended from time to time, including all schedules and exhibits.

Alternate Currency shall mean each of Euros and Pounds Sterling.

Alternate Currency Loan shall mean any Loan denominated in an Alternate Currency.

Approved Currency shall mean each of Dollars and each Alternate Currency.

Applicable Facility Fee Rate shall mean the percentage rate per annum corresponding to the indicated level of Insurer Financial Strength Rating in the pricing grid on Schedule 1.01(A) below the heading "Facility Fee." The Applicable Facility Fee Rate shall be computed in accordance with the parameters set forth on Schedule 1.01(A).

Applicable Margin shall mean, as applicable:

(A) the percentage spread to be added to Base Rate under the Revolving Credit Base Rate Option or the Term Loan Base Rate Option corresponding to the indicated level of Insurer Financial Strength Rating in the pricing grid on Schedule 1.01(A) below the heading "Revolving Credit Base Rate Spread," or

(B) the percentage spread to be added to LIBOR under the Revolving Credit LIBOR Option or the Term Loan LIBOR Option corresponding to the indicated level of Insurer Financial Strength Rating in the pricing grid on Schedule 1.01(A) below the heading "Revolving Credit LIBOR Spread."

The Applicable Margin shall be computed in accordance with the parameters set forth on Schedule 1.01(A).

Applicable Usage Premium shall mean the percentage rate per annum corresponding to the indicated level of Insurer Financial Strength Rating in the pricing grid on Schedule 1.01(A) below the heading "Usage Premium." The Applicable Usage Premium shall be computed in accordance with the parameters set forth on Schedule 1.01(A).

Assignee Bank shall have the meaning assigned to such term in Section 2.09(b).

Assignment and Assumption Agreement shall mean an Assignment and Assumption Agreement by and among a Purchasing Bank, a Transferor Bank and the Agent, as Agent and on behalf of the remaining Banks, substantially in the form of Exhibit 1.01(A).

Associated Cost Rate shall mean, with respect to any Interest Period for Pounds Sterling denominated Loans, the amount (expressed as a percentage rate per annum, rounded up to the nearest four decimal places, as determined by the Agent on the first day of such Interest Period) required to compensate the Banks lending from facility offices in the United Kingdom for the portion of the cost of each such Bank of complying with the cash ratio and special deposit requirements of the Bank of England and/or capital adequacy requirements and banking supervision or other fees imposed by the United Kingdom Financial Services Authority, which, in the reasonable determination of such Bank, is attributable to the Loans made by such Bank from its facility office in the United Kingdom and outstanding during such Interest Period.

Authorized Officer shall mean those individuals, designated by written notice to the Agent from each Borrower, authorized to execute notices, reports and other documents on behalf of such Borrower required hereunder. Each Borrower may amend such list of individuals from time to time by giving written notice of such amendment to the Agent.

Bank to be Terminated shall have the meaning assigned to such term in Section 2.09(b).

Banks shall mean the financial institutions named on Schedule 1.01(B) and their respective successors and assigns as permitted hereunder, each of which is referred to herein as a Bank.

Base Rate shall mean the greater of (i) the interest rate per annum announced from time to time by the Agent at its Principal Office as its then prime rate, which rate may not be the lowest rate then being charged commercial borrowers by the Agent, or (ii) the Federal Funds Effective Rate plus 0.5% per annum.

Base Rate Option shall mean the Revolving Credit Base Rate Option or the Term Loan Base Rate Option, as the case may be.

Benefit Arrangement shall mean at any time an "employee benefit plan," within the meaning of Section 3(3) of ERISA, which is neither a Plan nor a Multiemployer Plan and which is maintained, sponsored or otherwise contributed to by any member of the ERISA Group.

Bid shall have the meaning assigned to such term in Section 2.08(b).

Bid Deadline shall have the meaning assigned to such term in Section 2.08(b).

Bid Loan Borrowing Date shall mean, with respect to any Bid Loan, the date for the making thereof which shall be a Business Day.

Bid Loan LIBOR Rate Option shall mean the option of each Borrower to request that the Banks submit Bids to make Bid Loans bearing interest at a rate per annum quoted by such Banks at the LIBOR in effect two Business Days before the Borrowing Date of such Bid Loan plus a LIBOR Bid Loan Spread.

Bid Loan Fixed Rate Option shall mean the option of each Borrower to request that the Banks submit Bids to make Bid Loans bearing interest at a fixed rate per annum quoted by such Banks as a numerical percentage (and not as a spread over another rate such as the LIBOR).

Bid Loan Interest Period shall have the meaning assigned to such term in Section 2.08(a).

Bid Loan Request shall have the meaning assigned to such term in Section 2.08(b).

Bid Loans shall mean collectively all of the Bid Loans and Bid Loan shall mean separately any Bid Loan, made by any of the Banks to either Borrower pursuant to Section 2.08.

Bid Notes shall mean collectively all of the Bid Notes and Bid Note shall mean separately any Bid Note, of each Borrower in the form of Exhibit 1.01(B) evidencing the Bid Loans made to such Borrower together with all amendments, extensions, renewals, replacements, refinancings or refunds thereof in whole or in part.

Borrower shall mean each of the Company and the UK Borrower.

Borrowing Date shall mean, with respect to any Loan, the date for the making thereof or the renewal or conversion thereof at or to the same or a different Interest Rate Option, which shall be a Business Day.

Borrowing Tranche shall mean specified portions of Loans outstanding as follows: (i) any Loans to which a LIBOR Option or a Bid Loan Fixed Rate Option applies which become subject to the same Interest Rate Option under the same Loan Request by a Borrower and which have the same Interest Period shall constitute one Borrowing Tranche, and (ii) all Loans to which a Base Rate Option applies shall constitute one Borrowing Tranche.

Business Day shall mean any day other than a Saturday or Sunday or a legal holiday on which commercial banks are authorized or required to be closed for business in New York, New York and, if the applicable Business Day relates to any Loan to which the LIBOR Option applies, such day must also be a day on which dealings are carried on in the London interbank market and, with respect to any payments due under the Guaranty given by ACE Limited, such day must also be a day which is not a national holiday in Bermuda.

Closing Date shall mean May 22, 2003.

Commitment shall mean as to any Bank its Revolving Credit Commitment, and Commitments shall mean the aggregate of the Revolving Credit Commitments of all of the Banks.

Committed Loan shall mean a Revolving Credit Loan or a Term Loan, as the case may be.

Committed Loan Interest Period shall mean the period of time selected by the respective Borrower in connection with (and to apply to) any election permitted hereunder by such Borrower to have Revolving Credit Loans or Term Loans bear interest under the LIBOR Option. Subject to the last sentence of this definition, such period shall be one, two, three or six Months. Such Interest Period shall commence on the effective date of borrowing of any Loan bearing interest at a rate determined with reference to such Interest Rate Option, which shall be (i) the Borrowing Date if the respective Borrower is requesting new Loans, or (ii) the date of renewal of or conversion to the LIBOR Option if the Borrower is renewing or converting to the LIBOR Option applicable to outstanding Loans. Notwithstanding the second sentence hereof: (A) any Interest Period which would otherwise end on a date which is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in the next calendar month, in which case such Interest Period shall end on the directly preceding Business Day, and (B) such Borrower shall not select, convert to or renew an Interest Period for any portion of the Loans that would end after the Term Loan Maturity Date.

Committed Loan LIBOR Option shall mean a Revolving Credit Loan LIBOR Option and a Term Loan LIBOR Option.

Committed Loan Request shall mean a request for a Revolving Credit Loan or a request to select, convert to or renew a Base Rate Option or LIBOR Option with respect to an outstanding Revolving Credit Loan or Term Loan in accordance with Section 2.05, Section 3.01 and Section 3.02.

Company shall mean ACE Guaranty Corp., a Maryland corporation.

Compliance Certificate shall have the meaning assigned to such term in Section 7.03(c).

Consideration shall mean a greater than de minimis monetary return for the sale or provision of a service or product or for the undertaking of an obligation or liability, except that with respect to a Permitted Acquisition, Consideration shall mean the aggregate of (i) the cash paid by any of the Company or any Material Subsidiary, directly or indirectly, to the seller in connection with such Permitted Acquisition, (ii) the Indebtedness incurred or assumed by the Company or any of the Material Subsidiaries with respect to such Permitted Acquisition, whether in favor of the seller or otherwise and whether fixed or contingent, (iii) any Guaranty given or incurred by the Company or any Material Subsidiary in connection therewith, and (iv) any other consideration given or obligation incurred by the Company or any of the Material Subsidiaries in connection with such Permitted Acquisition.

Consolidated Debt shall mean, at any time, an amount equal to the sum (without duplication) of the then outstanding Indebtedness of the Company and of each Subsidiary of the Company (excluding, however, the amount of all Insurance-Related Guaranties and excluding all Soft Capital), determined and consolidated in accordance with GAAP.

Credit Derivative Guaranties shall have the meaning assigned to such term in Section 7.02(c).

Dollar, Dollars, U.S. Dollars and the symbol \$ shall mean lawful money of the United States of America.

Dollar Equivalent shall mean, at any time for the determination thereof, the amount of Dollars which could be purchased with the amount of the relevant Alternate Currency involved in such computation at the spot exchange rate therefor as quoted by the Administrative Agent as of 11:00 A.M., London time, on the date two Business Days prior to the date of any determination thereof for purchase on such date.

ERISA shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

ERISA Group shall mean, at any time, the Company and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control and all other entities which, together with the Company, are treated as a single employer under Section 414 of the Internal Revenue Code.

Euro shall mean the single currency of participating member states of the European Union.

Euro-LIBOR shall mean, with respect to the Loans comprising any Borrowing Tranche denominated in Euros to which the LIBOR Option applies for any Interest Period, an interest rate per annum determined on the basis of the rate for deposits in Euros for a period comparable to such Interest Period commencing on the first day of such Interest Period appearing on Page 3750 of the Telerate screen as of 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period. In the event that such rate does not appear on Page 3750 of the Telerate screen (or otherwise on such screen), Euro LIBOR shall be determined by reference to such other publicly available service for displaying Euro-denominated rates as may be agreed upon by the Agent and the Borrowers or, in the absence of such agreement, the Euro LIBOR shall be the rate of interest per annum determined by the Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) equal to the rate per annum at which Euro deposits approximately equal in principal amount to such Borrowing Tranche for a period and with a maturity comparable to such Interest Period are offered to the principal London office of Agent in immediately available funds in the London interbank market at approximately 11:00 A.M., London time, two Business Days prior to the commencement of such Interest Period. The Agent shall give prompt notice to the Borrowers of the Euro LIBOR as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

Eurodollar Rate shall mean, with respect to the Loans comprising any Borrowing Tranche denominated in Dollars to which the LIBOR Option applies for any Interest Period, an interest rate per annum determined on the basis of the rate for deposits in Dollars for a period comparable to such Interest Period commencing on the first day of such Interest Period

appearing on Page 3750 of the Telerate screen as of 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period. In the event that such rate does not appear on Page 3750 of the Telerate screen (or otherwise on such screen), the Eurodollar Rate shall be determined by reference to such other publicly available service for displaying eurodollar rates as may be agreed upon by the Agent and the Borrowers or, in the absence of such agreement, the Eurodollar Rate shall be the rate of interest per annum determined by the Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) equal to the rate per annum at which Dollar deposits approximately equal in principal amount to such Borrowing Tranche for a period and with a maturity comparable to such Interest Period are offered to the principal London office of Agent in immediately available funds in the London interbank market at approximately 11:00 A.M., London time, two Business Days prior to the commencement of such Interest Period. The Agent shall give prompt notice to the Borrowers of the Eurodollar Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

Eurodollar Reserve Percentage shall mean as of any day and with respect to any Bank or the Agent the maximum percentage in effect on such day for such Bank or the Agent, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements as it affects such Bank or the Agent (including supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as "Eurocurrency Liabilities").

Event of Default shall mean any of the events described in Section 8.01 and referred to therein as an "Event of Default."

Existing Credit Agreement shall mean the Credit Agreement, dated as of May 30, 2002, among the Company (formerly known as Ace Guaranty Re Inc.), the banks party thereto, ABN AMRO Bank N.V., as administrative agent, and ABN AMRO Incorporated, as syndication agent, lead arranger and bookrunner.

Existing Reinsurance Coverage shall have the meaning assigned to such term in Section 5.01(h)(C).

Expiration Date shall mean, with respect to the Revolving Credit Commitments, May 20, 2004, or such later date as determined pursuant to Section 2.09.

Extending Bank shall have the meaning assigned to such term in Section 2.09(b).

Facility Fee shall have the meaning assigned to that term in Section 2.03.

Facility Usage shall mean at any time the sum of the principal amount of the Revolving Credit Loans or Term Loans, as the case may be, outstanding and, solely for purposes of Section 2.04, the principal amount of the Bid Loans outstanding.

Federal Funds Effective Rate for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed and rounded upward to the nearest 1/100 of 1%) announced by the Federal Reserve Bank of New York (or any successor) on such day as being the weighted average of the rates on overnight federal funds transactions arranged by federal

funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank (or any successor) in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the "Federal Funds Effective Rate" as of the date of this Agreement; provided, if such Federal Reserve Bank (or its successor) does not announce such rate on any day, the "Federal Funds Effective Rate" for such day shall be the Federal Funds Effective Rate for the last day on which such rate was announced.

Fixed Rate shall mean a fixed interest rate quoted by a Bank in its Bid to apply to such Bank's Bid Loan over the term of such Bid Loan if such Bank's Bid is accepted.

Fixed Rate Bid Loan shall mean a Bid Loan that bears interest under the Bid Loan Fixed Rate Option.

GAAP shall mean generally accepted accounting principles as in effect from time to time in the United States, subject to the provisions of Section 1.03, applied on a consistent basis both as to classification of items and amounts.

Guarantor shall mean ACE, the Company and each Material Subsidiary which hereafter joins this Agreement as a Guarantor after the date hereof pursuant to Section 10.18.

Guarantor Joinder shall mean a joinder by a Person as a Guarantor under this Agreement, the Guaranty Agreement and the other Loan Documents in the form of Exhibit 1.01(G)(1).

Guaranty of any Person shall mean any obligation of such Person guarantying or in effect guarantying any liability or obligation of any other Person in any manner, whether directly or indirectly, including any agreement to indemnify or hold harmless any other Person (other than as an incidental part of another transaction), any performance bond or other suretyship arrangement and any other form of assurance against loss, except endorsement of negotiable or other instruments for deposit or collection in the ordinary course of business.

Guaranty Agreement shall mean one or more Guaranty Agreements in substantially the form of Exhibit 1.01(G)(2)-1, Exhibit 1.01(G)(2)-2 or Exhibit 1.01(G)(2)-3 executed and delivered by each of the Guarantors to the Agent for the benefit of the Banks.

Historical Statements shall have the meaning assigned to that term in Section 5.01(h)(A).

Indebtedness shall mean, as to any Person at any time, any and all indebtedness, obligations or liabilities (whether matured or unmatured, liquidated or unliquidated, direct or indirect, absolute or contingent, or joint or several) of such Person for or in respect of: (i) borrowed money, (ii) amounts raised under or liabilities in respect of any note purchase or acceptance credit facility, (iii) payment obligations (contingent or otherwise) under any letter of credit, currency swap agreement, interest rate swap, cap, collar or floor agreement or other interest rate management device, (iv) any other transaction (including forward sale or purchase agreements, capitalized leases and conditional sales agreements) having the commercial effect of a borrowing of money entered into by such Person to finance its operations or capital requirements (but not including trade payables and accrued expenses incurred in the ordinary

course of business which are not represented by a promissory note or other evidence of indebtedness and which are not more than ninety (90) days past due), or (v) any Guaranty of Indebtedness. For the avoidance of doubt, Indebtedness does not include the mere commitment (whether or not set forth in a credit agreement or otherwise), in favor of a Person, to advance funds or provide other financial accommodations to the extent that no such funds or financial accommodations are advanced or provided.

Insolvency Proceeding shall mean, with respect to any Person, (a) a case, action or proceeding with respect to such Person (i) before any court or any other Official Body under any bankruptcy, insolvency, reorganization or other similar Law now or hereafter in effect, or (ii) for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or similar official) of the Company or any Material Subsidiary or otherwise relating to the liquidation, dissolution, winding-up or relief of such Person, or (b) any general assignment for the benefit of creditors, composition, marshaling of assets for creditors, or other similar arrangement in respect of such Person's creditors generally or any substantial portion of its creditors, undertaken under any Law.

Insurance-Related Guaranties shall have the meaning assigned to that term in Section 7.02(c).

Insurer Financial Strength Rating shall mean the insurer financial strength rating of the Company as determined by each of Standard & Poor's and Moody's.

Interest Period shall mean either a Committed Loan Interest Period or a Bid Loan Interest Period.

Interest Rate Hedge shall mean an interest rate exchange, collar, cap, swap, adjustable strike cap, adjustable strike corridor, or similar agreements entered into by the Company or any Material Subsidiary in order to provide protection to, or minimize the impact upon, the Company or any Material Subsidiary of increasing floating rates of interest applicable to Indebtedness.

Interest Rate Option shall mean any Committed Loan LIBOR Option, Bid Loan LIBOR Option, Bid Loan Fixed Rate Option, or Base Rate Option.

Internal Revenue Code shall mean the Internal Revenue Code of 1986, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

Law shall mean any law (including common law), constitution, statute, treaty, regulation, rule, ordinance, opinion, release, ruling, order, injunction, writ, decree, bond, judgment, authorization, or approval, lien or award of or settlement agreement with any Official Body.

LIBOR shall mean, with respect to any Borrowing Tranche of Loans, the relevant interest rate, i.e., Eurodollar Rate, Euro LIBOR or Sterling LIBOR.

LIBOR Bid Loan shall mean any Bid Loan that bears interest under the Bid Loan LIBOR Option.

LIBOR Bid Loan Spread shall mean the spread quoted by a Bank in its Bid to apply to such Bank's Bid Loan if such Bank's Bid is accepted. The LIBOR Bid Loan Spread shall be quoted as a percentage rate per annum and expressed in multiples of 1/1000th of one percentage point to be either added to (if it is positive) or subtracted from (if it is negative) the LIBOR in effect two (2) Business Days before the Borrowing Date with respect to such Bid Loan. Interest on LIBOR Bid Loans shall be computed based on a year of 360 days for the actual days elapsed.

LIBOR Interest Period shall mean the Interest Period applicable to a LIBOR Bid Loan, a Revolving Credit Loan that is subject to the Revolving Credit LIBOR Option or a Term Loan that is subject to the Term Loan LIBOR Option.

LIBOR Option shall mean either the Revolving Credit LIBOR Option, the Term Loan LIBOR Option or the Bid Loan Euro-Rate Option.

Lien shall mean any mortgage, deed of trust, pledge, lien, security interest, charge, or other encumbrance or security arrangement of any nature whatsoever, whether voluntarily or involuntarily given, including any conditional sale or title retention arrangement, and any assignment, deposit arrangement, or lease intended as, or having the effect of, security and any filed financing statement or other notice of any of the foregoing (whether or not a lien or other encumbrance is created or exists at the time of the filing).

Loan Documents shall mean this Agreement, the Agent's Letter, the Guaranty Agreement, and any other instruments, certificates, or documents delivered or contemplated to be delivered hereunder or thereunder or in connection herewith or therewith, as the same may be supplemented or amended from time to time in accordance herewith or therewith, and Loan Document shall mean any of the Loan Documents.

Loan Request shall mean either a Bid Loan Request or a Committed Loan Request.

Loans shall mean collectively all Revolving Credit Loans, Term Loans and Bid Loans and Loan shall mean separately any Revolving Credit Loan, Term Loan or Bid Loan.

Material Adverse Change shall mean any set of circumstances or events which (a) has or could reasonably be expected to have any material adverse effect whatsoever upon the validity or enforceability of this Agreement or any other Loan Document, (b) is or could reasonably be expected to be material and adverse to the business, properties, assets, financial condition, results of operations or prospects of the Company and the Material Subsidiaries taken as a whole, (c) impairs materially or could reasonably be expected to impair materially the ability of the Company and the Material Subsidiaries taken as a whole to duly and punctually pay or perform its obligations under the Loan Documents, or (d) impairs materially or could reasonably be expected to impair materially the ability of the Agent or any of the Banks, to the extent permitted, to enforce their legal remedies pursuant to this Agreement or any other Loan Document.

Material Subsidiary shall mean (i) any Subsidiary of the Company which has at any time, or which will have after giving effect to any contemplated transaction, acquisition, loan or investment, a net worth equal to or greater than an amount which is the greater of five percent (5%) of the consolidated tangible net worth of the Company and its Subsidiaries or \$25,000,000, (ii) any Subsidiary of the Company as to which the Company requests in writing that it be a Material Subsidiary, and (iii) any Subsidiary or Subsidiaries of the Company which own(s) in the aggregate 30% or more of any Material Subsidiary; and Material Subsidiaries shall mean all such Subsidiaries. Notwithstanding the foregoing, the UK Borrower shall be deemed to be a Material Subsidiary for all purposes in this Agreement and the other Loan Documents; provided, however that the UK Borrower shall not be required to be a Guarantor.

Month, with respect to an Interest Period under the LIBOR Option, shall mean the interval between the days in consecutive calendar months numerically corresponding to the first day of such Interest Period. If any LIBOR Interest Period begins on a day of a calendar month for which there is no numerically corresponding day in the month in which such Interest Period is to end, the final month of such Interest Period shall be deemed to end on the last Business Day of such final month.

Moody's shall mean Moody's Investors Service, Inc. and its successors.

Multiemployer Plan shall mean any employee benefit plan which is a "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA and to which the Company or any member of the ERISA Group is then making or accruing an obligation to make contributions or, within the preceding five Plan years, has made or had an obligation to make such contributions.

Multiple Employer Plan shall mean a Plan which has two or more contributing sponsors (including the Company or any member of the ERISA Group) at least two of whom are not under common control, as such a plan is described in Sections 4063 and 4064 of ERISA.

Net Par shall mean the aggregate maximum par amount of insurance and reinsurance coverage under all obligations of insurance or reinsurance (or similar arrangements) provided by a Person minus the aggregate maximum par amount of reinsurance (or similar arrangements including hedging arrangements) coverage in favor of such Person with respect to its insurance or reinsurance obligations.

Notes shall mean the Revolving Credit/Term Loan Notes and Bid Notes.

Notices shall have the meaning assigned to that term in Section 10.06.

Obligation shall mean any obligation or liability of either Borrower, any Material Subsidiary, or ACE to the Agent or any of the Banks, howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due, under or in connection with this Agreement, any Notes, the Agent's Letter or any other Loan Document.

Off-Balance Sheet Transactions shall have the meaning assigned to that term in Section 7.03(e).

Offered Amount shall have the meaning assigned to such term in Section 2.08(b).

Official Body shall mean any national, federal, state, local, or other government or political subdivision or any agency, authority, board, bureau, central bank, commission, department, or instrumentality of either, or any court, tribunal, grand jury, or arbitrator, in each case whether foreign or domestic.

PBGC shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA or any successor.

Permitted Acquisitions shall have the meaning assigned to such term in Section 7.02(f).

Permitted Investments shall mean:

- (i) direct obligations of the United States of America or the United Kingdom or any agency or instrumentality thereof or obligations backed by the full faith and credit of the United States of America or the United Kingdom maturing in twelve (12) months or less from the date of acquisition;
- (ii) commercial paper maturing in 180 days or less rated not lower than A-1, by Standard & Poor's or P-1 by Moody's on the date of acquisition;
- (iii) demand deposits, time deposits or certificates of deposit maturing within one year in commercial banks whose obligations are rated A-1, A or the equivalent or better by Standard & Poor's on the date of acquisition; and
- (iv) fixed income securities with a weighted average credit quality of A by Standard & Poor's or A2 by Moody's on the date of acquisition; and
- (v) investments of the types specified in Section 1402(b) and 1404(a)(1), (2), (3), (8), and (10) of the New York Insurance Law.

Permitted Liens shall mean:

- (i) Liens for taxes, assessments, or similar charges, incurred in the ordinary course of business and which are not yet due and payable;
- (ii) Pledges or deposits made in the ordinary course of business of the Company or any Material Subsidiary to secure payment of workmen's compensation, or to participate in any fund in connection with workmen's compensation, unemployment insurance, old-age pensions or other social security programs with respect to such Person's officers or employees;
- (iii) Liens of mechanics, materialmen, warehousemen, carriers, or other like Liens, securing obligations incurred in the ordinary course of business that are not yet due and payable and Liens of landlords securing obligations to pay lease payments that are not yet due and payable or in default;

- (iv) Good-faith pledges or deposits made in the ordinary course of business of the Company or any Material Subsidiary to secure statutory or regulatory obligations of the Company or any Material Subsidiary;
- (v) Encumbrances consisting of zoning restrictions, easements or other restrictions on the use of real property, none of which materially impairs the use of such property or the value thereof, and none of which is violated in any material respect by existing or proposed structures or land use;
- (vi) Liens, security interests and mortgages in favor of the Agent for the benefit of the Banks securing the Obligations;
- (vii) Liens on property leased by the Company or any Material Subsidiary under capital and operating leases;
- (viii) Any Lien existing on the date of this Agreement securing payment of non-recourse Indebtedness and described on Schedule 1.01(P), provided that the principal amount secured thereby is not hereafter increased;
- (ix) Purchase Money Security Interests;
- (x) Liens on assets received by any Borrower from a third Person and held in trust by any Borrower in respect of liabilities assumed by any Borrower in the course of the reinsurance business of such Borrower;
- (xi) Liens securing Credit Derivative Guaranties, subject, however, to the terms of Section 7.02(p); and
- (xii) The following, (A) if the validity or amount thereof is being contested in good faith by appropriate and lawful proceedings diligently conducted so long as levy and execution thereon have been stayed and continue to be stayed or (B) if a final judgment is entered and such judgment is discharged within thirty (30) days of entry, and they do not in the aggregate materially impair the ability of any Borrower or any Material Subsidiary to perform its Obligations hereunder or under the other Loan Documents:
 - (1) Claims or Liens for taxes, assessments or charges due and payable and subject to interest or penalty, provided that the applicable Borrower or applicable Material Subsidiary maintains such reserves or other appropriate provisions as shall be required by GAAP and pays all such taxes, assessments or charges forthwith upon the commencement of proceedings to foreclose any such Lien;
 - (2) Claims, Liens, or encumbrances upon, and defects of title to, real or personal property, including any attachment of personal or real property or other legal process prior to adjudication of a dispute on the merits;
 - (3) Claims or Liens of mechanics, materialmen, warehousemen, carriers, or other statutory nonconsensual Liens; or

(4) Liens resulting from final judgments or orders described in Section 8.01(f).

Person shall mean any individual, corporation, partnership, limited liability company, association, joint-stock company, trust, unincorporated organization, joint venture, government or political subdivision or agency thereof, or any other entity.

Plan shall mean at any time an employee pension benefit plan (including a Multiple Employer Plan, but not a Multiemployer Plan) which is covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained by any entity which was at such time a member of the ERISA Group for employees of any entity which was at such time a member of the ERISA Group.

Potential Default shall mean any event or condition which with notice, passage of time or a determination by the Agent or the Required Banks, or any combination of the foregoing, would constitute an Event of Default.

Pounds Sterling shall mean freely transferable lawful money of the United Kingdom.

Principal Amount shall mean (i) the stated principal amount of each Loan denominated in Dollars, and/or (ii) the Dollar Equivalent of the stated principal amount of each Alternate Currency Loan, as the context may require.

Principal Office shall mean the main banking office of the Agent in New York, New York.

Prohibited Transaction shall mean any prohibited transaction as defined in Section 4975 of the Internal Revenue Code or Section 406 of ERISA for which neither an individual nor a class exemption has been issued by the United States Department of Labor.

Property shall mean all real property, both owned and leased, of the Company or any Material Subsidiary.

Purchase Money Security Interest shall mean Liens upon tangible personal property securing loans to the Company or any Material Subsidiary, or deferred payments by such Person, in either case for the purchase of such tangible personal property.

Purchasing Bank shall mean a Bank which becomes a party to this Agreement by executing an Assignment and Assumption Agreement.

Ratable Share shall mean the proportion that a Bank's Commitment bears to the Commitments.

Regulation U shall mean any of Regulations T, U, or X as promulgated by the Board of Governors of the Federal Reserve System, as amended from time to time.

Reportable Event shall mean a reportable event described in Section 4043 of ERISA and regulations thereunder with respect to a Plan or Multiemployer Plan.

Requested Amount shall have the meaning assigned to such term in Section 2.08(a).

Required Banks shall mean

(A) if there are no Loans, Required Banks shall mean Banks whose Commitments aggregate greater than 50% of the Commitments of all of the Banks, or

(B) if there are Loans, Required Banks shall mean:

(i) prior to a termination of the Commitments hereunder pursuant to Section 8.02(a) or Section 8.02(b), any Bank or group of Banks if the sum of the principal amount of the Committed Loans of such Banks then outstanding aggregates greater than 50% of the total principal amount of all of the Committed Loans then outstanding; and

(ii) after a termination of the Commitments hereunder pursuant to Section 8.02(a) or Section 8.02(b), any Bank or group of Banks if the sum of the principal amount of the Loans of such Banks then outstanding aggregates greater than 50% of the total principal amount of all of the Loans then outstanding.

Revolving Credit Base Rate Option shall mean the option of the Borrowers to have Revolving Credit Loans bear interest at the rate and under the terms and conditions set forth in Section 3.01(a)(i).

Revolving Credit Commitment shall mean, as to any Bank at any time, the amount initially set forth opposite its name on Schedule 1.01(B) in the column labeled "Amount of Commitment for Revolving Credit Loans," and thereafter on Schedule I to the most recent Assignment and Assumption Agreement, and Revolving Credit Commitments shall mean the aggregate Revolving Credit Commitments of all of the Banks.

Revolving Credit LIBOR Option shall mean the option of the Borrowers to have Revolving Credit Loans bear interest at the rate and under the terms and conditions set forth in Section 3.01(a)(ii).

Revolving Credit Loans shall mean collectively all Revolving Credit Loans made by the Banks to the Borrowers and Revolving Credit Loan shall mean separately any Revolving Credit Loan, made by one of the Banks to a Borrower, pursuant to Section 2.01(a). A Bid Loan is not a Revolving Credit Loan, except that it will be treated as a Revolving Credit Loan following a termination of the Commitments hereunder pursuant to Section 8.02(a) or Section 8.02(b) as provided in Section 8.03.

Revolving Credit/Term Loan Note shall mean any Revolving Credit/Term Loan Note of a Borrower in the form of Exhibit 1.01(R) issued by such Borrower to a Bank evidencing the Revolving Credit Loans or Term Loans, as the case may be, of such Bank to such Borrower,

together with all amendments, extensions, renewals, replacements, refinancings or refundings thereof in whole or in part.

SEC shall mean the Securities and Exchange Commission or any governmental agencies substituted therefor.

Soft Capital shall have the meaning assigned to that term in Section 7.02(a).

Standard & Poor's shall mean Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

Statutory Capital shall mean the aggregate of policyholders' surplus of the Company and the contingency reserve of the Company, each determined in a manner consistent with that used in preparing the Historical Statements referred to in Section 5.01(h)(A) [Historical Statements].

Sterling LIBOR shall mean, with respect to the Loans comprising any Borrowing Tranche denominated in Pounds Sterling to which the LIBOR Option applies for any Interest Period, (A) an interest rate per annum determined on the basis of the rate for deposits in Pounds Sterling for a period comparable to such Interest Period commencing on the first day of such Interest Period appearing on Page 3750 of the Telerate screen as of 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period plus (B) the Associated Cost Rate for such Loans for such Interest Period. In the event that such rate does not appear on Page 3750 of the Telerate screen (or otherwise on such screen), Sterling LIBOR shall be determined by reference to such other publicly available service for displaying Pounds Sterling-denominated rates as may be agreed upon by the Agent and the Borrowers or, in the absence of such agreement, Sterling LIBOR shall be the rate of interest per annum determined by the Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) equal to the rate per annum at which Pounds Sterling deposits approximately equal in principal amount to such Borrowing Tranche for a period and with a maturity comparable to such Interest Period are offered to the principal London office of Agent in immediately available funds in the London interbank market at approximately 11:00 A.M., London time, two Business Days prior to the commencement of such Interest Period. The Agent shall give prompt notice to the Borrowers of the Sterling LIBOR as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

Subsidiary of any Person at any time shall mean (i) any corporation or trust of which 50% or more (by number of shares or number of votes) of the outstanding capital stock or shares of beneficial interest normally entitled to vote for the election of one or more directors or trustees (regardless of any contingency which does or may suspend or dilute the voting rights) is at such time owned directly or indirectly by such Person or one or more of such Person's Subsidiaries, (ii) any partnership of which such Person is a general partner or of which 50% or more of the partnership interests is at the time directly or indirectly owned by such Person or one or more of such Person's Subsidiaries, (iii) any limited liability company of which such Person is a member or of which 50% or more of the limited liability company interests is at the time directly or indirectly owned by such Person or one or more of such Person's Subsidiaries or (iv) any corporation, trust, partnership, limited liability company or other entity which is

controlled or capable of being controlled by such Person or one or more of such Person's Subsidiaries. Notwithstanding the foregoing, the UK Borrower shall be deemed to be a Subsidiary for all purposes in this Agreement and the other Loan Documents; provided, however, that the UK Borrower shall not be required to be a Guarantor.

Term Loan Base Rate Option shall mean the option of the Borrowers to have Term Loans bear interest at the rate and under the terms and conditions set forth in Section 3.01(a)(i).

Term Loan Fee shall have the meaning assigned to that term in Section 2.03(b).

Term Loan LIBOR Option shall mean the option of the Borrowers to have Term Loans bear interest at the rate and under the terms and conditions set forth in Section 3.01(a)(ii).

Term Loan Maturity Date shall mean the first anniversary of the Expiration Date or, if such day is not a Business Day, the next preceding Business Day.

Term Loans shall mean each Revolving Credit Loan that is converted into a term loan on the Expiration Date pursuant to Section 2.01(b).

Total Capitalization shall mean, at any time, an amount (without duplication) equal to (i) the then outstanding Consolidated Debt of the Company and its Subsidiaries, plus (ii) consolidated stockholders equity of the Company and its Subsidiaries.

Transferor Bank shall mean the selling Bank pursuant to an Assignment and Assumption Agreement.

UK Borrower shall mean ACE Guaranty (UK) Ltd., a company organized under the laws of England and Wales.

Section 1.02 Construction. Unless the context of this Agreement otherwise clearly requires, the following rules of construction shall apply to this Agreement and each of the other Loan Documents:

(a) Number; Inclusion. References to the plural include the singular, the plural, the part and the whole; "or" has the inclusive meaning represented by the phrase "and/or," and "including" is not a term of limitation and has the meaning represented by the phrase "including without limitation";

(b) Determination. References to "determination" of or by the Agent or the Banks shall be deemed to include good-faith estimates by the Agent or the Banks (in the case of quantitative determinations) and good-faith beliefs by the Agent or the Banks (in the case of qualitative determinations) and such determination shall be conclusive absent manifest error;

(c) Agent's Discretion and Consent. Whenever the Agent or the Banks are granted the right herein to act in its or their sole discretion or to grant or withhold consent such right shall be exercised in good faith;

(d) Documents Taken as a Whole. The words "hereof," "herein," "hereunder," "hereto" and similar terms in this Agreement or any other Loan Document refer to this Agreement or such other Loan Document as a whole and not to any particular provision of this Agreement or such other Loan Document;

(e) Headings. The section and other headings contained in this Agreement or such other Loan Document and the Table of Contents (if any), preceding this Agreement or such other Loan Document are for reference purposes only and shall not control or affect the construction of this Agreement or such other Loan Document or the interpretation thereof in any respect;

(f) Implied References to this Agreement. Article, section, subsection, clause, schedule and exhibit references are to this Agreement or other Loan Document, as the case may be, unless otherwise specified;

(g) Persons. Reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are permitted by this Agreement or such other Loan Document, as the case may be, and reference to a Person in a particular capacity excludes such Person in any other capacity;

(h) Modifications to Documents. Reference to any agreement (including this Agreement and any other Loan Document together with the schedules and exhibits hereto or thereto), document or instrument means such agreement, document or instrument as amended, modified, replaced, substituted for, superseded or restated;

(i) From, To and Through. Relative to the determination of any period of time, "from" means "from and including," "to" means "to but excluding," and "through" means "through and including"; and

(j) Shall; Will. References to "shall" and "will" are intended to have the same meaning.

Section 1.03 Accounting Principles; Computations. (a) Except as otherwise provided in this Agreement (as, for example, where reference is made to statutory or regulatory financial matters), all computations and determinations as to accounting or financial matters and all financial statements to be delivered pursuant to this Agreement shall be made and prepared in accordance with GAAP (including principles of consolidation where appropriate), and all accounting or financial terms shall have the meanings ascribed to such terms by GAAP as in effect on the date hereof applied on a basis consistent with that used in preparing the Historical Statements referred to in Section 5.01(h)(A) [Historical Statements]. In the event of any change after the date hereof in GAAP, and if such change would result in the inability to determine compliance with the financial covenants set forth in Section 7.02 based upon the Company's regularly prepared financial statements by reason of the preceding sentence, then the parties hereto agree to endeavor, in good faith, to agree upon an amendment to this Agreement that would adjust such financial covenants in a manner that would not affect

the substance thereof, but would allow compliance therewith to be determined in accordance with the Company's financial statements at that time.

(b) For purposes of this Agreement, the Dollar Equivalent of each Loan that is an Alternate Currency Loan shall be calculated on the date when any such Loan is made, on the second Business Day of each month, or such date as a Borrower may request and at such other times as designated by the Agent at any time when a Potential Default or an Event of Default exists. Such Dollar Equivalent shall remain in effect until the same is recalculated by the Agent as provided above and notice of such recalculation is received by the Borrowers, it being understood that until such notice is received, the Dollar Equivalent shall be that Dollar Equivalent as last reported to the Borrowers by the Administrative Agent. The Agent shall promptly notify the Borrowers and the Banks of each such determination of the Dollar Equivalent.

ARTICLE II

REVOLVING CREDIT AND TERM LOAN FACILITY

Section 2.01 Revolving Credit Commitments; Term Loans. (a) Subject to the terms and conditions hereof and relying upon the representations and warranties herein set forth, each Bank severally agrees to make Revolving Credit Loans to either Borrower (on a several basis) at any time or from time to time on or after the date hereof to the Expiration Date, which Revolving Credit Loans

(i) may be made and maintained in such Approved Currency as is requested by the applicable Borrower (provided that the aggregate Principal Amount of Revolving Credit Loans denominated in Alternate Currencies shall not exceed \$12,500,000 and only the UK Borrower may incur Alternate Currency Loans) and (ii) shall not, in the case of Revolving Credit Loans incurred by the UK Borrower, when added to the outstanding Principal Amount of all Bid Loans incurred by the UK Borrower, exceed \$12,500,000 in aggregate Principal Amount outstanding at any time for all such Revolving Credit Loans and Bid Loans; provided that, after giving effect to each such Loan, the aggregate amount of Loans from such Bank shall not exceed such Bank's Revolving Credit Commitment. Within such limits of time and amount and subject to the other provisions of this Agreement, the Borrowers may borrow, repay, and reborrow Revolving Credit Loans pursuant to this Section 2.01(a).

(b) Subject to and upon the terms and conditions set forth herein, each Borrower and each Bank which has Dollar-denominated Revolving Credit Loans outstanding at such time agree that at 9:00 A.M., New York time, on the Expiration Date, the aggregate principal amount of Dollar-denominated Revolving Credit Loans owing to such Bank and outstanding at such time shall (unless such Revolving Credit Loans have been declared (or have become) due and payable pursuant to this Agreement), upon written notice (or telephonic notice promptly confirmed in writing) by the respective Borrower to the Agent requesting such conversion, automatically convert to and thereafter constitute Term Loans owing to such Bank hereunder. The Term Loans of each Bank (i) shall be made and thereafter maintained in Dollars; (ii) shall, at the option of the applicable Borrower, be Base Rate Loans or LIBOR Loans, provided that all Term Loans comprising the same Borrowing Tranche shall, unless otherwise specifically provided herein, consist of Term Loans of the same type; and (iii) shall not exceed in initial

Principal Amount for such Bank an amount which equals the total principal amount of Dollar-denominated Revolving Credit Loans owed to such Bank and outstanding at 9:00 A.M., New York time, on the Expiration Date. Once repaid, Term Loans may not be reborrowed.

Section 2.02 Nature of Banks' Obligations with Respect to Revolving Credit Loans. Each Bank shall be obligated to participate in each request for Revolving Credit Loans pursuant to Section 2.05 [Revolving Credit Loan Requests] in accordance with its Ratable Share. The aggregate Principal Amount of each Bank's Revolving Credit Loans outstanding hereunder to the Borrowers at any time shall never exceed its Revolving Credit Commitment. The obligations of each Bank hereunder are several and not joint. The failure of any Bank to perform its obligations hereunder shall not affect the Obligations of the Borrowers to any other party nor shall any other party be liable for the failure of such Bank to perform its obligations hereunder. The Banks shall have no obligation to make Revolving Credit Loans hereunder on or after the Expiration Date.

Section 2.03 Facility Fees; Term Loan Fee. (a) Accruing from the date hereof until but not including the Expiration Date, the Company agrees to pay to the Agent for the account of each Bank, as consideration for such Bank's Revolving Credit Commitment hereunder, a non-refundable facility fee (the "Facility Fee") equal to the Applicable Facility Fee Rate (computed on the basis of a year of 360 days for the actual days elapsed) on the average daily amount of such Bank's Revolving Credit Commitment as the same may be constituted from time to time, regardless of usage. All Facility Fees shall be payable in arrears on the first Business Day of each June, September, December, and March after the date hereof and on the Expiration Date or upon acceleration of the Loans.

(b) Accruing on the Expiration Date to but not including the Term Loan Maturity Date, the Company agrees to pay to the Agent for the pro rata account of each Bank, a non-refundable fee (the "Term Loan Fee"), equal to 0.125% of the average daily aggregate outstanding Principal Amount of the Term Loans. The Term Loan Fee shall be payable in arrears on the first Business Day of each March, June, September, and December after the Expiration Date and on the date the Term Loans are repaid in their entirety.

Section 2.04 Utilization Fee. On each day on which the Facility Usage exceeds 33.3% of the amount of the Commitments (or, after the Expiration Date, the Commitments as in effect immediately prior to the Expiration Date), the Applicable Margin shall be increased for such day by the Applicable Usage Premium.

Section 2.05 Revolving Credit Loan Requests. Except as otherwise provided herein, a Borrower may from time to time prior to the Expiration Date request the Banks to make Revolving Credit Loans in Dollars, or renew or convert the Interest Rate Option applicable to existing Revolving Credit Loans or Term Loans pursuant to Section 3.01(c) [Interest Periods], by delivering to the Agent, not later than 10:00 a.m., New York time, (i) three (3) Business Days prior to the proposed Borrowing Date with respect to the making of Revolving Credit Loans to which the LIBOR Option applies, or with respect to the conversion to or the renewal of the LIBOR Option for any Loans; and (ii) one (1) Business Day prior to either the proposed Borrowing Date with respect to the making of a Revolving Credit Loan to which the Base Rate Option applies or the last day of the preceding Committed Loan Interest Period with respect to

the conversion to the Base Rate Option for any Loan, of a duly completed Committed Loan Request therefor substantially in the form of Exhibit 2.05 or a Committed Loan Request by telephone immediately confirmed in writing by letter, facsimile, email, or telex in the form of such Exhibit. In addition, the UK Borrower may from time to time prior to the Expiration Date request to make Revolving Credit Loans in Alternate Currencies by delivering to the Agent, not later than 1:00 P.M., New York time, at least four Business Days prior to the Borrowing Date a duly completed Committed Loan Request substantially in the form of Exhibit 2.05 or a Committed Loan Request by telephone immediately confirmed in writing by letter, facsimile, email or telex in the form of such Exhibit. Each Loan Request shall be irrevocable and shall specify (i) the identity of the applicable Borrower; (ii) the respective Approved Currency for such Loan; (iii) the proposed Borrowing Date; (iv) the aggregate amount of the proposed Loans comprising each Borrowing Tranche (stated in the applicable Approved Currency), which shall be in integral multiples of \$1,000,000 and not less than \$5,000,000 for each Borrowing Tranche to which the LIBOR Option applies and not less than the lesser of \$500,000 or the maximum amount available for Borrowing Tranches to which the Base Rate Option applies; (v) whether Committed Loan LIBOR Option or Base Rate Option shall apply to the proposed Loans comprising the applicable Borrowing Tranche; and (vi) in the case of a Borrowing Tranche to which the Committed Loan LIBOR Option applies, an appropriate Committed Loan Interest Period for the Loans comprising such Borrowing Tranche.

Section 2.06 Making Revolving Credit Loans. The Agent shall, promptly after receipt by it of a Loan Request pursuant to Section 2.05 [Revolving Credit Loan Requests], notify the Banks of its receipt of such Loan Request specifying: (i) the applicable Borrower making the Loan Request; (ii) the proposed Borrowing Date and the time and method of disbursement of the Revolving Credit Loans requested thereby; (iii) the amount and type of each such Revolving Credit Loan (stated in the applicable Approved Currency) and the applicable Interest Period (if any); and (iv) the apportionment among the Banks of such Revolving Credit Loans as determined by the Agent in accordance with Section 2.02 [Nature of Banks' Obligations]. Each Bank shall remit the principal amount of each Revolving Credit Loan to the Agent such that the Agent is able to, and the Agent shall, to the extent the Banks have made funds available to it for such purpose and subject to Section 6.02 [Each Additional Loan], fund such Revolving Credit Loans to the applicable Borrower in the applicable Approved Currency and immediately available funds at the Principal Office prior to 2:00 p.m., New York time, on the applicable Borrowing Date, provided that if any Bank fails to remit such funds to the Agent in a timely manner, the Agent may elect in its sole discretion to fund with its own funds the Revolving Credit Loans of such Bank on such Borrowing Date, and such Bank shall be subject to the repayment obligation in Section 9.16 [Availability of Funds].

Section 2.07 Use of Proceeds. The proceeds of the Revolving Credit Loans shall be used for the working capital and other general corporate purposes of the Borrowers and in accordance with Section 7.01(j) [Use of Proceeds].

Section 2.08 Bid Loan Facility. (a) Bid Loan Requests. Except as otherwise provided herein, any Borrower may from time to time prior to the Expiration Date request that the Banks make Bid Loans by delivery to the Agent not later than 10:00 A.M. New York time of a duly completed request therefor substantially in the form of Exhibit 2.08(a) hereto or a request by telephone immediately confirmed in writing by letter, facsimile, email, or telex (each, a "Bid

Loan Request") at least three (3) Business Days prior to the proposed Bid Loan Borrowing Date if the applicable Borrower is requesting Fixed Rate Bid Loans and four (4) Business Days prior to the proposed Bid Loan Borrowing Date if the applicable Borrower is requesting Euro-Rate Bid Loans of one, two, three, or six months' duration. Each Bid Loan Request shall be irrevocable and shall specify (i) the identity of the applicable Borrower; (ii) the respective Approved Currency for such Loan; (iii) the proposed Bid Loan Borrowing Date; (iv) whether the applicable Borrower is electing the Bid Loan Fixed Rate Option or the Bid Loan LIBOR Option; (v) the term of the proposed Bid Loan (the "Bid Loan Interest Period"), which may be no less than seven (7) day(s) and no longer than one hundred eighty (180) days if the applicable Borrower is requesting a Fixed Rate Bid Loan and one, two, three, or six months if the applicable Borrower is requesting a LIBOR Bid Loan; and (vi) the maximum principal amount (the "Requested Amount") of such Bid Loan, which shall be not less than \$10,000,000 and shall be an integral multiple of \$1,000,000. After giving effect to such Bid Loan and any other Loan made on or before the Bid Loan Borrowing Date, the aggregate Principal Amount of all Revolving Credit Loans and Bid Loans outstanding shall not exceed the aggregate amount of the Revolving Credit Commitments of the Banks. In addition, after giving effect to any such Bid Loan incurred by the UK Borrower and any other Loan made on or before the Bid Loan Borrowing Date, the aggregate Principal Amount of all Bid Loans and Revolving Credit Loans incurred by the UK Borrower shall not exceed \$12,500,000 in Principal Amount outstanding. Notwithstanding any provision hereof to the contrary, no Bid Loan may be requested for a period that would end beyond the Expiration Date.

(b) Bidding. The Agent shall promptly after receipt by it of a Bid Loan Request pursuant to Section 2.08(a) notify the Banks of its receipt of such Bid Loan Request specifying (i) the identity of the applicable Borrower, (ii) the proposed Bid Loan Borrowing Date, (iii) whether the proposed Bid Loan shall be a Fixed Rate Bid Loan or a LIBOR Bid Loan, (iv) the Bid Loan Interest Period, (v) the principal amount of the proposed Bid Loan and (vi) in the case of an Alternate Currency Loan to be incurred by the UK Borrower, the Alternate Currency for such Bid Loan. Each Bank may submit a bid (a "Bid") to the Agent by telephone (immediately confirmed in writing by letter, facsimile, email, or telex) not later than the following (each, as applicable, a "Bid Deadline"):
10:00 A.M. New York time two (2) Business Day before the proposed Bid Loan Borrowing Date if the applicable Borrower is requesting a Fixed Rate Bid Loan or 10:00 A.M. New York time three (3) Business Days before the proposed Bid Loan Borrowing Date if the applicable Borrower is requesting a LIBOR Bid Loan of one, two, three, or six months' duration. Each Bid shall specify: (A) the principal amount of proposed Bid Loans offered by such Bank (the "Offered Amount") which (i) may be less than, but shall not exceed, the Requested Amount, (ii) shall be at least \$2,000,000 and shall be an integral multiple of \$1,000,000 and (iii) may exceed such Bank's Revolving Credit Commitment; and (B) the Fixed Rate which shall apply to such proposed Bid Loan if the applicable Borrower has requested a Fixed Rate Bid Loan or the LIBOR Bid Loan Spread which shall apply to such proposed Bid Loan if Borrower has requested a LIBOR Bid Loan and which may be a positive or negative number. If any Bid omits information required hereunder, the Agent may in its sole discretion attempt to notify the Bank submitting such Bid. If the Agent so notifies a Bank, such Bank may resubmit its Bid provided that it does so prior to the applicable Bid Deadline. The Agent shall promptly notify the applicable Borrower of the Bids which it timely received from the Banks. If the Agent in its capacity as a Bank shall, in its sole discretion, make a Bid, it shall notify the Borrower of such Bid at least one-half hour before the

applicable Bid Deadline.

(c) Accepting Bids. The applicable Borrower, at its option, shall irrevocably accept or reject Bids by notifying the Agent of such acceptance or rejection by telephone (immediately confirmed in writing by letter, facsimile, email, or telex) not later than one hour after the applicable Bid Deadline. If the applicable Borrower elects to accept any Bids, its acceptance must meet the following conditions: (1) the total amount which the applicable Borrower accepts from all Banks must not be less than \$10,000,000 and shall be in integral multiples of \$1,000,000 and may not exceed the Requested Amount; (2) the applicable Borrower must accept Bids based solely on the amount of the Fixed Rates or LIBOR Bid Loan Spreads, as the case may be, which each of the Banks quoted in their Bids in ascending order of the amount of Fixed Rates or LIBOR Bid Loan Spreads; (3) the applicable Borrower may not borrow Bid Loans from any Bank on the Bid Loan Borrowing Date in an amount exceeding such Bank's Offered Amount; (4) if two or more Banks make Bids at the same Fixed Rate (if the applicable Borrower Requested a Fixed Rate Bid Loan) or LIBOR Bid Loan Spread (if the applicable Borrower Requested a LIBOR Bid Loan) and the applicable Borrower desires to accept a portion but not all of the Bids at such Fixed Rate or LIBOR Bid Loan Spread, as the case may be, the applicable Borrower shall accept a portion of each Bid equal to the product of the Offered Amount of such Bid times the fraction obtained by dividing the total amount of Bids which the applicable Borrower desires to accept at such Fixed Rate or LIBOR Bid Loan Spread, as the case may be, by the sum of the Offered Amounts of the Bids at such Fixed Rate or LIBOR Bid Loan Spread, provided that the applicable Borrower shall round the Bid Loans allocated to each such Bank upward or downward as the applicable Borrower may select to integral multiples of \$1,000,000. The Agent shall (i) promptly notify a Bank that has made a Bid of the amount of its Bid that was accepted or rejected by the applicable Borrower and (ii) as promptly as practical notify all of the Banks of all Bids submitted and those which have been accepted.

(d) Funding Bid Loans. Each Bank whose Bid or portion thereof is accepted shall remit the principal amount of its Bid Loan to the Agent by 12:00 Noon on the Bid Loan Borrowing Date. The Agent shall make such funds available to the applicable Borrower on or before 1:00 P.M. on the Borrowing Date provided that the conditions precedent to the making of such Bid Loan set forth in Section 6.02 have been satisfied not later than 10:00 A.M. New York time on the proposed Bid Loan Borrowing Date. If such conditions precedent have not been satisfied prior to such time, then (i) the Agent shall not make such funds available to the applicable Borrower, (ii) the Bid Loan Request shall be deemed to be canceled, (iii) the Agent shall return the amount previously funded to the Agent by each applicable Bank no later than the next following Business Day, and (iv) the applicable Borrower shall be obligated to each such Bank for any loss, costs, and expenses applicable pursuant to Section 4.06(b) [Indemnity]. The applicable Borrower shall immediately notify the Agent of any failure to satisfy the conditions precedent to the making of Bid Loans under Section 6.02. The Agent may assume that the applicable Borrower has satisfied such conditions precedent if the applicable Borrower (i) has delivered to the Agent any documents required to be delivered under Section 6.02, (ii) the applicable Borrower has not notified the Agent that any other conditions precedent have not been satisfied, and (iii) the Agent has no actual notice of such a failure.

(e) Several Obligations. The obligations of the Banks to make Bid Loans after their Bids have been accepted are several. No Bank shall be responsible for the failure of

any other Bank to make any Bid Loan which another Bank has agreed to make.

(f) Bid Notes. The obligation of the applicable Borrower to repay the aggregate unpaid principal amount of the Bid Loans made to it by each Bank, together with interest thereon, shall be evidenced by a Bid Note dated as of the Closing Date payable to the order of such Bank in a face amount equal to the aggregate Revolving Credit Commitments of all of the Banks.

Section 2.09 Extension by Banks of the Expiration Date. (a) Requests; Approval by All Banks. No earlier than forty-five (45) days prior to the Expiration Date, the Company may request an extension of the Expiration Date for another 364 days by written notice to the Banks, and the Banks agree to respond to the Company's request for an extension no earlier than thirty (30) and no later than twenty (20) days prior to the then applicable Expiration Date; provided, however, that the failure of any Bank to respond within such time period shall not in any manner constitute an agreement by such Bank to extend the Expiration Date. If all Banks elect to extend, the Expiration Date shall be extended for a period of 364 days. If one or more Banks decline to extend or do not respond to the Company's request, the provisions of Section 2.09 shall apply.

(b) Approval by Required Banks. In the event that one or more Banks do not agree to extend the Expiration Date or do not respond to the Company's request for an extension within the time required under Section 2.09 (each a "Bank to be Terminated"), but the Required Banks agree to such extension within such time: then, on or before the then applicable Expiration Date, the Company may, with the prior written approval of the Agent (which approval shall not be unreasonably withheld), arrange to have one or more other banks reasonably acceptable to the Agent (each an "Assignee Bank") purchase all of the outstanding Loans, if any, of the Bank to be Terminated and succeed to and assume all of the Commitments and all other rights, interests, and obligations of the Bank to be Terminated under this Agreement and the other Loan Documents. Any such purchase and assumption shall be (1) pursuant to an Assignment and Assumption Agreement, (2) subject to and in accordance with Section 10.11

[Successors and Assigns], and (3) if any Committed Loans are outstanding under the Committed Loan LIBOR Option or if any Bid Loans are outstanding to such Bank to be Terminated, the Borrowers shall pay all such outstanding amounts, together with all interest, fees and all other amounts of any nature owing to the Bank to be Terminated on the effective date of such Assignment and Assumption Agreement (including any amounts owing under Section 4.06(b) [Indemnity]. In the event that the Agent shall become a Bank to be Terminated, the provisions of this

Section 2.09 shall be subject to Section 9.14 [Successor Agent]. In the event that the Loans and Commitments of a Bank to be Terminated are not fully assigned and assumed pursuant to this Section 2.09(b) on or before the then applicable Expiration Date, then the Expiration Date shall not be extended for any Bank.

Section 2.10 UK Borrower Loans. (a) Notwithstanding anything to the contrary in this Agreement, the UK Borrower shall not be permitted to incur any Loans hereunder unless and until the following conditions precedent have been satisfied:

(i) Secretary's Certificate. There shall be delivered to the Agent for the benefit of each Bank a certificate signed by the Secretary or an Assistant Secretary of the UK Borrower, certifying as appropriate as to:

(A) all action taken by the UK Borrower in connection with this Agreement and the other Loan Documents;

(B) the names of the officer or officers authorized to sign this Agreement and the other Loan Documents and the true signatures of such officer or officers and specifying the Authorized Officers permitted to act on behalf of the UK Borrower for purposes of this Agreement and the true signatures of such officers, on which the Agent and each Bank may conclusively rely; and

(C) copies of its organizational documents, including its certificate or articles of incorporation and bylaws as in effect on the date such Secretary's Certificate is executed and if applicable, certified by the appropriate official where such documents are filed in an office.

(ii) Opinion of Counsel. There shall be delivered to the Agent for the benefit of each Bank one or more written opinions of counsel for the UK Borrower in form and substance satisfactory to the Agent and its counsel:

(A) as to the matters set forth in Exhibit 6.01(d); and

(B) as to such other matters incident to the transactions contemplated herein as the Agent may reasonably request.

(iii) The UK Borrower shall have received permission from the United Kingdom Financial Services Authority under Part IV of the Financial Services and Markets Act 2000 to effect and carry out contracts of insurance.

(b) Notwithstanding anything to the contrary in this Agreement, the UK Borrower will not be permitted to borrow or incur any new Loans hereunder at any time after the UK Borrower ceases to be a wholly-owned Subsidiary of the Company.

ARTICLE III

INTEREST RATES

Section 3.01 Interest Rate Options. Each Borrower shall pay interest in respect of the outstanding unpaid principal amount of the Committed Loans as selected by it from the Base Rate Option or Revolving Credit LIBOR Option set forth below applicable to the Committed Loans, it being understood that, subject to the provisions of this Agreement, the Borrowers may select different Interest Rate Options and different Interest Periods to apply to different Borrowing Tranches of the Committed Loans and may convert to or renew one or more Interest Rate Options with respect to all or any portion of the Committed Loans comprising any Borrowing Tranche, provided that there shall not be at any one time outstanding more than eight

(8) Borrowing Tranches in the aggregate among all of the Committed Loans. If at any time the designated rate applicable to any Committed Loan made by any Bank exceeds such Bank's highest lawful rate, the rate of interest on such Bank's Committed Loan shall be limited to such Bank's highest lawful rate.

(a) Revolving Credit Interest Rate Options. Each Borrower shall have the right to select from the following Interest Rate Options applicable to the Revolving Credit Loans and Term Loans incurred by it:

(i) Revolving Credit Base Rate Option: A fluctuating rate per annum (computed on the basis of a year of 365 or 366 days, as the case may be, for the actual days elapsed) equal to the Base Rate plus the Applicable Margin, such interest rate to change automatically from time to time effective as of the effective date of each change in the Base Rate; or

(ii) Revolving Credit LIBOR Option: A rate per annum (computed on the basis of a year of 360 days for the actual days elapsed) equal to the applicable LIBOR plus the Applicable Margin.

(b) Rate Quotations. The Borrowers may call the Agent on or before the date on which a Committed Loan Request is to be delivered to receive an indication of the rates then in effect, but it is acknowledged that such projection shall not be binding on the Agent or the Banks nor affect the rate of interest which thereafter is actually in effect when the election is otherwise made in accordance with the terms of this Agreement.

(c) Change in Fees or Interest Rates. If the Applicable Margin or Applicable Fee Amount is increased or reduced with respect to any period for which any Borrower has already paid interest or Facility Fees, the Agent shall recalculate the additional interest or Facility Fees due from or the amount of the refund of interest or Facility Fees due to such Borrower and shall, within fifteen (15) Business Days after the Agent received the information which gave rise to such increase or decrease, give the applicable Borrower and the Banks notice of such recalculation.

(i) Any additional interest or Facility Fee due from any Borrower shall be paid to the Agent for the account of the Banks on the next date on which an interest or fee payment is due; provided, however, that if there are no Loans outstanding or if the Loans are due and payable, such additional interest or Facility Fee shall be paid promptly after receipt of written request for payment from the Agent.

(ii) Any interest or Facility Fee refund due to any Borrower shall be credited against payments otherwise due from such Borrower on the next interest or fee payment date or, if the Loans have been repaid and the Banks are no longer committed to lend under this Agreement, the Banks shall pay the Agent for the account of such Borrower such interest or Facility Fee refund not later than five Business Days after written notice from the Agent to the Banks.

Section 3.02 Committed Loans Interest Periods. At any time when any Borrower shall select, convert to, or renew a Committed Loan LIBOR Option, the applicable Borrower shall notify the Agent thereof at least three (3) Business Days prior to the effective date of such LIBOR Option by delivering a Loan Request. The notice shall specify a Committed Loan Interest Period during which such Interest Rate Option shall apply. Notwithstanding the preceding sentence, the following provisions shall apply to any selection of, renewal of, or conversion to a Committed Loan LIBOR Option:

- (a) Amount of Borrowing Tranche. Each Borrowing Tranche of Committed Loan LIBOR Loans shall be in integral multiples of \$1,000,000 and not less than \$5,000,000;
- (b) Renewals. In the case of the renewal of a Committed Loan LIBOR Option at the end of an Interest Period, the first day of the new Interest Period shall be the last day of the preceding Interest Period, without duplication in payment of interest for such day.

Section 3.03 Interest After Default. To the extent permitted by Law, upon the occurrence of an Event of Default and until such time such Event of Default shall have been cured or waived:

- (a) Interest Rate. The rate of interest otherwise applicable for each Loan pursuant to Section 3.01 [Interest Rate Options] shall be increased by 2.0% per annum; and
- (b) Other Obligations. Each other Obligation hereunder if not paid when due shall bear interest at a rate per annum equal to the sum of the rate of interest applicable under the Revolving Credit Base Rate Option plus an additional 2.0% per annum from the time such Obligation becomes due and payable and until it is paid in full.
- (c) Acknowledgment. The Borrowers acknowledge that the increase in rates referred to in this Section 3.03 reflects, among other things, the fact that such Loans or other amounts have become a substantially greater risk given their default status and that the Banks are entitled to additional compensation for such risk; and all such interest referred to in this Section 3.03 shall be payable by the Borrowers upon demand by the Agent.

Section 3.04 LIBOR Unascertainable; Illegality; Increased Costs; Deposits Not Available. (a) Unascertainable. If on any date on which LIBOR would otherwise be determined with respect to Committed Loans or Bid Loans, the Agent shall have determined that:

- (i) adequate and fair means do not exist for ascertaining such LIBOR, or
- (ii) a contingency has occurred which materially and adversely affects the respective London interbank market relating to LIBOR, the Agent shall have the rights specified in Section 3.04.

(b) Illegality; Increased Costs; Deposits Not Available. If at any time any Bank shall have determined that:

(i) the making, maintenance or funding of any Loan to which a LIBOR Option applies has been made unlawful by compliance by such Bank in good faith with any Law or any interpretation or application thereof by any Official Body or with any request or directive of any such Official Body (whether or not having the force of Law), or

(ii) such LIBOR Option will not adequately and fairly reflect the cost to such Bank of the establishment or maintenance of any such Loan, or

(iii) after making all reasonable efforts, deposits of the relevant amount in the relevant Approved Currency for the relevant Interest Period for a Loan to which a LIBOR Option applies are not available to such Bank with respect to such Loan in the respective London interbank market,

then the Agent shall have the rights specified in Section 3.04(c).

(c) Agent's and Bank's Rights. In the case of any event specified in Section 3.04(a) above, the Agent shall promptly so notify the Banks and the Borrowers thereof, and in the case of an event specified in Section 3.04(b) above, such Bank shall promptly so notify the Agent and endorse a certificate to such notice as to the specific circumstances of such notice, and the Agent shall promptly send copies of such notice and certificate to the other Banks and the Borrowers. Upon such date as shall be specified in such notice (which shall not be earlier than the date such notice is given), the obligation of (A) the Banks, in the case of such notice given by the Agent, or (B) such Bank, in the case of such notice given by such Bank, to allow the Borrowers to select, convert to or renew a LIBOR Option shall be suspended until the Agent shall have later notified the Borrowers, or such Bank shall have later notified the Agent, of the Agent's or such Bank's, as the case may be, determination that the circumstances giving rise to such previous determination no longer exist. If at any time the Agent makes a determination under Section 3.04(a) and any Borrower has previously notified the Agent of its selection of, conversion to or renewal of a LIBOR Option and such Interest Rate Option has not yet gone into effect, such notification shall be deemed to provide for the termination of the applicable Borrower's Bid Loan request (without penalty) for such Loans if the applicable Borrower has requested Bid Loans under the Bid Loan LIBOR Option and for the selection of, conversion to or renewal of the Base Rate Option otherwise available with respect to such Loans if the applicable Borrower has requested the Committed Loan LIBOR Option. If any Bank notifies the Agent of a determination under Section 3.04(b), the Borrowers shall, subject to the Borrowers' indemnification Obligations under Section 4.06(b) [Indemnity], as to any Loan of the Bank to which a LIBOR Option applies, on the date specified in such notice either convert such Loan to the Base Rate Option otherwise available with respect to such Loan (in the case of Dollar-denominated Loans) or prepay such Loan in accordance with Section 4.04 [Voluntary Prepayments]. Absent due notice from the Borrowers of conversion or prepayment, such Loan shall automatically be converted to the Base Rate Option otherwise available with respect to such Loan upon such specified date in the case of Dollar-denominated Loans, or prepaid on such date in the case of all other Loans.

Section 3.05 Selection of Interest Rate Options. If any Borrower fails to select a new Interest Period to apply to any Borrowing Tranche of Committed Loans under the Committed LIBOR Option at the expiration of an existing Interest Period applicable to such Borrowing Tranche in accordance with the provisions of

Section 3.01(c) [Interest Periods], the applicable Borrower shall be deemed to have (i) in the case of Dollar-denominated Loans, converted such Borrowing Tranche to the Revolving Credit Base Rate Option commencing upon the last day of the existing Interest Period and (ii) in the case of Alternate Currency Loans, selected a one-month Interest Period commencing upon the last day of the existing Interest Period.

ARTICLE IV

PAYMENTS

Section 4.01 Payments. All payments and prepayments to be made in respect of principal, interest, Facility Fees, Term Loan Fees, Bid Loan Processing Fees, Agent's Fee, or other fees or amounts due from the Borrowers hereunder shall be payable prior to 11:00 A.M., New York time, on the date when due without presentment, demand, protest, or notice of any kind, all of which are hereby expressly waived by the Borrowers, and without set-off, counterclaim, or other deduction of any nature, and an action therefor shall immediately accrue. Such payments shall be made to the Agent at the Principal Office for the ratable accounts of the Banks with respect to the Loans and for the account of the lending Bank with respect to the Bid Loans, in the applicable Approved Currency and in immediately available funds, and the Agent shall promptly distribute such amounts to the Banks in immediately available funds, provided that in the event payments are received by 11:00 A.M., New York time, by the Agent with respect to the Loans and such payments are not distributed to the Banks on the same day received by the Agent, the Agent shall pay the Banks the Federal Funds Effective Rate with respect to the amount of such payments for each day held by the Agent and not distributed to the Banks. The Agent's and each Bank's statement of account, ledger, or other relevant record shall, in the absence of manifest error, be conclusive as the statement of the amount of principal of and interest on the Loans and other amounts owing under this Agreement.

Section 4.02 Pro Rata Treatment of Banks. (a) Each borrowing of Revolving Credit Loans shall be allocated to each Bank according to its Ratable Share (irrespective of the amount of Bid Loans outstanding), and each selection of, conversion to or renewal of any Interest Rate Option applicable to Revolving Credit Loans and each payment or prepayment by the Borrowers with respect to principal or interest on the Revolving Credit Loans, Term Loans, Facility Fees or Term Loan Fees or other fees (except for the Agent's Fee and the Bid Loan Processing Fee) or amounts due from the Borrowers hereunder to the Banks with respect to the Revolving Credit Loans or Term Loans, shall (except as provided in Section 3.04(c) [Agent's and Bank's Rights] in the case of an event specified in Section 3.04 [Euro-Rate Unascertainable; Etc.], Section 4.04 [Replacement of a Bank] or Section 4.06 [Additional Compensation in Certain Circumstances]) be made in proportion to the applicable Revolving Credit Loans or Term Loans, as the case may be, outstanding from each Bank and, if no such Loans are then outstanding, in proportion to the Ratable Share of each Bank. Each borrowing of a Bid Loan shall be made according to the provisions in Section 2.08 hereof and each payment or

prepayment by the Borrowers of principal, interest, fees, or other amounts from the Borrowers with respect to Bid Loans shall be made to the Banks in proportion to the amounts due to such Banks with respect to Bid Loans then outstanding.

(b) All Borrowings of Term Loans under this Agreement shall be incurred by the Borrowers from the Banks pro rata on the basis of such Banks' Commitments as in effect immediately prior to the Expiration Date.

Section 4.03 Interest Payment Dates. Interest on Committed Loans to which the Base Rate Option applies shall be due and payable in arrears on the first Business Day of each June, September, December, and March after the date hereof and on the Expiration Date or upon acceleration of the Loan. Interest on Committed Loans and Bid Loans to which the LIBOR Option applies and Bid Loans to which the Bid Loan Fixed Rate Option applies shall be due and payable on the last day of each Interest Period for those Loans and, if such Interest Period is longer than three (3) Months, also at the end of the third Month of such Interest Period. Interest on payments of principal and other monetary Obligations shall be due on the date such payment is due (whether on the stated maturity date, upon acceleration, or otherwise) or if principal or such other Obligation is paid earlier than the date when due, then on the date when paid.

Section 4.04 Voluntary Prepayments. (a) Right to Prepay. Each Borrower shall have the right at its option from time to time to prepay the Committed Loans incurred by it in whole or part without premium or penalty (except as provided in Section 4.04(b) below or in Section 4.06 [Additional Compensation in Certain Circumstances]):

- (i) at any time with respect to any Committed Loan to which the Base Rate Option applies,
- (ii) on the last day of the applicable Interest Period with respect to Committed Loans to which a LIBOR Option applies,
- (iii) on the date specified in a notice by any Bank pursuant to Section 3.04 [LIBOR Unascertainable, Etc.] with respect to any Committed Loan to which a LIBOR Option applies.

Whenever any Borrower desires to prepay any part of the Committed Loans, it shall provide a prepayment notice to the Agent by 12:00 Noon, New York time, at least one (1) Business Day prior to the date of prepayment of Revolving Credit Loans or Term Loans to which a Base Rate Option applies and at least three (3) Business Days prior to the date of prepayment of Revolving Credit Loans or Term Loans to which a LIBOR Option applies setting forth the following information:

- (x) the date, which shall be a Business Day, on which the proposed prepayment is to be made;
- (y) a statement indicating the application of the prepayment among the Borrowing Tranches of such Loans; and

(z) the total principal amount of such prepayment, which shall not be less than \$1,000,000 or such lesser amount as may be outstanding under the Borrowing Tranche to be prepaid.

The principal amount of the Committed Loans for which a prepayment notice is given, together with interest and fees as have accrued on such principal amount, shall be due and payable on the date specified in such prepayment notice as the date on which the proposed prepayment is to be made; provided, however, that failure of any Borrower to make payment in accordance with a prepayment notice given by it shall not be an Event of Default in and of itself. Except as provided in Section 3.04(c) [Agent's and Bank's rights], if any Borrower prepays a Committed Loan, but fails to specify the applicable Borrowing Tranche which the applicable Borrower is repaying, the prepayment shall be applied first to Committed Loans to which the Base Rate Option applies, then to Loans to which the Committed Loan LIBOR Option applies. Any prepayment hereunder and any failure of the applicable Borrower to make payment in accordance with a prepayment notice provided by it shall be subject to the applicable Borrower's Obligation to indemnify the Banks under Section 4.06(b) [Indemnity].

(b) Replacement of a Bank. In the event any Bank (i) gives notice under Section 3.04 [LIBOR Unascertainable, Etc.] or Section 3.04 [Increased Costs, Etc.], (ii) does not fund Revolving Credit Loans or Bid Loans because the making of such Loans would contravene any Law applicable to such Bank, or (iii) becomes subject to the control of an Official Body (other than normal and customary supervision), then the Company shall have the right at its option, with the consent of the Agent, which shall not be unreasonably withheld, to prepay the Loans of such Bank in whole, together with all interest accrued thereon, and terminate such Bank's Commitment at any time after (x) receipt of such Bank's notice under Section 3.04 [LIBOR Unascertainable, Etc.] or Section 4.06(a) [Increased Costs, Etc.], (y) the date such Bank has failed to fund Revolving Credit Loans or Bid Loans because the making of such Loans would contravene Law applicable to such Bank, or (z) the date such Bank became subject to the control of an Official Body, as applicable; provided that the applicable Borrower shall also pay to such Bank at the time of such prepayment any amounts required under Section 4.06 [Additional Compensation in Certain Circumstances] and any accrued interest due on such amount and any related fees; provided, however, that the Commitment and any Bid Loan of such Bank shall be provided by one or more of the remaining Banks or a replacement bank acceptable to the Agent; provided, further, the remaining Banks shall have no obligation hereunder to increase their Commitments or provide the Bid Loan of such Bank. Notwithstanding the foregoing, the Agent may only be replaced subject to the requirements of Section 9.14 [Successor Agent].

(c) Change of Lending Office. Each Bank agrees that, upon the occurrence of any event giving rise to increased costs or other special payments under Section 3.04(b) [Illegality, Etc.] or Section 4.06(a) [Increased Costs, Etc.] with respect to such Bank, it will if requested by the Company, use reasonable efforts (subject to overall policy considerations of such Bank) to designate another lending office for any Loans affected by such event, provided that such designation is made on terms that such Bank and its lending office suffer no economic, legal or regulatory disadvantage, with the object of avoiding the consequence of the event giving rise to the operation of such Section. Nothing in this Section 4.04 (c) shall affect or postpone any of the Obligations or the rights of the Agent or any Bank provided in this

Agreement.

Section 4.05 Reduction or Termination of Commitments. The aggregate amount of the Commitments shall be automatically reduced to zero on the Expiration Date. In addition, the Borrower shall have the right to terminate or reduce the then unused portion of Commitments at any time or from time to time; provided that (a) each partial reduction shall be in an aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof; (b) at no time shall the total amount of the Commitments be less than current Loans outstanding; and (c) any Borrower shall provide at least five (5) Business Days prior written notice of each such termination or reduction to the Agent specifying the amount of the Commitments to be reduced or terminated. Each such notice shall be irrevocable, and Commitments once terminated or reduced may not be reinstated.

Section 4.06 Additional Compensation in Certain Circumstances. (a) Increased Costs or Reduced Return Resulting From Taxes, Reserves, Capital Adequacy Requirements, Expenses, Etc. If any Law, guideline or interpretation or any change in any Law, guideline or interpretation or application thereof by any Official Body charged with the interpretation or administration thereof or compliance with any request or directive (whether or not having the force of Law) of any central bank or other Official Body:

(i) subjects any Bank to any tax or changes the basis of taxation with respect to this Agreement, the Committed Loans or the Bid Loans or payments by any Borrower of principal, interest, Facility Fees, Term Loan Fees or other amounts due from the Borrowers hereunder (except for taxes on the overall net income of such Bank),

(ii) imposes, modifies or deems applicable any reserve (including the Eurodollar Reserve Percentage), special deposit or similar requirement against credits or commitments to extend credit extended by, or assets (funded or contingent) of, deposits with or for the account of, or other acquisitions of funds by, any Bank, or

(iii) imposes, modifies or deems applicable any capital adequacy or similar requirement (A) against assets (funded or contingent) of, or letters of credit, other credits or commitments to extend credit extended by, any Bank, or (B) otherwise applicable to the obligations of any Bank under this Agreement,

and the result of any of the foregoing is to increase the cost to, reduce the income receivable by, or impose any expense (including loss of margin) upon any Bank with respect to this Agreement, or the making, maintenance or funding of any part of the Committed Loans or the Bid Loans (or, in the case of any capital adequacy or similar requirement, to have the effect of reducing the rate of return on any Bank's capital, taking into consideration such Bank's customary policies with respect to capital adequacy) by an amount which such Bank in its sole discretion deems to be material, such Bank shall from time to time notify the Borrowers and the Agent of the amount determined in good faith (using any averaging and attribution methods employed in good faith) by such Bank to be necessary to compensate such Bank for such increase in cost, reduction of income, additional expense or reduced rate of return. Such notice shall set forth in reasonable detail the basis for such determination. Such amount shall be due

and payable by the applicable Borrower to such Bank ten (10) Business Days after such notice is given.

(b) Indemnity. In addition to the compensation required by Section

4.06 [Increased Costs, Etc.], the each Borrower shall indemnify each Bank against all liabilities, losses, or expenses (including loss of margin, any loss or expense incurred in liquidating or employing deposits from third parties and any loss or expense incurred in connection with funds acquired by a Bank to fund or maintain Loans subject to a LIBOR Option or the Bid Loan Fixed Rate Option) which such Bank sustains or incurs as a consequence of any

(i) payment, prepayment, conversion, or renewal of any Loan to which a LIBOR Option or the Bid Loan Fixed Rate Option applies on a day other than the last day of the corresponding Interest Period (whether or not such payment or prepayment is mandatory, voluntary, or automatic and whether or not such payment or prepayment is then due),

(ii) attempt by such Borrower to revoke (expressly, by later inconsistent notices or otherwise) in whole or part any Loan Requests under Section 2.05 [Revolving Credit Loan Requests], Section 2.08 [Bid Loan Facility] or Section 3.02 [Interest Periods] or notice relating to prepayments under Section 4.04 [Voluntary Prepayments], or

(iii) default by such Borrower in the performance or observance of any covenant or condition contained in this Agreement or any other Loan Document, including any failure of such Borrower to pay when due (by acceleration or otherwise) any principal of or interest on the Committed Loans or the Bid Loans, Facility Fee, Term Loan Fee or any other amount due hereunder; or

(iv) payment or prepayment of any Bid Loan on a day other than the maturity date thereof (whether or not such payment or prepayment is mandatory or voluntary).

If any Bank sustains or incurs any such loss or expense, it shall from time to time notify the respective Borrower of the amount determined in good faith by such Bank (which determination may include such assumptions, allocations of costs and expenses, and averaging or attribution methods as such Bank shall deem reasonable) to be necessary to indemnify such Bank for such loss or expense. Such notice shall set forth in reasonable detail the basis for such determination. Such amount shall be due and payable by the respective Borrower to such Bank ten (10) Business Days after such notice is given.

Section 4.07 Taxes. (a) No Deductions. All payments made by each Borrower hereunder and under each Note shall be made free and clear of and without deduction for any present or future taxes, levies, imposts, deductions, charges, or withholdings, and all liabilities with respect thereto, excluding taxes imposed on the net income of any Bank and all income and franchise taxes applicable to any Bank of the United States (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings, and liabilities being hereinafter referred to as "Taxes"). If any Borrower shall be required by Law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to

additional sums payable under this Section 4.07(a)) each Bank receives an amount equal to the sum it would have received had no such deductions been made, (ii) the applicable Borrower shall make such deductions, and (iii) the applicable Borrower shall timely pay the full amount deducted to the relevant tax authority or other authority in accordance with applicable Law.

(b) Stamp Taxes. In addition, each Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges, or similar levies which arise from any payment made hereunder or from the execution, delivery, or registration of, or otherwise with respect to, this Agreement or any Note (hereinafter referred to as "Other Taxes").

(c) Indemnification for Taxes Paid by a Bank. Each Borrower shall indemnify each Bank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 4.07(c)) paid by any Bank and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within 30 days from the date a Bank makes written demand therefor.

(d) Certificate. Within 30 days after the date of any payment of any Taxes by any Borrower, the applicable Borrower shall furnish to each Bank, at its address referred to herein, the original or a certified copy of a receipt evidencing payment thereof.

(e) Survival. Without prejudice to the survival of any other agreement of the Borrowers hereunder, the agreements and obligations of the Borrowers contained in this Section 4.07 shall survive the payment in full of principal and interest hereunder and under any instrument delivered hereunder.

Section 4.08 Judgment Currency. (a) Currency Conversion Procedures for Judgments. If for the purposes of obtaining judgment in any court it is necessary to convert a sum due hereunder or under a Note in any currency (the "Original Currency") into another currency (the "Other Currency"), the parties hereby agree, to the fullest extent permitted by Law, that the rate of exchange used shall be that at which in accordance with normal banking procedures each Bank could purchase the Original Currency with the Other Currency after any premium and costs of exchange on the Business Day preceding that on which final judgment is given.

(b) Indemnity in Certain Events. The obligation of each Borrower in respect of any sum due from such Borrower to any Bank hereunder shall, notwithstanding any judgment in an Other Currency, whether pursuant to a judgment or otherwise, be discharged only to the extent that, on the Business Day following receipt by any Bank of any sum adjudged to be so due in such Other Currency, such Bank may in accordance with normal banking procedures purchase the Original Currency with such Other Currency. If the amount of the Original Currency so purchased is less than the sum originally due to such Bank in the Original Currency, each Borrower agrees, as a separate obligation and notwithstanding any such judgment or payment, to indemnify such Bank against such loss.

Section 4.09 Notes, Maturity. The Revolving Credit Loans and Term Loans made by each Bank shall be evidenced by a Revolving Credit/Term Loan Note in the form of Exhibit 1.01(R). Notwithstanding anything to the contrary contained elsewhere in this Agreement, (x) all outstanding Revolving Credit Loans not converted to Term Loans pursuant to Section 2.01(b) shall be repaid in full on the Expiration Date and (y) all outstanding Term Loans shall be repaid on the Term Loan Maturity Date.

Section 4.10 Mandatory Prepayments. (a) If on any date the sum of the aggregate outstanding Principal Amount of Revolving Credit Loans and Bid Loans (all the foregoing, collectively, the "Aggregate Loan Outstandings") exceeds the Commitments as then in effect, the Borrowers shall repay no later than the next following Business Day the principal amount of Revolving Credit Loans in an aggregate Principal Amount equal to such excess. If, after giving effect to the prepayment of all outstanding Revolving Credit Loans as set forth above, the remaining Aggregate Loan Outstandings exceed the Commitments, the Borrowers shall repay on such date the principal of Bid Loans in an aggregate amount equal to such excess.

(b) If on any date on which Dollar Equivalents are determined, pursuant to Section 1.03(b), the sum of the aggregate outstanding Principal Amount of Revolving Credit Loans and Bid Loans constituting Alternate Currency Loans exceeds \$12,500,000, the UK Borrower shall repay no later than the next following Business Day the principal amount of Revolving Credit Loans constituting Alternate Currency Loans in an aggregate Principal Amount equal to such excess. If, after giving effect to the prepayment of all outstanding Revolving Credit Loans constituting Alternate Currency Loans as set forth above, the aggregate outstanding Principal Amount of Bid Loans constituting Alternate Currency Loans exceeds \$12,500,000, the UK Borrower shall repay on such date Bid Loans constituting Alternate Currency Loans in an aggregate Principal Amount equal to such excess.

(c) If on any date the aggregate Principal Amount of Revolving Credit Loans and Bid Loans incurred by the UK Borrower exceeds \$12,500,000, the UK Borrower shall repay no later than the next following Business Day the principal amount of Revolving Credit Loans in an aggregate Principal Amount equal to such excess. If, after giving effect to the repayment of all outstanding Revolving Credit Loans incurred by the UK Borrower as set forth above, the outstanding Bid Loans incurred by the UK Borrower exceeds \$12,500,000, the UK Borrower shall repay on such date the principal of Bid Loans in an aggregate amount equal to such excess.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

Section 5.01 Representations and Warranties. Each Borrower represents and warrants to the Agent and each of the Banks as follows:

(a) Organization and Qualification. Such Borrower is a corporation duly organized, validly existing, and in good standing under the laws of its jurisdiction of organization. Such Borrower has the lawful power to own or lease its properties and to engage in the business it presently conducts. Such Borrower is duly licensed or qualified and in good standing in each jurisdiction where the property owned or leased by it or the

nature of the business transacted by it or both makes such licensing or qualification necessary.

(b) Capitalization and Subsidiaries. As of the Closing Date, the UK Borrower and ACE Risk Assurance Company, a Maryland corporation, are the sole Subsidiaries of the Company. ACE Risk Assurance Company is an inactive corporation having no material liabilities or Indebtedness. The authorized capital stock of the Company is owned by ACE Financial Services, Inc., a Delaware corporation, and all such shares of stock have been validly issued and are fully paid and nonassessable.

(c) Power and Authority. Such Borrower has full power to enter into, execute, deliver, and carry out this Agreement and the other Loan Documents to which it is a party, to incur the Indebtedness contemplated by the Loan Documents, and to perform its Obligations under the Loan Documents to which it is a party, and all such actions have been duly authorized by all necessary proceedings on its part.

(d) Validity and Binding Effect. This Agreement has been duly and validly executed and delivered by such Borrower, and each other Loan Document which such Borrower is required to execute and deliver as of the date hereof has been duly executed and delivered by such Borrower. Assuming the due execution and delivery by Agent and the Banks of those Loan Documents to which they are a party, this Agreement and each other Loan Document to which such Borrower is a party constitute the legal, valid and binding obligations of such Borrower on and after its date of delivery thereof, enforceable against such Borrower in accordance with its terms, except to the extent that enforceability of any of such Loan Document may be limited by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the enforceability of creditors' rights generally or limiting the right of specific performance.

(e) No Conflict. Neither the execution and delivery of this Agreement or the other Loan Documents by such Borrower nor the consummation of the transactions herein or therein contemplated or compliance with the terms and provisions hereof or thereof will conflict with, constitute a default under or result in any breach of (i) the terms and conditions of the certificate or articles of incorporation, bylaws, or other organizational documents of such Borrower, or (ii) any Law or any material agreement or instrument or order, writ, judgment, injunction, or decree to which such Borrower is a party or by which it is bound or to which it is subject, or result in the creation or enforcement of any Lien, charge or encumbrance whatsoever upon any property (now or hereafter acquired) of such Borrower (other than Permitted Liens).

(f) Litigation. There are no actions, suits, proceedings, or investigations pending or, to the knowledge of such Borrower, threatened against such Borrower at law or in equity before any Official Body which individually or in the aggregate may result in any Material Adverse Change. Such Borrower is not in violation of any order, writ, injunction, or any decree of any Official Body which may result in any Material Adverse Change.

(g) Title to Properties. Such Borrower has good and marketable title to or valid leasehold interests in all properties, assets, and other rights which it purports to own or lease or which are reflected as owned or leased on its books and records, free and clear of all Liens and encumbrances except Permitted Liens. All leases of property are in full force and effect and are subject only to the terms and conditions of the applicable leases.

(h) Financial Statements, Reinsurance Coverage.

(A) Historical Statements. The Company has delivered to the Agent copies of its audited consolidated year-end financial statements for and as of the end of the three (3) fiscal years ended December 31, 2000, 2001 and 2002 (the "Historical Statements"). The Historical Statements were compiled from the books and records maintained by the Company's management, are correct and complete and fairly represent the consolidated financial condition of the Company and its Subsidiaries as of their dates and the results of operations for the fiscal periods then ended and have been prepared in accordance with GAAP and statutory requirements consistently applied.

(B) Accuracy of Financial Statements. As of the Closing Date, neither the Company nor any Subsidiary of the Company has any liabilities, contingent or otherwise, or forward or long-term commitments or Off-Balance Sheet Transactions that are not disclosed in the Historical Statements or in the notes thereto, and except as disclosed therein there are no unrealized or anticipated losses from any commitments of the Company or any Subsidiary of the Company which may cause a Material Adverse Change. Since December 31, 2002, no Material Adverse Change has occurred.

(C) Reinsurance Coverage. The Company has delivered Schedule 5.01(h) to the Agent setting forth the amount, terms, and provider(s) to the Company of reinsurance and the extent of the Company's insurance or reinsurance exposure covered thereby; as of December 31, 2002, Schedule 5.01(h) is correct and complete and fairly represents the reinsurance coverage pertaining to the business of the Company and its Subsidiaries ("Existing Reinsurance Coverage").

(i) Use of Proceeds; Margin Stock. Such Borrower intends to use the proceeds of the Loans in accordance with Section 2.07 and Section 7.01 (j). Such Borrower does not engage or intend to engage principally, or as one of its important activities, in the business of extending credit for the purpose, immediately, incidentally or ultimately, of purchasing or carrying margin stock (such term used herein within the meaning of Regulation U). No part of the proceeds of any Loan has been or will be used, immediately, incidentally or ultimately, to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock or to refund Indebtedness originally incurred for such purpose, or for any purpose which entails a violation of or which is inconsistent with the provisions of the regulations of the Board of Governors of the Federal Reserve System. Such Borrower does not hold or

intend to hold margin stock in such amounts that more than 25% of the reasonable value of its assets are or will be represented by margin stock.

(j) Full Disclosure. Neither this Agreement nor any other Loan Document, nor any certificate, statement, agreement, or other document furnished to the Agent or any Bank by such Borrower in connection herewith or therewith, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein, in light of the circumstances under which they were made, not misleading. There is no fact known to such Borrower which materially adversely affects the business, property, assets, financial condition, results of operations, or prospects of such Borrower which has not been set forth in this Agreement or in the certificates, statements, agreements, or other documents furnished in writing to the Agent and the Banks by the Borrowers prior to or at the date hereof in connection with the transactions contemplated hereby.

(k) Taxes. All federal, state, local, and other tax returns required to have been filed with respect to such Borrower have been filed, and payment or adequate provision has been made for the payment of all taxes, fees, assessments, and other governmental charges which have or may become due pursuant to said returns or to assessments received, except to the extent that such taxes, fees, assessments, and other charges are being contested in good faith by appropriate proceedings diligently conducted and for which such reserves or other appropriate provisions, if any, as shall be required by GAAP shall have been made. There are no agreements or waivers extending the statutory period of limitations applicable to any federal income tax return of such Borrower for any period.

(l) Consents and Approvals. No consent, approval, exemption, order, or authorization of, or a registration or filing with, any Official Body or any other Person is required by any Law or any agreement in connection with the execution, delivery, or carrying out of this Agreement or any of the other Loan Documents by such Borrower, except such as have been obtained or made on or prior to the Closing Date.

(m) No Event of Default; Compliance With Instruments. No event has occurred and is continuing and no condition exists or will exist after giving effect to the borrowings or other extensions of credit to be made on the Closing Date under or pursuant to the Loan Documents which constitutes an Event of Default or Potential Default. Such Borrower is not in violation of (i) any term of its certificate or articles of incorporation, bylaws, or other organizational documents or (ii) any material agreement or instrument to which it is a party or by which it or any of its properties may be subject or bound where such violation would constitute a Material Adverse Change.

(n) Licenses, Etc. Such Borrower owns or possesses all the material licenses, registrations, franchises, permits, and rights necessary to own and operate its properties and to carry on its business as presently conducted by such Borrower, without conflict with the rights of others.

(o) Insurance. No notice has been given or claim made and no grounds exist to cancel or avoid any insurance policy or bond in favor of such Borrower or any of its property, or to reduce the coverage provided thereby. Such policies and bonds provide adequate coverage from reputable and financially sound insurers in amounts sufficient to insure the assets and risks of such Borrower in accordance with prudent business practice in the industry of such Borrower.

(p) Compliance With Laws. Such Borrower is in compliance in all material respects with all applicable Laws in all jurisdictions in which such Borrower is doing business, except where the failure to do so would not constitute a Material Adverse Change.

(q) Material Contracts; Burdensome Restrictions. All material contracts relating to the business operations of such Borrower are valid, binding, and enforceable upon such Borrower and, to the knowledge of such Borrower, each of the other parties thereto in accordance with their respective terms, and there is no default thereunder, to such Borrower's knowledge, with respect to parties other than such Borrower. Such Borrower is not bound by any contractual obligation, or subject to any restriction in any organizational document or any requirement of Law, which in and of itself is material and adverse to such Borrower.

(r) Investment Companies; Regulated Entities. Such Borrower is not an "investment company" registered or required to be registered under the Investment Company Act of 1940 or under the "control" of an "investment company" as such terms are defined in the Investment Company Act of 1940 and shall not become such an "investment company" or under such "control." Such Borrower is not subject to any other Federal or state statute or regulation limiting its ability to incur Indebtedness for borrowed money.

(s) Plans and Benefit Arrangements. The Company and each other member of the ERISA Group are in compliance in all material respects with any applicable provisions of ERISA with respect to all Benefit Arrangements, Plans, and Multiemployer Plans. There has been no Prohibited Transaction with respect to any Benefit Arrangement or any Plan or, to the best knowledge of the Borrowers, with respect to any Multiemployer Plan or Multiple Employer Plan, which could result in any material liability of the Company or any other member of the ERISA Group. The Company and all other members of the ERISA Group have made when due any and all payments required to be made under any agreement relating to a Multiemployer Plan or a Multiple Employer Plan or any Law pertaining thereto. With respect to each Plan and Multiemployer Plan, the Company and each other member of the ERISA Group (i) have fulfilled in all material respects their obligations under the minimum funding standards of ERISA, (ii) have not incurred any liability to the PBGC other than PBGC premiums due but not delinquent under Section 4007 of ERISA, and (iii) have not had asserted against them any penalty for failure to fulfill the minimum funding requirements of ERISA. All Plans, Benefit Arrangements and Multiemployer Plans have been administered in accordance with their terms and applicable Law.

The Company and each other member of the ERISA Group are in compliance in all material respects with any applicable provisions of ERISA with respect to all Benefit Arrangements, Plans, and Multiemployer Plans. There has been no Prohibited Transaction with respect to any Benefit Arrangement or any Plan or, to the best knowledge of the Company, with respect to any Multiemployer Plan or Multiple Employer Plan, which could result in any material liability of the Company or any other member of the ERISA Group. The Company and all other members of the ERISA Group have made when due any and all payments required to be made under any agreement relating to a Multiemployer Plan or a Multiple Employer Plan or any Law pertaining thereto. With respect to each Plan and Multiemployer Plan, the Company and each other member of the ERISA Group (i) have fulfilled in all material respects their obligations under the minimum funding standards of ERISA,

(ii) have not incurred any liability to the PBGC other than PBGC premiums due but not delinquent under Section 4007 of ERISA, and (iii) have not had asserted against them any penalty for failure to fulfill the minimum funding requirements of ERISA. All Plans, Benefit Arrangements and Multiemployer Plans have been administered in accordance with their terms and applicable Law.

(A) No event requiring notice to the PBGC under Section 302(f)(4)(A) of ERISA has occurred or is reasonably expected to occur with respect to any Plan, and no amendment with respect to which security is required under Section 307 of ERISA has been made or is reasonably expected to be made to any Plan.

(B) Neither the Company, nor any other member of the ERISA Group has incurred or reasonably expects to incur any material withdrawal liability under ERISA to any Multiemployer Plan or Multiple Employer Plan. Neither the Company, nor any other member of the ERISA Group has been notified by any Multiemployer Plan or Multiple Employer Plan that such Multiemployer Plan or Multiple Employer Plan has been terminated within the meaning of Title IV of ERISA and, to the best knowledge of the Company, no Multiemployer Plan or Multiple Employer Plan is reasonably expected to be reorganized or terminated, within the meaning of Title IV of ERISA.

(t) Senior Debt Status. The Obligations of such Borrower under this Agreement and each of the other Loan Documents to which it is a party do rank and will rank at least pari passu in priority of payment with all other Indebtedness of the such Borrower except (i) Indebtedness of such Borrower to the extent secured by Permitted Liens, and (ii) Indebtedness which constitutes a "preferred claim" under Section 9-227 of the Maryland Insurance Law (or any analogous provision of United Kingdom law) in the event of the liquidation, rehabilitation, reorganization, or conservation of the such Borrower. The Obligations of ACE under the Guaranty Agreement do rank and will rank at least pari passu in priority of payment with all other senior unsecured Indebtedness of ACE. There is no Lien upon or with respect to any of the properties or income of such Borrower which secures indebtedness or other obligations of any Person except for Permitted Liens.

Section 5.02 Continuation of Representations. Each Borrower makes the representations and warranties in this ARTICLE V on the date hereof and on the Closing Date and each date thereafter on which a Loan is made as provided in and subject to Section 6.01 and Section 6.02.

ARTICLE VI

CONDITIONS OF LENDING

The obligation of each Bank to make Loans hereunder is subject to the performance by the Borrowers of their Obligations to be performed hereunder at or prior to the making of any such Loans and to the satisfaction of the following further conditions:

Section 6.01 First Loans. On the Closing Date:

(a) Representations and Warranties True and Complete, No Defaults. The representations and warranties of the Borrowers contained in Article V shall be true, complete, and accurate on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which relate solely to an earlier date or time, which representations and warranties shall be true and correct on and as of the specific dates or times referred to therein), and the Borrowers shall have performed and complied with all covenants and conditions hereof and thereof, no Event of Default or Potential Default shall have occurred and be continuing.

(b) Secretary's Certificate. There shall be delivered to the Agent for the benefit of each Bank certificates dated the Closing Date and signed by the Secretary or an Assistant Secretary of the Company and ACE, certifying as appropriate as to:

(i) all action taken by the Company and ACE in connection with this Agreement and the other Loan Documents;

(ii) the names of the officer or officers authorized to sign this Agreement and the other Loan Documents and the true signatures of such officer or officers and specifying the Authorized Officers permitted to act on behalf of the Company and ACE for purposes of this Agreement and the true signatures of such officers, on which the Agent and each Bank may conclusively rely; and

(iii) copies of its organizational documents, including its certificate or articles of incorporation and bylaws as in effect on the Closing Date certified by the appropriate state official where such documents are filed in a state office together with certificates from the appropriate state officials as to the continued existence and good standing of the Company and ACE in each jurisdiction where organized.

(c) Delivery of Notes, Guaranty Agreements, and Loan Request. The Notes and Guaranty Agreement shall have been duly executed and delivered to the Agent for the benefit of the Banks.

(d) Opinion of Counsel. There shall be delivered to the Agent for the benefit of each Bank one or more written opinions of counsel for the Company and ACE dated the Closing Date and in form and substance satisfactory to the Agent and its counsel:

(i) as to the matters set forth in Exhibit 6.01(d); and

(ii) as to such other matters incident to the transactions contemplated herein as the Agent may reasonably request.

(e) Legal Details. All legal details and proceedings in connection with the transactions contemplated by this Agreement and the other Loan Documents shall be in form and substance satisfactory to the Agent and counsel for the Agent, and the Agent shall have received all such other counterpart originals or certified or other copies of such documents and proceedings in connection with such transactions, in form and substance satisfactory to the Agent and said counsel, as the Agent or said counsel may reasonably request.

(f) Payment of Fees. The Borrowers shall have paid or caused to be paid to the Agent for itself and for the account of the Banks to the extent not previously paid the Facility Fees, all other fees accrued through the Closing Date and the costs and expenses for which the Agent and the Banks are entitled to be reimbursed.

(g) No Material Adverse Change. There has not occurred a Material Adverse Change since the date of the Historical Statements.

(h) Existing Credit Agreement. The commitments under the Existing Credit Agreement shall have been terminated, all loans thereunder shall have been repaid in full, together with all accrued and unpaid interest thereon, all accrued and unpaid fees thereon shall have been paid in full, and all other amounts then owing pursuant to the Existing Credit Agreement shall have been repaid in full, and the Agent shall have received evidence in form, scope and substance reasonably satisfactory to it that the matters set forth in this Section 6.01(h) have been satisfied at such time.

(i) Liens. All security interests and Liens created under the Existing Credit Agreement and the related security documents on the capital stock of, and assets (including intercompany notes) owned by, the Company and its Subsidiaries shall have been terminated and released, and the Agent shall have received UCC-3 termination statements, releases of mortgage (to the extent applicable), a termination agreement and all such other releases as may have been requested by the Agent, all of which shall be in form and substance reasonably satisfactory to the Agent.

Section 6.02 Each Additional Loan. At the time of making any Loans, other than Loans made on the Closing Date, and after giving effect to the proposed extensions of credit: the representations and warranties of the applicable Borrower contained in ARTICLE V and in the

other Loan Documents and the representations and warranties of each Material Subsidiary contained or incorporated in the Guarantor Joinder given by such Material Subsidiary pursuant to Section 10.18 shall be true on and as of the date of such additional Loan with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which expressly relate solely to an earlier date or time, which representations and warranties shall be true and correct on and as of the specific dates or times referred to therein) and the applicable Borrower shall have performed and complied with all covenants and conditions hereof that are required to be performed or complied with as of the date of such Loan and each Material Subsidiary shall have complied with Section 10.18 and all other covenants and conditions that are required to be performed or complied with as of the date of such Loan and which are set forth in or incorporated into the Guarantor Joinder given by such Material Subsidiary pursuant to Section 10.18; no Event of Default or Potential Default shall have occurred and be continuing or shall exist; and the applicable Borrower shall have delivered to the Agent a duly executed and completed Loan Request.

ARTICLE VII

COVENANTS

Section 7.01 Affirmative Covenants. Each Borrower covenants and agrees that, until payment in full of the Loans, and interest thereon, satisfaction of all of the other Obligations under the Loan Documents and termination of the Commitments, each Borrower shall comply at all times with the following affirmative covenants:

(a) Preservation of Existence, Etc. The Company shall, and shall cause each of its Material Subsidiaries to, maintain its legal existence as a corporation, limited partnership, or limited liability company and its license or qualification and good standing in each jurisdiction in which its ownership or lease of property or the nature of its business makes such license or qualification necessary, except as otherwise expressly permitted in Section 7.02(f) [Liquidations, Mergers, Etc.].

(b) Payment of Liabilities, Including Taxes, Etc. The Company shall, and shall cause each of its Material Subsidiaries to, duly pay and discharge all liabilities to which it is subject or which are asserted against it, promptly as and when the same shall become due and payable, including all taxes, assessments, and governmental charges upon it or any of its properties, assets, income or profits, prior to the date on which penalties attach thereto, except to the extent that such liabilities, including taxes, assessments or charges, are being contested in good faith and by appropriate and lawful proceedings diligently conducted and for which such reserve or other appropriate provisions, if any, as shall be required by GAAP shall have been made, provided that the Company will pay, and cause its Material Subsidiaries to pay, all such liabilities forthwith upon the commencement of proceedings to foreclose any Lien which may have attached as security therefor.

(c) Maintenance of Insurance. The Company shall, and shall cause each of its Material Subsidiaries to, insure its properties and assets against loss or damage by

insurable hazards as such assets are commonly insured (including, to the extent applicable to the respective industry of the Company or any Subsidiary thereof, fire, extended coverage, property damage, workers' compensation, public liability, and business interruption insurance) and against other risks (including errors and omissions) in such amounts as similar properties and assets are insured by prudent companies in similar circumstances carrying on similar businesses, and with reputable and financially sound insurers, including self-insurance to the extent customary.

(d) Maintenance of Properties and Leases. The Company shall, and shall cause each of its Material Subsidiaries to, maintain in good repair, working order, and condition (ordinary wear and tear excepted) in accordance with the general practice of other businesses of similar character and size, all of those properties useful or necessary to its business, and from time to time the Company will make or cause to be made all appropriate repairs, renewals, or replacements thereof.

(e) Maintenance of Licenses, Etc. The Company shall, and shall cause each of its Material Subsidiaries to, maintain in full force and effect all licenses, franchises, permits, rights, and other authorizations necessary for the ownership and operation of its properties and business if the failure so to maintain the same would constitute a Material Adverse Change.

(f) Visitation Rights. The Company shall, and shall cause each of its Material Subsidiaries to, permit any of the officers or authorized employees or representatives of the Agent to visit and inspect any of its properties and to examine and make excerpts from its books and records and discuss its business affairs, finances and accounts with its officers, all in such detail and at such times and as often as the Agent may reasonably request and at the pro rata expense of the Banks (if requested by the Required Banks) or the Agent (if not so requested), provided that the Agent shall provide the Company with reasonable notice prior to any visit or inspection and provided further that during the continuation of any Event of Default, each Bank shall have the right of visitation and inspection granted above to Agent and all such visits and inspections by Agent and any Bank during the continuation of an Event of Default shall be at the expense of the Borrowers. In the event any Bank desires to conduct a visitation or inspection of the Company or any Subsidiary during the continuation of an Event of Default, such Bank shall make a reasonable effort to conduct such visitation and inspection contemporaneously with any visitation or inspection to be performed by the Agent.

(g) Keeping of Records and Books of Account. The Company shall, and shall cause each Subsidiary of the Company to, maintain and keep proper books of record and account which enable the Company and its Material Subsidiaries to issue financial statements in accordance with GAAP and as otherwise required by applicable Laws of any Official Body having jurisdiction over the Company or any Subsidiary of the Company, and in which full, true and correct entries shall be made in all material respects of all its dealings and business and financial affairs.

(h) Plans and Benefit Arrangements. The Company shall, and shall cause each other member of the ERISA Group to, comply with ERISA, the Internal Revenue

Code and other Laws applicable to Plans and Benefit Arrangements except where such failure, alone or in conjunction with any other failure, would not result in a Material Adverse Change. Without limiting the generality of the foregoing, the Company shall cause all of its Plans and all Plans maintained by any member of the ERISA Group to be funded in accordance with the minimum funding requirements of ERISA and shall make, and cause each member of the ERISA Group to make, in a timely manner, all contributions due to Plans, Benefit Arrangements and Multiemployer Plans.

(i) Compliance With Laws. The Company shall, and shall cause each of its Material Subsidiaries to, comply with all applicable Laws in all respects, provided that it shall not be deemed to be a violation of this Section 7.01(i) if any failure to comply with any Law would not result in fines, penalties, remediation costs, other similar liabilities or injunctive relief which in the aggregate would constitute a Material Adverse Change.

(j) Use of Proceeds. Each Borrower will use the proceeds of the Loans only for the general corporate purposes and working capital needs of the such Borrower. No Borrower shall use the proceeds of the Loans for any purposes which contravenes any applicable Law or any provision hereof.

(k) Senior Debt Status. The Company shall ensure that the Obligations of the Company and any Material Subsidiary under this Agreement, a Guarantor Joinder, the Guaranty Agreement, and each of the other Loan Documents to which it is a party shall at all times rank at least pari passu in priority of payment with all other senior unsecured Indebtedness of the Company or such Material Subsidiary (except to the extent of any Indebtedness which has a "preferred" status under any Law governing the bankruptcy, liquidation, insolvency, rehabilitation, reorganization, conservation, or like circumstance of the Company or such Material Subsidiary) and no such other senior unsecured Indebtedness of the Company or any Material Subsidiary shall at any time be governed by or subject to covenants, defaults, or other provisions that are more restrictive on the Company or any Material Subsidiary than those set forth herein; and provided that if payment of any present or future Indebtedness of the Company or any Material Subsidiary, except Indebtedness of the Company or any Material Subsidiary to the extent secured by Permitted Liens, shall at any time hereafter become secured by any Lien on any property, the Company or such Material Subsidiary shall secure payment of the Obligations with a Lien of like priority on the same or substantially similar property of the same or greater value (but, in any event, such Lien shall secure an amount of Obligations not to exceed the amount secured by the Lien given to secure payment of such other Indebtedness).

Section 7.02 Negative Covenants. Each Borrower covenants and agrees that until payment in full of the Loans and interest thereon, satisfaction of all of the other Obligations hereunder and termination of the Commitments, such Borrower shall comply with the following negative covenants:

(a) Indebtedness. The Company shall not, and shall not permit any of its Material Subsidiaries to, at any time create, incur, assume, or suffer to exist any Indebtedness, except:

(i) Indebtedness under the Loan Documents;

(ii) Existing Indebtedness as set forth on Schedule 7.02(a) (including any extensions or renewals thereof, provided there is no increase in the amount thereof or other significant change in the terms thereof unless otherwise specified on Schedule 7.02(a));

(iii) Capitalized and operating leases;

(iv) Indebtedness secured by Purchase Money Security Interests;

(v) Indebtedness of the Company or any Material Subsidiary to the Company or any other Material Subsidiary or any of their respective Affiliates;

(vi) Any Interest Rate Hedge;

(vii) Any Guaranties permitted pursuant to Section 7.02(c);

(viii) Other Indebtedness of the Company which is non-recourse to the Company and in the nature (as to its purpose and non-recourse structure) of that existing Indebtedness in favor of Deutsche Bank shown on Exhibit 7.02(a) ("Soft Capital"); and

(ix) Other Indebtedness in an amount outstanding at any time not to exceed five percent (5%) of the consolidated tangible net worth of the Company and its Subsidiaries.

(b) Liens. The Company shall not, and shall not permit any of its Material Subsidiaries to, at any time create, incur, assume, or suffer to exist any Lien on any of its property or assets, tangible or intangible, now owned or hereafter acquired, or agree or become liable to do so, except Permitted Liens.

(c) Guaranties. The Company shall not, and shall not permit any of its Material Subsidiaries to, at any time, directly or indirectly, become or be liable in respect of any Guaranty, or assume, guaranty, become surety for, endorse or otherwise agree, become or remain directly or contingently liable upon or with respect to any obligation or liability of any other Person, except for Guaranties of that Indebtedness of the Company and the Material Subsidiaries permitted hereunder and (the following, collectively, "Insurance-Related Guaranties"): (i) reinsurance and insurance policies and Guaranties which the Company or any Material Subsidiary is licensed to provide in the ordinary course of its reinsurance or insurance business, and (ii) Guaranties given by the Company to support credit derivative transactions entered into by AGR Financial Products Inc., a Delaware corporation and Affiliate of the Company ("Credit Derivative Guaranties"), subject, however, to the terms of Section 7.02(p).

(d) Loans and Investments. The Company shall not, and shall not permit any of its Material Subsidiaries to, at any time make or suffer to remain outstanding any loan or advance to, or purchase, acquire or own any stock, bonds, notes or securities of, or any

partnership interest (whether general or limited) or limited liability company interest in, or any other investment or interest in, or make any capital contribution to, any other Person, or agree, become, or remain liable to do any of the foregoing, except:

(i) trade credit extended on usual and customary terms in the ordinary course of business;

(ii) advances to employees to meet expenses incurred by such employees in the ordinary course of business;

(iii) Permitted Investments and Permitted Acquisitions; and

(iv) loans, advances and investments in the Company and any Material Subsidiary.

(e) Dividends and Related Distributions. The Company shall not, and shall not permit any of its Material Subsidiaries to, make or pay, or agree to become or remain liable to make or pay, any dividend or other distribution of any nature (whether in cash, property, securities or otherwise) on account of or in respect of its shares of capital stock, partnership interests, or limited liability company interests or on account of the purchase, redemption, retirement, or acquisition of its shares of capital stock (or warrants, options or rights therefor), partnership interests or limited liability company interests, except dividends or other distributions payable to the Company or any Material Subsidiary and except for dividends payable by the Company not in excess of \$15,000,000 in any fiscal year of the Company.

(f) Liquidations, Mergers, Consolidations, Acquisitions. The Company shall not, and shall not permit any of its Material Subsidiaries to, dissolve, liquidate, or wind-up its affairs, or become a party to any merger or consolidation, or acquire by purchase, lease, or otherwise all or substantially all of the assets or capital stock of or other ownership interest in any other Person, provided that

(1) any Material Subsidiary may consolidate or merge into the Company or any other Material Subsidiary or any of their respective Affiliates, and

(2) the Company or any Material Subsidiary may acquire, whether by purchase or by merger, (A) all of the ownership interests of another Person or (B) substantially all of the assets of another Person or of a business or division of another Person (each a "Permitted Acquisition"), provided that each of the following requirements is met:

(i) if the Company or any Material Subsidiary is acquiring the ownership interests in such Person and such Person meets the criteria for a Material Subsidiary set forth in the definition of such term at Section 1.01, such Person shall execute a Guarantor Joinder and join this Agreement as a Guarantor pursuant to Section 10.18 [Joinder of Guarantors] on or before the date of such Permitted Acquisition;

(ii) the board of directors or other equivalent governing body of such Person shall have approved such Permitted Acquisition (if such approval has been given or if such approval would be required by Law) and the Company or the relevant Material Subsidiary shall have delivered to the Banks written evidence of such approval of the board of directors (or equivalent body) of such Person for such Permitted Acquisition or, if such approval is not given and not required by Law and any proceeds of the Loans are utilized for such Permitted Acquisition, the Company or the relevant Material Subsidiary shall deliver to the Banks evidence satisfactory to Agent that the Permitted Acquisition is not hostile to, or otherwise opposed by the board of directors of, such Person;

(iii) the business acquired, or the business conducted by the Person whose ownership interests are being acquired, as applicable, shall be substantially the same as one or more lines of business conducted by the Company or any Material Subsidiary or otherwise incidental to the business of a financial services company and shall comply with Section 7.02(j) [Continuation of or Change in Business];

(iv) no Potential Default or Event of Default shall exist immediately prior to and after giving effect to such Permitted Acquisition; and

(v) upon the reasonable request of Agent, the Company or the relevant Material Subsidiary shall deliver to the Agent at least five (5) Business Days before such Permitted Acquisition such information about such Person or its assets as Agent may reasonably require.

(g) Dispositions of Assets or Subsidiaries. The Company shall not, and shall not permit any of its Material Subsidiaries to, sell, convey, assign, lease, abandon, or otherwise transfer or dispose of, voluntarily or involuntarily, any of its properties or assets, tangible or intangible (including by sale, assignment, discount, or other disposition of accounts, contract rights, chattel paper, equipment, or general intangibles with or without recourse or of capital stock, shares of beneficial interest, partnership interests or limited liability company interests of a Subsidiary of the Company), except:

(i) transactions involving the sale of inventory, if any, in the ordinary course of business;

(ii) any sale, transfer, or lease of assets, including any sale of investment assets, in the ordinary course of business which are no longer necessary or required in the conduct of the Company's or such Subsidiary's business or which are incidental to the management of the Company's or its Subsidiary's investment portfolio in a manner consistent with past practices;

(iii) any sale, transfer or lease of assets by any wholly owned Subsidiary of the Company to the Company or any Material Subsidiary;

(iv) any sale, transfer or lease of assets in the ordinary course of business which are replaced by reasonably equivalent substitute assets; or

(v) any sale, transfer or lease of assets, other than those specifically excepted pursuant to clauses (i) through (iv) above, provided that (A) at the time of any disposition, no Event of Default shall exist or shall result from such disposition, and (B) the aggregate value of all assets so sold by (x) the Company shall not exceed in any fiscal year ten percent (10%) of the consolidated tangible net worth of the Company and its Subsidiaries or (y) any Material Subsidiary in any fiscal year shall not exceed a material portion of such Material Subsidiary's tangible net worth.

(h) Affiliate Transactions. The Company shall not, and shall not permit any of its Material Subsidiaries to, enter into or carry out any transaction (including purchasing property or services from or selling property or services to any Affiliate of the Company or any Material Subsidiary or other Person) unless such transaction is not otherwise prohibited by this Agreement, is entered into upon fair and reasonable arm's-length terms and conditions which are fully disclosed to the Agent, and is in accordance with all applicable Law and accounting standards.

(i) Subsidiaries, Partnerships and Joint Ventures. The Company shall not, and shall not permit any of its Material Subsidiaries to, own, acquire, or create directly or indirectly any Material Subsidiary other than Material Subsidiaries each of which has joined this Agreement as a Guarantor at any time after the Closing Date in accordance with Section 10.18 [Joinder of Guarantors]; provided that the UK Borrower shall not be required to become a Guarantor. Each of the Company and its Material Subsidiaries shall not become or agree to become (1) a general or limited partner in any general or limited partnership, except that the Company or any of its Material Subsidiaries may be general or limited partners in any other Material Subsidiary, (2) a member or manager of, or hold a limited liability company interest in, a limited liability company, except that the Company or any of its Material Subsidiaries may be members or managers of, or hold limited liability company interests in, other Material Subsidiaries, or (3) a joint venturer or hold a joint venture interest in any joint venture except that the Company or any of its Material Subsidiaries may be a party to a joint venture (A) that would not otherwise be a Material Subsidiary were it a Subsidiary of Company, and (B) as to which neither the Company nor any Material Subsidiary is directly or indirectly jointly or severally liable for any act or omission of the joint venture beyond the amount of its investment therein.

(j) Continuation of or Change in Business. The Company shall not, and shall not permit any of its Material Subsidiaries to, make a material change in the nature of its business as substantially conducted and operated by the Company or such Subsidiary as of the Closing Date; provided, however, that it shall not be a material change hereunder for the Company to alter the concentration percentages of products offered or business conducted as of the Closing Date, nor to enter into any business incidental to the offering of such products or the conduct of such business and it shall not be a material change hereunder for a Material Subsidiary to engage in any business incidental to the conduct of a financial services company.

(k) Plans and Benefit Arrangements. The Company shall not, and shall not permit any of its Material Subsidiaries to, engage in a Prohibited Transaction with any Plan, Benefit Arrangement, or Multiemployer Plan which, alone or in conjunction with any other circumstance or set of circumstances, would result in a material liability under ERISA or otherwise violate ERISA in a material respect.

(l) Fiscal Year. The Company shall not, and shall not permit any Subsidiary of the Company to, change its fiscal year from the twelve-month period beginning January 1 and ending December 31 unless the Company has

(i) provided thirty (30) days prior written notice to the Agent and the Banks of the proposed change accompanied by an explanation in reasonable detail of the effect thereof on the Company and its Subsidiaries in general and on the Company's or its Material Subsidiary's financial reporting and covenant compliance hereunder, and (ii) agreed to amend the covenants contained herein (including the financial covenants set forth below) if reasonably requested by the Agent and the Required Banks to maintain the continuity of the such covenants.

(m) Minimum Statutory Capital. The Company shall not at any time permit the Statutory Capital of the Company to be less than eighty percent (80%) of the Statutory Capital the Company as of the most recent fiscal quarter of the Company prior to the Closing Date.

(n) Maximum Exposure Ratio. The Company shall not at any time permit the ratio of the Net Par of the Company to the Statutory Capital the Company to exceed 150 to 1.0.

(o) Maximum Debt to Total Capitalization Ratio. The Company shall maintain at all times a ratio of Consolidated Debt to Total Capitalization of not more than 0.35 to 1.0.

(p) Maximum Collateralized Credit Derivative Guaranties. The Company shall not at any time permit the aggregate value of all property of the Company or any of the Material Subsidiaries subject to a Lien given to secure payment of Credit Derivative Guaranties to exceed eleven percent (11%) of the sum of Total Capitalization plus the aggregate value of all collateral provided in accordance herewith to the Agent for the benefit of the Banks, except to the extent that the Agent for the benefit of the Banks is provided with a Lien of equal priority on substantially similar property of the Company having a value equal to the amount by which such percentage is exceeded (the amount by which such percentage is exceeded, for the purposes of this Section 7.02(p), being referred to herein as the "Excess Lien Amount"). Property subject to such Lien shall be reduced or released, as the case may be, at any time by the Agent upon the request of the Company and without further action or consent of any of the Banks whenever the value of the property subject to that Lien in favor of the Agent for the benefit of the Banks established pursuant to this Section 7.02(p) at such time exceeds the Excess Lien Amount.

Section 7.03 Reporting Requirements. Each Borrower covenants and agrees that until payment in full of the Loans and interest thereon, satisfaction of all other Obligations hereunder and under the other Loan Documents and termination of the Commitments, the Company will furnish or cause to be furnished to the Agent and each of the Banks:

(a) Quarterly Financial Statements. As soon as available and in any event within forty-five (45) calendar days after the end of each of the first three fiscal quarters in each fiscal year, the Form 10-Q of ACE as filed with the SEC and two sets of financial statements of the Company, each consisting of a consolidated balance sheet as of the end of such fiscal quarter and related consolidated statements of income, stockholders' equity, and cash flows for the fiscal quarter then ended and the fiscal year through that date, all in reasonable detail and certified (subject to normal year-end audit adjustments) by the Chief Executive Officer, President, Chief Financial Officer, Treasurer, or Assistant Treasurer of the Company as having been prepared as to one set of financial statements in accordance with GAAP, consistently applied, and as to the other set of financial statements as having been prepared in accordance with statutory accounting principles required by the State of Maryland.

(b) Annual Financial Statements. As soon as available and in any event within ninety (90) days after the end of each fiscal year of the Company, the Form 10-K of ACE as filed with the SEC and two sets of financial statements of the Company each consisting of a consolidated balance sheet as of the end of such fiscal year, and related consolidated statements of income, stockholders' equity, and cash flows for the fiscal year then ended, all in reasonable detail with one such set being prepared in accordance with GAAP, consistently applied, and the other set being prepared in accordance with statutory accounting principles required by the State of Maryland, and, in each case, certified by independent certified public accountants of nationally recognized standing satisfactory to the Agent. The certificate or report of accountants shall be free of qualifications (other than any consistency qualification that may result from a change in the method used to prepare the financial statements as to which such accountants concur) and shall not indicate the occurrence or existence of any event, condition, or contingency which would materially impair the prospect of payment or performance of any covenant, agreement, or duty of the Company or any Material Subsidiary under any of the Loan Documents.

(c) Certificate of the Company. Concurrently with the financial statements of the Company furnished to the Agent and to the Banks pursuant to Section 7.03(a) [Quarterly Financial Statements] and Section 7.03(b) [Annual Financial Statements], a certificate (each a "Compliance Certificate") of the Company signed by the Chief Executive Officer, President, Chief Financial Officer, Treasurer, or Assistant Treasurer of the Company, in the form of Exhibit 7.03, to the effect that, except as described pursuant to Section 7.03(d) [Notice of Default], (i) the representations and warranties of the Borrowers contained in ARTICLE V and in the other Loan Documents and the representations and warranties of each Material Subsidiary, if any, contained or incorporated in the Guarantor Joinder given by such Material Subsidiary pursuant to Section 10.18 are true on and as of the date of such certificate with the same effect as though such representations and warranties had been made on and as of such date (except

representations and warranties which expressly relate solely to an earlier date or time) and each Borrower has performed and complied with all covenants and conditions hereof and each Material Subsidiary, if any, shall have complied with all covenants and conditions of or incorporated into the Guarantor Joinder given by such Material Subsidiary pursuant to Section 10.18, (ii) no Event of Default or Potential Default exists and is continuing on the date of such certificate, and (iii) containing calculations in sufficient detail to (A) demonstrate compliance as of the date of such financial statements with all financial covenants contained in Section 7.02 [Negative Covenants] and (B) determine the Net Par of the Company and any material changes or loss experience in connection with Existing Reinsurance Coverage from the components thereof set forth on Schedule 5.01(h).

(d) Notice of Default. Promptly after any officer of a Borrower has learned of: (i) the occurrence of an Event of Default or Potential Default, a certificate signed by the Chief Executive Officer, President, Chief Financial Officer, Treasurer, or Assistant Treasurer of such Borrower setting forth the details of such Event of Default or Potential Default and the action which such Borrower proposes to take with respect thereto, or (ii) the creation or acquisition of a Material Subsidiary (or the existence of a Material Subsidiary other than the UK Borrower which has not executed and delivered a Guaranty Agreement to Agent for the benefit of the Banks), a certificate signed by the Chief Executive Officer, President, Chief Financial Officer, Treasurer, or Assistant Treasurer of the Company setting forth the legal name, jurisdiction of organization, and such other relevant information reasonably requested by Agent.

(e) Off-Balance Sheet Financing. None of the Company or any of its Material Subsidiaries shall engage in any off-balance sheet transaction (i.e., the liabilities in respect of which do not appear on the liability side of the balance sheet) providing the functional equivalent of material Indebtedness or otherwise providing for a material liability of the Company or any of its Material Subsidiaries (collectively, "Off-Balance Sheet Transactions"), except such Off-Balance Sheet Transactions as are fully disclosed to the Banks and Agent prior to their creation.

(f) Notice of Litigation. Promptly after the commencement thereof, notice of all actions, suits, proceedings or investigations before or by any Official Body or any other Person against the Company or any Material Subsidiary of the Company, which involve a claim or series of claims in excess of \$20,000,000 or which if adversely determined would constitute a Material Adverse Change.

(g) Notice of Change in Insurer Financial Strength Rating. Within two (2) Business Days after Standard & Poor's or Moody's announces a change in the Company's Insurer Financial Strength Rating, notice of such change. The Company will deliver together with such notice a copy of any written notification which the Company received from the applicable rating agency regarding such change of its Insurer Financial Strength Rating.

(h) Sale of Assets. At least fifteen (15) calendar days prior thereto, notice with respect to any proposed sale or transfer of material assets pursuant to Section 7.02(g)(v).

(i) Budgets, Other Reports and Information. Promptly upon their becoming available to the Company, such reports and information as any of the Banks may from time to time reasonably request. Each Borrower shall also notify the Banks and Agent promptly of the enactment, enforcement, or adoption of any Law which may result in a Material Adverse Change with respect to such Borrower.

ARTICLE VIII

DEFAULT

Section 8.01 Events of Default. An Event of Default shall mean the occurrence or existence of any one or more of the following events or conditions (whatever the reason therefor and whether voluntary, involuntary, or effected by operation of Law):

- (a) Payments Under Loan Documents. Either Borrower shall fail to pay
- (i) any principal of any Loan (including scheduled installments or mandatory prepayments, if any, or the payment due at maturity) when such principal is due hereunder or
 - (ii) any interest on any Loan or any other amount owing hereunder or under the other Loan Documents within five (5) Business Days after such interest or other amount becomes due in accordance with the terms hereof or thereof;
- (b) Breach of Warranty. Any representation or warranty made at any time by any of the Company and the Material Subsidiaries herein or by any of the Company and the Material Subsidiaries in any other Loan Document, or in any certificate, other instrument, or statement furnished by the Company or a Material Subsidiary pursuant to the provisions hereof or thereof, shall prove to have been false or misleading in any material respect as of the time it was made or furnished;
- (c) Breach of Negative Covenants or Visitation Rights. The Company or any Material Subsidiary shall default in the observance or performance of any covenant contained in Section 7.02 [Negative Covenants] or shall default for a period of ten (10) days or more in the observance or performance of any covenant contained in Section 7.01(f);
- (d) Breach of Other Covenants. There shall be a default in the observance or performance of any other covenant, condition, or provision hereof or of any other Loan Document and such default shall continue unremedied for a period of thirty (30) days (such grace period to be applicable only in the event such default can be remedied by corrective action);
- (e) Defaults in Other Agreements or Indebtedness. A default or event of default shall occur at any time under the terms of any other agreement involving borrowed money or the extension of credit or any other Indebtedness under which the

Company or any Material Subsidiary of the Company may be obligated as a borrower or guarantor in excess of \$20,000,000 in the aggregate, and such breach, default or event of default consists of the failure to pay (beyond any period of grace permitted with respect thereto, whether waived or not) any Indebtedness when due (whether at stated maturity, by acceleration or otherwise) or if such breach or default causes the acceleration of any Indebtedness (whether or not such right shall have been waived) or the termination of any commitment to lend;

(f) Final Judgments or Orders. Any final judgments or orders for the payment of money which results in an uninsured liability to pay in excess of \$20,000,000 in the aggregate shall be entered against the Company or any Material Subsidiary by a court having jurisdiction in the premises, which judgment is not discharged, vacated, bonded, or stayed pending appeal within a period of forty-five (45) days from the date of entry;

(g) Loan Document Unenforceable. Any of the Loan Documents shall cease to be legal, valid, and binding agreements enforceable against the party executing the same or such party's successors and assigns (as permitted under the Loan Documents) in accordance with the respective terms thereof or shall in any way be terminated (except in accordance with its terms) or become or be declared stayed, ineffective, or inoperative or shall cease to give or provide the respective Liens or security interests intended to be created thereby; provided, however, if any of the foregoing is a result of an involuntary proceeding of the type described in Section 8.01(m), such proceeding has not been contested by the affected party or has not been dismissed after the passage of more than sixty (60) days;

(h) Losses; Proceedings Against Assets. Any of the Company's assets having an aggregate value (reasonably determined) in excess of five (5%) of the tangible net worth of Company and its Subsidiaries, or any of its Material Subsidiaries' assets having an aggregate value (reasonably determined) in excess of a material amount of such Material Subsidiary's tangible net worth, are attached, seized, levied upon or subjected to a writ or distress warrant; or such come within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors and the same is not cured within sixty (60) days thereafter;

(i) Notice of Lien or Assessment. A notice of Lien or assessment in excess of \$20,000,000 which is not a Permitted Lien is filed of record with respect to all or any part of the Borrower's or any of its Material Subsidiaries' assets by the United States, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or other governmental agency, including the PBGC, or any taxes or debts owing at any time or times hereafter to any one of these becomes payable and the same is not paid within thirty (30) days after the same becomes payable;

(j) Insolvency. The Company or any Material Subsidiary of the Company ceases to be solvent or admits in writing its inability to pay its debts as they mature;

(k) Events Relating to Plans and Benefit Arrangements. Any of the following occurs: (i) any Reportable Event, which the Agent determines in good faith constitutes grounds for the termination of any Plan by the PBGC or the appointment of a trustee to administer or liquidate any Plan, shall have occurred and be continuing; (ii) proceedings shall have been instituted or other action taken to terminate any Plan, or a termination notice shall have been filed with respect to any Plan; (iii) a trustee shall be appointed to administer or liquidate any Plan; (iv) the PBGC shall give notice of its intent to institute proceedings to terminate any Plan or Plans or to appoint a trustee to administer or liquidate any Plan; and, in the case of the occurrence of (i), (ii), (iii) or (iv) above, the Agent determines in good faith that the amount of the Company's liability is likely to exceed 10% of its Consolidated Tangible Net Worth; (v) the Company or any member of the ERISA Group shall fail to make any contributions when due to a Plan or a Multiemployer Plan; (vi) the Company or any other member of the ERISA Group shall make any amendment to a Plan with respect to which security is required under Section 307 of ERISA; (vii) the Company or any other member of the ERISA Group shall withdraw completely or partially from a Multiemployer Plan; (viii) the Company or any other member of the ERISA Group shall withdraw (or shall be deemed under Section 4062(e) of ERISA to withdraw) from a Multiple Employer Plan; or (ix) any applicable Law is adopted, changed or interpreted by any Official Body with respect to or otherwise affecting one or more Plans, Multiemployer Plans or Benefit Arrangements and, with respect to any of the events specified in (v), (vi), (vii), (viii) or (ix), the Agent determines in good faith that any such occurrence would be reasonably likely to materially and adversely affect the total enterprise represented by the Company and the other members of the ERISA Group;

(l) Change of Control. (i) Any person or group of persons (within the meaning of Sections 13(d) or 14(a) of the Securities Exchange Act of 1934, as amended), other than ACE Limited or an Affiliate of ACE Limited, shall have acquired beneficial ownership of (within the meaning of Rule 13d-3 promulgated by the SEC under said Act) 30% or more of the voting capital stock of the Company; or (ii) within a period of twelve (12) consecutive calendar months, individuals who were directors of the Company on the first day of such period and individuals approved by ACE Limited or an Affiliate of ACE Limited shall cease to constitute a majority of the board of directors of the Company; or (iii) the UK Borrower shall cease to be a subsidiary of the Company at any time when any Loans are outstanding to the UK Borrower;

(m) Involuntary Proceedings. A proceeding shall have been instituted in a court having jurisdiction in the premises seeking a decree or order for relief in respect of the Company or any Material Subsidiary of the Company in an involuntary case under any applicable bankruptcy, insolvency, reorganization, or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, or conservator (or similar official) of the Company or any Material Subsidiary of the Company or for any substantial part of its property, or for the winding-up or liquidation of its affairs, and such proceeding shall remain undismissed or unstayed and in effect for a period of sixty (60) consecutive days or such court shall enter a decree or order granting any of the relief sought in such proceeding; or

(n) Voluntary Proceedings. The Company or any Material Subsidiary of the Company shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization, or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator, or conservator (or other similar official) of itself or for any substantial part of its property or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any action in furtherance of any of the foregoing.

Section 8.02 Consequences of Event of Default. (a) Events of Default Other Than Bankruptcy, Insolvency or Reorganization Proceedings. If an Event of Default or Potential Default specified under Section 8.01(a) through Section 8.01(l) shall occur and be continuing, the Banks and the Agent shall be under no further obligation to make Revolving Credit Loans, Term Loans or Bid Loans, as the case may be, and if any such Event of Default shall occur and be continuing, the Agent may, and upon the request of the Required Banks, shall by written notice to the Borrowers, take any of the following actions: (i) terminate the Commitments and thereupon the Commitments shall be terminated and of no further force or effect, or (ii) declare the unpaid principal amount of the Revolving Credit Notes, Term Loans and Bid Notes then outstanding and all interest accrued thereon, any unpaid fees, and all other Indebtedness of the Borrowers to the Banks hereunder and thereunder to be forthwith due and payable, and the same shall thereupon become and be immediately due and payable to the Agent for the benefit of each Bank without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived; and

(b) Bankruptcy, Insolvency or Reorganization Proceedings. If an Event of Default specified under Section 8.01(m) [Involuntary Proceedings] or Section 8.01(n) [Voluntary Proceedings] shall occur, the Commitments shall automatically terminate and be of no further force and effect, the Banks shall be under no further obligations to make Revolving Credit Loans, Term Loans or Bid Loans hereunder and the unpaid principal amount of the Loans then outstanding and all interest accrued thereon, any unpaid fees and all other Indebtedness of the Borrowers to the Banks hereunder and thereunder shall be immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived; and

(c) Set-off. If an Event of Default shall occur and be continuing, any Bank to whom any Obligation is owed by any Borrower or any Material Subsidiary hereunder or under any other Loan Document or any participant of such Bank which has agreed in writing to be bound by the provisions of Section 9.13 [Equalization of Banks] and any branch, Subsidiary, or Affiliate of such Bank or participant anywhere shall have the right, in addition to all other rights and remedies available to it, without notice to any Borrower or any Material Subsidiary, to set-off against and apply to the then unpaid balance of all the Loans and all other Obligations hereunder or under any other Loan Document any debt owing to, and any other funds held in any manner for the account of, any Borrower or any Material Subsidiary by such Bank or participant or by such branch, Subsidiary or Affiliate, including all funds in all deposit accounts (whether time or demand, general or special, provisionally credited or finally credited, or otherwise) now or hereafter maintained by any Borrower or any Material Subsidiary for its own account (but not

including funds held in custodian or trust accounts) with such Bank or participant or such branch, Subsidiary, or Affiliate. Such right shall exist whether or not any Bank or the Agent shall have made any demand under this Agreement or any other Loan Document, whether or not such debt owing to or funds held for the account of any Borrower or any Material Subsidiary is or are matured or unmatured and regardless of the existence or adequacy of any Guaranty or any other security, right, or remedy available to any Bank or the Agent; and

(d) Suits, Actions, Proceedings. If an Event of Default shall occur and be continuing, and whether or not the Agent shall have accelerated the maturity of Committed Loans pursuant to any of the foregoing provisions of this Section 8.02, the Agent or any Bank, upon the request or consent of the Required Banks, may proceed to protect and enforce the Agent's or any one or more Banks' rights by suit in equity, action at law and/or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement or the other Loan Documents, including as permitted by applicable Law the obtaining of the ex parte appointment of a receiver, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of the Agent or such Bank; and

(e) Application of Proceeds. From and after the date on which the Agent has taken any action pursuant to this Section 8.02 and until all Obligations have been paid in full, any and all proceeds received by the Agent from the exercise of any remedy by the Agent, shall be applied as follows:

(A) first, to reimburse the Agent and the Banks for out-of-pocket costs, expenses and disbursements, including reasonable attorneys' fees and legal expenses, incurred by the Agent or the Banks in connection with collection of any Obligations under any of the Loan Documents;

(B) second, to the repayment of all Indebtedness then due and unpaid of any Borrower or any Material Subsidiary to the Banks incurred under this Agreement or any of the other Loan Documents, whether of principal, interest, fees, expenses or otherwise, in such manner as the Agent may determine in its discretion; and

(C) the balance, if any, as required by Law.

(f) Other Rights and Remedies. In addition to all of the rights and remedies contained in this Agreement or in any of the other Loan Documents, the Agent shall have all of the rights and remedies under applicable Law, all of which rights and remedies shall be cumulative and non-exclusive, to the extent permitted by Law. The Agent may, and upon the request of the Required Banks shall, exercise all post-default rights granted to the Agent and the Banks under the Loan Documents or applicable Law.

Section 8.03 Right of Competitive Bid Loan Banks. If any Event of Default shall occur and be continuing, the Banks which have any Bid Loans then outstanding to the Borrowers (the "Bid Loan Banks") shall not be entitled to accelerate payment of the Bid Loans or to exercise any right or remedy related to the collection of the Bid Loans until the Commitments shall be terminated hereunder pursuant to Section 8.02. Upon such a termination of the

Commitments: (i) references to Revolving Credit Loans in Section 8.02 shall be deemed to apply also to the Bid Loans and the Bid Loan Banks shall be entitled to all enforcement rights given to a holder of a Revolving Credit Loan in Section 8.02, and (ii) the definition of Required Banks shall be changed as provided in Section 1.01 so that each Bank shall have voting rights hereunder in proportion to its share of the total Loans outstanding.

ARTICLE IX

THE AGENT

Section 9.01 Appointment. Each Bank hereby irrevocably designates, appoints and authorizes ABN AMRO Bank N.V. to act as Agent for such Bank under this Agreement and to execute and deliver or accept on behalf of each of the Banks the other Loan Documents. Each Bank hereby irrevocably authorizes the Agent to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and any other instruments and agreements referred to herein, and to exercise such powers and to perform such duties hereunder as are specifically delegated to or required of the Agent by the terms hereof, together with such powers as are reasonably incidental thereto. ABN AMRO Bank N.V. agrees to act as the Agent on behalf of the Banks to the extent provided in this Agreement.

Section 9.02 Delegation of Duties. The Agent may perform any of its duties hereunder by or through agents or employees (provided such delegation does not constitute a relinquishment of its duties as Agent) and, subject to Section 9.05 [Reimbursement of Agent by Borrower, Etc.] and Section 9.06, shall be entitled to engage and pay for the advice or services of any attorneys, accountants or other experts concerning all matters pertaining to its duties hereunder and to rely upon any advice so obtained.

Section 9.03 Nature of Duties; Independent Credit Investigation. The Agent shall have no duties or responsibilities except those expressly set forth in this Agreement and no implied covenants, functions, responsibilities, duties, obligations, or liabilities shall be read into this Agreement or otherwise exist. The duties of the Agent shall be mechanical and administrative in nature; the Agent shall not have by reason of this Agreement a fiduciary or trust relationship in respect of any Bank; and nothing in this Agreement, expressed or implied, is intended to or shall be construed as to impose upon the Agent any obligations in respect of this Agreement except as expressly set forth herein. Without limiting the generality of the foregoing, the use of the term "agent" in this Agreement with reference to the Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable Law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties. Each Bank expressly acknowledges (i) that the Agent has not made any representations or warranties to it and that no act by the Agent hereafter taken, including any review of the affairs of any of the Company or any of its Subsidiaries, shall be deemed to constitute any representation or warranty by the Agent to any Bank; (ii) that it has made and will continue to make, without reliance upon the Agent, its own independent investigation of the financial condition and affairs and its own appraisal of the creditworthiness of each of the Company and its Subsidiaries in connection with this Agreement and the making and continuance of the Loans

hereunder; and (iii) except as expressly provided herein, that the Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Bank with any credit or other information with respect thereto, whether coming into its possession before the making of any Loan or at any time or times thereafter.

Section 9.04 Actions in Discretion of Agent; Instructions From the Banks. The Agent agrees, upon the written request of the Required Banks, to take or refrain from taking any action of the type specified as being within the Agent's rights, powers or discretion herein, provided that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to this Agreement or any other Loan Document or applicable Law. In the absence of a request by the Required Banks, the Agent shall have authority, in its sole discretion, to take or not to take any such action, unless this Agreement specifically requires the consent of the Required Banks or all of the Banks. Any action taken or failure to act pursuant to such instructions or discretion shall be binding on the Banks, subject to Section 9.06 [Exculpatory Provisions, Etc.]. Subject to the provisions of Section 9.06, no Bank shall have any right of action whatsoever against the Agent as a result of the Agent acting or refraining from acting hereunder in accordance with the instructions of the Required Banks, or in the absence of such instructions, in the absolute discretion of the Agent.

Section 9.05 Reimbursement and Indemnification of Agent by the Borrowers. Each Borrower unconditionally, jointly and severally, agrees to pay or reimburse the Agent and hold the Agent harmless against (a) liability for the payment of all reasonable out-of-pocket costs, expenses, and disbursements (including fees and expenses of counsel) incurred by the Agent (i) in connection with the development, negotiation, preparation, printing, execution, administration, syndication, interpretation and performance of this Agreement and the other Loan Documents, (ii) relating to any requested amendments, waivers or consents pursuant to the provisions hereof, (iii) in connection with the enforcement of this Agreement or any other Loan Document or collection of amounts due hereunder or thereunder or the proof and allowability of any claim arising under this Agreement or any other Loan Document, whether in bankruptcy or receivership proceedings or otherwise, and (iv) in any workout or restructuring or in connection with the protection, preservation, exercise or enforcement of any of the terms hereof or of any rights hereunder or under any other Loan Document or in connection with any foreclosure, collection or bankruptcy proceedings, and (b) all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Documents or any action taken or omitted by the Agent hereunder or thereunder, provided that the Borrowers shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements if the same results from the Agent's gross negligence or willful misconduct, or if the Borrowers were not given notice of the subject claim and the opportunity to participate in the defense thereof, at their expense (except that the Borrowers shall remain liable to the extent such failure to give notice does not result in a loss to the Borrowers), or if the same results from a compromise or settlement agreement entered into without the consent of the Borrowers, which shall not be unreasonably withheld.

Section 9.06 Exculpatory Provisions; Limitation of Liability. Neither the Agent nor any of its directors, officers, employees, agents, attorneys or Affiliates shall (a) be liable to

any Bank for any action taken or omitted to be taken by it or them hereunder, or in connection herewith including pursuant to any Loan Document, unless caused by its or their own gross negligence or willful misconduct, (b) be responsible in any manner to any of the Banks for the effectiveness, enforceability, genuineness, validity or the due execution of this Agreement or any other Loan Documents or for any recital, representation, warranty, document, certificate, report or statement herein or made or furnished under or in connection with this Agreement or any other Loan Documents, or (c) be under any obligation to any of the Banks to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions hereof or thereof on the part of the Borrowers or any of their Subsidiaries, or the financial condition of the Borrowers or any of their Subsidiaries, or the existence or possible existence of any Event of Default or Potential Default. No claim may be made by the Borrowers or any of their Subsidiaries, any Bank, the Agent or any of their respective Subsidiaries against the Agent, any Bank or any of their respective directors, officers, employees, agents, attorneys or Affiliates, or any of them, for any special, indirect or consequential damages or, to the fullest extent permitted by Law, for any punitive damages in respect of any claim or cause of action (whether based on contract, tort, statutory liability, or any other ground) based on, arising out of or related to any Loan Document or the transactions contemplated hereby or any act, omission or event occurring in connection therewith, including the negotiation, documentation, administration or collection of the Loans, and the Borrowers (for themselves and on behalf of each of their Subsidiaries), the Agent and each Bank hereby waive, release and agree never to sue upon any claim for any such damages, whether such claim now exists or hereafter arises and whether or not it is now known or suspected to exist in their favor. Each Bank agrees that, except for notices, reports and other documents expressly required to be furnished to the Banks by the Agent hereunder or given to the Agent for the account of or with copies for the Banks, the Agent and each of its directors, officers, employees, agents, attorneys or Affiliates shall not have any duty or responsibility to provide any Bank with an credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrowers or any of their Subsidiaries which may come into the possession of the Agent or any of its directors, officers, employees, agents, attorneys or Affiliates.

Section 9.07 Reimbursement and Indemnification of Agent by Banks. Each Bank agrees to reimburse and indemnify the Agent (to the extent not reimbursed by the Borrowers and without limiting the Obligation of the Borrowers to do so) in proportion to its Ratable Share from and against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements, including attorneys' fees and disbursements (including the allocated costs of staff counsel), and costs of appraisers and environmental consultants, of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Documents or any action taken or omitted by the Agent hereunder or thereunder, provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements (a) if the same results from the Agent's gross negligence or willful misconduct, or (b) if such Bank was not given notice of the subject claim and the opportunity to participate in the defense thereof, at its expense (except that such Bank shall remain liable to the extent such failure to give notice does not result in a loss to the Bank), or (c) if the same results from a compromise and settlement agreement entered into without the consent of such Bank, which shall not be unreasonably withheld. In addition, each Bank agrees promptly upon demand to reimburse the Agent (to the

extent not reimbursed by the Borrowers and without limiting the Obligation of the Borrowers to do so) in proportion to its Ratable Share for all amounts due and payable by the Borrowers to the Agent in connection with the Agent's periodic audit of the Company's or any of its respective Material Subsidiaries' books, records and business properties.

Section 9.08 Reliance by Agent. The Agent shall be entitled to rely upon any writing, telegram, telex or teletype message, resolution, notice, consent, certificate, letter, cablegram, statement, order or other document or conversation by telephone or otherwise believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon the advice and opinions of counsel and other professional advisers selected by the Agent. The Agent shall be fully justified in failing or refusing to take any action hereunder unless it shall first be indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action.

Section 9.09 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Potential Default or Event of Default unless the Agent has received written notice from a Bank or a Borrower referring to this Agreement, describing such Potential Default or Event of Default and stating that such notice is a "notice of default."

Section 9.10 Notices. The Agent shall promptly send to each Bank a copy of all notices received from any Borrower pursuant to the provisions of this Agreement or the other Loan Documents promptly upon receipt thereof. The Agent shall promptly notify the Borrowers and the other Banks of each change in the Base Rate and the effective date thereof.

Section 9.11 Banks in Their Individual Capacities; Agents in Its Individual Capacity. With respect to its Revolving Credit Commitment, the Revolving Credit Loans and any Bid Loans made by it and any other rights and powers given to it as a Bank hereunder or under any of the other Loan Documents, the Agent shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not the Agent, and the term "Bank" and "Banks" shall, unless the context otherwise indicates, include the Agent in its individual capacity. ABN AMRO Bank and its Affiliates and each of the Banks and their respective Affiliates may, without liability to account, except as prohibited herein, make loans to, issue letters of credit for the account of, acquire equity interests in, accept deposits from, discount drafts for, act as trustee under indentures of, and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with, the Company and its Subsidiaries and their Affiliates, in the case of the Agent, as though it were not acting as Agent hereunder and in the case of each Bank, as though such Bank were not a Bank hereunder, in each case without notice to or consent of the other Banks. The Banks acknowledge that, pursuant to such activities, the Agent or its Affiliates may (i) receive information regarding the Company and any of its Subsidiaries or Affiliates (including information that may be subject to confidentiality obligations in favor of the Company or any of its Subsidiaries or Affiliates) and acknowledge that the Agent shall be under no obligation to provide such information to them, and (ii) accept fees and other consideration from the Company and any of its Subsidiaries for services in connection with this Agreement and otherwise without having to account for the same to the Banks.

Section 9.12 Holders of Notes. The Agent may deem and treat any payee of any Note as the owner thereof for all purposes hereof unless and until written notice of the assignment or transfer thereof shall have been filed with the Agent. Any request, authority or consent of any Person who at the time of making such request or giving such authority or consent is the holder of any Note shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

Section 9.13 Equalization of Banks. The Banks and the holders of any participations in any Commitments or Loans or other rights or obligations of a Bank hereunder agree among themselves that, with respect to all amounts received by any Bank or any such holder for application on any Obligation hereunder or under any such participation, whether received by voluntary payment, by realization upon security, by the exercise of the right of set-off or banker's lien, by counterclaim, or by any other non-pro rata source, equitable adjustment will be made in the manner stated in the following sentence so that, in effect, all such excess amounts will be shared ratably among the Banks and such holders in proportion to their interests in payments on the Loans, except as otherwise provided in Section 3.04(c) [Agent's and Bank's Rights], Section 4.04(b) [Replacement of a Bank] or Section 4.06 [Additional Compensation in Certain Circumstances]. The Banks or any such holder receiving any such amount shall purchase for cash from each of the other Banks an interest in such Bank's Loans in such amount as shall result in a ratably participation by the Banks and each such holder in the aggregate unpaid amount of the Loans, provided that if all or any portion of such excess amount is thereafter recovered from the Bank or the holder making such purchase, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, together with interest or other amounts, if any, required by law (including court order) to be paid by the Bank or the holder making such purchase.

Section 9.14 Successor Agent. The Agent (i) may resign as Agent or (ii) shall resign if such resignation is required by Section 4.04(b) [Replacement of a Bank], in either case of (i) or (ii) by giving not less than thirty (30) days' prior written notice to the Borrowers. If the Agent shall resign under this Agreement, then either (a) the Required Banks shall appoint from among the Banks a successor agent for the Banks, subject to the consent of the Borrowers, such consent not to be unreasonably withheld, or (b) if a successor agent shall not be so appointed and approved within the thirty (30) day period following the Agent's notice to the Banks of its resignation, then the Agent shall appoint, with the consent of the Borrowers, such consent not to be unreasonably withheld, a successor agent who shall serve as Agent until such time as the Required Banks appoint and the Borrowers consent to the appointment of a successor agent. Upon its appointment pursuant to either clause (a) or (b) above, such successor agent shall succeed to the rights, powers and duties of the Agent, and the term "Agent" shall mean such successor agent, effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement. After the resignation of any Agent hereunder, the provisions of this ARTICLE IX shall inure to the benefit of such former Agent and such former Agent shall not by reason of such resignation be deemed to be released from liability for any actions taken or not taken by it while it was an Agent under this Agreement.

Section 9.15 Agent's Fee. The Borrowers shall pay to the Agent a nonrefundable fee (the "Bid Loan Processing Fee") in connection with processing Bid Loans and a

nonrefundable fee (the "Agent's Fee") for Agent's services hereunder under the terms of a letter (the "Agent's Letter") between the Borrowers and Agent, as amended from time to time.

Section 9.16 Availability of Funds. The Agent may assume that each Bank has made or will make the proceeds of a Loan available to the Agent unless the Agent shall have been notified by such Bank on or before the later of (1) the close of Business on the Business Day preceding the Borrowing Date with respect to such Loan or (2) two hours before the time on which the Agent actually funds the proceeds of such Loan to the respective Borrower (whether using its own funds pursuant to this Section 9.16 or using proceeds deposited with the Agent by the Banks and whether such funding occurs before or after the time on which Banks are required to deposit the proceeds of such Loan with the Agent). The Agent may, in reliance upon such assumption (but shall not be required to), make available to the respective Borrower a corresponding amount. If such corresponding amount is not in fact made available to the Agent by such Bank, the Agent shall be entitled to recover such amount on demand from such Bank (or, if such Bank fails to pay such amount forthwith upon such demand from the Borrowers) together with interest thereon, in respect of each day during the period commencing on the date such amount was made available to the Borrowers and ending on the date the Agent recovers such amount, at a rate per annum equal to (i) the Federal Funds Effective Rate during the first three (3) days after such interest shall begin to accrue and (ii) the applicable interest rate in respect of such Loan after the end of such three-day period.

Section 9.17 Calculations. In the absence of gross negligence or willful misconduct, the Agent shall not be liable for any error in computing the amount payable to any Bank whether in respect of the Loans, fees or any other amounts due to the Banks under this Agreement. In the event an error in computing any amount payable to any Bank is made, the Agent, the Borrowers and each affected Bank shall, forthwith upon discovery of such error, make such adjustments as shall be required to correct such error, and any compensation therefor will be calculated at the Federal Funds Effective Rate.

Section 9.18 Beneficiaries. Except as expressly provided herein, the provisions of this ARTICLE IX are solely for the benefit of the Agent and the Banks, and the Company and its Subsidiaries shall not have any rights to rely on or enforce any of the provisions hereof. In performing its functions and duties under this Agreement, the Agent shall act solely as agent of the Banks and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for the Company or any of its Subsidiaries.

ARTICLE X

MISCELLANEOUS

Section 10.01 Modifications, Amendments, or Waivers. With the written consent of the Required Banks, the Agent, acting on behalf of all the Banks, and the Borrowers may from time to time enter into written agreements amending or changing any provision of this Agreement or any other Loan Document or the rights of the Banks or the Borrowers hereunder or thereunder, or may grant written waivers or consents to a departure from the due performance of the Obligations hereunder or thereunder. Any such agreement, waiver or consent made with

such written consent shall be effective to bind all the Banks and the Borrowers; provided that, without the written consent of all the Banks, no such agreement, waiver, or consent may be made which will:

(a) Increase of Commitment; Extension of Expiration Date. Increase the amount of the Revolving Credit Commitment of any Bank hereunder or extend the Expiration Date or the Term Loan Maturity Date;

(b) Extension of Payment; Reduction of Principal Interest or Fees; Modification of Terms of Payment. Whether or not any Loans are outstanding, extend the time for payment of principal or interest of any Loan (excluding the due date of any mandatory prepayment of a Loan or any mandatory Commitment reduction in connection with such a mandatory prepayment hereunder except for mandatory reductions of the Commitments on the Expiration Date), the Facility Fee, the Term Loan Fee or any other fee payable to any Bank, or reduce the principal amount of or the rate of interest borne by any Loan or reduce the Facility Fee or any other fee payable to any Bank, or otherwise affect the terms of payment of the principal of or interest of any Loan, the Facility Fee or any other fee payable to any Bank;

(c) Release of Collateral or Guarantor. Release any Guarantor from its Obligations under the Guaranty Agreement or any other security for any of the Obligations except as otherwise may be permitted by the terms hereof or of the instrument establishing the Lien; or

(d) Miscellaneous. Amend Section 4.02 [Pro Rata Treatment of Banks], Section 9.06 [Exculpatory Provisions, Etc.] or Section 9.13 [Equalization of Banks] or this Section 10.01, alter any provision regarding the pro rata treatment of the Banks, change the definition of Required Banks, or change any requirement providing for the Banks or the Required Banks to authorize the taking of any action hereunder;

provided, further, that no agreement, waiver or consent which would modify the interests, rights or obligations of the Agent in its capacity as Agent or as an issuer of letters of credit shall be effective without the written consent of the Agent.

Section 10.02 No Implied Waivers; Cumulative Remedies; Writing Required. No course of dealing and no delay or failure of the Agent or any Bank in exercising any right, power, remedy or privilege under this Agreement or any other Loan Document shall affect any other or future exercise thereof or operate as a waiver thereof, nor shall any single or partial exercise thereof or any abandonment or discontinuance of steps to enforce such a right, power, remedy or privilege preclude any further exercise thereof or of any other right, power, remedy or privilege. The rights and remedies of the Agent and the Banks under this Agreement and any other Loan Documents are cumulative and not exclusive of any rights or remedies which they would otherwise have. Any waiver, permit, consent or approval of any kind or character on the part of any Bank of any breach or default under this Agreement or any such waiver of any provision or condition of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing.

Section 10.03 Reimbursement and Indemnification of Banks by the Borrower; Taxes. The Borrower agrees unconditionally upon demand to pay or reimburse to each Bank (other than the Agent, as to which the Borrowers' Obligations are set forth in Section 9.05 [Reimbursement of Agent By Borrower, Etc.]) and to save such Bank harmless against (i) liability for the payment of all reasonable out-of-pocket costs, expenses and disbursements (including fees and expenses of counsel for each Bank except with respect to (a) and (b) below), incurred by such Bank (a) in connection with the review, execution, delivery, administration, or interpretation of this Agreement, and other instruments and documents to be delivered hereunder, (b) relating to any amendments, waivers, or consents pursuant to the provisions hereof, (c) in connection with the enforcement of this Agreement or any other Loan Document, or collection of amounts due hereunder or thereunder or the proof and allowability of any claim arising under this Agreement or any other Loan Document, whether in bankruptcy or receivership proceedings or otherwise, and (d) in any workout or restructuring or in connection with the protection, preservation, exercise, or enforcement of any of the terms hereof or of any rights hereunder or under any other Loan Document or in connection with any foreclosure, collection, or bankruptcy proceedings, or (ii) all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against such Bank (including such Bank's officers, directors and employees), in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Documents, use of proceeds of the Loans or the transactions contemplated by the Loan Documents or any action taken or omitted by such Bank (including such Bank's officers, directors and employees) hereunder or thereunder, provided that the Borrowers shall not be liable to a Bank (including such Bank's officers, directors and employees) for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements (A) if the same results from such Bank's or its officer's, director's or employee's gross negligence or willful misconduct, or (B) if the Borrowers were not given notice of the subject claim and the opportunity to participate in the defense thereof, at their expense (except that the Borrowers shall remain liable to the extent such failure to give notice does not result in a loss to the Borrowers), or (C) if the same results from a compromise or settlement agreement entered into without the consent of the Borrowers, which shall not be unreasonably withheld. The Banks will attempt to minimize the fees and expenses of legal counsel for the Banks which are subject to reimbursement by the Borrowers hereunder by considering the usage of one law firm to represent the Banks and the Agent if appropriate under the circumstances. The Borrowers, jointly and severally, agree unconditionally to pay all stamp, document, transfer, recording or filing taxes or fees and similar impositions now or hereafter determined by the Agent or any Bank to be payable in connection with this Agreement or any other Loan Document, and the Borrowers, jointly and severally, agree unconditionally to save the Agent and the Banks harmless from and against any and all present or future claims, liabilities or losses with respect to or resulting from any omission to pay or delay in paying any such taxes, fees or impositions.

Section 10.04 Holidays. Whenever payment of a Loan to be made or taken hereunder shall be due on a day which is not a Business Day such payment shall be due on the next Business Day (except as provided in the definition of Committed Loan Interest Period with respect to Interest Periods under the LIBOR Option) and such extension of time shall be included in computing interest and fees, except that the Loans shall be due on the Business Day preceding the Expiration Date or the Term Loan Maturity Date if the Expiration Date or the Term Loan

Maturity Date is not a Business Day. Whenever any payment or action to be made or taken hereunder (other than payment of the Loans) shall be stated to be due on a day which is not a Business Day, such payment or action shall be made or taken on the next following Business Day, and such extension of time shall not be included in computing interest or fees, if any, in connection with such payment or action.

Section 10.05 Funding by Branch, Subsidiary, or Affiliate. (a) Notional Funding. Each Bank shall have the right from time to time, without notice to the Borrowers, to deem any branch, Subsidiary, or Affiliate (which for the purposes of this Section 10.05 shall mean any corporation or association which is directly or indirectly controlled by or is under direct or indirect common control with any corporation or association which directly or indirectly controls such Bank) of such Bank to have made, maintained, or funded any Loan to which the LIBOR Option applies at any time, provided that immediately following (on the assumption that a payment was then due from the Borrowers to such other office), and as a result of such change, the Borrowers will not be under any greater financial obligation pursuant to Section 4.06 [Additional Compensation in Certain Circumstances] than they would have been in the absence of such change. Notional funding offices may be selected by each Bank without regard to such Bank's actual methods of making, maintaining or funding the Loans or any sources of funding actually used by or available to such Bank.

(b) Actual Funding. Each Bank shall have the right from time to time to make or maintain any Loan by arranging for a branch, Subsidiary or Affiliate of such Bank to make or maintain such Loan subject to the last sentence of this Section 10.05(b). If any Bank causes a branch, Subsidiary or Affiliate to make or maintain any part of the Loans hereunder, all terms and conditions of this Agreement shall, except where the context clearly requires otherwise, be applicable to such part of the Loans to the same extent as if such Loans were made or maintained by such Bank, but in no event shall any Bank's use of such a branch, Subsidiary or Affiliate to make or maintain any part of the Loans hereunder cause such Bank or such branch, Subsidiary or Affiliate to incur any cost or expenses payable by any Borrower hereunder or require any Borrower to pay any other compensation to any Bank (including any expenses incurred or payable pursuant to Section 4.06 [Additional Compensation in Certain Circumstances]) which would otherwise not be incurred.

Section 10.06 Notices. Any notice, request, demand, direction, or other communication (for purposes of this Section 10.06 only, a "Notice") to be given to or made upon any party hereto under any provision of this Agreement shall be given or made by telephone or in writing (which includes means of electronic transmission (i.e., "e-mail") or facsimile transmission in accordance with this Section 10.06. Any such Notice must be delivered to the applicable parties hereto at the addresses and numbers set forth under their respective names on Schedule 1.01(B) hereof or in accordance with any subsequent unrevoked Notice from any such party that is given in accordance with this Section 10.06. Any Notice shall be effective:

(A) In the case of hand-delivery, when delivered;

(B) If given by mail, four days after such Notice is deposited with the United States Postal Service, with first-class postage prepaid, return receipt requested;

(C) In the case of a telephonic Notice, when a party is contacted by telephone, if delivery of such telephonic Notice is confirmed no later than the next Business Day by hand delivery, a facsimile or electronic transmission, a Website Posting or overnight courier delivery of a confirmatory notice (received at or before noon on such next Business Day);

(D) In the case of a facsimile transmission, when sent to the applicable party's facsimile machine's telephone number if the party sending such Notice receives confirmation of the delivery thereof from its own facsimile machine;

(E) In the case of electronic transmission, when actually received;

(F) In the case of a Website Posting, upon delivery of a Notice of such posting (including the information necessary to access such web site) by another means set forth in this Section 10.06; and

(G) If given by any other means (including by overnight courier), when actually received.

Any Bank giving a Notice to any Borrower or any Material Subsidiary shall concurrently send a copy thereof to the Agent, and the Agent shall promptly notify the other Banks of its receipt of such Notice.

Section 10.07 Severability. The provisions of this Agreement are intended to be severable. If any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability thereof in any other jurisdiction or the remaining provisions hereof in any jurisdiction.

Section 10.08 Governing Law. This Agreement and any other documents delivered herewith and the rights and obligations of the parties hereto and thereto shall be for all purposes governed by, and construed and enforced in accordance with the internal Laws of the State of New York, without giving effect to its conflicts of law principles.

Section 10.09 Prior Understanding. This Agreement and the other Loan Documents supersede all prior understandings and agreements, whether written or oral, between the parties hereto and thereto relating to the transactions provided for herein and therein, including any prior confidentiality agreements and commitments.

Section 10.10 Duration; Survival. All representations and warranties of the Borrowers and the Material Subsidiaries contained herein or made in connection herewith shall survive the making of Loans and shall not be waived by the execution and delivery of this Agreement, any investigation by the Agent or the Banks, the making of Loans, or payment in full of the Loans. All covenants and agreements of the Borrowers contained in Section 7.01 [Affirmative Covenants], Section 7.02 [Negative Covenants] and Section 7.03 [Reporting Requirements], and all comparable covenants and agreements contained in or incorporated into the Guarantor Joinder given by each Material Subsidiary pursuant to Section 10.18, shall

continue in full force and effect from and after the date hereof so long as the Borrowers may borrow hereunder and until termination of the Commitments and payment in full of the Loans. All covenants and agreements of the Borrowers contained herein relating to the payment of principal, interest, premiums, additional compensation or expenses and indemnification, including those set forth in ARTICLE IV [Payments] and Section 9.05 [Reimbursement of Agent by Borrowers, Etc.], Section 9.07 [Reimbursement of Agent by Banks, Etc.] and Section 10.03 [Reimbursement of Banks by Borrowers; Etc.], and all comparable covenants and agreements contained in or incorporated into the Guarantor Joinder given by each Material Subsidiary pursuant to Section 10.18, shall survive payment in full of the Loans and termination of the Commitments.

Section 10.11 Successors and Assigns. (a) This Agreement shall be binding upon and shall inure to the benefit of the Banks, the Agent, the Borrowers and the Material Subsidiaries, and their respective successors and assigns, except that no Borrowers or any Material Subsidiary may assign or transfer any of its rights or Obligations or any interest herein or in any other Loan Document, except as may be permitted by the terms hereof. Each Bank may, at its own cost, make assignments of or sell participations in all or any part of its Revolving Credit Commitments and the Loans made by it to one or more banks or other entities, subject to the consent of the Borrowers and the Agent with respect to any assignee, such consent not to be unreasonably withheld, provided that (1) no consent of the Borrowers shall be required (A) if an Event of Default exists and is continuing, or (B) in the case of an assignment by a Bank to an Affiliate of such Bank, (2) any assignment by a Bank to a Person other than an Affiliate of such Bank may not be made in amounts less than the lesser of \$5,000,000 or the amount of the assigning Bank's Commitment, (3) a Bank may assign an interest or sell a participation in less than 100% of its Commitments, Committed Loans, or Bid Loans, provided that such Bank sells an equal percentage interest or participation in each of its Revolving Credit Commitment and Revolving Credit Loans and Term Loans, and (4) a Bank may assign a Bid Loan to another Person without assigning any portion of its Commitment to such Person. In the case of an assignment, upon receipt by the Agent of the Assignment and Assumption Agreement, the assignee shall have, to the extent of such assignment (unless otherwise provided therein), the same rights, benefits and obligations as it would have if it had been a signatory Bank hereunder, the Commitments shall be adjusted accordingly, and upon surrender of any Revolving Credit/Term Loan Note subject to such assignment, the applicable Borrower shall execute and deliver a new Revolving Credit/Term Loan Note to the assignee, if such assignee requests such a Note in an amount equal to the amount of the Revolving Credit Commitment assumed by it and a new Revolving Credit/Term Loan Note to the assigning Bank, if the assigning Bank requests such a Note with respect to the Commitment it has retained. The assigning Bank shall surrender its Bid Note and the respective Borrower shall execute and deliver to the assignee (and to the assignor if the assignor is assigning less than all of its Revolving Credit Commitments and Bid Loans) a new Bid Note in the form of Exhibit 1.01(B) as appropriate. Any Bank which assigns any or all of its Commitment or Loans to a Person other than an Affiliate of such Bank shall pay to the Agent a service fee in the amount of \$3,500 for each assignment. In the case of a participation, the participant shall only have the rights specified in Section 8.02 [Set-off] (the participant's rights against such Bank in respect of such participation to be those set forth in the agreement executed by such Bank in favor of the participant relating thereto and not to include any voting rights except with respect to changes of the type referenced in Section 10.01(a) [Increase of Commitment, Etc.], Section 10.01(b) [Extension of Payment, Etc.], or Section

10.01(c) [Release of Collateral or Guarantor]), all of such Bank's obligations under this Agreement or any other Loan Document shall remain unchanged, and all amounts payable by any Borrower or any Material Subsidiary hereunder or thereunder shall be determined as if such Bank had not sold such participation.

(b) Any assignee or participant which is not incorporated under the Laws of the United States of America or a state thereof shall deliver to the Borrowers and the Agent the form of certificate described in Section 10.17 [Tax Withholding Clause] relating to federal income tax withholding. Each Bank may furnish any publicly available information concerning the Borrowers or its Subsidiaries and any other information concerning the Borrowers or its Subsidiaries in the possession of such Bank from time to time to assignees and participants (including prospective assignees or participants), provided that such assignees and participants agree to be bound by the provisions of Section 10.12 [Confidentiality].

(c) Notwithstanding any other provision in this Agreement, any Bank may at any time pledge or grant a security interest in all or any portion of its rights under this Agreement, its Note (if any) and the other Loan Documents to any Federal Reserve Bank without notice to or consent of the Borrowers or the Agent. No such pledge or grant of a security interest shall release the transferor Bank of its obligations hereunder or under any other Loan Document.

Section 10.12 Confidentiality. (a) General. The Agent and the Banks each agree to keep confidential all information obtained from the Borrowers or their Subsidiaries which is nonpublic and confidential or proprietary in nature (including any information the Borrowers specifically designate as confidential), except as provided below, and to use such information only in connection with their respective capacities under this Agreement and for the purposes contemplated hereby. The Agent and the Banks shall be permitted to disclose such information (i) to outside legal counsel, accountants and other professional advisors who need to know such information in connection with the administration and enforcement of this Agreement, subject to agreement of such Persons to maintain the confidentiality of such information as provided herein,

(ii) to assignees and participants as contemplated by Section 10.11, and prospective assignees and participants, provided that Agent exercises its best efforts to obtain the agreement of such prospective assignees and participants to be bound by the confidentiality provisions hereof, (iii) to the extent requested by any bank regulatory authority or, with notice to the Borrowers, as otherwise required by applicable Law or by any subpoena or similar legal process, or in connection with any investigation or proceeding arising out of the transactions contemplated by this Agreement, (iv) if it becomes publicly available other than as a result of a breach of this Agreement or becomes available from a source not known to be subject to confidentiality restrictions, or (v) if the Borrowers shall have consented to such disclosure.

(b) Sharing Information With Affiliates of the Banks. The Borrowers acknowledge that from time to time financial advisory, investment banking, and other services may be offered or provided to the Borrowers or one or more of their Affiliates (in connection with this Agreement or otherwise) by any Bank or by one or more Subsidiaries or Affiliates of such Bank and the Borrowers hereby authorize each Bank to share any information delivered to such Bank by the Borrowers or any of their Subsidiaries pursuant to this Agreement, or in connection with the decision of such Bank to enter into this Agreement, to any such Subsidiary or Affiliate of such Bank, it being understood that any such Subsidiary or Affiliate of any Bank

receiving such information shall be bound by the provisions of Section 10.12 as if it were a Bank hereunder. Such authorization shall survive the repayment of the Loans and other Obligations and the termination of the Commitments.

(c) Disclosures of Tax Treatment. Notwithstanding anything herein or in any of the other Loan Documents to the contrary, the Company, the UK Borrower, the Agent and each Bank (and each employee, representative or other agent of any such Person) may disclose to any and all Persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to such Person relating to such tax treatment and tax structure. For purposes of this authorization, "tax treatment" means the purported or claimed U.S. federal income tax treatment of the transaction, and "tax structure" means any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of the transaction. The authorization to disclose the tax treatment and tax structure of the transactions contemplated hereby contained in the preceding sentence was applicable immediately upon commencement of discussions between the Company, the UK Borrower and the Agent with respect to the transactions contemplated hereby. Notwithstanding the foregoing, however, the Company, the UK Borrower, the Agent and each Bank each hereby acknowledges that, to the best of its knowledge, no other party to this Agreement has made or provided a "tax statement" (as such term is defined in Treasury Regulation section 301.6112-1(c)(2)(iii)) regarding this Agreement or the transactions contemplated hereby to, or for the benefit of, the Company, the UK Borrower, the Agent or such Bank, as the case may be, or any Person affiliated with the Company, the UK Borrower, the Agent or such Bank, as the case may be.

Section 10.13 Counterparts. This Agreement may be executed by different parties hereto on any number of separate counterparts, each of which, when so executed and delivered, shall be an original, and all such counterparts shall together constitute one and the same instrument.

Section 10.14 Agent's or Bank's Consent. Whenever the Agent's or any Bank's consent is required to be obtained under this Agreement or any of the other Loan Documents as a condition to any action, inaction, condition or event, the Agent and each Bank shall be authorized to give or withhold such consent in its sole and absolute discretion and to condition its consent upon the giving of additional collateral, the payment of money or any other matter.

Section 10.15 Exceptions. The representations, warranties and covenants contained herein shall be independent of each other, and no exception to any representation, warranty or covenant shall be deemed to be an exception to any other representation, warranty or covenant contained herein unless expressly provided, nor shall any such exceptions be deemed to permit any action or omission that would be in contravention of applicable Law.

Section 10.16 CONSENT TO FORUM; WAIVER OF JURY TRIAL. EACH OF THE BORROWERS HEREBY IRREVOCABLY CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF ANY NEW YORK STATE COURT OR FEDERAL COURT OF THE UNITED STATES OF AMERICA SITTING IN NEW YORK CITY, AND WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS UPON IT. THE COMPANY CONSENTS THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE BY CERTIFIED

OR REGISTERED MAIL DIRECTED TO THE COMPANY AT THE ADDRESS PROVIDED FOR IN SECTION 10.06 AND SERVICE SO MADE SHALL BE DEEMED TO BE COMPLETED UPON ACTUAL RECEIPT THEREOF. THE UK BORROWER CONSENTS THAT ALL SERVICE OF PROCESS MAY BE MADE BY CERTIFIED OR REGISTERED MAIL DIRECTED TO THE COMPANY AT THE ADDRESS PROVIDED IN SECTION 10.06 (AND THE UK BORROWER HEREBY IRREVOCABLY APPOINTS THE COMPANY AS ITS AGENT TO RECEIVE SUCH SERVICE OF PROCESS), AND SERVICE SO MADE SHALL BE COMPLETED UPON ACTUAL RECEIPT THEREOF. EACH OF THE BORROWERS WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED AGAINST IT AS PROVIDED HEREIN AND AGREES NOT TO ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR VENUE.

EACH BORROWER, THE AGENT, AND EACH OF THE BANKS HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, SUIT, PROCEEDING, OR COUNTERCLAIM OF ANY KIND ARISING OUT OF OR RELATED TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT, OR ANY COLLATERAL TO THE FULL EXTENT PERMITTED BY LAW.

Section 10.17 Tax Withholding Clause. Each Bank or assignee or participant of a Bank that is not incorporated under the Laws of the United States of America or a state thereof (and, upon the written request of the Agent, each other Bank or assignee or participant of a Bank) agrees that it will deliver to each of the Borrowers and the Agent two (2) duly completed appropriate valid Withholding Certificates (as defined under Section 1.1441-1(c)

(16) of the Income Tax Regulations (the "Regulations")) certifying its status (i.e., U.S. or foreign person) and, if appropriate, making a claim of reduced, or exemption from, U.S. withholding tax on the basis of an income tax treaty or an exemption provided by the Internal Revenue Code. The term "Withholding Certificate" means a Form W-9; a Form W-8BEN; a Form W-8ECI; a Form W-8IMY and the related statements and certifications as required under Section 1.1441-1(e)

(2) and/or (3) of the Regulations; a statement described in Section 1.871-14(c)(2)(v) of the Regulations; or any other certificates under the Internal Revenue Code or Regulations that certify or establish the status of a payee or beneficial owner as a U.S. or foreign person. Each Bank, assignee or participant required to deliver to the Borrowers and the Agent a Withholding Certificate pursuant to the preceding sentence shall deliver such valid Withholding Certificate as follows: (A) each Bank which is a party hereto on the Closing Date shall deliver such valid Withholding Certificate at least five (5) Business Days prior to the first date on which any interest or fees are payable by the Borrowers hereunder for the account of such Bank; (B) each assignee or participant shall deliver such valid Withholding Certificate at least five (5) Business Days before the effective date of such assignment or participation (unless the Agent in its sole discretion shall permit such assignee or participant to deliver such valid Withholding Certificate less than five (5) Business Days before such date in which case it shall be due on the date specified by the Agent). Each Bank, assignee or participant which so delivers a valid Withholding Certificate further undertakes to deliver to each of the Borrowers and the Agent two (2) additional copies of such Withholding Certificate (or a successor form) on or before the date that such Withholding Certificate expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent Withholding Certificate so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrowers or the Agent. Notwithstanding the submission of a Withholding Certificate claiming a reduced rate of or

exemption from U.S. withholding tax, the Agent shall be entitled to withhold United States federal income taxes at the full 30% withholding rate if in its reasonable judgment it is required to do so under the due diligence requirements imposed upon a withholding agent under Section 1.1441-7(b) of the Regulations. Further, the Agent is indemnified under Section 1.1461-1(e) of the Regulations against any claims and demands of any Bank or assignee or participant of a Bank for the amount of any tax it deducts and withholds in accordance with regulations under Section 1441 of the Internal Revenue Code.

Section 10.18 Joinder of Guarantors. Any Material Subsidiary of the Company which is required to be a Guarantor pursuant to Section 7.02(i) [Subsidiaries, Partnerships and Joint Ventures] shall execute and deliver to the Agent (i) a Guarantor Joinder in substantially the form attached hereto as Exhibit 1.01(G)(1) pursuant to which it shall join as a Guarantor each of the documents to which the Guarantors are parties; and (ii) documents in the forms described in Section 6.01 [First Loans] modified as appropriate to relate to such Subsidiary. The Company shall deliver such Guarantor Joinder and related documents to the Agent within five (5) Business Days after, as the case may be, the date of the acquisition of such Subsidiary, the date upon which a Subsidiary meets the criteria for a Material Subsidiary as set forth in the definition thereof in Section 1.01, or the date the filing of such Subsidiary's certificate or articles of incorporation if the Subsidiary is a corporation, the date of the filing of its certificate of limited partnership if it is a limited partnership or the date of its organization if it is an entity other than a limited partnership or corporation.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed this Agreement as of the day and year first above written.

ACE GUARANTY CORP.

By:

Name:

Title:

ACE GUARANTY (UK) LTD.

By:

Name:

Title:

ABN AMRO BANK N.V.

By:

Name:

Title:

By:

Name:

Title:

FLEET NATIONAL BANK

By:

Name:

Title:

By:

Name:

Title:

CITIBANK, N.A.

By:

Name:

Title:

**NORDDEUTSCHE LANDESBANK GIROZENTRALE
NEW YORK BRANCH AND/OR CAYMAN ISLANDS
BRANCH**

By:

Name:

Title:

**WESTLB AG (f/k/a WESTDEUTSCHE LANDESBANK
GIROZENTRALE), NEW YORK BRANCH**

By:

Name:

Title:

By:

Name:

Title:

BANK OF AMERICA N.A.

By:

Name:

Title:

THE BANK OF NEW YORK

By:

Name:

Title:

SCHEDULE 1.01(B)

Part 2 - Addresses for Notices to Borrower and Guarantors:

AGENT

Notices related to commitments, covenants or extensions of expiry/termination dates:

ABN AMRO Bank N.V.

208 South LaSalle Street, Suite 1500
Chicago, IL 60604-1003
Attn: Agency Services
E-Mail: josephine.o'brien@abnamro.com
FAX: 312-601-3610

ABN AMRO Bank N.V.

208 South LaSalle Street, Suite 1500
Chicago, IL 60604-1003
Attn: Credit Administration
E-Mail: teresa.weirath@abnamro.com
FAX: 312-992-5111

ABN AMRO Bank N.V.

55 East 52nd/ Street
New York, NY 10055
Attn: Neil Stein
E-Mail: neil.stein@abnamro.com
FAX: (212) 409-1718

Notices related to Loans, Interest and Fees and all required Financial Information:

ABN AMRO Bank N.V.

208 South LaSalle Street, Suite 1500
Chicago, IL 60604-1003
Attn: Agency Services
E-Mail: josephine.o'brien@abnamro.com
FAX: 312-601-3610

BORROWERS

Name: ACE Guaranty Corp.
Address: 1325 Avenue of the Americas
New York, NY 10019
Attention: Donald H. Paston
Telephone: 212-974-0100
Telecopy: 212-581-3268

SCHEDULE 1.01(B)

Page 2

Name: ACE Guaranty (UK) Ltd.
Address: 1325 Avenue of the Americas
New York, NY 10019
Attention: Geraldine Alfino Egler, Esq.
Telephone: 212-261-5597
Telecopy: 212-581-3268

With a mandatory copy to:

Name: ACE Guaranty Corp.
Address: 1325 Avenue of the Americas
New York, NY 10019
Attention: Geraldine Alfino Egler, Esq. Telephone: 212-261-5597
Telecopy: 212-581-3268

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

I, Brian Duperreault, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of ACE Limited;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date August 12, 2003

/s/ Brian Duperreault

Chairman and Chief Executive Officer

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

I, Philip V. Bancroft, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of ACE Limited;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or

is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date August 12, 2003

/s/ Philip V. Bancroft

Chief Financial Officer

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Exhibit 32.1

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

The undersigned officer of ACE Limited (the "Corporation") hereby certifies that the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, fully complies with the applicable reporting requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a)) and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ACE Limited.

Dated: August 12, 2003

/s/ Brian Duperreault

Brian Duperreault
Chairman and
Chief Executive Officer

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Exhibit 32.2

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

The undersigned officer of ACE Limited (the "Corporation") hereby certifies that the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, fully complies with the applicable reporting requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a)) and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ACE Limited.

Dated: August 12, 2003

/s/ Philip V. Bancroft

Philip V. Bancroft
Chief Financial Officer

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