ACE CAPITAL V LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2001

COMPANY REGISTRATION NUMBER: 2949447

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2001

The directors are pleased to submit their report and the audited financial statements for the year to 31 December 2001.

PRINCIPAL ACTIVITY

The principal activity of the Company is that of a corporate underwriting member of Lloyd's.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Company participates exclusively on Syndicate 2488 which is managed by ACE Underwriting Agencies Limited, a fellow subsidiary undertaking of ACE Global Markets Limited. The Company's participations in the syndicate for the 1999, 2000, 2001 and 2002 underwriting accounts are as follows:

	1999 allocated capacity		2000 allocated capacity		2001 allocated capacity		2002 allocated capacity	
Syndicate	Total £'000	Company's participation £'000	Total £'000	Company's participation £'000	Total £'000	Company's participation £'000	Total £'000	Company's participation £'000
2488	188,393	**188,393**	599,573	**244,741**	724,819	**295,720**	899,973	**367,107**

Both the 2000 and 2001 years of account of Syndicate 2488 are affected by the terrorist attacks of 11 September 2001 in the United States; note 3 in the financial statements sets out the effect of this exceptional loss on the reported results of the Company for the year.

RESULTS AND DIVIDENDS

The loss for the year to 31 December 2001 after taxation amounted to £56,637,000 (2000 restated: £22,810,000). An interim dividend of £2.08172 per US$1 ordinary share amounting to £14,000,000 was declared during the year (2000: £Nil). The directors do not recommend the payment of a final dividend (2000: £Nil).

DIRECTORS

The following have been directors from 1 January 2001 to the date of this report unless otherwise indicated:

ACE London Group Limited	(Appointed 21 August 2001)
J R Charman	(Resigned 17 March 2001)
P M Curtis	(Appointed 10 July 2001)
M L Glover	
J J Lloyd	(Resigned 31 July 2001)

The Company has the benefit of a group directors' and officers' liability insurance policy effected by ACE Limited. No charge was made to the Company during the year for this policy.

DIRECTORS' INTERESTS

In accordance with The Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 (SI 1985/802), the directors' interests in ACE Limited, the ultimate holding company, are not disclosed in these financial statements.

DIRECTORS' REPORT - continued

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for the financial period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2001. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The Company's auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office. On 23 June 1999 the Company passed an elective resolution to dispense with the obligation to appoint auditors annually.

By Order of the Board

for and on behalf of
ACE London Services Limited
Secretary, 17 June 2002

38 Bishopsgate
London
EC2N 4DL

INDEPENDENT AUDITORS' REPORT
to the members of ACE Capital V Limited

We have audited the financial statements on pages 4 to 18, which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 8 to 11.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Fundamental uncertainty
In forming our opinion, we have considered the adequacy of the disclosure made in the financial statements concerning ACE Capital V Limited's exposure to the terrorist attacks of 11 September 2001 in the United States as described in note 3 to the financial statements on page 12. The estimates of gross and net losses for these terrorist attacks are subject to uncertainties as a result of the size and nature of the claims to the insurance industry, assumptions used in establishing estimates, amounts recoverable from reinsurers and uncertainties regarding the outcome of future legal developments. This causes uncertainty with regard to amounts reported in respect of claims incurred and technical provisions in the financial statements. Any adjustment in the estimates will have an impact on the results for the period in which such adjustments are identified. Note 1(b) discloses that the financial statements have been prepared on a going concern basis having regard to the Company's funds at Lloyd's of £151m and support provided by the intermediate parent company. Our opinion is not qualified in this regard.

Opinion
In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
17 June 2002

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 £'000	2000 (restated) £'000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
EARNED PREMIUMS, NET OF REINSURANCE:			
Gross premiums written	2	529,696	351,693
Reinsurance premiums written		(191,921)	(92,486)
Net premiums written		337,775	259,207
Change in the gross provision for unearned premiums		(63,808)	(56,908)
Change in the provision for unearned premiums – reinsurers' share		26,109	11,269
NET PREMIUMS EARNED		300,076	213,568
INVESTMENT INCOME FROM UNDERWRITING: TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	4	10,763	7,449
CLAIMS INCURRED NET OF REINSURANCE:			
Claims paid:			
Gross amount	2	(185,696)	(141,831)
Reinsurers' share		98,020	44,241
Net paid claims		(87,676)	(97,590)
Change in the provision for claims:			
Gross amount	2	(353,704)	(82,216)
Reinsurers' share		165,523	4,046
Change in the net provision for claims		(188,181)	(78,170)
CLAIMS INCURRED NET OF REINSURANCE	3	(275,857)	(175,760)
Net operating expenses	5	(93,996)	(65,731)
Investment expenses and charges		(1,753)	(694)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		(60,767)	(21,168)

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001 – continued

	Note	2001 £'000	2000 (restated) £'000
NON-TECHNICAL ACCOUNT			
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT	3	(60,767)	(21,168)
Investment income	7	13,634	12,069
Allocated investment return transferred to the general business technical account	4	(10,763)	(7,449)
Unrealised gains on investments	7	927	2,902
Other income	8	640	1,267
Other charges – expenses	9	(1,535)	(1,285)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(57,864)	(13,664)
Tax on loss on ordinary activities	10	1,227	(9,146)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(56,637)	(22,810)
Dividends	11	(14,000)	-
RETAINED LOSS FOR THE FINANCIAL YEAR		(70,637)	(22,810)
Retained profit at beginning of the financial year		23,039	45,849
RETAINED (LOSS)/PROFIT AT END OF THE FINANCIAL YEAR		(47,598)	23,039

All of the above results derive from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Note	2001 £'000	2000 (restated) £'000
RETAINED LOSS FOR THE FINANCIAL YEAR		(70,637)	(22,810)
Total recognised gains and losses relating to the financial year		(70,637)	(22,810)
Prior year adjustment as explained in Note 1(a)		(14,070)	
TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT		(84,707)	

BALANCE SHEET AT 31 DECEMBER 2001

	Note	2001 £'000	2000 (restated) £'000
ASSETS			
INVESTMENTS			
Intangible assets	12	4,533	4,818
Financial investments	13	220,541	140,256
		225,074	145,074
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums	14	66,521	39,875
Reinsurance recoveries on unpaid losses and loss expenses	15	337,990	132,480
		404,511	172,355
DEBTORS – amounts falling due within one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		189,902	133,428
Debtors arising out of reinsurance operations: amounts owed by intermediaries		40,141	36,669
Deferred policy acquisition costs		33,615	24,630
Other debtors	16	104,386	69,635
		368,044	264,362
CASH AT BANK		27,475	29,519
PREPAYMENTS AND ACCRUED INCOME		416	619
TOTAL ASSETS		1,025,520	611,929

BALANCE SHEET AT 31 DECEMBER 2001

	Note	2001 £'000	2000 (restated) £'000
LIABILITIES			
CAPITAL AND RESERVES			
Called-up share capital	17	4,284	4,284
Share premium account	17	38,552	38,552
Profit and loss account	18	(47,598)	23,039
TOTAL SHAREHOLDERS' FUNDS – EQUITY	18	(4,762)	65,875
TECHNICAL PROVISIONS			
Provision for unearned premium – gross amount	19	197,592	131,930
Unpaid losses and loss expenses – gross amount	20	697,570	356,670
		895,162	488,600
CREDITORS – amounts falling due within one year			
Creditors arising out of direct insurance operations: amounts owed to intermediaries		72,801	790
Creditors arising out of reinsurance business: amounts owed to intermediaries		13,093	27,254
Other creditors	21	49,226	29,410
		135,120	57,454
TOTAL LIABILITIES		1,025,520	611,929

The financial statements on pages 4 to 18 were approved by the board of directors on 17 June 2002 and were signed on its behalf by:

for and on behalf of
ACE London Group Limited

Director

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Change in accounting policy

The company has adopted an annual basis of accounting reflecting its proportion of the underwriting transactions, investment return and operating expenses within the profit and loss account. In previous years the fund basis of accounting was used.

The annual basis of accounting is considered to be more appropriate than fund accounting since the company can now obtain sufficient information on the syndicates it participates on regarding premiums receivable or claims payable to allow reliable estimates to be made.

The effect of this change in accounting policy is to increase the current year's loss after tax by £21,138,000 and to increase the prior year's loss after tax by £18,404,000.

(b) Basis of preparation

These financial statements have been prepared on a going concern basis as the net liabilities of the Company are more than supported by the Company's funds at Lloyd's, as disclosed in note 13, and support that would be available from the intermediate parent company to meet trading obligations.

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985 ("the Act"), and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 1998, Technical Release 1/99 "Accounting by Lloyd's Corporate Capital Vehicles" ("TR 1/99") and applicable accounting standards. No cash flow statement is presented since FRS 1 (revised) exempts the Company from the requirement to do so as the consolidated financial statements of ACE Limited (the Company's ultimate parent) includes a group cash flow statement.

Under the terms of TR 1/99, the guidance contained in the ABI SORP should be followed so far as practicable having regard to the nature of Lloyd's business. The exceptions to this principle relate to the presentation of exchange gains (paragraph 205) and investment return (paragraph 232). Consequently, there has been a departure from the ABI SORP in the company's financial statements in respect of these matters.

In order for the corporate member to reflect the legal and practical separation of assets and transactions at syndicate level and at corporate undertaking level, syndicate transactions are generally presented in the technical account and corporate undertaking level transactions are presented in the non-technical account. The ABI SORP permits the direct attribution of the investment return and exchange movements to the technical account in this way except as regards unrealised investment gains and losses. However, because all syndicate investments are deemed to be realised at 31 December each year under TR 1/99, it is reasonable to regard all syndicate investment gains and losses as realised for the purposes of the ABI SORP. Accordingly, the syndicate investment return and exchange gains have been attributed directly to the technical account.

(c) Basis of accounting for underwriting business

Preparing financial statements in accordance with Section 255 and Schedule 9A to the Act has required the Company to recognise its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates ("the Syndicates") during the calendar year. Similarly, its proportion of the syndicate's assets and liabilities has been reflected in its balance sheet. The proportion referred to above is calculated by reference to the Company's participation as a percentage of the syndicate's total capacity.

(i) Premiums

Gross premiums written, which are stated gross of acquisition costs but exclusive of premium taxes, relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and includes estimates of premiums due but not yet received or notified to the Company by intermediaries.

Unearned premiums relating to risks in future periods of account are estimated on a daily pro-rata, or more appropriate, basis.

Outwards reinsurance premiums are accounted for on the same basis and in the same accounting period as the premiums for the direct or inwards reinsurance business to which they relate.

(ii) Acquisition costs

Acquisition costs comprise all direct costs arising from the conclusion of insurance contracts.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES – continued

(iii) Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for reinsurance, salvage and other recoveries.

(iv) Claims provisions and related reinsurance recoveries

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compare with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous period.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims. Where possible the company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assists in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year. Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectibility.

As discussed in note 3 to the financial statements, the company has utilised a number of other estimation techniques in order to arrive at reserves in respect of the terrorist attacks on 11 September 2001.

Fire and other damage to property, and accident and health

These business segments are predominantly "short tail", that is there is not a significant delay between the occurrence of the claim and the claim being reported to the Company. The costs of claims notified to the Company at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES – continued

Third party liability

Liability claims are longer tail than the classes of business described above and so a larger element of the claims provision relates to IBNR. Claims estimates for the Company's liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.

Marine, aviation and transport

This business segment has a mix of hull and cargo risks that are "short tail" in nature and liability risks which are longer tail. The methodology for estimating short tail and longer tail business are included in the previous two sections.

Reinsurance recoveries

Reinsurance recoveries in respect of estimated IBNR are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

(v) Deferred policy acquisition costs

Deferred acquisition costs, representing a proportion of commission and other acquisition costs that relate to policies in force at the year end are amortised over the period in which related premiums are earned.

(vi) Reinsurance to close

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written.

If the Company has increased its participation from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received. This reflects the fact that the Company has assumed a greater proportion of the business of the Syndicates. If the Company has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving an element of the reinsurance to close paid. This reflects the reduction in the Company's exposure to risks previously written by the Syndicates. The excess representing the increase or reduction in percentage participation is shown in the technical account as gross premiums written or reinsurance premiums payable as appropriate and is represented in the balance sheet by the related share of assets and liabilities transferred between the two Lloyd's years of account of the managed syndicate.

(vii) Syndicate investment income, expenses and charges

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years proportionately to the funds contributed by the year.

All syndicate investment gains and losses including those that are unrealised are attributed to the technical account in accordance with TR 1/99.

(c) Investment income, expenses and charges

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Dividends are recognised on the date on which the stock goes ex-dividend. Interest income is accrued up to the balance sheet date.

(d) Costs of capacity purchased at auction

The auction costs relating to syndicate capacity are treated as an intangible asset and written off through the profit and loss account in 20 equal annual instalments commencing in the financial year to which the capacity relates. The carrying value of the asset is reviewed annually by the directors and a provision is made where necessary for any permanent impairment in the value of the capacity acquired.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES – continued

(e) Foreign currency transactions

Monetary assets and liabilities and transactions in the technical account are translated into sterling at the exchange rates prevailing at the balance sheet date. Transactions in the non-technical account are translated at rates of exchange ruling at the dates of the transactions. Gains or losses arising on syndicate transactions are included in the technical account. Gains or losses arising on the Company's transactions and balances are included in the non-technical account.

(f) Deferred taxation

Deferred taxation is accounted for on the liability method on timing differences to the extent that a liability is expected to crystallise within the foreseeable future or an asset is expected to be recovered out of corporation tax payable on profits of the following accounting period.

(g) Taxation

UK taxation in the profit and loss account is based on the underwriting result and other income and charges of the year as determined in accordance with the relevant tax legislation, together with adjustments for prior years.

(h) Investments

Investments in marketable securities are stated at their mid-market value at the balance sheet date. Realised gains and losses on investments carried at market value are calculated as the differences between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

2. SEGMENTAL ANALYSIS

The business noted below has all been underwritten in the Lloyd's insurance market or in the United Kingdom, which has been treated as one geographical segment and class of business for the purposes of Statement of Standard Accounting Practice No. 25: Segmental Reporting.

Segmental information in the format required by the Companies Act 1985 is as follows:

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Year to 31 December 2001					
Marine, aviation and transport	76,307	64,554	(27,380)	(12,710)	68,291
Fire and other damage to property	104,923	88,762	(144,337)	(18,246)	(1,579)
Third party liability	137,031	115,923	(176,527)	(24,239)	5,405
Other	30,906	26,146	21,028	(5,170)	28,963
Motor – third party liability	448	379	(671)	(81)	(56)
Accident and health	16,709	14,135	(25,772)	(3,047)	(2,631)
Motor – other classes	4,054	3,430	(7,210)	(743)	(1,179)
Reinsurance acceptances	43,883	37,124	(63,096)	(7,382)	517
Reinsurance to Close	115,435	115,435	(115,435)	-	-
TOTAL	529,696	465,888	(539,400)	(71,618)	97,731

NOTES TO THE FINANCIAL STATEMENTS

Year to 31 December 2000 (restated)	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Marine, aviation and transport	59,491	47,331	(33,684)	(7,124)	(6,262)
Fire and other damage to property	77,050	61,301	(57,984)	(11,998)	(19,821)
Third party liability	76,076	60,526	(31,846)	(12,900)	(1,728)
Other	21,919	17,439	(11,492)	(3,157)	(4,244)
Motor – third party liability	84	67	(19)	(16)	9
Accident and health	6,190	4,925	(1,339)	(1,147)	682
Motor – other classes	2,624	2,088	(581)	(502)	287
Reinsurance acceptances	34,985	27,834	(13,828)	(5,969)	(1,853)
Reinsurance to Close	73,274	73,274	(73,274)	-	-
TOTAL	351,693	294,785	(224,047)	(42,813)	(32,930)

The segmental information relating to personal expenses has not been included in either of the above tables.

3. US TERRORIST ATTACKS OF 11 SEPTEMBER 2001

The US terrorist attacks on 11 September 2001 resulted in the largest insured loss in history and have had a substantial impact on the results of the Company. The current estimate of the gross loss to the Company is approximately £172 million against which the Company expects to recover from its own reinsurance protections approximately £119 million, net of reinstatement premiums to reinstate cover for future losses. The resulting estimated net loss of £53 million is included in the technical account for the year ended 31 December 2001 within net claims incurred and reinsurance premiums written. This claim is unprecedented in the insurance industry and as such the extent of the gross and net loss to the Company is difficult to estimate with the degree of confidence which is usual for insurance losses.

Some 41% of the Company's gross exposure emanates from the inwards reinsurance sector of its portfolio, with 31% and 20% emanating from the property and aviation sectors respectively. The Company conducted an exhaustive review of its portfolio on a policy by policy basis to estimate the impact of the attacks on a gross and net basis; the reserves are constantly monitored and have not changed significantly since the initial estimate was made in September 2001. There is particular uncertainty with respect to the inwards reinsurance exposure, which has been reserved for using an estimate based on probabilities attaching to the various accounts within the book of business. This estimate is subject to ongoing review, specifically a reasonableness review of the estimate compared to notified claims.

In addition, the liability environment against which claims may be made arising from this loss is presently uncertain and has been the subject of significant subsequent legislative change. Further legislative change is possible. Against this background and in the unique circumstances of the 11 September tragedy it is not presently possible to fully anticipate what claims, if any, and under what theories of liability, may be made outside the mechanisms created by the US Government to determine compensation payments or what entities may, in the final analysis, be given legislative protections from tort claims and to what extent. Inevitably these uncertainties and those surrounding the number of loss occurrences, and the possibility of new large claims advices leave open the potential for later re-evaluation of the Company's liability exposures.

In arriving at these estimates it has been assumed that no major reinsurers will default, with the exception of one which has since filed for bankruptcy and against which full provision has been made.

4. INVESTMENT INCOME FROM UNDERWRITING

	2001 £'000	2000 (restated) £'000
Syndicate investment income	7,357	6,530
Syndicate realised and unrealised net gains	3,406	919
	10,763	7,449

NOTES TO THE FINANCIAL STATEMENTS

5. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2001 £'000	2000 (restated) £'000
Acquisition costs	67,772	40,150
Administrative expenses	3,136	2,007
Foreign exchange gains	710	656
Personal expenses	22,378	22,918
	93,996	65,731

6. DIRECTORS AND EMPLOYEES

The Company has no employees. Remuneration received by the directors in respect of their services to the Company is borne by ACE London Services Limited.

7. INVESTMENT RETURN

	2001 £'000	2000 (restated) £'000
Investment income		
Syndicate investment income	7,357	6,530
Syndicate realised and unrealised net gains	3,406	919
Interest receivable on funds held at Lloyd's	324	170
Bank interest receivable	144	166
Other interest	230	122
Dividends and interest received on quoted investments	1,960	4,036
	13,421	11,943
Realised gains on investments	213	126
	13,634	12,069
Unrealised gains less losses on investments		
Unrealised profits on investments	568	1
Unrealised losses on investments	(174)	(1,613)
	533	4,514
	927	2,902
TOTAL INVESTMENT RETURN	14,561	14,971

8. OTHER INCOME

	2001 £'000	2000 (restated) £'000
Exchange gain arising on retranslation of U.S. dollar balances	640	1,267

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER CHARGES - expenses

	2001	2000 (restated)
	£'000	£'000
Loss before taxation is stated after charging the following items:		
Management fee payable to ACE London Services	1,250	1,000
Amortisation of purchases of syndicate capacity	285	285

The Company's audit fee is borne by ACE London Services Limited.

10. TAX ON LOSS ON ORDINARY ACTIVITIES

	2001	2000 (restated)
	£'000	£'000
UK Corporation Tax at 30% (2000: 30%)		
Current period:		
UK Corporation tax	-	6,597
Amounts receivable from group undertakings in respect of group relief	1,090	2,518
Write-off irrecoverable foreign taxes	-	(188)
	1,090	8,927
Prior year adjustments	(2,317)	219
	(1,227)	9,146

11. DIVIDENDS

	2001	2000 (restated)
	£'000	£'000
US$1 ordinary shares – interim dividend of £2.08172 (2000: £Nil)	14,000	-

NOTES TO THE FINANCIAL STATEMENTS

12. INTANGIBLE ASSETS

	2001 £'000	2000 (restated) £'000
Cost:		
Purchase costs of capacity at auction:		
Balance at the beginning of the year	5,690	5,690
Additions during the year	-	-
Balance at the end of the year	5,690	5,690
Amortisation:		
Balance at the beginning of the year	872	587
Charge for the year	285	285
Balance at the end of the year	1157	872
Net book value at the end of the year	4,533	4,818

13. INVESTMENTS

	2001 £'000	2000 (restated) £'000
Debt securities and other fixed interest securities	139,207	76,155
Participation in investment pools	31,933	25,784
Overseas deposits	43,388	14,271
Funds at Lloyd's - cash and listed investments	6,013	24,046
	220,541	140,256

The purchase cost of the investments was £223,280,000 (2000: £143,137,000).

The overseas deposits are held under Lloyd's premium trust deed arrangements where applicable. The syndicates are required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets.

The Company has met its funds at Lloyd's requirement to support its underwriting capacity by way of certain of the assets shown above and letters of credit to the value of £145,177,210 (2000: £125,207,689). The letters of credit have been arranged by ACE Limited and guaranteed by ACE Bermuda Insurance Ltd.

14. REINSURERS' SHARE OF TECHNICAL PROVISIONS – provision for unearned premiums

	Note	2001 £'000	2000 (restated) £'000
Balance at the beginning of the year		39,875	28,606
Movement during the year		26,646	11,269
Balance at the end of the year		66,521	39,875

NOTES TO THE FINANCIAL STATEMENTS

15. REINSURERS' SHARE OF TECHNICAL PROVISIONS – reinsurance recoveries on unpaid losses and loss expenses

	2001 £'000	2000 (restated) £'000
Balance at the beginning of the year	132,480	128,434
Movement during the year	205,510	4,046
Balance at the end of the year	337,990	132,480

16. OTHER DEBTORS – amounts falling due within one year

	2001 £'000	2000 (restated) £'000
Amounts due from group undertakings	29,206	26,451
Income tax recoverable	175	376
Other debtors	75,005	42,808
	104,386	69,635

17. CALLED-UP SHARE CAPITAL

	2001 *$'000*	*2000 (restated)* *$'000*	2001 £'000	2000 (restated) £'000
Authorised, allotted, issued and fully paid: 6,725,202 Ordinary shares of US$1	*6,725*	*6,725*	4,284	4,284
Share premium at US$9 per ordinary share	*60,527*	*60,527*	38,552	38,552

18. MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital and share premium £'000	Profit and loss account £'000	Total £'000
Opening shareholders' funds:			
As previously stated	42,836	37,109	79,945
Prior year adjustment (Note 1 (a))	-	(14,070)	(14,070)
	42,836	23,039	65,875
Loss for the financial year	-	(70,637)	(70,637)
Closing shareholders' funds	42,836	(47,598)	(4,762)

NOTES TO THE FINANCIAL STATEMENTS

19. TECHNICAL PROVISIONS – provision for unearned premium – gross amount

	2001 £'000	2000 (restated) £'000
Balance at the beginning of the year	131,930	75,022
Movement during the year	65,662	56,908
Balance at the end of the year	197,592	131,930

20. TECHNICAL PROVISIONS – unpaid losses and loss expenses – gross amount

	2001 £'000	2000 (restated) £'000
Balance at the beginning of the year	356,670	347,728
Movement during the year	340,900	8,942
Balance at the end of the year	697,570	356,670

21. OTHER CREDITORS – amounts falling due within one year

	2001 £'000	2000 (restated) £'000
Amounts due to group undertakings	605	-
Amounts due to group undertakings in respect of group relief	1,090	2,518
Corporation tax	502	6,502
Accruals and deferred income	513	1,174
Other creditors	46,516	19,216
	49,226	29,410

22. CONTINGENT LIABILITIES

The Company has issued a promissory note in favour of ACE Limited in the sum of £2,524,419 (2000: £2,524,419) in relation to an element of certain of the letters of credit which support the underwriting activities of the Company referred to above. The note was required under the conditions of sale and purchase agreement of ACE Tarquin dated 9 July 1998.

23. LETTER OF CREDIT FACILITIES

In order to meet the quarterly funding requirements for US regulated business, the Company has lodged letters of credit with the trustees of the Surplus Lines and Reinsurance Trust Funds, Citibank NA. These letters of credit have been made available from the ACE Global Markets group facility, with Barclays Bank plc, and the ACE Limited central facility. At 31 December 2001 the letters of credit issued under these facilities totalled £54,129,000 (2000: £14,580,000) and £44,050,000 (2000: £Nil) respectively.

The Barclays Bank plc facility, and the letters of credit issued thereunder, are guaranteed by ACE Bermuda Insurance Ltd.

24. TRANSACTIONS WITH RELATED PARTIES

Advantage has been taken of the exemption provided in FRS 8 from disclosing details of transactions with ACE Limited and its subsidiary undertakings.

NOTES TO THE FINANCIAL STATEMENTS

25. ULTIMATE HOLDING COMPANY

The intermediate company that heads the smallest group of undertakings for which consolidated accounts, including the Company, are prepared is ACE Global Markets Limited, a company registered in England and Wales. The ultimate holding company is ACE Limited, a company registered in the Cayman Islands, with its headquarters in Bermuda and quoted on the New York Stock Exchange. Copies of the company's consolidated accounts can be obtained from Investor Relations at The ACE Building, 30 Woodbourne Avenue, Hamilton HM 08, Bermuda.