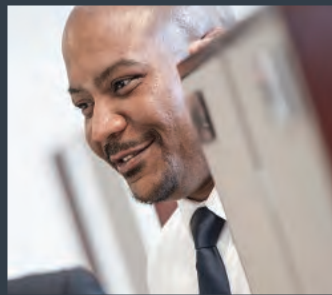
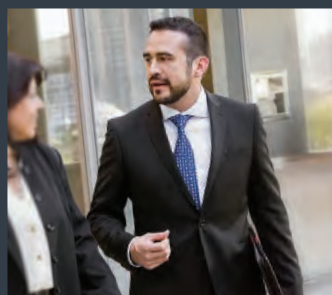
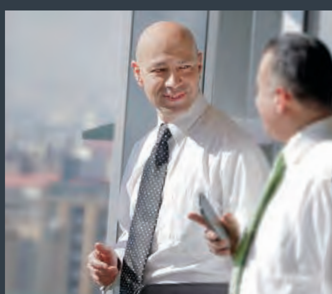
ACE LIMITED
ANNUAL REPORT
2014

insured.®

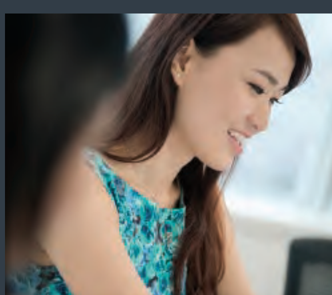







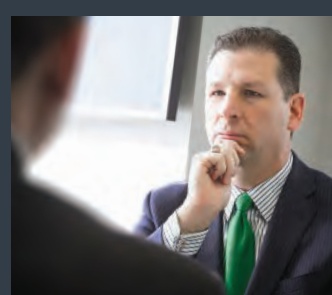
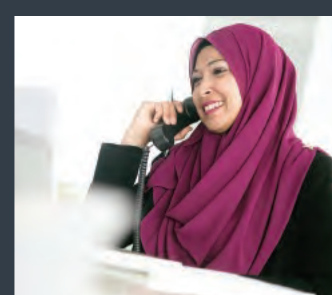





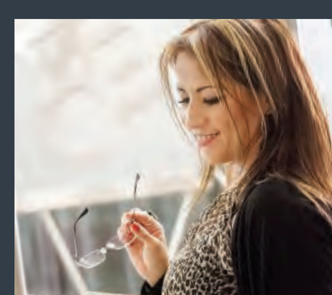










ACE Group is one of the world's largest multiline property and casualty insurers. With operations in 54 countries, ACE provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients. ACE Limited, the parent company of ACE Group, is listed on the New York Stock Exchange (NYSE: ACE) and is a component of the S&P 500 index.

CONTENTS

Photos opposite/inside back cover: ACE employees at work in some of the nearly 500 offices across 54 countries where the company operates.

FINANCIAL SUMMARY

(in millions of U.S. dollars except per share data and ratios)	Years Ended Dec. 31, 2014	Dec. 31, 2013	Percentage Change
Gross premiums written	**$23,390**	$22,828	2%
Net premiums written	**17,799**	17,025	5%
Net premiums earned	**17,426**	16,613	5%
Operating income[1]	**3,320**	3,217	3%
Net income	**2,853**	3,758	-24%
Diluted earnings per share – net income	**8.42**	10.92	-23%
Diluted earnings per share – operating income[1]	**9.79**	9.35	5%
P&C combined ratio[2]	**87.7%**	88.0%	NM
Total assets	**98,248**	94,510	4%
Shareholders' equity	**29,587**	28,825	3%
Book value per share	**90.02**	84.83	6%
Tangible book value per share	**72.61**	68.93	5%
Operating return on equity[3]	**12.0%**	12.2%	NM

Five-Year Financial Performance

Compound annual growth rates and averages, 2010-2014

Shareholders' equity	**8.6%**
Book value per share	**9.2%**
Tangible book value per share	**9.4%**
Average operating return on equity[3]	**11.8%**
Average combined ratio[2]	**90.9%**

(1) Operating income or income excluding net realized gains (losses), net of tax, is a non-GAAP measure. We have chosen to make this disclosure because it enhances the understanding of our results from operations by highlighting the underlying profitability of our insurance business. We exclude net realized gains (losses) because the amount of these gains (losses) is heavily influenced by, and fluctuates in part according to, the availability of market opportunities.

(2) The P&C combined ratio is the sum of the loss and loss expense ratio, policy acquisition cost ratio, and administrative expense ratio and includes the impact of realized gains and losses on crop derivatives. These derivatives were purchased to provide economic benefit, in a manner similar to reinsurance protection, in the event that a significant decline in commodity pricing will impact underwriting results. We view gains and losses on these derivatives as part of the results of our underwriting operations.

(3) Calculated using operating income divided by average shareholders' equity for the period excluding unrealized gains (losses) on investments after tax.

NM – not meaningful

ACE had another record year in 2014, highlighted by operating earnings growth that was from both underwriting and investment income. Our success last year, achieved in a challenging environment, was made possible by a clear long-term strategy, a relentless focus on execution excellence, and a good balance of business by geography, product, customer and distribution that continues to evolve. In addition to producing record financial results, we invested in our company's capabilities, ranging from people and technology to entire businesses. We were quite active, with a number of new and many existing initiatives including several acquisitions that complement our efforts in strategic growth markets in the United States, Asia and Latin America. We're consistent in our approach and have built an enviable track record. We concluded the year in the best financial, operational and competitive shape in our company's 30-year history and are well positioned for future growth and opportunity.

Evan G. Greenberg
Chairman and Chief Executive Officer

Now seven years on from the financial crisis and Great Recession that began in 2008, we continue to deal with the aftermath. Business is operating in a difficult and complex world. Economies are running at different speeds with most developed and developing markets slowing or stagnant, led by a eurozone gripped by economic, security and geopolitical difficulty; a slowing China in the throes of long-term economic reform and political change; a moribund Japan with a rapidly aging population and over-regulated economy; and, as a consequence of these conditions, a slowdown in major natural resource-dependent countries as global demand has cooled. The relative stability and strength of the U.S. economy is a bright spot of growth, dynamism and safety. Then there are geopolitical tensions, particularly in the Middle East with a breakdown of nation states and spreading global terrorism; Russia and the Ukraine; and China-related security tensions in the Asia Pacific region. The slowing global economy, combined with the specter of a more dangerous planet, propelled investor flight to safety with interest rates declining further to historic lows in the latter half of the year and into '15, falling oil and natural resource prices and a remarkably swift rally in the U.S. dollar. Altogether, it was and remains a difficult environment for multinationals. From an industry perspective, the global insurance market, with substantial and growing surplus capital and generally favorable loss results, continued to soften with premium revenue growth impacted by global economic conditions and investment income pressured by low interest rates.

Even with that as backdrop, ACE had one of its best years ever in terms of financial performance. We produced record operating income driven by world-class combined ratios (the margin we earn from underwriting), relatively strong premium revenue growth, reasonable book value growth considering the impact of foreign exchange and, lastly, a very good ROE. After-tax operating income for the year was $3.3 billion with full-year earnings per share of $9.79, up 4.7% from 2013's record earnings.

Earning power drives long-term book value growth, which underpins total return

Our operating return on equity of 12% last year speaks to an efficient use of capital. At approximately 1,000 basis points over risk-free 10-year U.S. Treasuries, the ROE was an excellent risk-adjusted return and substantially exceeded our cost of capital of 8%-9%. As we have said before, given our invested asset-to-equity leverage, every 100 basis points of investment portfolio yield for ACE is equal to approximately 200 basis points of ROE. The environment is uncertain and hard to predict. Given economic conditions, low interest rates will likely be with us for some time but will not remain this low indefinitely. In fact, in the U.S., we would be better off with higher Fed rates. In the meantime, instead of making the tough structural reforms needed for sustainable growth, governments of most major countries around the globe, faced with underperforming economies and deflationary pressures, are depending on low interest rates to devalue their currencies and stimulate investments and demand for their exports.

ACE is a truly global multinational insurer, and we are dollar-based. In 2014, investor flight to safety, as a result of the global economic and geopolitical uncertainties I just mentioned, drove the dollar to appreciate substantially against most other currencies. The strong dollar impacted our book value growth by $747 million with per share book value growing 6.1% for the year, or 8.8% excluding the unfavorable foreign currency movement. By the way, net income for the year was impacted by both foreign exchange volatility and a $385 million realized mark-to-market loss associated with the company's variable annuity reinsurance business as a result of the record low interest rates. In 2013, we recorded a $299 million realized gain on the variable annuity portfolio when interest rates rose.

We consider ourselves a growth company as measured by growth in book value over any reasonable period of time, but in a risk business with market and economic cycles, growth will not occur in a smooth line – it requires a longer-term view. ACE's book value has tripled in the last 10 years and grown at a compound annual rate of 11.7%. Over the past five years, book value has had compound annual growth of 8.6%. Our shareholders have and will continue to benefit from our diversified global presence, which is a unique source of earnings strength, provides stability, and enables us to take advantage of so many opportunities around the globe including areas with a faster long-term growth trajectory, and this will translate into superior book value growth over time.

ROE and book value per share growth ultimately drive share price. Our shareholders benefited last year from a 14.5% total return on ACE's common stock, which includes share price appreciation plus dividends. This compares favorably with 13.7% for the S&P 500. For a medium- and longer-term perspective, ACE has produced a total return of 77%, 157% and 235%, respectively, for the three-, five- and 10-year periods. Relative to our peers, ACE has been a top-tier performer over the medium and long term. Over the shorter-term one- to three-year period, however, our total return has lagged some others due to their low price-to-book valuations because their book values were severely impaired during the financial crisis. In fact, their multiples still suffer relative to ACE.

What drives long-term sustainable growth in total return is earning power, plain and simple, and that's derived from the size, growth velocity and quality of your business and the size and strength of your balance sheet. ACE's earning power and balance sheet today versus 10 or even five years ago are substantially stronger. Companies increase their per share ROE and book value growth either by investing for growth (increasing the numerator) or by returning capital to shareholders (shrinking the denominator) or a combination of the two. In much of the past decade, we have invested most of our capital for growth while paying a good dividend that increased each year. With the evolution of our company, and given our current earning power and today's operating environment, we've balanced our approach. We retain capital to grow our earning power while we return more capital to shareholders. In 2014, we earned $3.3 billion and returned $2.4 billion, which included $900 million in dividends and $1.5 billion in repurchased shares, while at the same time investing approximately $600 million in organic growth and $1.2 billion in acquisitions. In 2015, we intend to repurchase another $1.5 billion in shares. We have clearly demonstrated that when we build up sufficient capital flexibility for both opportunity and risk, we return the additional capital surplus we generate via share repurchase and dividends to the extent they do not impact our growth capability.

Our industry trades on a price-to-book basis. When one looks though at P/Es relative to other industries in the S&P 500, our industry trades at a substantial discount that I think is unwarranted on a risk-adjusted basis – certainly for our company. In my judgment, even though we trade at the upper end of P&C industry multiples, ACE's share price is undervalued. Our P/E is low relative to the market although in line with our historic P/E – but that's not relevant because we are hardly the company today that we were five years ago, let alone 10. As I believe I demonstrate over the next few pages, the earning power of our organization, the quality of our balance sheet and the steadiness of our results together equal a quality franchise that on a risk-reward basis is simply undervalued. We are patient.

A conservative and disciplined approach to underwriting management

ACE is an underwriting company – we take risk for a living and insist on making a profit when we do so. Everything we do begins with underwriting and ours was simply excellent last year, highlighted by a P&C combined ratio of 87.7% versus 88% in 2013 and underwriting income of $1.9 billion, up 7.2%. This calendar year result benefited primarily from a strong current accident year performance, defined as the results from our current year underwriting exposures, and reflects the fundamental strength of our in-force portfolio of risks. Current accident year underwriting income excluding catastrophes was up 13% for the year while the current accident year combined ratio was 89.3% versus 90% last year. ACE and the industry benefited from relatively benign loss activity, including natural catastrophes, and a reasonable though competitive price environment in many areas where we conduct business. Catastrophe losses of $249 million after tax were modest and well below expected but still 26% higher than 2013. The industry's natural catastrophe losses in 2014 were $38 billion versus the 10-year average of $59 billion.

ACE's book value has tripled in the last 10 years and grown at a compound annual rate of 11.7%. Over the past five years, book value has had compound annual growth of 8.6%.

Our conservative and disciplined approach to underwriting management is a hallmark of our company and shows up in both our current-year results and the positive development of our reserves for the business we wrote in prior years. We manage our reserves conservatively – we are, after all, in a risk business. If there's one thing I've learned about reserves in my 40 years in this business, it's that good news tends to come early and bad news comes late. By the way, if bad news comes early, hang on to your hat – most times it only gets worse as reserves develop. Last year, we recorded $527 million in pre-tax positive reserve development, essentially the same as the prior year. We have established a strong record of underwriting profitability and have earned a cumulative underwriting profit since we were founded in 1985. As the chart on the next page demonstrates, we have outperformed our domestic and international peers in terms of our P&C combined ratio over the last one, three, five and 10 years, with a 10-year average of 90.8%.

ACE's underwriting results last year also benefited from our continued focus to refine underwriting portfolio management, including our risk selection decision-making around what lines to grow or shrink and where corrective actions are needed. To further advance underwriting excellence and discipline across the company, we introduced underwriting best practices to achieve greater consistency at an individual risk and portfolio level. All of us in senior management are engaged in this constant effort to improve our underwriting management. It's all about greater insight and, as expected, execution excellence.

One of our medium- and long-term strategic priorities is the use of data and analytics – an area of major and growing investment with many initiatives in progress. Analytical tools and better data management are benefiting our insights into risk and customer selection, including underwriting, claims and marketing, with the objective to produce relative superior risk selection. On a related note, better use of data is ameliorating the impact of the P&C underwriting cycle, but I believe only to a degree – mostly large, well-established insurers with lots of expertise and data for their large, homogenous pools of risk in developed markets like auto or small commercial. Anything beyond that is an overstatement. In fact, I doubt most insurers are investing in data and analytics in any meaningful way at this time either because they don't have the capability and the data, or they simply don't care.

Strong operating cash flow drives net investment income

In addition to underwriting, investment income is our other source of earnings. Driven by our strong cash flow of $4.5 billion, last year's net investment income grew over 5% to $2.3 billion, which is a terrific result considering the low interest rate environment. Our cash flow continued to benefit net investment income even with current new money rates at 2.8% versus an average portfolio book yield of 3.8% throughout 2014. We are mindful of risk and don't blindly chase yield – we take most of our risk on the liability side of the balance sheet, with our capital leveraged against insurance exposure, so we are conservative on the asset side and maintain a predominantly investment-grade fixed income portfolio. After all, our invested assets are shareholder capital and the loss reserves we hold to pay policyholder claims.

Our balance sheet grew in strength and size last year with total shareholders' equity increasing to $29.6 billion and total capital now at $35.8 billion, up from $23.2 billion just five years ago and almost triple its $12.3 billion size 10 years ago. Cash and invested assets of $63.6 billion, which were up $2.1 billion for the year, are a source of future profit and ROE accretion. Our debt-to-equity ratio of 20% is one of the lowest among major peers. The most important component of an insurer's balance sheet is loss reserves, which back the promise to pay claims. ACE's net loss reserves grew 2.5% during the year adjusted for foreign exchange and stood at $26.3 billion at year-end.

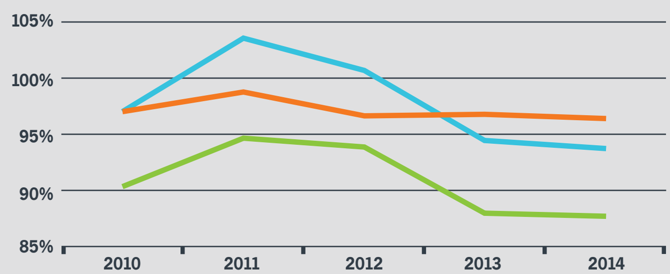
In the last 10 years, we have made 17 acquisitions worth about $7 billion. These acquisitions are key investments that have deepened our presence in important growth markets, specifically the U.S., Asia and Latin America, and have diversified our capabilities in consumer businesses, crop insurance and even our large commercial P&C business. In 2014, we announced or completed three acquisitions, all of which will be accretive to earnings in their first full year of operation, generate excellent IRRs and should meet or exceed our ROE target in a reasonably short time frame. Acquisitions are not only about having the capital to pay for them but also the people with the experience and operational know-how to integrate them successfully into your company and manage them efficiently. ACE is all about operational excellence so buying a company is just the beginning. While we are hardly perfect, we pay close attention to integration from all aspects – from the financial and operational details to the nuances of culture and talent management. We believe our disciplined approach to acquisitions has produced very satisfactory results – an 18.5% IRR on all M&A transactions we've completed since 2004 – and provides a measure of reassurance to our shareholders that we are good stewards of their capital.

P&C Combined Ratio versus Peers

ACE's underwriting results outperformed the averages of North American and global peers over the last five years.

	Averages 1 year	3 year	5 year
North American Peers[1]	**93.8%**	**96.3%**	**97.9%**
Global Peers[2]	**96.4%**	**96.6%**	**97.1%**
ACE	**87.7%**	**89.9%**	**90.9%**

[1] Includes AIG, CB, CNA, HIG, TRV, XL
[2] Includes Allianz, AXA, Munich Re, QBE, RSA, Zurich
Source: SNL and company disclosures



Diversification by geography, product, customer and distribution

At ACE, while we are constantly working to make the company we have better, we are also entrepreneurial builders and adding to the company with investments that will yield benefits in the future. We do this two ways – we focus first on capturing organic growth where the returns are attractive, which is the overwhelming way we create value, and we selectively pursue acquisitions to complement our growth strategies. We view making these investments like planting seeds for future growth and earnings – just as the results you're seeing today are the fruits of investments we made over the past decade.

All of the organic and acquisition investments we've made have helped diversify our company by geography, product, customer segment and distribution channel to position ourselves to capitalize on growth opportunities. In terms of geography, we have deepened our local presence globally in both developed and developing markets and today have extensive operations competing in the local indigenous markets in 54 countries and territories – one of the very few multiline P&C insurers with such extensive on-the-ground coverage. We have all this territory for two purposes – first and foremost is to pursue business locally, which represents a vast opportunity, and second is to serve the sophisticated needs of multinationals through our own offices and our network spanning 200 countries that can effectively handle the risks of our customers anywhere in the world. While about 50% of our business is written in the U.S., the fastest-growing regions economically are Asia and Latin America, where we have built and continue to broaden our presence and capabilities to take advantage of growth economies that are fostering new business creation and the emergence of a middle class. Just five years ago, Asia and Latin America represented 16% of our net premiums, while 10 years ago they were 11%. Today, the two regions represent 25%, and our vision for the medium term is for them to grow to about a third of our company. Europe today represents less than 20% with the remaining 5% predominantly in Bermuda. We continue to broaden and deepen our global presence – in fact, I believe we've just started.

We have also been patiently and thoughtfully diversifying our product balance by growing our concentration in consumer-focused and small business insurance lines while we continue to invest in and grow our traditional strength in industrial commercial and specialty P&C. Five years ago, our personal accident, personal lines, small commercial and life insurance businesses together represented 35% of our net written premiums – 10 years ago they were just 19%. Today, these businesses represent over 40% of our company and will likely grow to 50% or more over time. Meanwhile, our industrial commercial and specialty P&C businesses are growing and adding new products and services like cyber risk coverages and multinational servicing and technology to address the evolving needs of large commercial customers. There's plenty of scope for growth in our commercial P&C franchise, although it requires patience and focus as we navigate both industry and economic cycles.

The third dimension of our diversification strategy is customer segment. We have been evolving from an insurer that primarily serves large companies for their commercial P&C needs to a broad multiline P&C insurer that serves commercial customers of all sizes as well as individual consumers for the general and life insurance needs of themselves and their families. For example, we serve large multinational corporations with complex cross-border exposures – one of the only insurers in the world that can do this well – and large domestic companies. In parallel, our strategies in recent years have focused on penetrating much more deeply all levels of middle-market commercial business – upper, middle and lower – in the U.S. and other major developed countries. We have also built and acquired businesses focused on small commercial enterprises and even the microbusiness market. In a similar way, we have built and acquired businesses focused on individuals and their families – ranging from mass-market consumers purchasing A&H, specialty personal lines and life insurance in Asia, Latin America and Europe to affluent families in the U.S. purchasing a portfolio of personal lines coverage.

The fourth and last dimension is distribution and depends on who we are trying to reach and how best to do so. In addition to retail and wholesale commercial P&C brokerage – our traditional commercial P&C channel – we have built over the years extensive capabilities to reach individual consumers and smaller commercial customers. These include agency (both independent and tied), bancassurance and direct marketing. We tailor our distribution based on the country, its economic conditions and culture to best reach our target customer, and in some countries use a multi-distribution model to increase sales and market penetration. For example, we might distribute life insurance through our own agents, bank branches and outbound telemarketing to customers of large retailers and credit card issuers.

Total company net premiums written, which include P&C, A&H, life and reinsurance, grew about 6% on a constant-dollar basis to $17.8 billion. Excluding agriculture, which is primarily our market-leading U.S. crop insurance business, global P&C net premium revenue grew nearly 7%. We've grown about double the industry average over the last five years while earning a superior underwriting profit. With gross premiums written of $23.4 billion, which speaks to presence, we're still scratching the surface of the $4.6 trillion global insurance market.

From a regional perspective, premium growth last year was led by our businesses in Asia and Latin America followed by the U.S. Economic conditions in many developing markets were impacted by the slowdown in Europe and China which as the year went on impacted many Asian and Latin American countries that are natural resource and export dependent. The slowdown is a short-to-medium term trend because the underlying long-term trends in these emerging economies remain strong: a growing middle class and consumerism, growing new business creation and, therefore, growing commercial and personal insurance sales, particularly because they are so under-penetrated and modern economies require a strong insurance industry. Of course, this depends on these countries continuing to pursue more market-oriented development of their private sectors that will benefit wealth creation. During difficult times like these, governments tend to stray under political and populist pressures and become more protectionist and less market oriented.

North America

Let's begin with North America, which includes the U.S., Bermuda and Canada. With $13.6 billion in gross premiums and $9.9 billion in net premiums representing 56% of the company, North America is our largest region. P&C net premiums written grew 5% for the year. Fifty-seven percent of the business is focused on large and upper middle-market corporate customers, with 15% in middle market and small commercial and 28% consumer. With about 10,000 employees and 170 offices, the businesses of ACE in North America write commercial and personal P&C and A&H coverage for a broad swath of commercial customers and individual consumers. We have pursued a long-term strategy to build greater presence and capabilities beyond our established large corporate franchise and today have a good balance of business that serves nearly all sizes of commercial customers – from the largest corporations to microbusinesses. We also have three very focused consumer businesses – one at the high net worth (HNW) end of the market for personal lines coverages, one serving the middle-income market for individual A&H products sold through captive agents, and one that works with companies and affinity groups to provide A&H insurance to their employees and members predominantly through brokers.

Large corporate and upper middle-market commercial customers are a core franchise and they're served by ACE USA through retail brokers and ACE Bermuda, our original company, through wholesale brokers. While this was the most competitive end of the market last year and hence the slowest growing – ACE USA and ACE Bermuda grew net premiums about 4.5% and 1%, respectively – we saw multiple opportunities to further build our business. We added more than 30 new products to address emerging risks, such as cyber and the unique liability exposures faced by educational institutions and religious organizations. We introduced catastrophe liability coverage for the construction industry and expanded our mergers and acquisitions-related insurance practice to now serve private equity firms, their portfolio companies and their M&A transactions. We added innovative services such as providing immediate support to customers after an environmental release of hazardous materials and other regulated substances. As a major casualty writer, we launched a new division that consolidated our U.S. and global casualty offerings to provide more efficient underwriting and servicing for large multinational companies. We also employed more insightful underwriting through improved portfolio management to identify profitable growth areas – including a focus on cross-selling more products to our existing customers and becoming a more relevant solution for their needs.

Moving next to the mid- and lower middle market, our excess and surplus lines (E&S) and specialty product company, ACE Westchester, grew over 10%. A major initiative undertaken last year was to add retail broker distribution to the Westchester's existing wholesale channel so that we can broaden our customer reach. We have also been adding more product capabilities such as cyber risk offerings for middle-market companies and customized product recall coverage for smaller businesses. To better address the needs of U.S.-based life sciences companies, we expanded our suite of products to offer domestic and global product liability and provide coverage for clinical trials for biotechnology, specialty pharmaceutical and certain medical device organizations. Lower middle-market and small commercial enterprises in the U.S. are served by ACE Commercial Risk Services, which focuses on specialty products and packaged plans distributed by retail and wholesale brokers and program managers. ACE CRS was our fastest-growing North American business last year with net premiums up nearly 17%. We have been growing this business rapidly, adding teams of people and product capability including a new division to serve micro-sized businesses.

Turning to consumers, we are a significant provider of HNW insurance to the market in North America through ACE Private Risk Services, which we've built over the last five years and grew over 8% last year. In December, we announced our intention to acquire the Fireman's Fund HNW personal lines insurance business in the U.S. from Allianz for $365 million. Acquiring the Fireman's Fund business is a significant investment to expand our HNW personal lines capabilities and will make ACE one of the largest HNW insurers in the U.S. The Fund's team joining us has a deep understanding of the HNW market and strong relationships with an extensive network of approximately 1,100 agents and brokers serving this discerning clientele. When the transaction is completed in the second quarter of 2015 – a good example of an acquisition complementing organic growth – the addition of more than 100,000 premier customers and one of the industry's most respected HNW personal lines teams, including talented claims, underwriting, actuarial and marketing professionals, will more than double the size of our business and accelerate its growth trajectory.

Our two other consumer-facing business in North America are Combined Insurance, which primarily uses a captive agency sales force to reach middle-income consumers, and the A&H division of ACE USA, which sells employee benefit programs and accident and supplemental health group coverage to various organizations through brokers. For Combined Insurance, net premiums in North America were flat for the year but grew 2% in the fourth quarter – Combined's best performance after years of declining sales and a sign that it's turning the corner. Driving this sales performance was growth in North American agents, up 11% in the year, as well as an increase in productivity per agent and the addition of new products. We have 3,000 agents in North America and should have 10,000 – it is such an underserved market. Agent growth was due in part to our focused recruitment of more than 1,200 U.S. military veterans – an accomplishment that earned Combined recognition as the number one employer of vets by G.I. Jobs last year. Vets have the training, discipline and strong self-starter skills that align so well to the Combined sales culture. We are believers in the long-term power of the Combined.

All of the organic and acquisition investments we've made have helped diversify our company by geography, product, customer segment and distribution channel to position ourselves to capitalize on growth opportunities.

In our North American agriculture division, net premiums decreased about 2.5%, driven mostly by lower crop commodity prices. The division has two businesses. The first is our crop insurance company, Rain and Hail, which had a very good year highlighted by a 90.4% combined ratio. As I have explained in the past, crop insurance is a unique public-private partnership in the U.S. and a business where premiums fluctuate up and down for all insurers serving this sector based on commodity prices and how we share revenue and loss with the government. As a result, even when premiums are down for the year, our circa 20% market share remained steady. The second business, ACE Agribusiness, which is focused on P&C products for farms and ranches and complements what we do in crop insurance to serve the needs of the agriculture industry, is developing nicely.

Asia

On the other side of the world is our Asia region, with $3 billion in gross premiums and $2.6 billion in net premiums representing 14% of the company. P&C net premiums in the region grew 15% last year while life premiums and deposits grew 19%. We're present throughout the region in a major way – over 5,000 employees in 190 offices in 14 countries, six of which have both life and non-life operations, and serving all sizes of commercial customers and consumers. Our presence, which in some cases dates back to the early 1900s through our legacy Insurance Company of North America (INA), ranges from large, developed markets such as Japan and Australia; to Hong Kong, Korea and Taiwan in the north; to the dynamic and faster-growing Southeast Asian countries such as Malaysia, Thailand, Indonesia and Vietnam. Commercial lines is now 19% of our book in the region, consumer non-life, meaning A&H and personal lines, is 41% and life is 40%. This mix reflects the region's growth of middle-class consumers, small businesses and large world-class companies as these economies have developed. Our large commercial business in the region is distributed predominantly through retail brokers while small commercial and personal lines is through over 4,000 independent agents and A&H through direct marketing including 3,000 telemarketers, travel agents and retail insurance agents. On the life side, ACE Life has more than 23,000 exclusive agents in the region as well as bank branches and telemarketing to distribute its savings and investment-oriented products. I believe Asia Pacific, by virtue of its sheer size and the fact that the global center of economic gravity will continue shifting to Asia, led by China and to a lesser degree India, likely represents the greatest long-term growth potential for ACE of any region of the world. Some of our fastest-growing countries are based in the region and have produced the following five-year compound annual growth rates: Indonesia, 54%, Hong Kong, 37%, Malaysia, 34%, Korea, 30% and Thailand, 19%.

In the spring, we significantly increased our investment in Thailand, the second-largest ASEAN economy, by completing the acquisition of Siam Commercial Samaggi Insurance for $176 million. ACE Samaggi, as the general insurer will be rebranded in 2015, distributes personal lines and small commercial insurance products through its 34 branches, 1,000 independent agents and more than 1,100 branches of Siam Commercial Bank (SCB), one of the country's largest and most respected financial institutions. We have been operating in Thailand for many years and know the country well, and the addition of Samaggi Insurance makes us the largest foreign-owned P&C insurer in Thailand. Along with our existing large commercial P&C and A&H business, this transaction gives us greater presence in one of the most exciting, fastest-growing insurance markets in Southeast Asia with more offices in the up-country regions outside of Bangkok and the ability to grow our personal lines and small commercial insurance capabilities. I'm excited and honored by our relationship with SCB with which we now have distribution agreements for both non-life and life products. Complementing their branch network, ACE's 600 outbound telemarketers, who now conduct A&H and life direct response marketing programs for many large corporate sponsors such as retailers and credit card companies, will ultimately reach a large portion of SCB's 12 million customers.

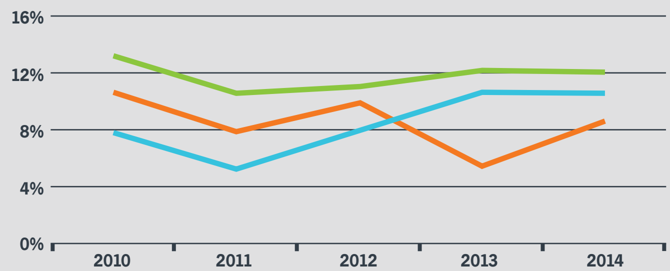
Last year, our fastest-growing country in the region on the non-life side was Korea, where sales increased 28%. ACE Korea's P&C business has a very large consumer direct response marketing-related operation that's predominantly A&H. We use innovative distribution – including direct response TV on the home shopping network and database marketing to credit card customers of financial institutions – selling our personal accident and supplemental health products including affordable dental insurance plans. We have over 1,800 telemarketers in seven call centers selling our A&H, residential and life products.

Similar to the Asia story, this region also has a growing middle class, new business creation, and in each market large domestic and multinational companies. We have a similar distribution formula in the region – commercial P&C is sold predominantly through retail brokers while small commercial and personal lines are through brokers and over 6,200 independent agents. A&H is sold mostly through agents and direct marketing using our 2,700 telemarketers. ACE's Latin American growth has been impressive with net premiums up 20% per year over the last five years and double-digit rates for many of the countries in which we operate – including 40% for Mexico and 10% for Brazil. Even with this kind of growth, I expect Latin America, given its dependence on natural resources and its populist brand of politics, will be challenging and have volatility over the short and medium term – typical characteristics of an emerging market. But we are no less optimistic about its medium- and long-term potential.

Operating ROE versus Peers

ACE's operating return on equity has exceeded the averages of North American and global peers over the last five years.

	Averages		
	1 year	3 year	5 year
ACE	**12.0%**	**11.7%**	**11.8%**
Global Peers[1]	**8.6%**	**8.0%**	**8.5%**
North American Peers[2]	**10.5%**	**9.7%**	**8.4%**



[1] Includes Allianz, AXA, Munich Re, QBE, RSA, Zurich
[2] Includes AIG, CB, CNA, HIG, TRV, XL
Source: SNL, Thomson ONE and company disclosures

Latin America

ACE's presence in Latin America dates back to the 1940s and 1950s for some countries and today we are active in nine nations producing total gross premiums of $2.3 billion and $1.9 billion in net premiums representing 11% of the company. From Mexico in the north through the Andean nations of Chile, Colombia, Ecuador and Peru, to Argentina and Brazil in the south, we have 3,700 employees and 110 offices and serve commercial customers with our P&C products and consumers through A&H, personal lines and life. We have a very good balance of business in the region with commercial P&C about 30% of our book and the balance overwhelmingly in consumer non-life products – both A&H and personal lines.

In October, we made a major investment to complement our longstanding presence in the world's seventh-largest economy – Brazil. Completing the acquisition of the large corporate property and casualty business of Itaú Seguros from Itaú Unibanco for approximately $610 million gave us a premier franchise serving the country's largest and most prestigious corporate customers as well as relationships with more than 600 brokers. ACE is now the largest commercial P&C insurer in Brazil. The acquisition, which raised our profile and significantly expanded our physical presence in this nation of 200 million people, not only benefits our established commercial P&C business but supports the future growth of our other businesses that serve mid-sized and smaller commercial and consumer product customers.

Mexico led the region last year in terms of premium growth, with net premiums up 40%. Mexico is a great example of how we've made strategic acquisitions to complement our existing capabilities and in the process transformed our total presence in a country. In 2013, as you will recall, we made two acquisitions – surety provider Fianzas Monterrey and personal lines writer ABA Seguros. These two businesses complemented our existing capabilities, which at the time consisted of a well-established commercial P&C company and a sizable A&H business that until now has been mostly direct response marketing driven. Today, the ACE franchise in Mexico has over 2,100 employees in 67 offices producing $881 million in gross premiums. Our distribution capabilities are significant, including 4,500 brokers and independent agents, affinity and auto dealer relationships, bancassurance and telemarketing. We are actively pursuing cross-sell opportunities – for example, offering small group A&H and small business insurance through thousands of ABA Seguros's agents.

Europe

Premium growth was more constrained last year in the developed markets of Europe, reflecting challenging economic and market conditions. Our European region, which includes our presence in the United Kingdom and 18 other countries across the Continent, produced about $4.3 billion in gross premiums and $3.2 billion in net premiums last year. Our presence in Europe dates back to the late 18th century through INA and is extensive today with 45 offices and 2,500 employees. In the U.K. and Ireland, ACE's second-largest market in size after the U.S. with over $2 billion in gross premiums, we have 12 offices and about 1,400 employees writing a full range of commercial and specialty P&C and A&H risks. The business mix in the region comprises 66% commercial lines and 34% consumer lines, which includes both A&H and specialty personal lines. We are pursuing large corporate and middle-market customers with commercial and specialty P&C products that are distributed through both retail brokers and wholesale brokers operating in one of the world's largest insurance markets – London, where we have a meaningful presence in Lloyd's. Our specialty personal lines and A&H programs, including business travel accident, are sold through brokers and sponsors and selectively through direct marketing to consumers, employees and customers of large organizations. Net premiums written for the region overall were flat last year with the U.K. down less than 1% and our business on the Continent up less than 1% – good results, actually, given competitive market conditions and the difficult long-term structural economic and political issues confronting the eurozone. Premiums in ACE Global Markets, our wholesale E&S business, were also flat in the year, exercising good underwriting discipline in the particularly competitive London wholesale market.

In 2014, we introduced several new products and services, particularly for the commercial sector where we are specialty oriented. We further developed our cyber risk practice in Continental Europe; upgraded our market-leading directors and officers coverage; launched a suite of targeted professional indemnity wordings for media and technology companies; added catastrophe management solutions to both our life sciences and environmental risk offerings; and introduced ACE Business Class, an improved business travel solution. We also expanded our global surety practice, adding new capabilities in Benelux and Iberia which now extends our local presence to five European markets. In an effort to build business with middle-market corporate customers that have multinational needs, we launched ACE Middle Market Solutions in Continental Europe and improved our e-commerce offering for U.K. brokers through new online solutions in the areas of D&O and environmental liability.

A view of the company by product

Switching gears and looking at our business by product, commercial P&C is our single largest product category with $12.5 billion in gross premiums and $8.6 billion in net premiums written representing 48% of the company. For the year, our commercial and specialty P&C businesses generated growth of about 5.5% globally in constant dollars. Latin America led the way with net premium growth of 17% followed by growth of 10.5% in Asia Pacific and 6% in North America. Commercial P&C is our predominant global franchise at ACE and in every market around the world we are serving the P&C insurance needs of commercial customers whether they are large domestic companies, multinational corporations, middle-market companies of all sizes or small commercial enterprises. E&S and specialty P&C products, which have been growing faster for us, now comprise nearly 60% of our North American commercial P&C gross premiums. Our Global Accounts division, which is a customer-interfacing organization focused on the complex insurance needs of large domestic and multinational companies, many of which purchase multiple lines of coverage from us, made significant progress introducing its capabilities to new and prospective clients. For multinational business, a competency that distinguishes ACE from many other insurers, we bring to bear our entire organization including our global network, broad product portfolio and underwriting expertise, award-winning systems, client and claims relationship teams, and specialized legal and tax advisory services.

After commercial P&C, A&H is our second-largest product category and represents about 21% of our company's net written premiums. With $4.2 billion in gross premiums and $3.7 billion in net premiums, A&H is a global business for ACE that comprises personal accident and supplemental health coverage typically sold as either a group benefit via employer plans or as special insurance protection offerings from a sponsoring organization for its members and customers. We sell our A&H products through a variety of channels including brokers, agency, direct marketing and bancassurance. For example, we have roughly 8,300 telemarketers in over 100 call centers making close to 100 million calls each year. In 2014, global A&H net premiums written grew 4.5% on a constant-dollar basis led by Asia Pacific and Latin America with net written premium growth of 22% and 11%, respectively. Premiums in the U.S. and Europe were up 2% and down 7%, respectively. For our agency-based Combined Insurance business, premiums were down modestly on a global basis but, as I mentioned earlier, showed promising signs of renewed growth.

Our next largest P&C product category is personal lines – a $2 billion global business that has tripled in size in the last five years and is approaching 13% of the company's total net premiums with the addition of the Fireman's Fund business in the U.S. About 70% of our personal lines business is written outside the U.S. where we are generating good organic growth. In 2014, global personal lines net premiums written grew 25% in constant dollars. We pick our spots carefully in this business – for example, mass-market auto in Mexico and Malaysia, high net worth consumers in the U.S. and mobile phone customers in Europe – based on where we see opportunity and where we bring competitive advantage. This means where we can serve customers, earn reasonable underwriting margins and where underwriting skill makes a difference. Personal lines is an area of continued growth for us but we are just as disciplined and strive to enforce the same exacting standards in personal lines as we do with our commercial P&C business.

Turning to life, our international life insurance business, which focuses predominantly on Asia, had a great year and is really coming into its own. Premiums and deposits grew 18.5% and we now have over 37,000 exclusive agents. We also have a number of important bank distribution partners. Building a life insurance business takes patience and discipline and ours has been making good progress. The business turned a profit last year and in the next three to four years will begin making a meaningful contribution to our earnings.

Lastly, our global reinsurance business had a very good year with modest catastrophe losses and solid underwriting results contributing to a combined ratio of 72.3%. Net premiums declined almost 6% as this business demonstrated underwriting discipline in the face of declining reinsurance rates and increasing competition in a market flooded with capital, much of it from alternative sources.

Market conditions, capacity versus capability, and the impact of alternative capital

Insurance market conditions grew more competitive during the year, starting with reinsurance and then moving through the commercial insurance market, although it varied by country and by line, and by customer segment within line. As I said earlier, the industry is awash in capital as a result of favorable results, especially low catastrophe and large loss activity and relatively muted loss cost inflation, and an influx of alternative capital from new players interested in insurance as an asset class. Slow economic growth outside the U.S. and record low interest rates globally are pressuring insurer growth and returns and driving companies to seek growth or perceived earnings opportunities wherever they can find it. The battle cry is diversification and few will do it well. Conditions are most competitive in reinsurance and the major wholesale markets of London and Bermuda, while other markets are competitive, too, but more rational.

The competitive landscape was and still is very different depending on who you are and what you do. For example, where it's simply about capacity such as excess layers of coverage, and not a lot about capability, then conditions are most competitive. But when it's about capability, it's more rational – and that's our wheelhouse. We have substantial primary insurer capabilities – our portfolio of specialty coverages and capacity, an ability to underwrite and service business anywhere globally, the size and strength of our balance sheet including our top ratings, our claims service, risk engineering and loss control services, the ability to provide risk management, etc. In addition, our on-the-ground presence in so many places locally around the globe enables us to reach and service local distribution partners and their customers more effectively – something most cannot do.

Regardless of whether the market conditions are hard or soft, either way, we play it the same – we're consistent in our behavior and resolute in our discipline to trade premium volume for underwriting profit as necessary while selectively capturing profitable growth when and where we see it. Given our broad reach and focus, some of our businesses are waxing while others are waning. Sometimes there's more return for the effort, sometimes there's less. But as our track record has proven, ACE outperforms in any market.

In last year's letter to you, I discussed how the reinsurance market landscape was undergoing cyclical as well as structural changes as a result of alternative sources of capital and technology. The capital markets and other providers are bringing more capacity, adding to the oversupply of capital and creating a softer market – particularly in reinsurance and the wholesale markets. Of late, emerging market capital sources, principally Chinese insurers and investment funds, have started to become interested in insurance beyond their borders. This is on the one hand a cyclical dynamic and some of this "innocent" capital will be abused and ultimately withdraw as losses emerge. On the other hand, over a longer period of time, in an iterative and evolving process, we may see more structural changes. For example, primary insurers like ACE – the originators and managers of risk with underwriting, analytical skills and a proven record of returns – might work together with the alternative capital players in a complementary way. As I said last year, insurers might even one day package and distribute risk to investors directly through the capital markets complementing the traditional reinsurance market.

> Regardless of market conditions, we're consistent in our behavior and resolute in our discipline to trade premium volume for underwriting profit as necessary while selectively capturing profitable growth when and where we see it.

To that effect, as you may have heard, we are taking a modest first step and raising capital for a new reinsurance company in partnership with BlackRock. ABR Re will accept a percentage of a broad selection of the reinsurance treaties we have with the traditional markets. With ACE as the sole cedent to this new reinsurer (it will not take business from other insurers), investors will essentially be investing in a share of ACE underwriting combined with BlackRock's investing prowess. ABR Re's stated objective is preservation and appreciation of capital while ensuring sufficient liquidity to satisfy obligations. Investors should benefit from the underwriting profit generated by our broadly diversified portfolio of reinsured business and BlackRock's diversified and customized investment portfolio management. What we are doing is a pretty unique innovation but inevitable. In the long term, as the world grows more complex and as risk and concentrations of values increase, our industry will need the tools and transmission capability to distribute risk to a broader pool of capital to complement the skills and risk-taking capabilities of traditional buy-and-hold reinsurers.

The external environment – macroeconomic and geopolitical challenges

As I noted at the beginning, in addition to more competitive insurance market conditions globally, we also face a difficult macroeconomic environment. The global economy has slowed since my letter of last year with many countries and regions of the world facing extraordinary challenges.

The eurozone is in continued crisis. Currency union without fiscal union is flawed. For years now, there's been no growth, double-digit unemployment, huge government deficits in many countries, and labor and entitlement laws that strangle business and discourage investment. Record low interest rates – in fact, negative rates in some countries – have failed to stimulate demand. Europe's recently announced quantitative easing (QE) efforts are driving the currency down – it's the latest central bank effort to stimulate demand and growth through exports, inflation and investment. But the euro banking transmission vehicle is damaged and banks have not been lending at sufficient levels. Over time, a combination of a lower euro, cheaper oil, QE and a better outlook for credit will improve Europe's growth prospects, but it won't be great because the structural problems remain. The eurozone also faces the threats of terrorism, immigration and Russian adventurism – all adding to a climate of anger and fear that's fanning the flames of an emerging and ugly nationalist and populist brand of politics.

China's growth has cooled – in fact, growth last year was the slowest in many years and '15 growth will likely be slower. China is attempting to transition from a manufacturing and export-driven growth model that is unsustainable to a domestic consumption and services-based economy. China's economic reform will take a long time – it's a large economy in a large country. This kind of change would be long and difficult for any country. A combination of inefficient government bureaucracy, strong individual interests at all levels, a lack of rule of law and a climate of uncertainty makes it that much more difficult. As a result, there is a lot of risk in this transition and it will take years to accomplish – we have yet to see the impact.

On the political side, Chinese President Xi is consolidating power through an anti-corruption campaign and reasserting controls over civil society by restricting freedom of speech, strengthening central party power, and using tools of nationalism and a case for traditional Chinese values to boost party legitimacy. Again, it's a climate of caution and restiveness while at the same time China is striving for economic reform that is to be more private sector led. In my judgment, economic reform in China does not mean reform in the Western liberal philosophical sense we imagine, i.e., a more market-oriented economy based on individual and property rights and protected by the rule of law with institutions strong and independent enough to administer with fairness and transparency. Again, in my judgment, reform means simply and practically what it will take to maintain long-term sustainable growth and move from an investment- and export-oriented economy to a consumption and more services-oriented one, thereby moving up the ladder while avoiding the middle-income trap, and at the same time maintaining a largely totalitarian regime managed by the party.

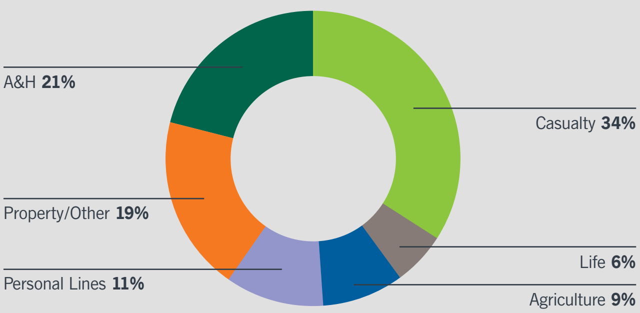
Corruption and lawlessness in China are present at many levels. Institutions beyond the party are relatively weak. Discrimination against foreign interests seems to be growing alongside, at least for the moment, a more virulent brand of nationalism. China will likely achieve reform over time with an economy that's more market-priced and private sector oriented while their economic size will continue to grow. But it remains to be seen whether foreign business interests will benefit broadly. In the meantime, China is investing abroad and increasing its influence in many markets – a recipe for future tensions that we must manage.

Much like Europe, Japan and Brazil, among others, are examples of countries failing to make the structural reforms needed to support sustainable growth and wealth creation. There is as a result an over-reliance around the world on central bank policy to prop up economies with diminishing returns, but as a consequence a silent currency war is underway as countries cut interest rates or print money to devalue their currencies and export their way out. And as I said earlier, energy- and commodity-dependent developing nations are feeling the impact of the steep drop in oil and other commodity prices as demand declines. So, growth globally is slowing while the risk of deflation is growing as demand slows.

The U.S., on the other hand, is a source of relative economic strength and stability in the world though we continue to grow below trend and our capability. While we will benefit overall from the oil price decline, the negative impact of the strong dollar will negate some of that benefit. Like other countries, at the federal level, we continue to suffer from an inability to address the issues that inhibit broad-based prosperity. It is a failure of leadership at the highest levels. We have massive over-regulation of business at the federal, state and local levels impacting business creation and sustainability of business of all sizes and in all industries. We have inefficient and aging infrastructure, a tax policy that's regressionary to growth and government spending and waste that are crowding out the private sector. We continue to talk about immigration and entitlement reform but do little to address them while our debt levels are too high and will only grow. Finally, we fail to practically address worker skill gaps, a long-term problem.

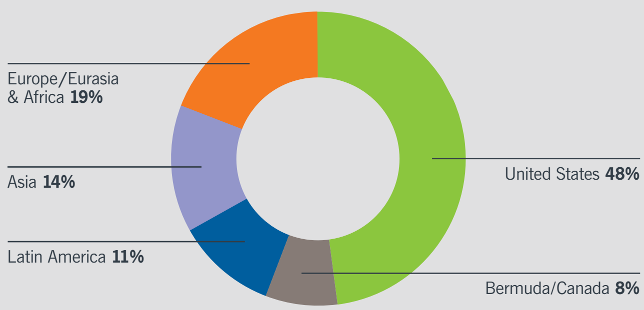
Premium Distribution by Product

2014 Net Premiums Written



Geographic Sources of Premium

2014 Net Premiums Written



Globalization gets blamed for the loss of jobs. While it's true to a degree, particularly in manufacturing, the U.S. is mostly services-based, and much employment has been created as a result of demand for our goods and services from abroad, and these are higher-paying jobs. The efficiencies of digital technology are doing more to displace jobs than many recognize – it started at lower level jobs that require low skills and is now impacting higher-skill jobs and the middle class. Lack of education and worker skills needed to adapt to this disruptive technology are contributing to the hollowing out of the middle class. Efficiency means greater economic growth with less labor. This is not the first time we have confronted this challenge. During the Industrial Revolution, when illiterate workers moved from the farm to the factory, the public school education system was born. The problem is multi-generational in nature with huge social implications that contribute to other larger societal challenges – underemployment and income inequality, both of which are increasing pressure on the middle class. The problem impacts our ability to produce longer-term sustained growth and, without growth, we don't create employment opportunities or have the wherewithal to support the needy.

The vacuum of leadership creates opportunism

At the end of any great global economic disruption like the Great Depression or Great Recession, there has been serious geopolitical conflict. It's not by accident that the world is such a troubled place – perhaps more complex and troubled than any time since the Second World War. Contributing to that is a serious lack of global leadership and it starts with the U.S., the sole global power. We lack resolve and are perceived as incapable or unwilling though we talk loudly. We appear to lack strategic vision that starts with what's in our national interest, which global or regional problems are most important to solve, which opportunities are most important to pursue, and will they result in a better world and greater prosperity and safety at home. When we have a strategy, it requires more than a good speech to implement – it requires dogged and persistent execution that starts with leadership and personal relationships. That vacuum of leadership is interpreted as weakness by others and creates opportunism. There are a number of global trouble spots:

- The Middle East and parts of Africa are witnessing a combination of events – the rise of terrorism, the rejection of modernity, the breakdown of the nation state, and populations identifying more with their tribe or religion than their country. Sunni-Shiite conflict is multi-generational. All of this directly impacts global security – both terrorism and energy.

- Russia, a major nuclear power with an image of past glory and power, desires to reassert its position regionally and play a more vital role on the world stage, and this will be a continuing source of instability. Rightly or wrongly, Russia has felt humiliated by the West since the end of the Cold War and believes we want them to acquiesce to our interests without understanding theirs. Crimea is their access to the Black Sea and warm waters – it's strategic for them, not for us – while a NATO and EU pushed right up to their borders is a perceived threat and understandably. On the other hand, President Putin's thinking is dangerous. He views himself the leader of all Russian-speaking people wherever they are with an obligation to defend them. That harks back to Europe and the Second World War. Putin knows our lack of resolve and Europe's weakness.

- There is a growing unease in Asia as a consequence of China's size and aggressive posture as it grows and asserts its influence beyond its borders with its neighbors in the South China Sea, Sea of Japan and Indian Ocean. That unease is leading to an arms race, multilateral defense alliances and potentially pitting the U.S. against China. China sees Asia Pacific as its region and intends to dominate at the exclusion of the U.S. and this is not in our interest. There is a building China-Russia alliance, intended to counter American influence with an anti-American approach to world order. This is potentially destabilizing and counterproductive. How far it goes remains a question, though historically China and Russia have been wary of each other – just look at a map.

China is a rising power and the U.S. an established one – we are competitors in many areas, but can we accommodate each other's interests without conflict? How we create a strategy to engage China in a way that benefits all, rather than create an enemy, is an important question. It's not a zero sum game. For the U.S., accommodating the rise of China and accepting that their influence will naturally grow is in the national interest and is not necessarily a threat. On the other hand, as China ascends, they will have to accept that leadership comes with responsibility. Global stability depends on a stable U.S.-China relationship and it isn't guaranteed. We have many interests in common – security, the environment, open trade and investment – and we need to find a way to cooperate.

These geopolitical issues have real meaning for our company as well as our country's economic interests, our security here at home and our children's future. For ACE, we are corporate citizens and economic stakeholders in these places – half of our business is outside the U.S. For example, Asia is the region with the greatest 21st century wealth creation potential and American companies must be free to participate. At the end of the day, the U.S. is a Pacific nation and needs to think as such. The U.S., therefore, has a responsibility to lead the world in a vision of trade and investment that promotes fair and open trade by successfully concluding passage of the Trans-Pacific Partnership (TPP) – the 12-nation trade agreement. TPP plays to the strengths of the U.S. and helps to plant a modern U.S.-led multilateral vision of trade rules in the Asia Pacific region. TPP should not be exclusionary – once finished, the U.S. should strive to include China, as well as India and all ASEAN countries. With the 114th Congress now in session, it is critical that the President of the United States be granted "fast-track" trade promotion authority so that TPP can be concluded and that TPP pass Congress with bipartisan support. Frankly, failure to do so will be terribly damaging and will signal to other countries in Asia and around the world that they cannot rely on the U.S. That will cause them to rely on others and the world just became more dangerous and less open.

Similarly, I strongly support a high-standard U.S.-China Bilateral Investment Treaty and, over the longer term, a separate free trade agreement that would open China's markets for U.S. companies, advance trade and investment between our two countries and create a rules-based level playing field. More Chinese companies are investing abroad and expecting open access to western markets and equal treatment. We need to insist on reciprocity, and this is particularly acute in financial services where there is both formal and informal government support for local Chinese companies over foreign presence. It is in China's best interest to encourage foreign companies in financial services and insurance to bring their expertise and knowledge to a woefully undeveloped market. Again, no modern economy develops without a strong insurance industry.

The private sector must continue to encourage our country's leaders to lead and remain engaged in the important trade and multilateral agreement discussions of the day. Our country's economic future depends on both business and government to be engaged. If America leads with confidence and is dependable, needed and respected, we can have a great deal of influence over a global vision of more open markets, fair trade and the rule of law.

Addressing the current runaway regulatory environment

Some in Washington think that bipartisan action addressing the current runaway regulatory environment is possible. I certainly hope so because regulatory restraint must happen – we must stop adding regulations on top of regulations which in aggregate inhibits business creation and impacts innovation. There's simply no cost-benefit. Our industry continues to face a complex and challenging regulatory environment at all levels – but particularly federal and multilateral. In particular, two issues remain at the forefront – the pursuit by regulators to create uniform global industry capital standards and regulatory policies that effectively balkanize our capital and raise costs.

The current approach by the International Association of Insurance Supervisors (IAIS) at the direction of the Financial Stability Board (FSB) to create a global insurance capital standard goes well beyond current standards and has the real potential to add complexity and costs for global insurers, with no demonstrated benefit to policyholders. I'm supportive of standards for capital that an insurer must hold to protect policyholders. Our obligation to policyholders is the special fiduciary nature of our industry – it's a responsibility that's recognized in the current U.S. regulatory capital requirements and it is one with a proven record of success, even during the stress of the financial crisis. However, the recent capital proposal released by the IAIS goes well beyond that purpose and would unnecessarily raise costs. The U.S. insurance industry and U.S. state regulators will continue to urge Federal regulators, including Treasury and the Federal Reserve, to resist changes to capital standards that will ultimately hurt U.S. and global consumers.

Specifically, the IAIS approach would require levels of capital designed to protect bondholders and shareholders, not just policyholders. This so-called "going concern" approach is used for banks and its design is based partly on the misguided view that the failure of a global insurer could create systemic risk. This is not the case. Insurers fail without causing broader economic consequence and, at least in the U.S., policyholders are protected. Like all corporations, insurers should be allowed to fail and shouldn't be expected to bear a regulatory responsibility to shareholders and bondholders when general corporations aren't required to do the same. Buyers of insurance should not have to pay the cost for this extra protection for sophisticated creditors. If this European vision of capital standards is adopted by the IAIS and FSB, the U.S. will be under tremendous pressure to implement similar standards. We are engaged in resisting this outcome at state, federal and international venues and it will be critical that U.S. decision makers – state insurance regulators, Treasury and the Federal Reserve – hear our collective point of view.

Concerning the second issue, legislative and regulatory efforts continue to be proposed around the globe that would require insurers to retain more risk and capital in their local jurisdictions. These measures would restrict available capacity, raise costs and hamper a global insurer's capital management strategies by restricting efficient cross-border risk pooling via internal reinsurance. They are protectionist in nature – designed to control "foreign" capital and protect domestic players at the expense of competition from global companies with greater capabilities and capacity. This regulatory risk also exists in the U.S. where efforts to enact comprehensive tax reform may once again target taxation of foreign affiliate reinsurance used to efficiently manage risk and capital.

> We have a clear strategy and have built with dogged determination a presence and capabilities to produce sustained long-term growth and peer-leading shareholder returns.

The ACE culture: execution and expertise

Our success last year – frankly, our accomplishment over the past 10 years – is not by accident. We know who we are. We have a clear strategy and have built with dogged determination a presence and capabilities to produce sustained long-term growth and peer-leading shareholder returns. The ACE culture is one of execution in all disciplines starting with a culture of underwriting excellence. We are an execution-focused company – a can-do company.

To succeed in our culture, however, also requires a high degree of expertise – it's fundamental to our strategy – and it applies to all of our disciplines, including underwriting, distribution management, territory management, customer management, claims, actuarial, finance and talent management. We are totally results oriented in how we measure ourselves. We are relentless, disciplined, passionate, and we pride ourselves on technical excellence and the ambition to use it to create more and more value for our customers and distribution partners, our shareholders and ourselves. We also prize diversity of all kinds – our inclusiveness makes us stronger but we will never compromise our principles of meritocracy. All of this has contributed to higher levels of growth and produced significant diversification of our company.

Our environment isn't for everyone and we make no apologies. It is demanding and self-selecting and only the right kinds of people thrive in our culture. But without a doubt, our organization sets us apart from others and gives us extraordinary optionality to pursue opportunities over time in so many places around the world. My appreciation and gratitude go out to the entire ACE family – our employees, my senior management team and our board of directors. Their contributions made last year possible and my first 10 years as CEO a distinct pleasure and honor.

There are some who think insurance is boring – that we're nothing more than a common utility. Well, nothing could be further from the truth. Some are just in the insurance business; we're in the business of insurance. We are a vibrant, entrepreneurial, growth-related company that participates deeply in the diverse and complex economic and social activities of the world. To truly know us is to understand the dynamism of this organization. This is one exciting place with a never-ending stream of opportunities.

As we celebrate our 30th year in business in 2015, I have never been more confident in the potential of this great company and the promise of what we can achieve together over time. We are realists about the challenging external environment and we are relentless in our pursuit of self-improvement. But we carry an optimism that transcends those issues beyond our control and focuses us instead on the tremendous opportunity we have in our hands. While we believe in ourselves, we remain humble and restless – we have and are continuing to create something special. Thank you for believing in us.

Sincerely,

Evan G. Greenberg
Chairman and Chief Executive Officer

Insurance — Overseas General

Insurance – Overseas General comprises **ACE International**, the company's retail broker-distributed business outside of North America, and **ACE Global Markets**, a London-based wholesale market business that includes a syndicate on the Lloyd's trading floor. These businesses write a variety of coverages, including commercial property, casualty, professional lines, marine, energy, aviation, surety, political risk and construction risk, as well as consumer-oriented products such as A&H and traditional and specialty personal lines. The segment also includes the international operations of **Combined Insurance**, which provides specialty accident and supplemental health insurance products to middle-income consumers in Europe and Asia Pacific.

Net Premiums Written

2010-2014 (in millions of U.S. dollars)

2014	$6,999
2013	$6,520
2012	$5,863
2011	$5,629
2010	$5,189

Combined Ratio

2010-2014

2014	85.8%
2013	87.2%
2012	89.7%
2011	94.5%
2010	90.5%

HIGHLIGHTS

- **ACE continued to execute its strategy of expanding its international capabilities in 2014 organically and through acquisitions. Diversification by geography, product, customer segment and distribution channel differentiates ACE's international P&C businesses and contributed to solid growth in net premiums written, which were up 9.4% on a constant-dollar basis. Latin America and Asia Pacific led the way with commercial P&C net premiums written increasing 17.1% and 10.6%, respectively, in constant dollars. In Europe, net premiums written were flat as the region continued to face economic and political challenges.**

- **Operating income for the segment grew 6.3% to $1.2 billion.**

- **The businesses of the Insurance – Overseas General segment produced excellent underwriting results once again with a combined ratio of 85.8% compared to 87.2% in 2013.**

- **ACE completed two acquisitions in strategic growth markets. With the acquisition of Siam Commercial Samaggi Insurance, ACE became the largest foreign-owned P&C insurer in Thailand. ACE operations in this fast-growing insurance market include commercial P&C, A&H, personal lines, and a small but growing life business. In the fall, ACE also acquired the large corporate P&C business of Itaú Seguros, which both complements and deepens the company's longstanding presence in Brazil. ACE is now the largest commercial P&C insurer in Latin America's largest market.**

- **As ACE's presence in 14 Asian countries has deepened, the company's mix of businesses – commercial, consumer non-life (A&H and personal lines) and life – is aligned with the forces driving the region's growth, including a rising middle class, expanding small businesses and large companies making their mark nationally, regionally and globally. ACE's five-year compound annual growth rate (CAGR) for the region is 14%.**

- **Similar long-term trends are evident in Latin America, where ACE operates in nine countries. The company has built a substantial and balanced mix of commercial and consumer lines with extensive and diversified distribution capabilities. Over the past five years, ACE has achieved a 20% CAGR in Latin America.**

- **In Europe, ACE operates in the United Kingdom and 18 other countries. While economic and market conditions have been challenging in this region, ACE's strong execution and discipline produced excellent underwriting results.**

- **In 2014, ACE Global Markets achieved excellent underwriting results in the highly competitive London wholesale market. New product offerings included global D&O and high net worth personal lines.**

Insurance — North American P&C

The businesses of the Insurance – North American P&C segment serve clients ranging from the largest multinationals to mid-size and small businesses to high net worth individuals. **ACE USA**, which distributes coverage through retail brokers, provides a broad array of specialty property, casualty, and accident and health insurance products and risk management services to corporate clients across the U.S. and Canada. **ACE Westchester** specializes in excess and surplus lines specialty products, including property, inland marine, casualty, professional lines, and environmental liability products distributed through wholesale and select retail brokers. **ACE Bermuda** writes high-level excess liability, property, political risk and directors and officers insurance worldwide. **ACE Private Risk Services** provides high net worth individuals and families with homeowners, automobile, valuables, umbrella and recreational marine insurance. **ACE Commercial Risk Services** offers specialty insurance products and solutions for small businesses through a broad range of distribution channels.

Net Premiums Written

2011-2014 (in millions of U.S. dollars)

2014	$6,263
2013	$5,915
2012	$5,349
2011	$4,900

Combined Ratio

2011-2014

2014	88.4%
2013	86.9%
2012	94.8%
2011	94.7%

HIGHLIGHTS

- **The underwriting portfolio management and risk selection process to identify profitable product and customer segments was further extended across all North American P&C insurance businesses. The efforts contributed to a combined ratio of 88.4%.**

- **Net premiums written increased 5.9% driven by growth in the majority of the segment's core product lines.**

- **Operating income was up 3.6% to $1.5 billion.**

- **ACE's North American P&C insurance businesses expanded their distribution footprint, deepened relationships with regional brokers and further enhanced their ability to meet the complex needs of commercial and niche consumer segments. ACE USA introduced a new global casualty capability to provide more efficient underwriting and servicing for companies that operate internationally, supported by the Worldview® interactive portal. ACE Westchester expanded its product offerings and launched retail distribution to complement its existing wholesale capability. ACE Commercial Risk Services, which achieved strong growth by continuing to focus on specialty lines, created a new microbusiness to expand its presence in the small commercial space. ACE Private Risk Services expanded its personal lines capabilities for U.S. high net worth clients by offering coverage for their overseas risks in seven European countries and launched operations in Canada. The business also announced the planned acquisition of the Fireman's Fund U.S. high net worth personal lines insurance business. ACE Bermuda achieved modest growth in a competitive environment.**

- **To build a company that can achieve sustainable growth and earning power, talent management is a priority. ACE strengthened training programs in 2014 and appointed an executive dean to lead the company's Early Career Development Program.**

Insurance — North American Agriculture

Insurance – North American Agriculture comprises **Rain and Hail**, which provides comprehensive multiple-peril crop and crop-hail insurance distributed through a nationwide network of specialized agents; and **ACE Agribusiness**, which offers farm and ranch property as well as specialty P&C coverages distributed through brokers and agents for companies that manufacture, process and distribute agricultural products.

HIGHLIGHTS

- **North American Agriculture was a solid contributor to ACE's earnings, with operating income of $96 million, up 51.7% from 2013. The current combined ratio was 91.1% compared with 94.7%. The 2.3% decline in net premiums written reflects lower commodity prices.**
- **Initiatives to maintain ACE's industry leadership and enhance the segment's performance focused on deepening modeling capabilities, building the sales culture, expanding the footprint in the Midwest and effectively using risk management strategies.**
- **ACE Agribusiness, established in 2013 as a leading writer of P&C and specialty products and services to both the commercial agriculture space and the farm and ranch segment, had a strong first full year of operations with net premiums written up 7.1%.**

Net Premiums Written

2011-2014 (in millions of U.S. dollars)

2014	**$1,590**
2013	**$1,627**
2012	**$1,859**
2011	**$1,951**

Combined Ratio

2011-2014

2014	**91.1%**
2013	**94.7%**
2012	**103.2%**
2011	**91.3%**

Global Reinsurance

Marketing its coverage worldwide under the **ACE Tempest Re** brand, the businesses of the Global Reinsurance segment provide a broad range of property and casualty reinsurance products to a diverse array of primary insurers. Business units include ACE Tempest Re Bermuda, ACE Tempest Re USA, ACE Tempest Re Canada, and ACE Tempest Re International, which encompasses P&C reinsurance operations based in London and Zurich. ACE Tempest Re also has operations in China and Brazil through Lloyd's.

HIGHLIGHTS

- **The Global Reinsurance segment performed well in a competitive market that intensified as the year progressed, particularly for property catastrophe reinsurance. Net premiums written declined 5.7% as ACE Tempest Re demonstrated underwriting discipline and its commitment to forego top-line growth for underwriting profit. For the year, Global Reinsurance generated $562 million of operating income, down 2.5%, and posted a combined ratio of 72.3%**
- **Despite the continued influx of various forms of capital, ACE Tempest Re has remained focused on consistently executing its strategies. In 2014, the business benefited from geographic and product diversification, superior financial ratings and unwavering underwriting discipline.**
- **ACE Tempest Re is a proven property cat underwriting specialist with more than 25 years of experience in all market cycles. In addition, a global footprint and diverse product offerings allow ACE Tempest Re to select preferred business, with a concentration in short tail casualty and property lines, where the competitive pressures are less than the general marketplace.**
- **The continuous emphasis on portfolio management has enabled the company to deliver superior results and a balanced top line even as the portfolio mix continues to shift.**

Net Premiums Written

2010-2014 (in millions of U.S. dollars)

2014	**$935**
2013	**$991**
2012	**$1,025**
2011	**$979**
2010	**$1,075**

Combined Ratio

2010-2014

2014	**72.3%**
2013	**65.9%**
2012	**77.5%**
2011	**85.6%**
2010	**72.5%**

Life

ACE Life provides traditional life insurance protection and savings products to meet the needs of individuals and groups primarily in Asia and Latin America. The North American operations of **Combined Insurance** distribute specialty individual accident and supplemental health insurance products predominantly through captive agents to middle-income consumers in the U.S. and Canada. The Life segment also includes the company's life reinsurance operations, which have been closed to new business since 2007.

HIGHLIGHTS

- **The Life segment's operating income was flat, excluding a one-time tax benefit in 2013, as growth in the company's international life business was offset by results from the North American operations of Combined Insurance and the life reinsurance run-off business.**

- **International life insurance net premiums written and deposits collected grew over 18.4% on a constant-dollar basis, driven by ACE Life's focus on emerging markets with a rising middle class, with particular emphasis on the fast-growing economies in Asia. The agent count in the region grew over 15% in 2014.**

- **ACE Life in Hong Kong delivered particularly strong results, with 20.7% growth in net premiums and deposits and total manpower increasing 19%. The business was recognized for its product and service excellence with the "Supreme Insurance Brand Award" from *Capital CEO* and *Capital Entrepreneur* magazines.**

- **Net written premiums for the North American operations of Combined Insurance were down slightly for the year but increased in both the third and fourth quarters, showing signs of momentum. The agent count grew 11% in 2014 contributing to Combined's second-straight year of double-digit growth in new business. Forty percent of the new hires in the U.S. were military veterans, a record that earned Combined recognition as the nation's #1 Military Friendly Employer by G.I. Jobs.**

Net Premiums Written and Deposits*

2010-2014 (in millions of U.S. dollars)

2014	$2,835
2013	$2,656
2012	$2,488
2011	$2,313
2010	$1,855

Operating Income

2010-2014 (in millions of U.S. dollars)

2014	$297
2013	$307
2012	$324
2011	$315
2010	$283

*Includes deposits collected on universal life and investment contracts. Consistent with GAAP, premiums collected on universal life and investment contracts are considered deposits and excluded from revenues in ACE's consolidated statements of operations. However, the company includes life deposits in presenting growth in the Life business because new life deposits are an important component of production and key to efforts in growing the business.

Evan G. Greenberg
Chairman and
Chief Executive Officer
ACE Limited

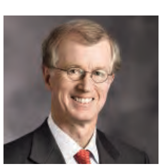
Michael G. Atieh
Executive Vice President
and Chief Financial &
Business Officer
Ophthotech Corporation

Mary A. Cirillo
Advisor
Hudson Venture
Partners L.P.

Michael P. Connors
Chairman and
Chief Executive Officer
Information Services
Group, Inc.

John A. Edwardson
Retired Chairman and
Chief Executive Officer
CDW Corporation

Peter Menikoff
Private Investor



Leo F. Mullin
Senior Advisor
Goldman Sachs Capital
Partners

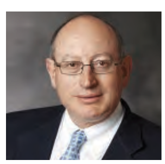
Robert M. Hernandez
Lead Director
ACE Limited

Retired Vice Chairman
and Chief Financial Officer
USX Corporation

Kimberly A. Ross
Senior Vice President and
Chief Financial Officer
Baker Hughes Incorporated

Robert W. Scully
Retired Co-President
Morgan Stanley

Eugene B. Shanks, Jr.
Director
Federal Home Loan
Mortgage Corporation



Theodore E. Shasta
Retired Partner
Wellington Management
Company

David H. Sidwell
Retired Chief Financial Officer
Morgan Stanley

Olivier Steimer
Chairman
Banque Cantonale Vaudoise

Board Committees

Audit Committee
Michael G. Atieh, Chairman
Peter Menikoff
Kimberly A. Ross
Theodore E. Shasta
David H. Sidwell

Compensation Committee
Michael P. Connors, Chairman
Mary A. Cirillo
John A. Edwardson
Robert M. Hernandez

Nominating and Governance Committee
Mary A. Cirillo, Chair
Michael P. Connors
John A. Edwardson
Robert M. Hernandez

Risk & Finance Committee
Olivier Steimer, Chairman
Leo F. Mullin
Robert W. Scully
Eugene B. Shanks, Jr.

Executive Committee
Evan G. Greenberg, Chairman
Michael G. Atieh
Mary A. Cirillo
Michael P. Connors
Robert M. Hernandez
Olivier Steimer

ACE Group Corporate Officers

Evan G. Greenberg*
Chairman &
Chief Executive Officer
ACE Limited/ACE Group

John Keogh*
Vice Chairman &
Chief Operating Officer
ACE Limited/ACE Group;
Chairman
Insurance – Overseas General

John Lupica*
Vice Chairman
ACE Limited/ACE Group;
Chairman
Insurance – North America

Juan Andrade
Executive Vice President
ACE Group
Personal Lines;
Chief Operating Officer
ACE Overseas General

Philip V. Bancroft*
Executive Vice President
Chief Financial Officer
ACE Limited/ACE Group

Jacques Q. Bonneau
Executive Vice President
Global Underwriting
ACE Group

Timothy Boroughs*
Executive Vice President
Chief Investment Officer
ACE Limited/ACE Group

Edward Clancy
Executive Vice President
ACE Group
Global Accident & Health
and Life

Sean Ringsted*
Executive Vice President
Chief Risk Officer &
Chief Actuary
ACE Limited/ACE Group

Joseph Wayland*
Executive Vice President
General Counsel
ACE Limited/ACE Group

Brad Bennett
Senior Vice President
ACE Group;
President
Combined Insurance

Russell G. Bundschuh
Senior Vice President
ACE Group;
President
ACE Life

Jorge Luis Cazar
Senior Vice President
ACE Group;
Regional President
ACE Latin America

Phillip B. Cole
Senior Vice President
Global Human
Resources Officer
ACE Group

Andrew Kendrick
Senior Vice President
ACE Group;
President
ACE European Group

Bruce Kessler
Senior Vice President
ACE Group;
Division President
ACE Westchester

Rainer Kirchgaessner
Senior Vice President
Global Corporate
Development Officer
ACE Group

Ken Koreyva
Senior Vice President
Treasurer
ACE Group

Frank Lattal
Senior Vice President
Chief Claims Officer
ACE Group

Edward M. Levin
Senior Vice President
ACE Group;
Division President
Accident & Health
ACE Overseas General

Chris Maleno
Senior Vice President
ACE Group;
Division President
ACE USA

Patrick McGovern
Senior Vice President
Chief Communications Officer
ACE Group

Paul Medini
Senior Vice President
Chief Accounting Officer
ACE Group

Damien Sullivan
Senior Vice President
ACE Group;
Chairman
ACE Asia Pacific

James E. Wixtead
Senior Vice President
ACE Group;
President
ACE Tempest Re Group

Richard Betzler
Vice President
Global Tax
ACE Group

Charles Brooks
Vice President
Global Operations & IT Officer
ACE Group

David Furby
Vice President
ACE Group;
Division President
Commercial Property
& Casualty
ACE Overseas General

Patricia Henry
Vice President
Government Affairs
ACE Group

Paul O'Connell
Vice President
Chief Actuary
Global Property & Casualty
ACE Group

William O'Farrell
Vice President
Chief Reinsurance Officer
ACE Group

Juan Luis Ortega
Vice President
ACE Group;
Regional President
ACE Asia Pacific

Darryl Page
Vice President
ACE Group;
Division President
International Personal &
Business Insurance
ACE Overseas General

Julie Schaekel
Vice President
Chief Auditor
ACE Group

Kevin Shearan
Vice President
Chief Information Officer
ACE Group

*Executive Officers for SEC reporting purposes

Other ACE Executives

Mary J. Boyd
Division President
ACE Private Risk Services

Michael Coleman
Division President
ACE Agriculture

Robert Courtemanche
Division Chairman
ACE Private Risk Services

Brian E. Dowd
Office of the Chairman

Rees Fletcher
Division President
ACE Bermuda

Samantha Froud
Chief Administration Officer
Bermuda Operations

Kevin Goulding
Regional President
Asia Pacific
ACE Life

Marcos Gunn
Regional Chief Operating
Officer
ACE Latin America

Jeffery Hager
Regional President
ACE Far East

Eric Larson
Chief Compliance Officer
ACE Group

David Lupica
Division President
ACE Commercial Risk Services

Timothy Mardon
Division President
ACE Tempest Re Bermuda

Jeff Moghrabi
Regional President
ACE Continental Europe

Michael O'Donnell
Division President
ACE Tempest Re USA

Steve Roberts
Division President
ACE Tempest Re International

David Robinson
Regional President
ACE UK and Ireland

Matthew Shaw
Division President
ACE Global Markets

Karen Sothern
Chief Culture Officer
ACE Group

Giles Ward
Regional President
Eurasia & Africa

Visit the Investor Information section of acegroup.com, write to the Investor Relations Department at ACE Limited or e-mail investorrelations@acegroup.com for copies of the company's reports to the Securities and Exchange Commission on Form 10-K, Form 10-Q or Form 8-K, all of which are available without charge.

Address Investor Relations Inquiries to:

Investor Relations
ACE Limited
17 Woodbourne Avenue
Hamilton HM 08
Bermuda
Tel: 441 299 9283
E-mail: investorrelations@acegroup.com

Transfer Agent & Registrar

Computershare
250 Royall Street
Canton, MA 02021 USA
US: 1 877 522 3752
Outside the US: 201 680 6898

Address Shareholder Inquiries to:

By regular mail:
Computershare
P.O. Box 30170
College Station, TX 77842-3170 USA

By overnight delivery:
Computershare
211 Quality Circle, Suite 210
College Station, TX 77845 USA

Website:
www-us.computershare.com/Investor

Send Certificates for Transfer and Address Changes to:

Computershare
P.O. Box 30170
College Station, TX 77842-3170 USA

Independent Auditors

PricewaterhouseCoopers AG
Birchstrasse 160
8050 Zurich
Switzerland
Tel: 41 58 792 44 00

PricewaterhouseCoopers LLP
Two Commerce Square, Suite 1700
Philadelphia, PA 19103 USA
Tel: 267 330 3000

New York Stock Exchange Symbol

ACE

ACE Common Shares CUSIP Number

H0023R10-5

Price Range of Common Shares and Dividends

As of February 13, 2015, the company had 327,341,997 Common Shares outstanding with 4,419 registered holders of Common Shares. The accompanying table sets forth the cash dividends and the high and low closing sales prices of the company's Common Shares, as reported on the NYSE Composite Tape for the periods indicated. Dividends have been paid each quarter since ACE became a public company in 1993. Following ACE's redomestication to Switzerland, dividends have been distributed primarily by way of a par value reduction. The dividend increase approved by ACE's shareholders on January 10, 2014 was distributed from capital contribution reserves (additional paid-in capital) through the transfer of dividends from additional paid-in capital to retained earnings.

	2014				2013			
			Dividends				Dividends	
Quarter Ending	High	Low	USD	CHF	High	Low	USD	CHF
March 31	**$101.70**	**$92.19**	**$0.75**[(1)]	**0.65**	$89.06	$79.99	$0.49	0.46
June 30	**$105.32**	**$97.61**	**$0.65**	**0.58**	$92.67	$85.79	$0.51	0.48
September 30	**$107.39**	**$99.95**	**$0.65**	**0.61**	$95.58	$87.72	$0.51	0.46
December 31	**$117.58**	**$102.92**	**$0.65**	**0.63**	$103.53	$91.01	$0.51	0.45

(1) On January 10, 2014, ACE's shareholders approved an increase to the dividend from $0.51 per share to $0.63 per share for the final two quarterly installments that had been earlier approved at the 2013 annual general meeting. The $0.12 per share increase was distributed from capital contribution reserves while the $0.51 per share was distributed by way of a par value reduction in accordance with the May 2013 resolution. Due to the timing of the approval, the $0.12 per share increase related to the quarter ended December 31, 2013 installment is included in the quarter ended March 31, 2014 dividend amount.

This report is printed on paper containing 55% recycled and 30% post-consumer fibers. These papers are certified to the international standards of the Forest Stewardship Council (FSC), which promotes responsible management of the world's forests.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the Transition Period from to

Commission File No. 1-11778

ACE LIMITED

(Exact name of registrant as specified in its charter)

Switzerland	**98-0091805**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Baerengasse 32

Zurich, Switzerland CH-8001

(Address of principal executive offices) (Zip Code)

+41 (0)43 456 76 00

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, par value CHF 24.77 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES ☑ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES ☐ NO ☑

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 the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☑ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference into Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑		Accelerated filer ☐
Non-accelerated filer ☐	(Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☑

The aggregate market value of voting stock held by non-affiliates as of June 30, 2014 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately $35 billion. For the purposes of this computation, shares held by directors and officers of the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of February 13, 2015 there were 327,341,997 Common Shares par value CHF 24.77 of the registrant outstanding.

Documents Incorporated by Reference

Certain portions of the registrant's definitive proxy statement relating to its 2015 Annual General Meeting of Shareholders are incorporated by reference into Part III of this report.

ACE LIMITED INDEX TO 10-K

ITEM 1. Business

General

ACE Limited is the Swiss-incorporated holding company of the ACE Group of Companies. ACE Limited, which is headquartered in Zurich, Switzerland, and its direct and indirect subsidiaries (collectively, the ACE Group of Companies, ACE, we, us, or our) are a global insurance and reinsurance organization, serving the needs of a diverse group of clients worldwide. At December 31, 2014, we had total assets of $98 billion and shareholders' equity of $30 billion. ACE opened its first business office in Bermuda in 1985 and continues to maintain operations in Bermuda.

We offer commercial insurance products and service offerings such as risk management programs, loss control and engineering and complex claims management. We provide specialized insurance products ranging from Directors & Officers (D&O) and professional liability to various specialty-casualty and umbrella and excess casualty lines to niche areas such as aviation and energy. We also offer personal lines insurance coverage including homeowners, automobile, valuables, umbrella liability, and recreational marine products. In addition, we supply personal accident, supplemental health, and life insurance to individuals in select countries. We have grown our business through increased premium volume, expansion of product offerings and geographic reach, and acquisition of other companies. During 2014, we acquired the large corporate account property and casualty (P&C) insurance business of Itaú Seguros, S.A. (Itaú Seguros), Brazil's leading carrier for that business, and we and our local partner acquired 93.03 percent of The Siam Commercial Samaggi Insurance PCL (Samaggi), a general insurance company in Thailand. These businesses operate under our Insurance – Overseas General segment and the consolidated financial statements include the results of these businesses from the acquisition dates. Refer to Note 2 to the Consolidated Financial Statements for additional information on our acquisitions.

At December 31, 2014, we employed approximately 21,000 people. We believe that employee relations are satisfactory.

We make available free of charge through our website (www.acegroup.com, under Investor Information / SEC - Section 16 Filings) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, if any, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they have been electronically filed with or furnished to the U.S. Securities and Exchange Commission (SEC). Also available through our website (under Investor Information / Corporate Governance) are our Corporate Governance Guidelines, Code of Conduct, and Charters for the Committees of our Board of Directors (the Board). Printed documents are available by contacting our Investor Relations Department (Telephone: +1 (441) 299-9283,
E-mail: investorrelations@acegroup.com).

We also use our website as a means of disclosing material, non-public information and for complying with our disclosure obligations under SEC Regulation FD (Fair Disclosure). Accordingly, investors should monitor the Investor Information portion of our website, in addition to following our press releases, SEC filings, and public conference calls and webcasts. The information contained on, or that may be accessed through, our website is not incorporated by reference into, and is not a part of, this report. The public may also read and copy any materials ACE files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Customers

For most commercial lines of business we offer, insureds typically use the services of an insurance broker or agent. An insurance broker acts as an agent for the insureds, offering advice on the types and amount of insurance to purchase and also assisting in the negotiation of price and terms and conditions. We obtain business from the local and major international insurance brokers and typically pay a commission to brokers for any business accepted and bound. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business. In our opinion, no material part of our business is dependent upon a single insured or group of insureds. We do not believe that the loss of any one insured would have a material adverse effect on our financial condition or results of operations, and no one insured or group of affiliated insureds account for as much as 10 percent of our total revenues.

Competition

Competition in the insurance and reinsurance marketplace is substantial. Competitors include other stock companies, mutual companies, alternative risk sharing groups (such as group captives and catastrophe pools), and other underwriting organizations. Competitors sell through various distribution channels and business models, across a broad array of product lines, and with a high level of variation regarding geographic, marketing, and customer segmentation. We compete for business not only on the basis of price but also on the basis of availability of coverage desired by customers and quality of service. Our ability to compete is dependent on a number of factors, particularly our ability to maintain the appropriate financial strength ratings as assigned by independent rating agencies. Our broad market capabilities in personal, commercial, specialty, and A&H lines made available by our underwriting expertise, business infrastructure, and global presence, define our competitive advantage. Our strong balance sheet is attractive to businesses, and our strong capital position and global platform affords us opportunities for growth not available to smaller, less diversified insurance companies. Refer to “Segment Information” for competitive environment by segment.

Trademarks and Trade Names

Various trademarks and trade names we use protect names of certain products and services we offer and are important to the extent they provide goodwill and name recognition in the insurance industry. We use commercially reasonable efforts to protect these proprietary rights, including various trade secret and trademark laws. We intend to retain material trademark rights in perpetuity, so long as it satisfies the use and registration requirements of applicable countries. One or more of the trademarks and trade names could be material to our ability to sell our products and services. We have taken appropriate steps to protect our ownership of key names, and we believe it is unlikely that anyone would be able to prevent us from using names in places or circumstances material to our operations.

Segment Information

We operate through five business segments. The following table presents net premiums earned (NPE) by segment:

Years Ended December 31 (in millions of U.S. dollars, except for percentages)	**2014 Net Premiums Earned**	**% of Total**	2013 Net Premiums Earned	% of Total	2012 Net Premiums Earned	% of Total
Insurance – North American P&C	**$ 6,107**	**35%**	$ 5,721	34%	$ 5,147	33%
Insurance – North American Agriculture	**1,526**	**9%**	1,678	10%	1,872	12%
Insurance – Overseas General	**6,805**	**39%**	6,333	38%	5,740	37%
Global Reinsurance	**1,026**	**6%**	976	6%	1,002	6%
Life	**1,962**	**11%**	1,905	12%	1,916	12%
Total	**$ 17,426**	**100%**	$ 16,613	100%	$ 15,677	100%

Additional financial information about our segments, including net premiums earned by geographic region, is included in Note 15 to the Consolidated Financial Statements.

Insurance – North American P&C (35 percent of 2014 Consolidated NPE)

Overview

The Insurance – North American P&C segment comprises operations in the U.S., Canada, and Bermuda. This segment includes:

- Our retail divisions: ACE USA (including ACE Canada), ACE Commercial Risk Services, and ACE Private Risk Services
- Our wholesale and specialty divisions: ACE Westchester and ACE Bermuda
- Various run-off operations, including Brandywine Holdings Corporation (Brandywine)

Products and Distribution
ACE USA, the segment's largest operation, represented 67 percent of Insurance – North American P&C's net premiums earned in 2014. ACE USA provides a broad array of traditional and specialty P&C, A&H, and risk management products and services to a diverse group of North American commercial and non-commercial enterprises and consumers. ACE USA distributes its insurance products primarily through a limited number of retail brokers. In addition to using brokers, certain products are also distributed through general agents, independent agents, managing general agents (MGA), managing general underwriters, alliances, affinity groups, and direct marketing operations. Products and services offered include property, general liability, umbrella and excess liability, workers' compensation, commercial marine, automobile liability, professional lines D&O and errors and omissions (E&O), surety, medical liability, environmental, inland marine, aerospace, A&H coverages, as well as claims and risk management products and services.

ACE USA's on-going operations are organized into the following distinct business units each offering specialized products and services targeted at specific niche markets:

- ACE Risk Management offers a range of customized risk management primary casualty products designed to help mid-size to large insureds, including national accounts, address the significant costs of financing and managing risk for workers' compensation, general liability and automobile liability coverages. Within ACE Risk Management, ACE Financial Solutions (AFS) underwrites contractual indemnification policies in which AFS provides prospective coverage for loss events within the insured's policy retention levels, and underwrites assumed loss portfolio transfer (LPT) contracts in which insured loss events have occurred prior to the inception of the contract. LPT contracts can cause significant variances to premiums, losses and loss expenses, and expense ratios in the periods in which they are written.
- ACE Foreign Casualty provides products which insure specific global operating risks of U.S.-based multinational companies and include deductible programs, captive programs, and paid or incurred loss retrospective plans for U.S.-based insured's foreign operations.
- ACE North America Property & Specialty Lines provide products and services including primary, quota share and excess all-risk insurance, risk management programs and services, commercial and inland marine products, and aerospace products.
- ACE Casualty Risk key coverages include umbrella and excess liability, environmental risk, and casualty programs for commercial construction related projects.
- ACE Professional Risk provides management liability and professional liability (D&O and E&O) products.
- ACE Surety offers a wide variety of surety products and specializes in underwriting both commercial and contract bonds and has the capacity for bond issuance on an international basis.
- ACE Canada (ACE USA's Canadian operations) offers a broad range of P&C products as well as life and A&H coverages.
- ACE Accident & Health products include employee benefit plans, occupational accident, student accident, and worldwide travel accident and global medical programs. With respect to products that include supplemental medical and hospital indemnity coverages, we typically pay fixed amounts for claims and are therefore insulated from rising health care costs. ACE Accident & Health also provides specialty personal lines products, including credit card enhancement programs (identity theft, rental car collision damage waiver, trip travel, and purchase protection benefits) distributed through affinity groups.
- ACE Medical Risk offers a wide range of specialty liability products for the health care industry through licensed excess and surplus lines brokers. Products include primary coverages for professional liability and general liability for selected types of medical facilities, excess/umbrella liability for medical facilities, primary and excess coverages for products liability for biotechnology and specialty pharmaceutical companies, and liability insurance for human clinical trials.
- ESIS Inc. (ESIS), ACE USA's in-house third-party claims administrator, performs claims management and risk control services for domestic and international organizations as well as for the Insurance – North American P&C segment. ESIS services include comprehensive medical managed care, integrated disability services, pre-loss control and risk management, and health, safety and environmental consulting, and salvage and subrogation and health care recovery services. The net results for ESIS are included in Insurance – North American P&C's administrative expenses.

ACE Commercial Risk Services provides comprehensive specialty product solutions for smaller companies in targeted industries that lend themselves to technology-assisted underwriting. Core products and services for small businesses include casualty insurance (including international casualty), environmental, inland marine, professional risk, disaster protection, vacant land and building, and claims and risk management services. Products are offered through wholesale, retail, program agent and alternative distribution channels. In addition, ACE Commercial Risk Services offers coverage for specialty programs through program agents.

ACE Private Risk Services provides high-value personal lines coverages for high net worth individuals and families in North America including homeowners, automobile, valuables (including fine art), umbrella liability, and recreational marine insurance offered through independent regional agents and brokers.

ACE Westchester serves the market for business risks that tend to be hard to place due to unique or complex exposures. Products offered include wholesale excess and surplus lines property, casualty, environmental, professional liability, inland marine, and product recall coverages in North America.

ACE Bermuda, our original insurance company, provides commercial insurance products on an excess basis including excess liability, D&O, professional liability, property insurance, and political risk, the latter being written by Sovereign Risk Insurance Ltd., a wholly-owned managing agent. ACE Bermuda focuses on Fortune 1000 companies and targets risks that are generally low in frequency and high in severity. ACE Bermuda offers its products primarily through the Bermuda offices of major, internationally recognized insurance brokers.

The run-off operations do not actively sell insurance products, but are responsible for the management of certain existing policies and settlement of related claims.

Competitive Environment

ACE USA and ACE Westchester compete against a number of large, national carriers as well as regional competitors and other entities offering risk alternatives such as self-insured retentions and captive programs. The markets in which we compete are subject to significant cycles of fluctuating capacity and wide disparities in price adequacy. We strive to offer superior service, which we believe has differentiated us from our competitors. The ACE USA and ACE Westchester operations pursue a specialist strategy and focus on market opportunities where we can compete effectively based on service levels and product design, while still achieving an adequate level of profitability. A competitive advantage is also achieved through ACE USA's innovative product offerings and our ability to provide multiple products to a single client due to our nationwide local presence. An additional competitive strength of all our domestic commercial units is the ability to deliver global products and coverage to customers in concert with our Insurance – Overseas General segment. ACE USA has grown, in part, from the leveraging of cross-marketing opportunities with our other operations to take advantage of our organization's global presence. ACE Bermuda competes against international commercial carriers writing business on an excess of loss basis. ACE Commercial Risk Services competes against numerous insurance companies ranging from large national carriers to small and mid-size insurers who provide specialty coverages and standard P&C products. ACE Private Risk Services competes against insurance companies of varying sizes that sell products through various distribution channels, including through the Internet.

Insurance – North American Agriculture (9 percent of 2014 Consolidated NPE)

Overview

The Insurance – North American Agriculture segment comprises our North American based businesses that provide a variety of coverages in the U.S. and Canada including crop insurance, primarily Multiple Peril Crop Insurance (MPCI) and crop-hail through Rain and Hail Insurance Service, Inc. (Rain and Hail) as well as farm and ranch and specialty P&C commercial insurance products and services through our ACE Agribusiness unit.

Products and Distribution

The Insurance – North American Agriculture segment comprises Rain and Hail, which provides comprehensive MPCI and crop-hail insurance, and ACE Agribusiness, which offers farm and ranch coverages as well as specialty P&C coverages for companies that manufacture, process and distribute agriculture products. The MPCI program is offered in conjunction with the U.S. Department of Agriculture (USDA). The USDA's Risk Management Agency (RMA) sets the policy terms and conditions, rates and forms, and is also responsible for setting compliance standards. As a participating company, we report all details of policies underwritten to the RMA and are party to a Standard Reinsurance Agreement (SRA). The SRA sets out the relationship between private insurance companies and the Federal Crop Insurance Corporation (FCIC) concerning the terms and conditions regarding the risks each will bear including the pro-rata and state stop-loss provisions which allow companies to limit the exposure of any one state or group of states on their underwriting results. In addition to the pro-rata and excess of loss reinsurance protections inherent in the SRA, we also purchase third-party proportional and stop-loss reinsurance for our MPCI business to reduce our exposure. We may also enter into crop derivative contracts to further manage our risk exposure. For additional information, refer to “Crop Insurance”, under Item 7.

Competitive Environment
Rain and Hail primarily operates in a federally regulated program where all approved providers offer the same product forms and rates through independent and/or captive agents. ACE Agribusiness competes against both national and regional competitors offering specialty P&C insurance coverages to companies that manufacture, process, and distribute agricultural products.

Insurance – Overseas General (39 percent of 2014 Consolidated NPE)

Overview
The Insurance – Overseas General segment comprises ACE International, ACE Global Markets (AGM), and the international supplemental A&H business of Combined Insurance. ACE International comprises our retail commercial P&C, A&H, and personal lines businesses serving territories outside the U.S., Bermuda, and Canada. AGM, our London-based international specialty and excess and surplus lines business, includes Lloyd's of London (Lloyd's) Syndicate 2488 (Syndicate 2488), a wholly-owned ACE syndicate. ACE provides funds at Lloyd's to support underwriting by Syndicate 2488, which is managed by ACE Underwriting Agencies Limited and has an underwriting capacity of £350 million for 2015. The reinsurance operation of AGM is included in the Global Reinsurance segment.

Products and Distribution
ACE International maintains a presence in every major insurance market in the world and is organized geographically along product lines as follows: ACE Europe, ACE Asia Pacific, ACE Eurasia and Africa, ACE Far East, and ACE Latin America. Products offered include P&C, A&H, specialty coverages, and personal lines insurance products and services. During 2014, ACE International expanded its operations through the acquisition of Samaggi, a general insurance company, and its P&C offerings through the acquisition of the large corporate account P&C insurance business of Itaú Seguros. ACE International's P&C business is generally written, on both a direct and assumed basis, through major international, regional, and local brokers and agents. Certain ACE Europe branded products are also offered via an e-commerce platform, ACE Online, that allows brokers to quote, bind, and issue specialty policies online. Property insurance products include traditional commercial fire coverage as well as energy industry-related, marine, construction, and other technical coverages. Principal casualty products are commercial primary and excess casualty, environmental, and general liability. A&H and other consumer lines products are distributed through brokers, agents, direct marketing programs, and sponsor relationships. ACE International specialty coverages include D&O, professional indemnity, energy, aviation, political risk, and specialty personal lines products. The A&H operations primarily offer personal accident and supplemental medical coverages including accidental death, business/holiday travel, specified disease, disability, medical and hospital indemnity, and income protection. We are not in the primary health care business. With respect to our supplemental medical and hospital indemnity products, we typically pay fixed amounts for claims and are therefore largely insulated from the direct impact of rising health care costs. ACE International's personal lines operations provide specialty products and services designed to meet the needs of specific target markets and include property damage, automobile, homeowners, and personal liability.

AGM offers products through its parallel distribution network via ACE European Group Limited (AEGL) and Syndicate 2488. AGM uses Syndicate 2488 to underwrite P&C business on a global basis through Lloyd's worldwide licenses. AGM uses AEGL to underwrite similar classes of business through its network of U.K. and European licenses, and in the U.S. where it is eligible to write excess and surplus lines business. Factors influencing the decision to place business with Syndicate 2488 or AEGL include licensing eligibilities, capitalization requirements, and client/broker preference. All business underwritten by AGM is accessed through registered brokers. The main lines of business include aviation, property, energy, professional lines, marine, financial lines, political risk, and A&H.

Combined Insurance uses an international sales force to distribute a wide range of supplemental A&H products including personal accident, short-term disability, critical conditions and cancer aid, and hospital confinement/recovery. Most of these products are primarily fixed-indemnity obligations and are not subject directly to escalating medical cost inflation.

Competitive Environment
ACE International's primary competitors include U.S.-based companies with global operations, as well as non-U.S. global carriers and indigenous companies in regional and local markets. For the A&H lines of business, including those offered by Combined Insurance, locally-based competitors include financial institutions and bank-owned insurance subsidiaries. Our international operations have the distinct advantage of being part of one of the few international insurance groups with a global network of licensed companies able to write policies on a locally admitted basis. The principal competitive factors that affect the international operations are underwriting expertise and pricing, relative operating efficiency, product differentiation, producer relations, and the quality of policyholder services. A competitive strength of our international operations is our global network and breadth of insurance programs, which assist individuals and business organizations to meet their risk management

objectives, while also giving us the advantage of accessing local technical expertise, accomplishing a spread of risk, and offering a global network to service multinational accounts.

AGM is one of the preeminent international specialty insurers in London and is an established lead underwriter on a significant portion of the risks it underwrites for all lines of business. This leadership position allows AGM to set the policy terms and conditions of many of the policies written. All lines of business face competition, depending on the business class, from Lloyd's syndicates, the London market, and other major international insurers and reinsurers. Competition for international risks is also seen from domestic insurers in the country of origin of the insured. AGM differentiates itself from competitors through long standing experience in its product lines, its multiple insurance entities (Syndicate 2488 and AEGL), and the quality of its underwriting and claims service.

Global Reinsurance (6 percent of 2014 Consolidated NPE)

Overview

The Global Reinsurance segment represents ACE's reinsurance operations comprising ACE Tempest Re Bermuda, ACE Tempest Re USA, ACE Tempest Re International, and ACE Tempest Re Canada. The Global Reinsurance segment also includes AGM's reinsurance operations. Global Reinsurance markets reinsurance products worldwide under the ACE Tempest Re brand name and provides solutions for small to mid-sized clients and multinational ceding companies including licensed reinsurance capabilities, property and workers' compensation catastrophe, loss-warranty, stop-loss cover, marine and aviation programs.

Products and Distribution

Global Reinsurance services clients globally through its major units. Major international brokers submit business to one or more of these units' underwriting teams who have built strong relationships with both key brokers and clients by providing a responsive, client-focused approach to risk assessment and pricing.

ACE Tempest Re Bermuda principally provides property catastrophe reinsurance on an excess of loss basis globally to insurers of commercial and personal property. Property catastrophe reinsurance is on an occurrence basis and protects a ceding company against an accumulation of losses covered by its issued insurance policies, arising from a common event or occurrence. ACE Tempest Re Bermuda underwrites reinsurance principally on an excess of loss basis, meaning that its exposure only arises after the ceding company's accumulated losses have exceeded the attachment point of the reinsurance policy. ACE Tempest Re Bermuda also writes other types of reinsurance on a limited basis for selected clients. Examples include proportional property where the reinsurer shares a proportional part of the premiums and losses of the ceding company and per risk excess of loss treaty reinsurance where coverage applies on a per risk basis rather than per event or aggregate basis, together with casualty (catastrophe workers' compensation) and specialty lines (crop and terrorism). ACE Tempest Re Bermuda's business is produced through reinsurance intermediaries.

ACE Tempest Re USA writes all lines of traditional and specialty P&C reinsurance, and surety and fidelity reinsurance for the North American market, principally on a treaty basis, with a focus on writing property per risk and casualty reinsurance. ACE Tempest Re USA underwrites reinsurance on both a proportional and excess of loss basis. This unit's diversified portfolio is produced through reinsurance intermediaries.

ACE Tempest Re International provides traditional and specialty P&C reinsurance to insurance companies worldwide, with emphasis on non-U.S. and Canadian risks. ACE Tempest Re International writes all lines of traditional and specialty reinsurance including property risk and property catastrophe, casualty, marine, aviation, and specialty through our London- and Zurich-based divisions. The London-based divisions of ACE Tempest Re International focus on the development of business sourced through London market brokers and, consequently, write a diverse book of international business using Syndicate 2488 and AEGL. The Zurich-based division focuses on providing reinsurance to continental European insurers via continental European brokers while also serving Asian and Latin American markets. ACE Tempest Re International also includes our Shanghai, China office which provides reinsurance coverage for Chinese-based risks. ACE Tempest Re International underwrites reinsurance on both a proportional and excess of loss basis.

ACE Tempest Re Canada offers a full array of traditional and specialty P&C, and Surety reinsurance to the Canadian market, including casualty, property risk and property catastrophe. ACE Tempest Re Canada provides coverage through its Canadian company platform and also offers clients access to Syndicate 2488. ACE Tempest Re Canada underwrites reinsurance on both a proportional and excess of loss basis.

Competitive Environment
The Global Reinsurance segment competes worldwide with major U.S. and non-U.S. reinsurers as well as reinsurance departments of numerous multi-line insurance organizations. In addition, over the last several years, capital markets participants have developed financial products intended to compete with traditional reinsurance. Additionally, government sponsored or backed catastrophe funds can affect demand for reinsurance. Global Reinsurance is considered a lead reinsurer and is typically involved in the negotiation and quotation of the terms and conditions of the majority of the contracts in which it participates. Global Reinsurance competes effectively in P&C markets worldwide because of its strong capital position, analytical capabilities and quality customer service, the leading role it plays in setting the terms, pricing, and conditions in negotiating contracts, and its customized approach to risk selection. The key competitors in our markets vary by geographic region and product line. An advantage of our international platform is that we are able to change our mix of business in response to changes in competitive conditions in the territories in which we operate. Our geographic reach is also sought by multinational ceding companies since all of our offices, with the exception of Bermuda, provide local reinsurance license capabilities which benefit our clients in dealing with country regulators.

Life (11 percent of 2014 Consolidated NPE)

Overview
The Life segment comprises ACE's international life operations (ACE Life), ACE Tempest Life Re (ACE Life Re), and the North American supplemental A&H and life business of Combined Insurance.

Products and Distribution
ACE Life provides individual life and group benefit insurance primarily in emerging markets, including Egypt, Hong Kong, Indonesia, South Korea, Taiwan, Thailand, and Vietnam; also throughout Latin America; selectively in Europe; and in China through a non-consolidated joint venture insurance company. ACE Life offers a broad portfolio of protection and savings products including whole life, endowment plans, individual term life, group term life, group medical, personal accident, credit life, universal life, and unit linked contracts. The policies written by ACE Life generally provide funds to beneficiaries of insureds after death and/or protection and/or savings benefits while the contract owner is living. ACE Life sells to consumers through a variety of distribution channels including agency, bancassurance, worksite marketing, retailers, brokers, and direct to consumer marketing. We continue to expand ACE Life with a focus on opportunities in emerging markets that we believe will result in strong and sustainable operating profits as well as a favorable return on capital commitments over time. Our dedicated agency distribution channel, whereby agents sell ACE Life products exclusively, enables us to maintain direct contact with the individual consumer, promote quality sales practices, and exercise greater control over the future of the business. We have developed a substantial sales force of agents principally located in our Asia-Pacific countries. ACE also maintains approximately 35.9 percent direct and indirect ownership interest in Huatai Life Insurance Co., Ltd. (Huatai Life), which commenced operations in 2005 and has since grown to become one of the largest life insurance foreign joint ventures in China. Huatai Life offers a broad portfolio of insurance products through a variety of distribution channels including approximately 277 licensed sales locations in 14 Chinese provinces.

ACE Life Re's core business is a Bermuda-based operation which provides reinsurance to primary life insurers, focusing on guarantees included in certain fixed and variable annuity products and also on more traditional mortality reinsurance protection. ACE Life Re's U.S.-based traditional life reinsurance operation was discontinued for new business in January 2010. Since 2007, ACE Life Re has not quoted on new opportunities in the variable annuity reinsurance marketplace and our focus has been on managing the current portfolio of risk, both in the aggregate and on a contract basis. This business is managed with a long-term perspective and short-term earnings volatility is expected.

Combined Insurance distributes specialty supplemental A&H and life insurance products targeted to middle income consumers and businesses in the U.S. and Canada. Combined Insurance's substantial North American sales force distributes a wide range of supplemental accident and sickness insurance products, including personal accident, short-term disability, critical illness, Medicare supplement products, and hospital confinement/recovery. Most of these products are primarily fixed-indemnity benefit obligations and are not directly subject to escalating medical cost inflation.

Competitive Environment
ACE Life's competition differs by location but generally includes multinational insurers, and in some locations, local insurers, joint ventures, or state-owned insurers. ACE's financial strength and reputation as an entrepreneurial organization with a global presence gives ACE Life a strong base from which to compete. While ACE Life Re is not currently quoting on new opportunities in the variable annuity reinsurance marketplace, we continue to monitor developments in this market. Combined Insurance competes for A&H business in the U.S. against numerous A&H and life insurance companies across various industry segments.

Underwriting

ACE is an underwriting company and we strive to emphasize quality of underwriting rather than volume of business or market share. Our underwriting strategy is to manage risk by employing consistent, disciplined pricing and risk selection. This, coupled with writing a number of less cyclical product lines, has helped us develop flexibility and stability of our business, and has allowed us to maintain a profitable book of business throughout market cycles. Clearly defined underwriting authorities, standards, and guidelines coupled with a strong underwriting audit function are in place in each of our local operations and global profit centers. Global product boards ensure consistency of approach and the establishment of best practices throughout the world. Our priority is to help ensure adherence to criteria for risk selection by maintaining high levels of experience and expertise in our underwriting staff. In addition, we employ a business review structure that helps ensure control of risk quality and conservative use of policy limits and terms and conditions. Underwriting discipline is at the heart of our operating philosophy.

Qualified actuaries in each region work closely with the underwriting teams to provide additional expertise in the underwriting process. We use internal and external data together with sophisticated analytical, catastrophe loss and risk modeling techniques to ensure an appropriate understanding of risk, including diversification and correlation effects, across different product lines and territories. This helps to ensure that losses are contained within our risk tolerance and appetite for individual product lines, businesses, and ACE as a whole. We also purchase protection from third parties, including, but not limited to, reinsurance as a tool to diversify risk and limit the net loss potential of catastrophes and large or unusually hazardous risks. For additional information refer to “Reinsurance Protection”, below, “Insurance and Reinsurance Markets”, under Item 1A, “Catastrophe Management” and “Natural Catastrophe Property Reinsurance Program”, under Item 7, and Note 5 to the Consolidated Financial Statements, under Item 8.

Reinsurance Protection

As part of our risk management strategy, we purchase reinsurance protection to mitigate our exposure to losses, including certain catastrophes, to a level consistent with our risk appetite. Although reinsurance agreements contractually obligate our reinsurers to reimburse us for an agreed-upon portion of our gross paid losses, reinsurance does not discharge our primary liability to our insureds and, thus, we ultimately remain liable for the gross direct losses. In certain countries, reinsurer selection is limited by local laws or regulations. In most countries there is more freedom of choice, and the counterparty is selected based upon its financial strength, claims settlement record, management, line of business expertise, and its price for assuming the risk transferred. In support of this process, we maintain an ACE authorized reinsurer list that stratifies these authorized reinsurers by classes of business and acceptable limits. This list is maintained by our Reinsurance Security Committee (RSC), a committee comprising senior management personnel and a dedicated reinsurer security team. Changes to the list are authorized by the RSC and recommended to the Chair of the Risk and Underwriting Committee. The reinsurers on the authorized list and potential new markets are regularly reviewed and the list may be modified following these reviews. In addition to the authorized list, there is a formal exception process that allows authorized reinsurance buyers to use reinsurers already on the authorized list for higher limits or different lines of business, for example, or other reinsurers not on the authorized list if their use is supported by compelling business reasons for a particular reinsurance program.

A separate policy and process exists for captive reinsurance companies. Generally, these reinsurance companies are established by our clients or our clients have an interest in them. It is generally our policy to obtain collateral equal to the expected losses that may be ceded to the captive. Where appropriate, exceptions to the collateral requirement are granted but only after senior management review. Specific collateral guidelines and an exception process are in place for the Insurance – North American P&C and Insurance – Overseas General segments, both of which have credit management units evaluating the captive's credit quality and that of their parent company. The credit management units, working with actuaries, determine reasonable exposure estimates (collateral calculations), ensure receipt of collateral in an acceptable form, and coordinate collateral adjustments as and when needed. Financial reviews and expected loss evaluations are performed annually for active captive accounts and as needed for run-off exposures. In addition to collateral, parental guarantees are often used to enhance the credit quality of the captive.

In general, we seek to place our reinsurance with highly rated companies with which we have a strong trading relationship. For additional information refer to “Catastrophe Management” and “Natural Catastrophe Property Reinsurance Program” under Item 7, and Note 5 to the Consolidated Financial Statements.

Unpaid Losses and Loss Expenses

We establish reserves for unpaid losses and loss expenses, which are estimates of future payments on reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. These reserves are recorded in Unpaid losses and loss expenses in the consolidated balance sheets. The process of establishing loss and loss expense reserves for P&C claims can be complex and is subject to considerable uncertainty as it requires the use of informed estimates and judgments based on circumstances known at the date of accrual. These estimates and judgments are based on numerous factors, and may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed, or as laws change. Internal actuaries regularly analyze the levels of loss and loss expense reserves, taking into consideration factors that may impact the ultimate settlement value of the unpaid losses and loss expenses. These analyses could result in future changes in the estimates of loss and loss expense reserves or reinsurance recoverables and any such changes would be reflected in our results of operations in the period in which the estimates are changed. Losses and loss expenses are charged to income as incurred. The reserve for unpaid losses and loss expenses represents the estimated ultimate losses and loss expenses less paid losses and loss expenses, and comprises case reserves and incurred but not reported (IBNR) loss reserves. With the exception of certain structured settlements, for which the timing and amount of future claim payments are reliably determinable, and certain reserves for unsettled claims that are discounted in statutory filings, our loss reserves are not discounted for the time value of money. In connection with such structured settlements and certain reserves for unsettled claims, we carried net discounted reserves of $111 million at December 31, 2014.

During the loss settlement period, which can be many years in duration, additional facts regarding individual claims and trends often will become known. As these become apparent, case reserves may be adjusted by allocation from IBNR with or without any change in the overall reserve. In addition, the circumstances of individual claims or the application of statistical and actuarial methods to loss experience data may lead to the adjustment of the overall reserves upward or downward from time to time. Accordingly, the ultimate settlement of losses may be significantly greater than or less than reported loss and loss expense reserves.

We have considered asbestos and environmental (A&E) claims and claims expenses in establishing the liability for unpaid losses and loss expenses and have developed reserving methods which consider historical experience as well as incorporate new sources of data to estimate the ultimate losses arising from A&E exposures. The reserves for A&E claims and claims expenses represent management's best estimate of future loss and loss expense payments and recoveries that are expected to develop over the next several decades. We continuously monitor evolving case law and its effect on environmental and latent injury claims, we monitor A&E claims activity quarterly, and we perform a full reserve review annually.

For each product line, management, in conjunction with internal actuaries, develops a “best estimate” of the ultimate settlement value of the unpaid losses and loss expenses that it believes provides a reasonable estimate of the required reserve. We evaluate our estimates of reserves quarterly in light of developing information. While we are unable at this time to determine whether additional reserves may be necessary in the future, we believe that our reserves for unpaid losses and loss expenses are adequate at December 31, 2014. Future additions to reserves, if needed, could have a material adverse effect on our financial condition, results of operations, and cash flows. For additional information refer to “Critical Accounting Estimates – Unpaid losses and loss expenses”, under Item 7, and Note 7 to the Consolidated Financial Statements, under Item 8.

The “Analysis of Losses and Loss Expenses Development” table shown below presents, for each balance sheet date over the period 2004-2014, the gross and net loss and loss expense reserves recorded at the balance sheet date and subsequent net payments on the associated liabilities. The reserves represent the amount required for the estimated future settlement value of liabilities incurred at or prior to the balance sheet date and those estimates may change subsequent to the balance sheet date as new information emerges regarding the ultimate settlement value of the liability. Accordingly, the table also presents through December 31, 2014, for each balance sheet date, the cumulative impact of subsequent valuations of the liabilities incurred at the original balance sheet date. The table is presented in accordance with SEC reporting requirements. This table should be interpreted with care by those not familiar with its format or those who are familiar with other triangulations arranged by origin year of loss such as accident or underwriting year rather than balance sheet date, as shown below. To clarify the interpretation of the table, we use the reserves established at December 31, 2004, in the following example.

The top two lines of the table show, for successive balance sheet dates, the gross and net unpaid losses and loss expenses recorded as provision for liabilities incurred at or prior to each balance sheet date. It can be seen that at December 31, 2004, a reserve of $17.5 billion, net of reinsurance, had been established.

The upper (paid) triangulation shows the net amounts paid as of periods subsequent to the balance sheet date. Hence in the 2005 financial year, $3.3 billion of payments were made on liabilities contemplated in the December 31, 2004, reserve balance. At the end of the 2014 financial year, there were cumulative net payments of $12.0 billion on this block of liabilities.

The lower triangulation within the table shows the revised estimate of the net liability originally recorded at each balance sheet date as of the end of subsequent financial years. With the benefit of actual loss emergence and hindsight over the intervening period, the net liabilities incurred as of December 31, 2004, are now estimated to be $17.4 billion, rather than the original estimate of $17.5 billion. This change includes the impact of adverse development on latent claims that we categorize as A&E covered under the National Indemnity Company (NICO) reinsurance treaties. Of the cumulative redundancy of $82 million recognized in the ten years since December 31, 2004, redundancy of $1.1 billion relates to non-latent claims and deficiency of $1.0 billion relates to latent claims. The redundancy of $82 million was identified and recorded as follows: $86 million deficient in 2005, $48 million deficient in 2006, $22 million redundant in 2007, $120 million redundant in 2008, $233 million redundant in 2009, $160 million redundant in 2010, $55 million redundant in 2011, $106 million deficient in 2012, $187 million deficient in 2013, and $81 million deficient in 2014. This development subsequent to the balance sheet date of valuation is referred to as prior period development.

Importantly, the cumulative deficiency or redundancy for different balance sheet dates are not independent and, therefore, should not be added together. In the last financial year, we revised our estimate of the December 31, 2004, liabilities from $17,354 million to $17,435 million. This adverse development of $81 million is also included in each column to the right of the December 31, 2004, column to recognize that this additional amount was also required in the reserves established for each annual balance sheet date from December 31, 2005 to December 31, 2014.

The loss development table shows that our original estimate of the net unpaid loss and loss expense requirement at December 31, 2013, of $26.8 billion has, with the benefit of actual loss emergence and hindsight, been revised to $26.3 billion at December 31, 2014. This favorable movement of $527 million reflects prior period development and is the net result of a number of underlying movements both favorable and adverse. The key underlying movements are discussed in more detail in Note 7 to the Consolidated Financial Statements under Item 8.

The bottom lines of the table show the re-estimated amount of previously recorded gross liabilities at December 31, 2014, together with the change in reinsurance recoverable. Similar to the net liabilities, the cumulative redundancy or deficiency on the gross liability is the difference between the gross liability originally recorded and the re-estimated gross liability at December 31, 2014. For example, with respect to the gross unpaid loss and loss expenses of $31.5 billion for December 31, 2004, this gross liability was re-estimated to be $32.8 billion at December 31, 2014, resulting in the cumulative deficiency on the gross liability originally recorded for the 2004 balance sheet year of $1.3 billion. This deficiency relates primarily to U.S. liabilities, including A&E liabilities for 1996 and prior. The gross deficiency results in a net redundancy of $82 million after consideration of substantial reinsurance coverage that reduces the gross loss; approximately $1.6 billion was covered by reinsurance placed when the risks were originally written and $1.3 billion and $128 million of the remaining insurance coverage has been ceded under the Brandywine NICO Agreement and Westchester NICO Agreement, respectively.

We do not consider it appropriate to extrapolate future deficiencies or redundancies based upon the table, as conditions and trends that have affected development of the liability in the past may not necessarily recur in the future. We believe that our current estimates of net liabilities appropriately reflect our current knowledge of the business profile and the prevailing market, social, legal, and economic conditions while giving due consideration to historical trends and volatility evidenced in our markets over the longer term. The key issues and considerations involved in establishing our estimate of the net liabilities are discussed in more detail within the “Critical Accounting Estimates – Unpaid losses and loss expenses” section of Item 7.

The Unpaid losses and loss expense information for acquired businesses has been included in the table from the acquisition date forward:

- Combined Insurance (April 1, 2008);
- Jerneh Insurance Berhad (December 1, 2010);
- Rain and Hail (we acquired all of the outstanding common stock not previously owned by us on December 28, 2010);
- Penn Millers Holding Corporation (November 30, 2011);
- Rio Guayas Compania de Seguros y Reaseguros (December 28, 2011);
- PT Asuransi Jaya Proteski (we acquired 80 percent on September 18, 2012 and our local partner acquired the remaining 20 percent on January 3, 2013);
- Fianzas Monterrey (April 1, 2013);
- ABA Seguros (May 2, 2013);
- The Siam Commercial Samaggi Insurance PCL (we and our local partner acquired 93.03 percent during the second quarter of 2014); and
- The large corporate account P&C insurance business of Itaú Seguros, S.A. (October 31, 2014).

Analysis of Losses and Loss Expenses Development

(in millions of U.S. dollars)	Years Ended December 31										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	**2014**
Gross unpaid losses	$31,483	$35,055	$35,517	$37,112	$37,176	$37,783	$37,391	$37,477	$37,946	$37,443	**$38,315**
Net unpaid losses	17,517	20,458	22,008	23,592	24,241	25,038	25,242	25,875	26,547	26,831	**27,008**
Net paid losses (cumulative) as of:											
1 year later	3,293	3,711	4,038	3,628	4,455	4,724	4,657	4,894	5,035	5,260	
2 years later	5,483	6,487	6,356	6,092	7,526	7,510	7,281	7,714	7,969		
3 years later	7,222	7,998	8,062	8,393	9,690	9,404	9,424	9,973			
4 years later	8,066	9,269	9,748	9,949	11,114	11,097	11,102				
5 years later	8,920	10,597	10,826	10,951	12,502	12,428					
6 years later	9,810	11,428	11,496	11,985	13,556						
7 years later	10,478	11,957	12,312	12,766							
8 years later	10,859	12,664	12,970								
9 years later	11,462	13,209									
10 years later	11,952										
Net liability re-estimated as of:											
End of year	17,517	20,458	22,008	23,592	24,241	25,038	25,242	25,875	26,547	26,831	**27,008**
1 year later	17,603	20,446	21,791	22,778	23,653	24,481	24,686	25,396	26,017	26,304	
2 years later	17,651	20,366	21,188	22,158	23,127	23,801	24,167	24,887	25,411		
3 years later	17,629	19,926	20,650	21,596	22,576	23,363	23,690	24,299			
4 years later	17,509	19,589	20,080	21,037	22,184	22,955	23,091				
5 years later	17,276	19,258	19,618	20,773	21,913	22,476					
6 years later	17,116	19,136	19,584	20,760	21,810						
7 years later	17,061	19,180	19,684	20,667							
8 years later	17,167	19,329	19,647								
9 years later	17,354	19,356									
10 years later	17,435										
Cumulative redundancy/ (deficiency) on net unpaid losses	82	1,102	2,361	2,925	2,431	2,562	2,151	1,576	1,136	527	
Cumulative deficiency related to A&E	(1,039)	(1,039)	(987)	(958)	(907)	(824)	(720)	(621)	(451)	(257)	
Cumulative redundancy/ (deficiency) excluding A&E	1,121	2,141	3,348	3,883	3,338	3,386	2,871	2,197	1,587	784	
Gross unpaid losses	31,483	35,055	35,517	37,112	37,176	37,783	37,391	37,477	37,946	37,443	**38,315**
Reinsurance recoverable on unpaid losses	13,966	14,597	13,509	13,520	12,935	12,745	12,149	11,602	11,399	10,612	**11,307**
Net unpaid losses	17,517	20,458	22,008	23,592	24,241	25,038	25,242	25,875	26,547	26,831	**27,008**
Gross liability re-estimated	32,767	33,854	33,117	33,586	34,325	34,482	34,287	35,294	36,335	36,758	
Reinsurance recoverable on unpaid losses	15,332	14,498	13,470	12,919	12,515	12,006	11,196	10,995	10,924	10,454	
Net liability re-estimated	17,435	19,356	19,647	20,667	21,810	22,476	23,091	24,299	25,411	26,304	
Cumulative redundancy/ (deficiency) on gross unpaid losses	$ (1,284)	$ 1,201	$ 2,400	$ 3,526	$ 2,851	$ 3,301	$ 3,104	$ 2,183	$ 1,611	$ 685	

The reference to “losses” in the table above refers to losses and loss expenses.

Reconciliation of Unpaid Losses and Loss Expenses
Net losses and loss expenses incurred for 2014 were $9.6 billion, compared with $9.3 billion in 2013, and $9.7 billion in 2012 which includes $527 million, $530 million, and $479 million of net favorable prior period development (PPD), respectively. Refer to Note 7 to the Consolidated Financial Statements for a reconciliation of Unpaid losses and loss expenses and for additional information on PPD.

Investments
Our objective is to maximize investment income and total return while ensuring an appropriate level of liquidity and investment quality and diversification. As such, ACE's investment portfolio is invested primarily in investment-grade fixed-income securities as measured by the major rating agencies. We do not allow leverage or complex credit structures in our investment portfolio.

The critical aspects of the investment process are controlled by ACE Asset Management, an indirect wholly-owned subsidiary of ACE. These aspects include asset allocation, portfolio and guideline design, risk management and oversight of external asset managers. In this regard, ACE Asset Management:

- conducts formal asset allocation modeling for each of the ACE subsidiaries, providing formal recommendations for the portfolio's structure;
- establishes recommended investment guidelines that are appropriate to the prescribed asset allocation targets;
- provides the analysis, evaluation, and selection of our external investment advisors;
- establishes and develops investment-related analytics to enhance portfolio engineering and risk control;
- monitors and aggregates the correlated risk of the overall investment portfolio; and
- provides governance over the investment process for each of our operating companies to ensure consistency of approach and adherence to investment guidelines.

Under our guidance and direction, external asset managers conduct security and sector selection and transaction execution. Use of multiple managers benefits ACE in several ways – it provides us with operational and cost efficiencies, diversity of styles and approaches, innovations in investment research and credit and risk management, all of which enhance the risk adjusted returns of our portfolios.

ACE Asset Management determines the investment portfolio's allowable, targeted asset allocation and ranges for each of the segments. These asset allocation targets are derived from sophisticated asset and liability modeling that measures correlated histories of returns and volatility of returns. Allowable investment classes are further refined through analysis of our operating environment, including expected volatility of cash flows, potential impact on our capital position, as well as regulatory and rating agency considerations.

The Board has established a Risk & Finance Committee which helps execute the Board's supervisory responsibilities pertaining to enterprise risk management including investment risk. Under the overall supervision of the Risk & Finance Committee, ACE's governance over investment management is rigorous and ongoing. Among its responsibilities, the Risk & Finance Committee of the Board:

- reviews and approves asset allocation targets and investment policy to ensure that it is consistent with our overall goals, strategies, and objectives;
- reviews and approves investment guidelines to ensure that appropriate levels of portfolio liquidity, credit quality, diversification, and volatility are maintained; and
- systematically reviews the portfolio's exposures including any potential violations of investment guidelines.

We have long-standing global credit limits for our entire portfolio across the organization and for individual obligors. Exposures are aggregated, monitored, and actively managed by our Global Credit Committee, comprising senior executives, including our Chief Financial Officer, our Chief Risk Officer, our Chief Investment Officer, and our Treasurer.

Within the guidelines and asset allocation parameters established by the Risk & Finance Committee, individual investment committees of the segments determine tactical asset allocation. Additionally, these committees review all investment-related activity that affects their operating company, including the selection of outside investment advisors, proposed asset allocation changes, and the systematic review of investment guidelines.

For additional information regarding the investment portfolio, including breakdowns of the sector and maturity distributions, refer to Note 3 to the Consolidated Financial Statements, under Item 8.

Regulation

Our insurance and reinsurance subsidiaries conduct business globally, including in all 50 states of the United States and the District of Columbia. Our businesses in each of these jurisdictions are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which our insurance and reinsurance subsidiaries are domiciled require among other things that these subsidiaries maintain minimum levels of statutory capital, surplus, and liquidity, meet solvency standards, and submit to periodic examinations of their financial condition. The complex regulatory environments in which ACE operates are subject to change and are regularly monitored.

Group Supervision

In September 2012, pursuant to recently enacted legislation passed in the state of Pennsylvania, U.S., based on the Model Insurance Holding Company System Regulatory Act (model law) adopted by the National Association of Insurance Commissioners (NAIC), the Pennsylvania Insurance Department (Department), in consultation with other insurance regulatory bodies that oversee ACE's insurance activities, convened the first ACE Group Supervisory College (College). Regulators from approximately 15 jurisdictions worldwide were invited to participate in the College, the purpose of which was to initiate establishment of, and to clarify the membership, participation, functionality, and ongoing activities in, the College with respect to group-wide supervision of ACE. Representatives from approximately ten jurisdictions attended the College in Philadelphia, Pennsylvania, during which the supervisors reviewed, without adverse comment, information on our group governance, risk assessment and management, capital adequacy, and material intercompany transactions. On October 19, 2012, the Department, in cooperation with the other supervisory college regulators, published a notice of its determination that it is the appropriate group-wide supervisor for ACE.

In September 2014, the Department, in consultation with other insurance regulatory bodies that oversee ACE's insurance activities, convened the second College. Representatives from approximately ten jurisdictions attended the College in Philadelphia, Pennsylvania, during which the supervisors reviewed, without adverse comment, information on our group governance, compliance, risk assessment and management, and capital adequacy.

The following is an overview of regulations for our operations in Switzerland, the U.S., Bermuda, and other international locations.

Swiss Operations

The Swiss Financial Market Supervisory Authority (FINMA) has the discretion to supervise ACE on a group-wide basis. However, FINMA acknowledges the Department's assumption of group supervision over us.

In 2008, we formed ACE Insurance (Switzerland) Limited which offers property and casualty insurance to Swiss companies, A&H insurance for individuals of Swiss Corporations as well as reinsurance predominantly in Continental Europe. We have also formed a reinsurance subsidiary named ACE Reinsurance (Switzerland) Limited, which we operate as primarily a provider of reinsurance to ACE entities. Both companies are licensed and governed by FINMA.

U.S. Operations

Our U.S. insurance subsidiaries are subject to extensive regulation and supervision by the states in which they do business. The laws of the various states establish departments of insurance with broad authority to regulate, among other things: the standards of solvency that must be met and maintained, the licensing of insurers and their producers, approval of policy forms and rates, the nature of and limitations on investments, restrictions on the size of the risks which may be insured under a single policy, deposits of securities for the benefit of policyholders, requirements for the acceptability of reinsurers, periodic examinations of the affairs of insurance companies, the form and content of reports of financial condition required to be filed, and the adequacy of reserves for unearned premiums, losses, and other purposes.

Our U.S. insurance subsidiaries are required to file detailed annual and quarterly reports with state insurance regulators. In addition, our U.S. insurance subsidiaries' operations and financial records are subject to examination at regular intervals by state regulators.

All states have enacted legislation that regulates insurance holding companies. This legislation provides that each insurance company in the insurance holding company system (system) is required to register with the insurance department of its state of domicile and furnish information concerning the operations of companies within the system that may materially affect the operations, management, or financial condition of the insurers within the system. Since 2014, we have also been required to file an annual enterprise risk report with the Department, identifying the material risks within our system that could pose enterprise risk to the insurance subsidiaries in the system. All transactions within a system must be fair and equitable. Notice to the insurance departments is required prior to the consummation of transactions affecting the ownership or control of an insurer and of certain material transactions between an insurer and an entity in its system. In addition, certain transactions may not be consummated without the department's prior approval.

Beginning in 2015, we are required to file an annual summary report with the Department, reflecting our internal assessment of material risks associated with our current business plan and the sufficiency of our capital resources to support those risks.

Statutory surplus is an important measure used by the regulators and rating agencies to assess our U.S. insurance subsidiaries' ability to support business operations and provide dividend capacity. Our U.S. insurance subsidiaries are subject to various state statutory and regulatory restrictions that limit the amount of dividends that may be paid without prior approval from regulatory authorities. These restrictions differ by state, but are generally based on calculations incorporating statutory surplus, statutory net income, and/or investment income.

The NAIC has a risk-based capital requirement for P&C insurance companies. This risk-based capital formula is used by many state regulatory authorities to identify insurance companies that may be undercapitalized and which merit further regulatory attention. These requirements are designed to monitor capital adequacy using a formula that prescribes a series of risk measurements to determine a minimum capital amount for an insurance company, based on the profile of the individual company. The ratio of a company's actual policyholder surplus to its minimum capital requirement will determine whether any state regulatory action is required. There are progressive risk-based capital failure levels that trigger more stringent regulatory action. If an insurer's policyholders' surplus falls below the Mandatory Control Level (70 percent of the Authorized Control Level, as defined by the NAIC), the relevant insurance commissioner is required to place the insurer under regulatory control.

However, an insurance commissioner may allow a P&C company operating below the Mandatory Control Level that is writing no business and is running off its existing business to continue its run-off. Brandywine is running off its liabilities consistent with the terms of an order issued by the Insurance Commissioner of Pennsylvania. This includes periodic reporting obligations to the Department.

Government intervention has also occurred in the insurance and reinsurance markets in relation to terrorism coverage in the U.S. (and through industry initiatives in other countries). The U.S. Terrorism Risk Insurance Act (TRIA), which was enacted in 2002 to ensure the availability of insurance coverage for certain types of terrorist acts in the U.S., was extended in 2015 for six years, through December 31, 2020, and applies to certain of our operations.

From time to time, ACE and its subsidiaries and affiliates receive inquiries from state agencies and attorneys general, with which we generally comply, seeking information concerning business practices, such as underwriting and non-traditional or loss mitigation insurance products. Moreover, many recent factors, such as consequences of and reactions to industry and economic conditions and focus on domestic issues, have contributed to the potential for change in the legal and regulatory framework applicable to ACE's U.S. operations and businesses. We cannot assure that changes in laws or investigative or enforcement activities in the various states in the U.S. will not have a material adverse impact on our financial condition, results of operations, or business practices.

Bermuda Operations

The Insurance Act 1978 of Bermuda and related regulations, as amended (the Insurance Act), regulates the insurance business of our Bermuda insurance subsidiaries and provides that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority (BMA). The Insurance Act imposes solvency and liquidity standards and auditing and reporting requirements on Bermuda insurance companies and grants the BMA powers to supervise, investigate, and intervene in the affairs of insurance companies. Our Bermuda domiciled insurance subsidiaries must prepare annual statutory financial statements and file them with the BMA, and certain subsidiaries must file audited annual financial statements prepared in accordance with accounting principles generally accepted in the U.S. (GAAP), International Financial Reporting Standards (IFRS), or any such other generally accepted accounting principles as the BMA may recognize. These audited financials are made public by the BMA. The Insurance Act prescribes rules for the preparation and content of the statutory financial statements that require ACE subsidiaries to give detailed information and analyses regarding premiums, claims, reinsurance, and investments.

The BMA established risk-based regulatory capital adequacy and solvency margin requirements for Bermuda insurers that mandate that a Class E (long-term business), Class 3A (general business), and Class 4 insurer's Enhanced Capital Requirement

(ECR) be calculated by either (a) the BMA model, or (b) an internal capital model which the BMA has approved for use for this purpose. ACE's Bermuda insurance subsidiaries use the BMA model in calculating their solvency requirements.

The risk-based regulatory capital adequacy and solvency margin regime provides a risk-based capital model, termed the Bermuda Solvency Capital Requirement (BSCR), as a tool to assist the BMA both in measuring risk and in determining appropriate levels of capitalization. The BSCR employs a standard mathematical model that correlates the risk underwritten by Bermuda insurers to their capital. The BSCR framework applies a standard measurement format to the risk associated with an insurer's assets, liabilities, and premiums, including a formula to take account of catastrophe risk exposure. In order to minimize the risk of a shortfall in capital arising from an unexpected adverse deviation and in moving towards the implementation of a risk based capital approach, the BMA has established a threshold capital level, (termed the Target Capital Level (TCL)), set at 120 percent of ECR, that serves as an early warning tool for the BMA and failure to maintain statutory capital at least equal to the TCL will likely result in increased BMA regulatory oversight.

Under the Insurance Act, Class 4 insurers are prohibited from declaring or paying any dividends of more than 25 percent of total statutory capital and surplus, as shown in its previous financial year statutory balance sheet, unless at least seven days before payment of the dividends, it files with the BMA an affidavit that it will continue to meet its required solvency margins. In addition, Class 4, 3A, and E insurers must obtain the BMA's prior approval before reducing total statutory capital, as shown in its previous financial year statutory balance sheet, by 15 percent or more. Furthermore, Bermuda insurance subsidiaries may only declare and pay a dividend from retained earnings and a dividend or distribution from contributed surplus if it has no reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due, or if the realizable value of its assets would not be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Other International Operations

The extent of insurance regulation varies significantly among the countries in which non-U.S. ACE operations conduct business. While each country imposes licensing, solvency, auditing, and financial reporting requirements, the type and extent of the requirements differ substantially. For example:

- in some countries, insurers are required to prepare and file quarterly financial reports, and in others, only annual reports;
- some regulators require intermediaries to be involved in the sale of insurance products, whereas other regulators permit direct sales contact between the insurer and the customer;
- the extent of restrictions imposed upon an insurer's use of local and offshore reinsurance vary;
- policy form filing and rate regulation vary by country;
- the frequency of contact and periodic on-site examinations by insurance authorities differ by country; and
- regulatory requirements relating to insurer dividend policies vary by country.

Significant variations can also be found in the size, structure, and resources of the local regulatory departments that oversee insurance activities. Certain regulators prefer close relationships with all subject insurers and others operate a risk-based approach.

ACE operates in some countries through subsidiaries and in some countries through branches of subsidiaries. Local capital requirements applicable to a subsidiary generally include its branches. Certain ACE companies are jointly owned with local companies to comply with legal requirements for local ownership. Other legal requirements include discretionary licensing procedures, compulsory cessions of reinsurance, local retention of funds and records, data privacy and protection program requirements, and foreign exchange controls. ACE's international companies are also subject to multinational application of certain U.S. laws.

There are various regulatory bodies and initiatives that impact ACE in multiple international jurisdictions and the potential for significant impact on ACE could be heightened as a result of recent industry and economic developments. In particular, the European Union's (EU) executive body, the European Commission, is implementing new capital adequacy and risk management regulations for the European insurance industry, known as Solvency II, which aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current Solvency I requirements. The Solvency II requirements are expected to be effective January 1, 2016.

Under Solvency II, it is possible that a U.S. domiciled parent company of a subsidiary domiciled in the EU could be subject to certain requirements if determined by the regulator that its subsidiary's capital position is dependent on the U.S. parent company that is not subject to requirements deemed to be "equivalent" to Solvency II. While it is not certain how or if these actions will impact ACE, we do not currently expect that our capital management strategies, results of operations, and financial condition will be materially affected by the Solvency II requirements.

Enterprise Risk Management

As an insurer, ACE is in the business of profitably managing risk for its customers. Since risk management must permeate an organization conducting a global insurance business, we have an established Enterprise Risk Management (ERM) framework that is integrated into management of our businesses and is led by ACE's senior management. As a result, ERM is a part of the day-to-day management of ACE and its operations.

Our global ERM framework is broadly multi-disciplinary and its objectives include:

- **External Risks**: identify, analyze, quantify, and where possible, mitigate significant external risks that could materially hamper the financial condition of ACE and/or the achievement of corporate business objectives over the next 36 months;
- **Exposure Accumulations**: identify and quantify the accumulation of exposure to individual counterparties, products or industry sectors, particularly those that materially extend across or correlate between business units or divisions and/or the balance sheet;
- **Risk Modeling**: develop and use various data-sets, analytical tools, metrics and processes (including economic capital models and advanced analytics) that help division and corporate leaders make informed underwriting, portfolio management and risk management decisions within a consistent risk/reward framework;
- **Governance**: establish and coordinate risk guidelines that reflect the corporate appetite for risk, monitor exposure accumulations relative to established guidelines, and ensure effective internal risk management communication up to management and the Board, down to the various business units and legal entities, and across the firm; and
- **Disclosure**: develop protocols and processes for risk-related disclosure internally as well as externally to rating agencies, regulators, shareholders and analysts.

ACE's Risk and Underwriting Committee (RUC) reports to and assists the Chief Executive Officer in the oversight and review of the ERM framework which covers the processes and guidelines used to manage insurance risk, financial risk, strategic risk, and operational risk. The RUC is chaired by ACE's Chief Risk Officer and Chief Actuary. The RUC meets at least monthly, and is comprised of ACE's most senior executives, in addition to the Chair, including the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Claims Officer, General Counsel, Chairman for Insurance – North America, Chairman for ACE Overseas General, and Chief Underwriting Officer.

The RUC is assisted in its activities by ACE's Enterprise Risk Unit (ERU) and Product Boards. The ERU is responsible for the collation and analysis of risk insight in two key areas. First, external information that provides insight to the RUC on existing or emerging risks that might significantly impact ACE's key objectives and second, internal risk aggregations arising from ACE's business writings and other activities such as investments and operations. The ERU is independent of the operating units and reports to our Chief Risk Officer and Chief Actuary. The Product Boards exist to provide oversight for products that we offer globally. A Product Board currently exists for each of ACE's major product areas. Each Product Board is responsible for ensuring consistency in underwriting and pricing standards, identification of emerging issues, and guidelines for relevant accumulations.

ACE's Chief Risk Officer and Chief Actuary also reports to the Board's Risk & Finance Committee, which helps execute the Board's supervisory responsibilities pertaining to ERM. The role of the Risk & Finance Committee includes evaluation of the integrity and effectiveness of our ERM procedures, systems, and information; governance on major policy decisions pertaining to risk aggregation and minimization; and assessment of our major decisions and preparedness levels pertaining to perceived material risks. The Audit Committee meets annually and on an as needed basis with the Risk & Finance Committee in order to exercise its duties under New York Stock Exchange Rules.

Others within the ERM structure contribute toward accomplishing ACE's ERM objectives, including regional management, Corporate Underwriting, Internal Audit, Compliance, external consultants, and managers of our internal control processes and procedures.

Tax Matters

Refer to “Risk Factors”, under Item 1A and Note 1 n) and Note 8 to the Consolidated Financial Statements.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position
Evan G. Greenberg	60	Chairman, President, Chief Executive Officer, and Director
John W. Keogh	50	Vice Chairman, Chief Operating Officer; Chairman, ACE Overseas General
Philip V. Bancroft	55	Chief Financial Officer
John J. Lupica	49	Vice Chairman; Chairman, Insurance – North America
Joseph F. Wayland	57	General Counsel and Secretary
Sean Ringsted	51	Chief Risk Officer and Chief Actuary
Timothy A. Boroughs	65	Chief Investment Officer

Evan G. Greenberg has been a director of ACE Limited since August 2002. Mr. Greenberg was elected Chairman of the Board of Directors in May 2007. Mr. Greenberg became a director of The Coca-Cola Company in February 2011. Mr. Greenberg was appointed to the position of President and Chief Executive Officer of ACE Limited in May 2004, and in June 2003, was appointed President and Chief Operating Officer of ACE Limited. Mr. Greenberg was appointed to the position of Chief Executive Officer of ACE Overseas General in April 2002. He joined ACE as Vice Chairman, ACE Limited, and Chief Executive Officer of ACE Tempest Re in November 2001. Prior to joining ACE, Mr. Greenberg was most recently President and Chief Operating Officer of American International Group (AIG), a position he held from 1997 until 2000.

John W. Keogh was appointed Chief Operating Officer of ACE Limited in July 2011 and Vice Chairman of ACE Limited and ACE Group Holdings in August 2010. Mr. Keogh joined ACE as Chief Executive Officer of ACE Overseas General in April 2006 and became Chairman of ACE Overseas General in August 2010. Prior to joining ACE, Mr. Keogh served as Senior Vice President, Domestic General Insurance of AIG, and President and Chief Executive Officer of National Union Fire Insurance Company, AIG's member company that specializes in D&O and fiduciary liability coverages. Mr. Keogh joined AIG in 1986. He served in a number of other senior positions there including as Executive Vice President of AIG's Domestic Brokerage Group and as President and Chief Operating Officer of AIG's Lexington Insurance Company unit.

Philip V. Bancroft was appointed Chief Financial Officer of ACE Limited in January 2002. For nearly 20 years, Mr. Bancroft worked for PricewaterhouseCoopers LLP. Prior to joining ACE, he served as partner-in-charge of the New York Regional Insurance Practice. Mr. Bancroft had been a partner with PricewaterhouseCoopers LLP for ten years.

John J. Lupica was appointed Vice Chairman of ACE Limited and ACE Group Holdings in November 2013 and Chairman, Insurance – North America, in July 2011. Mr. Lupica had been Chief Operating Officer, Insurance – North America, since 2010 and President of ACE USA since 2006. He also previously served as Division President of ACE Professional Risk and ACE USA Regional Operations. Mr. Lupica joined ACE USA as Executive Vice President of Professional Risk in 2000. Prior to joining ACE, he served as Senior Vice President for Munich-American Risk Partners, Inc. He also held various management positions at AIG.

Joseph F. Wayland was appointed General Counsel and Secretary of ACE Limited in July 2013. Mr. Wayland joined ACE from the law firm of Simpson Thacher & Bartlett LLP, where he was a partner since 1994. From 2010 to 2012, he served in the United States Department of Justice, first as Deputy Assistant Attorney General of the Antitrust Division, and was later appointed as the Acting Assistant Attorney General in charge of that division.

Sean Ringsted was appointed Chief Risk Officer and Chief Actuary of ACE Limited in November 2008. Mr. Ringsted's previous roles at ACE include Chief Actuary for ACE Group from 2004 to 2008, Executive Vice President and Chief Risk Officer for ACE Tempest Re from 2002 to 2004, and Senior Vice President and Chief Actuary for ACE Tempest Re from 1998 to 2002. Prior to joining ACE, Mr. Ringsted was a consultant at Tillinghast-Towers Perrin.

Timothy A. Boroughs was appointed Chief Investment Officer of ACE Group in June 2000. Prior to joining ACE, Mr. Boroughs was Director of Fixed Income at Tudor Investment Corporation from 1997 to 2000, and Managing Partner and Director of Global Leveraged Investment Activity at Fischer Francis Trees & Watts from 1976 to 1997.

ITEM 1A. Risk Factors

Factors that could have a material impact on our results of operations or financial condition are outlined below. Additional risks not presently known to us or that we currently deem insignificant may also impair our business or results of operations as they become known facts or as facts and circumstances change. Any of the risks described below could result in a significant or material adverse effect on our results of operations or financial condition.

Insurance

Our results of operations or financial condition could be adversely affected by the occurrence of natural and man-made disasters.

We have substantial exposure to losses resulting from natural disasters, man-made catastrophes such as terrorism or cyber-attack, and other catastrophic events, including pandemics. This could impact a variety of our businesses, including our commercial and personal lines, and life and A&H products. Catastrophes can be caused by various events, including hurricanes, typhoons, earthquakes, hailstorms, drought, explosions, severe winter weather, fires, war, acts of terrorism, nuclear accidents, political instability, and other natural or man-made disasters, including a global or other wide-impact pandemic or a significant cyber-attack. The incidence and severity of catastrophes are inherently unpredictable and our losses from catastrophes could be substantial. In addition, climate conditions may be changing, primarily through changes in global temperatures, which may increase the frequency and severity of natural catastrophes and the resulting losses in the future. We cannot predict the impact that changing climate conditions, if any, may have on our results of operations or our financial condition. Additionally, we cannot predict how legal, regulatory and/or social responses to concerns around global climate change may impact our business. The occurrence of claims from catastrophic events could result in substantial volatility in our results of operations or financial condition for any fiscal quarter or year. The historical incidence for events such as earthquakes, pandemics and cyber-attacks is infrequent and may not be representative of contemporary exposures and risks. As an example, increases in the values and concentrations of insured property may increase the severity of these occurrences in the future. Although we attempt to manage our exposure to such events through the use of underwriting controls, risk models, and the purchase of third-party reinsurance, catastrophic events are inherently unpredictable and the actual nature of such events when they occur could be more frequent or severe than contemplated in our pricing and risk management expectations. As a result, the occurrence of one or more catastrophic events could have an adverse effect on our results of operations and financial condition.

If actual claims exceed our loss reserves, our financial results could be adversely affected.

Our results of operations and financial condition depend upon our ability to accurately assess the potential losses associated with the risks that we insure and reinsure. We establish reserves for unpaid losses and loss expenses, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred at or prior to the balance sheet date. The process of establishing reserves can be highly complex and is subject to considerable variability as it requires the use of informed estimates and judgments.

Actuarial staff in each of our segments analyze insurance reserves and regularly evaluate the levels of loss reserves. Any such evaluations could result in future changes in estimates of losses or reinsurance recoverables and would be reflected in our results of operations in the period in which the estimates are changed. Losses and loss expenses are charged to income as incurred. During the loss settlement period, which can be many years in duration for some of our lines of business, additional facts regarding individual claims and trends often will become known which may result in a change in overall reserves. In addition, application of statistical and actuarial methods may require the adjustment of overall reserves upward or downward from time to time.

Included in our loss reserves are liabilities for latent claims such as A&E, which are principally related to claims arising from remediation costs associated with hazardous waste sites and bodily-injury claims related to exposure to asbestos products and environmental hazards. At December 31, 2014, gross A&E liabilities represented approximately 4.4 percent of our loss reserves. The estimation of these liabilities is subject to many complex variables including: the current legal environment; specific settlements that may be used as precedents to settle future claims; assumptions regarding trends with respect to claim severity and the frequency of higher severity claims; assumptions regarding the ability to allocate liability among defendants (including bankruptcy trusts) and other insurers; the ability of a claimant to bring a claim in a state in which they have no residency or exposure; the ability of a policyholder to claim the right to non-products coverage; whether high-level excess policies have the potential to be accessed given the policyholder's claim trends and liability situation; payments to unimpaired claimants; and, the potential liability of peripheral defendants. Accordingly, the ultimate settlement of losses, arising from either latent or non-latent causes may be significantly greater or less than the loss and loss expense reserves held at the balance sheet date. In particular the amount and timing of the settlement of our P&C liabilities are not determinate and our actual payments could be higher than contemplated in our loss reserves owing to the impact of insurance, judicial and/or social inflation. If our loss reserves are inadequate, we may be required to increase loss reserves at the time of the determination and our net income and capital may be reduced.

The effects of emerging claim and coverage issues on our business are uncertain.
As industry practices and legislative, regulatory, judicial, social, financial, technology and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the frequency and severity of claims. In some instances, these changes may not become apparent until after we have issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance or reinsurance contracts may not be known for many years after issuance.

The failure of any of the loss limitation methods we use could have an adverse effect on our results of operations and financial condition.
We seek to manage our loss exposure by maintaining a disciplined underwriting process throughout our insurance operations. We also look to limit our loss exposure by writing a number of our insurance and reinsurance contracts on an excess of loss basis. Excess of loss insurance and reinsurance indemnifies the insured against losses in excess of a specified amount. In addition, we limit program size for each client and purchase third-party reinsurance for our own account. In the case of our assumed proportional reinsurance treaties, we seek per occurrence limitations or loss and loss expense ratio caps to limit the impact of losses ceded by the client. In proportional reinsurance, the reinsurer shares a proportional part of the premiums and losses of the reinsured. We also seek to limit our loss exposure by geographic diversification. Geographic zone limitations involve significant underwriting judgments, including the determination of the area of the zones and the inclusion of a particular policy within a particular zone's limits. Various provisions of our policies, such as limitations or exclusions from coverage or choice of forum negotiated to limit our risks, may not be enforceable in the manner we intend. As a result, one or more catastrophic or other events could result in claims that substantially exceed our expectations, which could have an adverse effect on our results of operations and financial condition.

We may be unable to purchase reinsurance, and if we successfully purchase reinsurance, we are subject to the possibility of non-payment.
We purchase protection from third parties including, but not limited to, reinsurance to protect against catastrophes and other sources of volatility, to increase the amount of protection we can provide our clients, and as part of our overall risk management strategy. Our reinsurance business also purchases retrocessional protection which allows a reinsurer to cede to another company all or part of the reinsurance originally assumed by the reinsurer. A reinsurer's or retrocessionaire's insolvency or inability or unwillingness to make timely payments under the terms of its reinsurance agreement with us could have an adverse effect on us because we remain liable to the insured. From time to time, market conditions have limited, and in some cases have prevented, insurers and reinsurers from obtaining the types and amounts of reinsurance or retrocessional reinsurance that they consider adequate for their business needs.

There is no guarantee our desired amounts of reinsurance or retrocessional reinsurance will be available in the marketplace in the future. In addition to capacity risk, the remaining capacity may not be on terms we deem appropriate or acceptable or with companies with whom we want to do business. Finally, we face some degree of counterparty risk whenever we purchase reinsurance or retrocessional reinsurance. Consequently, the insolvency, inability, or unwillingness of any of our present or future reinsurers to make timely payments to us under the terms of our reinsurance or retrocessional agreements could have an adverse effect on us. At December 31, 2014, we had $12.0 billion of reinsurance recoverables, net of reserves for uncollectible recoverables.

Certain active ACE companies are primarily liable for A&E and other exposures they have reinsured to our inactive run-off company Century Indemnity Company (Century). At December 31, 2014, the aggregate reinsurance balances ceded by our active subsidiaries to Century were approximately $1.1 billion. Should Century's loss reserves experience adverse development in the future and should Century be placed into rehabilitation or liquidation, the reinsurance recoverables due from Century to its affiliates would be payable only after the payment in full of certain expenses and liabilities, including administrative expenses and direct policy liabilities. Thus, the intercompany reinsurance recoverables would be at risk to the extent of the shortage of assets remaining to pay these recoverables. While we believe the intercompany reinsurance recoverables from Century are not impaired at this time, we cannot assure that adverse development with respect to Century's loss reserves, if manifested, will not result in Century's insolvency, which could result in our recognizing a loss to the extent of any uncollectible reinsurance from Century. This could have an adverse effect on our results of operations and financial condition.

Our net income may be volatile because certain products sold by our Life business expose us to reserve and fair value liability changes that are directly affected by market and other factors and assumptions.
Our pricing, establishment of reserves for future policy benefits and valuation of life insurance and annuity products, including reinsurance programs, are based upon various assumptions, including but not limited to market changes, interest rates, mortality rates, morbidity rates, and policyholder behavior. The process of establishing reserves for future policy benefits relies on our ability to accurately estimate insured events that have not yet occurred but that are expected to occur in future periods. Significant deviations in actual experience from assumptions used for pricing and for reserves for future policy benefits could have an adverse effect on the profitability of our products and our business.

Under reinsurance programs covering variable annuity guarantees, we assumed the risk of guaranteed minimum death benefits (GMDB) and guaranteed living benefits (GLB) associated with variable annuity contracts. We ceased writing this business in 2007. Our net income is directly impacted by changes in the reserves calculated in connection with the reinsurance of GMDB and GLB liabilities. In addition, our net income is directly impacted by the change in the fair value of the GLB liability. Reported liabilities for both GMDB and GLB reinsurance are determined using internal valuation models which require considerable judgment and are subject to significant uncertainty. Refer to the "Critical Accounting Estimates – Guaranteed living benefits (GLB) derivatives", under Item 7 and "Quantitative and Qualitative Disclosures about Market Risk – Reinsurance of GMDB and GLB guarantees", under Item 7A for additional information on the assumptions used in this program. We view our variable annuity reinsurance business as having a similar risk profile to that of catastrophe reinsurance, with the probability of long-term economic loss relatively small at the time of pricing. Adverse changes in market factors and policyholder behavior will have an impact on both life underwriting income and net income.

Our exposure to counterparties in various industries, our reliance on brokers, and certain of our policies may subject us to credit risk.
We have exposure to counterparties through reinsurance and in various industries, including banks, hedge funds and other investment vehicles, and derivative transactions that expose us to credit risk in the event our counterparty fails to perform its obligations. We also have exposure to financial institutions in the form of secured and unsecured debt instruments and equity securities.

In accordance with industry practice, we generally pay amounts owed on claims to brokers who, in turn, remit these amounts to the insured or ceding insurer. Although the law is unsettled and depends upon the facts and circumstances of the particular case, in some jurisdictions, if a broker fails to make such a payment, we might remain liable to the insured or ceding insurer for the deficiency. Conversely, in certain jurisdictions, if the brokers do not remit premiums paid for these policies over to us, these premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums from the broker. Consequently, we assume a degree of credit risk associated with brokers with whom we transact business. However, due to the unsettled and fact-specific nature of the law, we are unable to quantify our exposure to this risk. To date, we have not experienced any material losses related to these credit risks.

Under the terms of certain high-deductible policies which we offer, such as workers' compensation and general liability, our customers are responsible to reimburse us for an agreed-upon dollar amount per claim. In nearly all cases we are required under such policies to pay covered claims first, and then seek reimbursement for amounts within the applicable deductible from our customers. This obligation subjects us to credit risk from these customers. While we generally seek to mitigate this risk through collateral agreements and maintain a provision for uncollectible accounts associated with this credit exposure, an increased inability of customers to reimburse us in this context could have an adverse effect on our financial condition and results of operations. In addition, a lack of credit available to our customers could impact our ability to collateralize this risk to our satisfaction, which in turn, could reduce the amount of high-deductible policies we could offer.

Since we depend on a few brokers for a large portion of our revenues, loss of business provided by any one of them could adversely affect us.
We market our insurance and reinsurance worldwide primarily through insurance and reinsurance brokers. Marsh, Inc. and its affiliates provided approximately 10 percent of our gross premiums written in 2014. Loss of all or a substantial portion of the business provided by one or more of these brokers could have an adverse effect on our business.

Financial

Our investment performance may affect our financial results and ability to conduct business.
Our investment assets are invested by professional investment management firms under the direction of our management team in accordance with investment guidelines approved by the Risk & Finance Committee of the Board of Directors. Although our

investment guidelines stress diversification of risks and conservation of principal and liquidity, our investments are subject to market risks and risks inherent in individual securities. Interest rates are highly sensitive to many factors, including inflation, monetary and fiscal policies, and domestic and international political conditions. The volatility of our losses may force us to liquidate securities, which may cause us to incur capital losses. Realized and unrealized losses in our investment portfolio would generally reduce our book value, and if significant, can affect our ability to conduct business.

Volatility in interest rates could impact the performance of our investment portfolio which could have an adverse effect on our investment income and operating results. Although we take measures to manage the risks of investing in a changing interest rate environment, we may not be able to effectively mitigate interest rate sensitivity. Our mitigation efforts include maintaining a high quality portfolio of primarily fixed income investments with a relatively short duration to reduce the effect of interest rate changes on book value. A significant increase in interest rates would generally have an adverse effect on our book value. Our life insurance investments typically focus on longer duration bonds to better match the obligations of this business. For the life business, policyholder behavior may be influenced by changing interest rate conditions and require a rebalancing of duration to effectively manage our asset/liability position.

Our fixed income portfolio is primarily invested in high quality, investment-grade securities. A smaller portion of the portfolio, approximately 14 percent at December 31, 2014, is invested in below investment-grade securities. These securities, which pay a higher rate of interest, also have a higher degree of credit or default risk and may also be less liquid in times of economic weakness or market disruptions. While we have put in place procedures to monitor the credit risk and liquidity of our invested assets, it is possible that, in periods of economic weakness (such as recession), we may experience credit or default losses in our portfolio, which could adversely affect our results of operations and financial condition.

As a part of our ongoing analysis of our investment portfolio, we are required to assess whether the debt and equity securities we hold for which we have recorded an unrealized loss have been “other-than-temporarily impaired” under GAAP, which implies an inability to recover the full economic benefits of these securities. Refer to Note 3 to the Consolidated Financial Statements for additional information. This analysis requires a high degree of judgment and requires us to make certain assessments about the potential for recovery of the assets we hold. Declines in relevant stock and other financial markets, and other factors impacting the value of our investments, could result in impairments and could adversely affect our net income and other financial results.

We may require additional capital or financing sources in the future, which may not be available or may be available only on unfavorable terms.
Our future capital and financing requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses, as well as our investment performance. We may need to raise additional funds through financings or access funds through existing or new credit facilities or through short-term repurchase agreements. We also from time to time seek to refinance debt or credit as amounts become due or commitments expire. Any equity or debt financing or refinancing, if available at all, may be on terms that are not favorable to us. In the case of equity financings, dilution to our shareholders could result, and in any case, such securities may have rights, preferences, and privileges that are senior to those of our Common Shares. Our access to funds under existing credit facilities is dependent on the ability of the banks that are parties to the facilities to meet their funding commitments. If we cannot obtain adequate capital or sources of credit on favorable terms, or at all, we could be forced to use assets otherwise available for our business operations, and our business, results of operations, and financial condition could be adversely affected.

We may be required to post additional collateral because of changes in our reinsurance liabilities to regulated insurance companies, or because of regulatory changes that affect our companies.
If our reinsurance liabilities increase, we may be required to post additional collateral for insurance company clients. In addition, regulatory changes sometimes affect our obligations to post collateral. The need to post this additional collateral, if significant enough, may require us to sell investments at a loss in order to provide securities of suitable credit quality or otherwise secure adequate capital at an unattractive cost. This could adversely impact our net income and liquidity and capital resources.

U.S. and global economic and financial industry events and their consequences could harm our business, our liquidity and financial condition, and our stock price.
The consequences of adverse global or regional market and economic conditions may affect (among other aspects of our business) the demand for and claims made under our products, the ability of customers, counterparties, and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources, the

availability of reinsurance protection, the risks we assume under reinsurance programs covering variable annuity guarantees, and our investment performance. Volatility in the U.S. and other securities markets may adversely affect our stock price.

A decline in our financial strength ratings could affect our standing among brokers and customers and cause our premiums and earnings to decrease. A decline in our debt ratings could increase our borrowing costs and impact our ability to access capital markets.
Ratings are an important factor in establishing the competitive position of insurance and reinsurance companies. The objective of these rating systems is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to its policyholders. A ratings downgrade could result in a substantial loss of business as insureds, ceding companies, and brokers move to other insurers and reinsurers with higher ratings. If one or more of our debt ratings were downgraded, we could also incur higher borrowing costs, and our ability to access the capital markets could be impacted. Additionally, we could be required to post collateral or be faced with the cancellation of policies and resulting premium in certain circumstances. We cannot give any assurance regarding whether or to what extent any of the rating agencies may downgrade our ratings in the future.

Our ability to pay dividends and to make payments on indebtedness may be constrained by our holding company structure.
ACE Limited is a holding company and does not have any significant operations or assets other than its ownership of the shares of its operating insurance and reinsurance subsidiaries. Dividends and other permitted distributions from our insurance subsidiaries are our primary source of funds to meet ongoing cash requirements, including any future debt service payments and other expenses, and to pay dividends to our shareholders. Some of our insurance subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. The inability of our insurance subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could have an adverse effect on our operations and our ability to pay dividends to our shareholders and/or meet our debt service obligations.

Our operating results and shareholders' equity may be adversely affected by currency fluctuations.
Our reporting currency is the U.S. dollar. In general, we match assets and liabilities in local currencies. Where possible, capital levels in local currencies are limited to satisfy minimum regulatory requirements and to support local insurance operations. The principal currencies creating foreign exchange risk are the British pound sterling, the Brazilian real, the Mexican peso, the euro, the Canadian dollar, the Korean won, the Australian dollar, and the yen. At December 31, 2014, approximately 25.3 percent of our net assets were denominated in foreign currencies. We may experience losses resulting from fluctuations in the values of non-U.S. currencies, which could adversely impact our results of operations and financial condition.

Operational

The regulatory and political regimes under which we operate, and their volatility, could have an adverse effect on our business.
Our insurance and reinsurance subsidiaries conduct business globally. Our businesses in each jurisdiction are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which our insurance and reinsurance subsidiaries are domiciled require, among other things, maintenance of minimum levels of statutory capital, surplus, and liquidity; various solvency standards; and periodic examinations of subsidiaries' financial condition. In some jurisdictions, laws and regulations also restrict payments of dividends and reductions of capital. Applicable statutes, regulations, and policies may also restrict the ability of these subsidiaries to write insurance and reinsurance policies, to make certain investments, and to distribute funds. The purpose of insurance laws and regulations generally is to protect policyholders and ceding insurance companies, not our shareholders. For example, some jurisdictions have enacted various consumer protection laws that make it more burdensome for insurance companies to sell policies and interact with customers in personal lines businesses. Failure to comply with such regulations can lead to significant penalties and reputational injury. Fines and penalties in the U.S. in particular have been trending upwards.

The foreign and U.S. federal and state laws and regulations that are applicable to our operations are complex and may increase the costs of regulatory compliance or subject our business to the possibility of regulatory actions or proceedings. Laws and regulations not specifically related to the insurance industry include trade sanctions that relate to certain countries, anti-money laundering laws, and anti-corruption laws such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act 2010, the anti-bribery provisions of the Swiss Penal Code and similar local laws prohibiting corrupt payments to governmental officials. The insurance industry is also affected by political, judicial, and legal developments that may create new and expanded regulations and theories of liability. The current economic climate and the recent financial crisis present additional uncertainties and risks relating to increased regulation and the potential for increased involvement of the U.S. and other governments in the financial services industry.

In addition, various legislative initiatives may impact the conduct of our business. For example, in the U.S., Congress may make changes to the terrorism risk insurance program, which could have adverse effects on our business.

Regulators in countries where we have operations are working with the International Association of Insurance Supervisors (IAIS) to consider changes to insurance company supervision, including with respect to group supervision and solvency requirements. The IAIS is developing a common framework to supervise internationally active insurance groups, such as ACE, known as Com Frame. As part of Com Frame, the IAIS has announced plans to develop an international capital standard for insurance groups. The details of Com Frame including this global capital standard and its applicability to ACE are uncertain at this time. In addition, the European Union (EU) is implementing a new capital and risk management regime known as Solvency II that would apply to our businesses across the EU, effective January 1, 2016. ACE businesses are also subject to the requirements of the Swiss Financial Market Supervisory Authority (FINMA) whose regulations include Swiss Solvency Tests. There are also Risk Based Capital Requirements in the U.S. which are also subject to revision in response to global developments. While it is not certain how or if these actions will impact ACE, we do not currently expect that our capital management strategies, results of operations and financial condition will be materially affected by these regulatory changes.

In the event or absence of changes in applicable laws and regulations in particular jurisdictions, we may from time to time face challenges, or changes in approach to oversight of our business from insurance or other regulators, including challenges resulting from requiring the use of information technology that cannot be quickly adjusted to address new regulatory requirements.

We may not be able to comply fully with, or obtain appropriate exemptions from, applicable statutes and regulations and any changes thereto, which could have an adverse effect on our business. Failure to comply with or to obtain appropriate authorizations and/or exemptions under any applicable laws and regulations could result in restrictions on our ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which we conduct business and could subject us to fines and other sanctions.

Our worldwide operations, particularly in developing nations expose us to global geopolitical developments that could have an adverse effect on our business, liquidity, results of operations, and financial condition.
With operations in 54 countries, we provide insurance and reinsurance products and services to a diverse group of clients worldwide, including operations in various developing nations. Both current and future foreign operations could be adversely affected by unfavorable geopolitical developments including law changes, tax changes, regulatory restrictions, government leadership changes, political events and upheaval, sociopolitical instability, and nationalization of our operations without compensation. Adverse activity in any one country could negatively impact operations, increase our loss exposure under certain of our insurance products, and could, otherwise, have an adverse effect on our business, liquidity, results of operations, and financial condition depending on the magnitude of the events and our net financial exposure at that time in that country.

A failure in our operational systems or infrastructure or those of third parties, including due to security breaches or cyber-attacks, could disrupt business, damage our reputation, and cause losses.
Our operations rely on the secure processing, storage, and transmission of confidential and other information and assets, including in our computer systems and networks. Our business depends on effective information security and systems and the integrity and timeliness of the data our information systems use to run our business. Our ability to adequately price products and services, to establish reserves, to provide effective, efficient and secure service to our customers, to value our investments and to timely and accurately report our financial results also depends significantly on the integrity and availability of the data we maintain, including that within our information systems, as well as data in and assets held through third-party service providers and systems. In an effort to ensure the integrity of such data, we implement new security measures and systems and improve or upgrade our existing security measures and systems on a continuing basis. Although we have implemented administrative and technical controls and take protective actions to reduce the risk of cyber incidents and to protect our information technology and assets, and we endeavor to modify such procedures as circumstances warrant and negotiate agreements with third-party providers to protect our assets, such measures may be insufficient to prevent unauthorized access, computer viruses, malware or other malicious code or cyber-attack, catastrophic events, system failures and disruptions (including in relation to new security measures and systems), employee errors or malfeasance, third party (including outsourced service providers) errors or malfeasance, loss of assets and other events that could have security consequences (each, a Security Event). As the breadth and complexity of our security infrastructure continues to grow, the potential risk of a Security Event increases. Like other global companies, we have from time to time experienced Security Events, none of which had a material adverse impact on our business, results of operations, and financial condition. If additional Security Events occur, these events may jeopardize ACE's or its clients' or counterparties' confidential and other information processed and stored within ACE, and transmitted through its computer systems and networks, or otherwise cause interruptions, delays, or malfunctions in ACE's, its clients', its counterparties', or third parties' operations, or result in data loss or loss of assets which could result in significant losses,

reputational damage or a material adverse effect on our operations and critical business functions. ACE may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures and to pursue recovery of lost data or assets and we may be subject to litigation and financial losses that are either not insured against or not fully covered by insurance maintained.

The regulatory environment surrounding information security and privacy is increasingly demanding. We are subject to numerous U.S. federal and state laws and foreign regulations governing the protection of personal and confidential information of our clients or employees, including in relation to medical records, credit card data and financial information. These laws and regulations are increasing in complexity and number, change frequently and sometimes conflict. If any person, including any of our employees or those with whom we share such information, negligently disregards or intentionally breaches our established controls with respect to our client data, or otherwise mismanages or misappropriates that data, we could be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution in one or more jurisdictions.

Despite the contingency plans and facilities we have in place and our efforts to observe the regulatory requirements surrounding information security, our ability to conduct business may be adversely affected by a disruption of the infrastructure that supports our business in the communities in which we are located, or of outsourced services or functions. This may include a disruption involving electrical, communications, transportation, or other services used by ACE. If a disruption occurs in one location and ACE employees in that location are unable to occupy our offices and conduct business or communicate with or travel to other locations, our ability to service and interact with clients may suffer and we may not be able to successfully implement contingency plans that depend on communication or travel.

We use analytical models to assist our decision making in key areas such as underwriting, claims, reserving, and catastrophe risks but actual results could differ materially from the model outputs and related analyses.
We use various modeling techniques (e.g., scenarios, predictive, stochastic and/or forecasting) and data analytics to analyze and estimate exposures, loss trends and other risks associated with our assets and liabilities. We use the modeled outputs and related analyses to assist us in decision-making (e.g., underwriting, pricing, claims, reserving, reinsurance, and catastrophe risk) and to maintain competitive advantage. The modeled outputs and related analyses are subject to various assumptions, uncertainties, model errors and the inherent limitations of any statistical analysis, including the use of historical internal and industry data. In addition, the modeled outputs and related analyses may from time to time contain inaccuracies, perhaps in material respects, including as a result of inaccurate inputs or applications thereof. Consequently, actual results may differ materially from our modeled results. If, based upon these models or other factors, we misprice our products or underestimate the frequency and/or severity of loss events, or overestimate the risks we are exposed to, new business growth and retention of our existing business may be adversely affected which could have a material adverse effect on our results of operations and financial condition.

We could be adversely affected by the loss of one or more key executives or by an inability to attract and retain qualified personnel.
Our success depends on our ability to retain the services of our existing key executives and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key executives or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct or grow our business. This risk may be particularly acute for us relative to some of our competitors because some of our senior executives work in countries where they are not citizens and work permit and immigration issues could adversely affect the ability to retain or hire key persons. We do not maintain key person life insurance policies with respect to our employees.

Employee error and misconduct may be difficult to detect and prevent and could adversely affect our business, results of operations, and financial condition.
Losses may result from, among other things, fraud, errors, failure to document transactions properly, failure to obtain proper internal authorization, failure to comply with underwriting or other internal guidelines, or failure to comply with regulatory requirements. It is not always possible to deter or prevent employee misconduct and the precautions that we take to prevent and detect this activity may not be effective in all cases. Resultant losses could adversely affect our business, results of operations, and financial condition.

Strategic

Competition in the insurance and reinsurance markets could reduce our margins.
Insurance and reinsurance markets are highly competitive. We compete on an international and regional basis with major U.S., Bermuda, European, and other international insurers and reinsurers and with underwriting syndicates, some of which have greater financial, marketing, and management resources than we do. We also compete with new companies that continue to be

formed to enter the insurance and reinsurance markets. In addition, capital market participants have created alternative products that are intended to compete with reinsurance products. Increased competition could result in fewer submissions, lower premium rates, and less favorable policy terms and conditions, which could reduce our profit margins and adversely impact our net income and book value.

Insurance and reinsurance markets are historically cyclical, and we expect to experience periods with excess underwriting capacity and unfavorable premium rates.
The insurance and reinsurance markets have historically been cyclical, characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. An increase in premium levels is often offset by an increasing supply of insurance and reinsurance capacity, either by capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers, which may cause prices to decrease. Any of these factors could lead to a significant reduction in premium rates, less favorable policy terms, and fewer submissions for our underwriting services. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance and reinsurance markets significantly, as could periods of economic weakness (such as recession).

The integration of acquired companies may not be as successful as we anticipate.
Acquisitions involve numerous operational, strategic, financial, accounting, legal, tax and other risks; potential liabilities associated with the acquired businesses; and uncertainties related to design, operation and integration of acquired businesses' internal controls over financial reporting. Difficulties in integrating an acquired company may result in the acquired company performing differently than we expected, in operational challenges or in our failure to realize anticipated expense-related efficiencies. Our existing businesses could also be negatively impacted by acquisitions. In addition, goodwill and intangible assets recorded in connection with insurance company acquisitions may be impaired if premium growth, underwriting profitability, agency retention and policy persistency, among other factors, differ from expectations.

There is also the potential that proposed acquisitions that have been publicly announced will not be consummated, even if a definitive agreement has been signed by the parties. If an agreement is terminated before closing, the result would be that our proposed acquisition would not occur, which could, among other things, expose us to damages or liability and adversely impact our stock price and future operations.

We may be subject to U.S. tax and Bermuda tax which may have an adverse effect on our results of operations and shareholder investment.
ACE Limited and our non-U.S. subsidiaries operate in a manner so that none of these companies should be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income), because none of these companies should be treated as engaged in a trade or business within the U.S. However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the U.S., we cannot be certain that the Internal Revenue Service (IRS) will not contend successfully that ACE Limited or its non-U.S. subsidiaries are engaged in a trade or business in the U.S. If ACE Limited or any of its non-U.S. subsidiaries were considered to be engaged in a trade or business in the U.S., such entity could be subject to U.S. corporate income and branch profits taxes on the portion of its earnings effectively connected to such U.S. business, in which case our results of operations and our shareholders' investments could be adversely affected.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, has given ACE Limited and its Bermuda insurance subsidiaries a written assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain, or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax would not be applicable to those companies or any of their respective operations, shares, debentures, or other obligations until March 31, 2035, except insofar as such tax would apply to persons ordinarily resident in Bermuda or is payable by us in respect of real property owned or leased by us in Bermuda. We cannot be certain that we will not be subject to any Bermuda tax after March 31, 2035.

The Organization for Economic Cooperation and Development (OECD) and the European Union (EU) are considering measures that might encourage countries to increase our taxes.
The OECD has published an action plan to address base erosion and profit shifting (BEPS) impacting its member countries and other jurisdictions. It is possible that jurisdictions in which we do business could react to the BEPS initiative or their own concerns by enacting tax legislation that could adversely affect us or our shareholders.

A number of multilateral organizations, including the EU and the OECD have, in recent years, expressed concern about some countries not participating in adequate tax information exchange arrangements and have threatened those that do not agree to cooperate with punitive sanctions by member countries. It is as yet unclear what all of these sanctions might be, which countries might adopt them, and when or if they might be imposed. We cannot assure, however, that the Tax Information Exchange Agreements (TIEAs) that have been or will be entered into by Switzerland and Bermuda will be sufficient to preclude all of the sanctions described above, which, if ultimately adopted, could adversely affect us or our shareholders.

Shareholders

There are provisions in our charter documents that may reduce the voting rights and diminish the value of our Common Shares.
Our Articles of Association generally provide that shareholders have one vote for each Common Share held by them and are entitled to vote at all meetings of shareholders. However, the voting rights exercisable by a shareholder may be limited so that certain persons or groups are not deemed to hold 10 percent or more of the voting power conferred by our Common Shares. Moreover, these provisions could have the effect of reducing the voting power of some shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership. Our Board of Directors may refuse to register holders of shares as shareholders with voting rights based on certain grounds, including if the holder would, directly or indirectly, formally, constructively or beneficially own (as described in Articles 8 and 14 of our Articles of Association) or otherwise control voting rights with respect to 10 percent or more of the registered share capital recorded in the commercial register. In addition, the Board of Directors shall reject entry of holders of registered shares as shareholders with voting rights in the share register or shall decide on their deregistration when the acquirer or shareholder upon request does not expressly state that she/he has acquired or holds the shares in her/his own name and for her/his account.

Applicable laws may make it difficult to effect a change of control of our company.
Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the domestic insurer is domiciled. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider such factors as the financial strength of the applicant, the integrity and management of the applicant's Board of Directors and executive officers, the acquirer's plans for the future operations of the domestic insurer, and any anti-competitive results that may arise from the consummation of the acquisition of control. Generally, state statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10 percent or more of the voting securities of the domestic insurer. Because a person acquiring 10 percent or more of our Common Shares would indirectly control the same percentage of the stock of our U.S. insurance subsidiaries, the insurance change of control laws of various U.S. jurisdictions would likely apply to such a transaction. Laws of other jurisdictions in which one or more of our existing subsidiaries are, or a future subsidiary may be, organized or domiciled may contain similar restrictions on the acquisition of control of ACE.

While our Articles of Association limit the voting power of any shareholder to less than 10 percent, we cannot assure that the applicable regulatory body would agree that a shareholder who owned 10 percent or more of our Common Shares did not, because of the limitation on the voting power of such shares, control the applicable insurance subsidiary.

These laws may discourage potential acquisition proposals and may delay, deter, or prevent a change of control of ACE, including transactions that some or all of our shareholders might consider to be desirable.

Shareholder voting requirements under Swiss law may limit ACE's flexibility with respect to certain aspects of capital management.
Swiss law allows our shareholders to authorize share capital which can be issued by the Board of Directors without shareholder approval but this authorization must be renewed by the shareholders every two years. Swiss law also does not provide as much flexibility in the various terms that can attach to different classes of stock as permitted in other jurisdictions. Swiss law also reserves for approval by shareholders many corporate actions over which the Board of Directors had authority prior to our redomestication to Switzerland. For example, dividends must be approved by shareholders. While we do not believe that Swiss law requirements relating to our capital management will have an adverse effect on ACE, we cannot assure that situations will not arise where such flexibility would have provided substantial benefits to our shareholders.

ACE Limited is a Swiss company; it may be difficult to enforce judgments against it or its directors and executive officers.
ACE Limited is incorporated pursuant to the laws of Switzerland. In addition, certain of our directors and officers reside outside the U.S. and all or a substantial portion of our assets and the assets of such persons are located in jurisdictions outside the U.S. As such, it may be difficult or impossible to effect service of process within the U.S. upon those persons or to recover against us or them on judgments of U.S. courts, including judgments predicated upon civil liability provisions of the U.S. federal securities laws.

ACE has been advised by its Swiss counsel that there is doubt as to whether the courts in Switzerland would enforce:

- judgments of U.S. courts based upon the civil liability provisions of the U.S. federal securities laws obtained in actions against it or its directors and officers, who reside outside the U.S.; or
- original actions brought in Switzerland against these persons or ACE predicated solely upon U.S. federal securities laws.

ACE has also been advised by its Swiss counsel that there is no treaty in effect between the U.S. and Switzerland providing for this enforcement and there are grounds upon which Swiss courts may not enforce judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, would not be allowed in Swiss courts as contrary to that nation's public policy.

As a result of the increase in par value of our shares that occurred in connection with our redomestication from the Cayman Islands to Switzerland in July 2008, we have less flexibility with respect to certain aspects of capital management than previously.
As of December 31, 2014, the par value of our Common Shares is CHF 24.77 per share. Under Swiss law, we generally may not issue registered shares below their par value. In the event there is a need to raise common equity capital at a time when the trading price of our registered shares is below our par value, we will need to obtain approval of our shareholders to decrease the par value of our registered shares. We cannot assure that we would be able to obtain such shareholder approval. Furthermore, obtaining shareholder approval would require filing a preliminary proxy statement with the SEC and convening a meeting of shareholders which would delay any capital raising plans. Furthermore, any reduction in par value would decrease our ability to pay dividends as a repayment of share capital which is not subject to Swiss withholding tax. See “Shareholders may be subject to Swiss withholding taxes on the payment of dividends” for additional information.

Shareholders may be subject to Swiss withholding taxes on the payment of dividends.
Our dividends are generally subject to a Swiss withholding tax at a rate of 35 percent; however, payment of a dividend in the form of a par value reduction or qualifying capital contribution reserves reduction is not subject to Swiss withholding tax. We have previously obtained shareholder approval for dividends to be paid in such form. We currently intend to recommend to shareholders that they annually approve the payment of dividends in such form but we cannot assure that our shareholders will continue to approve a reduction in such form each year or that we will be able to meet the other legal requirements for a reduction in par value, or that Swiss withholding tax rules will not be changed in the future. We estimate we would be able to pay dividends in such form, and thus exempt from Swiss withholding tax until 2023–2028. This range may vary depending upon changes in annual dividends, special dividends, fluctuations in U.S. dollar/Swiss franc exchange rates, changes in par value or qualifying capital contribution reserves or changes or new interpretations to Swiss corporate or tax law or regulations.

Under certain circumstances, U. S. shareholders may be subject to adverse U.S. federal income tax consequences.
Under certain circumstances, a U.S. person who owns 10 percent or more of the voting power of a foreign corporation that is a “controlled foreign corporation” (CFC) (a foreign corporation in which 10 percent U.S. shareholders own more than 50 percent of the voting power or value of the stock of a foreign corporation or more than 25 percent of certain foreign insurance corporations) for an uninterrupted period of 30 days or more during a taxable year must include in gross income for U.S. federal income tax purposes such "10 percent U.S. Shareholder's" pro rata share of the CFC's "subpart F income". We believe that because of the dispersion of our share ownership, provisions in our organizational documents that limit voting power, and other factors, no U.S. person or U.S. partnership who acquires shares of ACE Limited directly or indirectly through one or more foreign entities should be required to include our subpart F income in income under the CFC rules of U.S. tax law. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge, in which case the investment could be adversely affected if 10 percent or more of ACE Limited's stock is owned.

Separately, any U.S. persons who hold shares may be subject to U.S. federal income taxation at ordinary income tax rates on their proportionate share of our Related Person Insurance Income (RPII). If the RPII of any of our non-U.S. insurance subsidiaries (each a "Non-U.S. Insurance Subsidiary") were to equal or exceed 20 percent of that company's gross insurance income in any taxable year and direct or indirect insureds (and persons related to those insureds) own directly or indirectly through foreign entities 20 percent or more of the voting power or value of ACE Limited, then a U.S. person who owns any shares of ACE Limited (directly or indirectly through foreign entities) on the last day of the taxable year would be required to include in his or her income for U.S. federal income tax purposes such person's pro rata share of such company's RPII for the entire taxable year. In addition, any RPII that is includible in the income of a U.S. tax-exempt organization may be treated as unrelated business taxable income. We believe that the gross RPII of each Non-U.S. Insurance Subsidiary did not in prior years of operation and is not expected in the foreseeable future to equal or exceed 20 percent of each such company's gross insurance income. Likewise, we do not expect the direct or indirect insureds of each Non-U.S. Insurance Subsidiary (and persons related to such insureds) to directly or indirectly own 20 percent or more of either the voting power or value of our shares. However, we cannot be certain that this will be the case because some of the factors which determine the extent of RPII may be beyond our control. If these thresholds are met or exceeded, any U.S. person's investment in ACE Limited could be adversely affected.

A U.S. tax-exempt organization may recognize unrelated business taxable income if a portion of our insurance income is allocated to the organization. This generally would be the case if either we are a CFC and the tax-exempt shareholder is a 10 percent U.S. shareholder or there is RPII, certain exceptions do not apply, and the tax-exempt organization, directly or indirectly through foreign entities, owns any shares of ACE Limited. Although we do not believe that any U.S. tax-exempt organization should be allocated such insurance income, we cannot be certain that this will be the case. Potential U.S. tax-exempt investors are advised to consult their tax advisors.

U.S. persons who hold shares will be subject to adverse tax consequences if we are considered to be a Passive Foreign Investment Company (PFIC) for U.S. federal income tax purposes.
If ACE Limited is considered a PFIC for U.S. federal income tax purposes, a U.S. person who holds ACE Limited shares will be subject to adverse U.S. federal income tax consequences in which case their investment could be adversely affected. In addition, if ACE Limited were considered a PFIC, upon the death of any U.S. individual owning shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of the shares which might otherwise be available under U.S. federal income tax laws. We believe that we are not, have not been, and currently do not expect to become, a PFIC for U.S. federal income tax purposes. We cannot assure, however, that we will not be deemed a PFIC by the IRS. While there are currently no regulations regarding the application of the PFIC provisions to an insurance company, new regulations or pronouncements interpreting or clarifying these rules may be forthcoming. We cannot predict what impact, if any, such guidance would have on an investor that is subject to U.S. federal income taxation.

Changes in tax law could adversely affect an investment in our shares.
Legislation is periodically introduced in the U.S. Congress intended to eliminate some perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the U.S. but have certain U.S. connections. It is possible that such legislation or other legislation could be enacted in the future that could have an adverse impact on us or our shareholders.

Similarly, jurisdictions outside the U.S. in which we do business could enact tax legislation in the future that could have an adverse impact on us or our shareholders. For example, Switzerland is currently considering corporate tax reform measures that could adversely affect us or our shareholders.

ITEM 1B. Unresolved Staff Comments
There are currently no unresolved SEC staff comments regarding our periodic or current reports.

ITEM 2. Properties
We maintain office facilities around the world including in North America, Europe (including our principal executive offices in Switzerland), Bermuda, Latin America, Asia Pacific, and the Far East. Most of our office facilities are leased, although we own major facilities in Hamilton, Bermuda, and in the U.S., including in Philadelphia, Pennsylvania and Wilmington, Delaware. Management considers its office facilities suitable and adequate for the current level of operations.

ITEM 3. Legal Proceedings
The information required with respect to Item 3 is included in Note 10 e) to the Consolidated Financial Statements, which is hereby incorporated herein by reference.

ITEM 4. Mine Safety Disclosures
Item not applicable.

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities

Our Common Shares, with a current par value of CHF 24.77 per share, have been listed on the New York Stock Exchange since March 25, 1993 under the trading symbol "ACE".

Quarterly Stock Information
The following table sets forth the high and low closing sales prices of our Common Shares per fiscal quarter, as reported on the New York Stock Exchange Composite Tape, and cash dividends on Common Shares:

	2014				2013			
			Dividends				Dividends	
Quarter Ending	**High**	**Low**	**USD**	**CHF**	High	Low	USD	CHF
March 31	**$101.70**	**$ 92.19**	**$ 0.75** (1)	**0.65**	$ 89.06	$ 79.99	$ 0.49	0.46
June 30	**$105.32**	**$ 97.61**	**$ 0.65**	**0.58**	$ 92.67	$ 85.79	$ 0.51	0.48
September 30	**$107.39**	**$ 99.95**	**$ 0.65**	**0.61**	$ 95.58	$ 87.72	$ 0.51	0.46
December 31	**$117.58**	**$102.92**	**$ 0.65**	**0.63**	$103.53	$ 91.01	$ 0.51	0.45

(1) On January 10, 2014, our shareholders approved an increase to our dividend from $0.51 per share to $0.63 per share for the final two quarterly installments that had been earlier approved at our 2013 annual general meeting. Due to the timing of the approval, the $0.12 per share increase related to the quarter ended December 31, 2013 installment is included in the quarter ended March 31, 2014 dividend amount. Refer to Note 11 to the Consolidated Financial Statements for additional information.

We have paid dividends each quarter since we became a public company in 1993. Following ACE's redomestication to Switzerland our dividends have been distributed primarily by way of a par value reduction. The dividend increase approved by our shareholders on January 10, 2014 was distributed from capital contribution reserves (Additional paid-in capital) through the transfer of dividends from Additional paid-in capital to Retained earnings.

ACE Limited is a holding company whose principal sources of income are investment income and dividends from its operating subsidiaries. The ability of the operating subsidiaries to pay dividends to us and our ability to pay dividends to our shareholders are each subject to legal and regulatory restrictions. The recommendation and payment of future dividends will be based on the determination of the Board of Directors (Board) and will be dependent upon shareholder approval, profits and financial requirements of ACE and other factors, including legal restrictions on the payment of dividends and such other factors as the Board deems relevant. Refer to Part I, Item 1A and Part II, Item 7 for additional information.

The last reported sale price of the Common Shares on the New York Stock Exchange Composite Tape on February 13, 2015 was $113.05.

The number of record holders of Common Shares as of February 13, 2015 was 4,419. This is not the actual number of beneficial owners of ACE's Common Shares since most of our shareholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name.

Refer to Part III, Item 12 for information relating to compensation plans under which equity securities are authorized for issuance.

Issuer's Repurchases of Equity Securities

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan[2]	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan[3]
October 1 through October 31, 2014	888,057	$ 106.20	884,965	$ 830 million
November 1 through November 30, 2014	1,263,924	$ 111.66	1,260,000	$ 689 million
December 1 through December 31, 2014	1,701,307	$ 115.12	1,694,209	— [4]
Total	3,853,288		3,839,174	

(1) This column primarily represents open market share repurchases. Other activity during the three months ended December 31, 2014 is related to the surrender to ACE of Common Shares to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees and the exercising of options by employees.

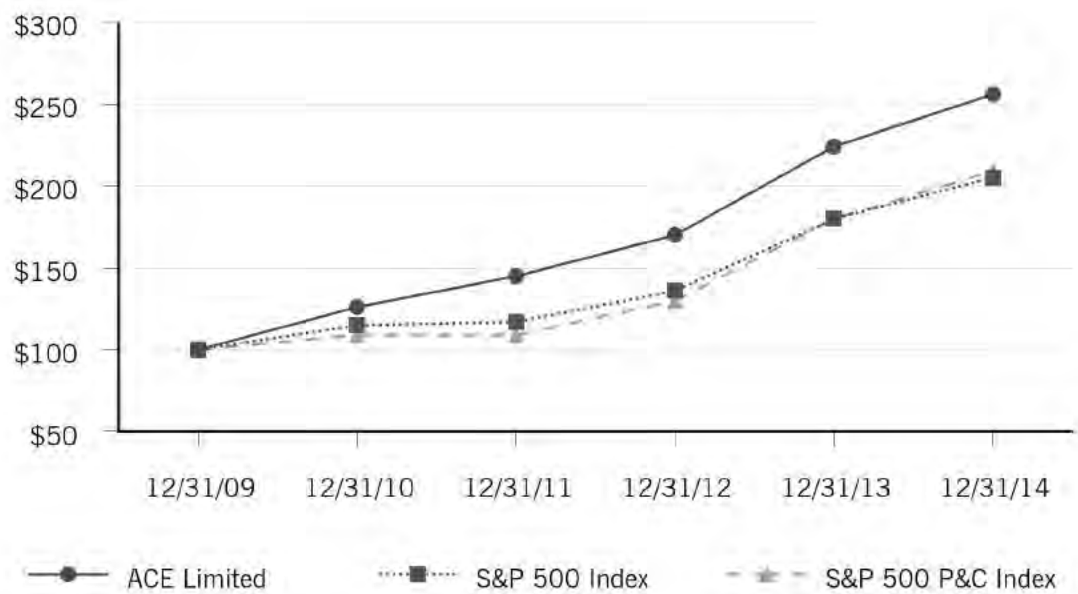
(2) The aggregate value of shares purchased in the three months ended December 31, 2014 as part of the publicly announced plan was $430 million.

(3) In November 2013, our Board authorized the repurchase of up to $2 billion of ACE's Common Shares through December 31, 2014.

(4) In November 2014, our Board authorized the repurchase of $1.5 billion of ACE's Common Shares for the period January 1, 2015 through December 31, 2015, to replace the November 2013 authorization when it expired on December 31, 2014. For the period January 1, 2015 through February 26, 2015, we repurchased 1,877,463 Common Shares for a total of $211 million in a series of open market transactions. At February 26, 2015, $1.3 billion in share repurchase authorization remained through December 31, 2015.

Performance Graph

Set forth below is a line graph comparing the dollar change in the cumulative total shareholder return on ACE's Common Shares from December 31, 2009, through December 31, 2014, as compared to the cumulative total return of the Standard & Poor's 500 Stock Index and the cumulative total return of the Standard & Poor's Property-Casualty Insurance Index. The cumulative total shareholder return is a concept used to compare the performance of a company's stock over time and is the ratio of the stock price change plus the cumulative amount of dividends over the specified time period (assuming dividend reinvestment), to the stock price at the beginning of the time period. The chart depicts the value on December 31, 2010, 2011, 2012, 2013, and 2014, of a $100 investment made on December 31, 2009, with all dividends reinvested.



	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
ACE Limited	$100	$126	$145	$170	$224	$256
S&P 500 Index	$100	$115	$117	$136	$180	$205
S&P 500 P&C Index	$100	$109	$109	$130	$180	$209

ITEM 6. Selected Financial Data

(in millions, except per share data and percentages)	2014	2013	2012	2011	2010
Operations data:					
Net premiums earned – excluding Life segment	**$ 15,464**	$ 14,708	$ 13,761	$ 13,528	$ 11,875
Net premiums earned – Life segment	**1,962**	1,905	1,916	1,859	1,629
Total net premiums earned	**17,426**	16,613	15,677	15,387	13,504
Net investment income	**2,252**	2,144	2,181	2,242	2,070
Losses and loss expenses	**9,649**	9,348	9,653	9,520	7,579
Policy benefits	**517**	515	521	401	357
Policy acquisition costs and administrative expenses	**5,320**	4,870	4,542	4,540	4,218
Net income	**2,853**	3,758	2,706	1,540	3,085
Weighted-average shares outstanding – diluted	**339**	344	343	341	341
Diluted earnings per share	**$ 8.42**	$ 10.92	$ 7.89	$ 4.52	$ 9.04
Balance sheet data (at end of period):					
Total investments	**$ 62,904**	$ 60,928	$ 60,264	$ 55,676	$ 51,407
Total assets	**98,248**	94,510	92,545	87,321	83,216
Net unpaid losses and loss expenses	**27,008**	26,831	26,547	25,875	25,242
Net future policy benefits	**4,537**	4,397	4,229	4,025	2,825
Long-term debt	**3,357**	3,807	3,360	3,360	3,358
Trust preferred securities	**309**	309	309	309	309
Total liabilities	**68,661**	65,685	65,014	62,989	60,381
Shareholders' equity	**29,587**	28,825	27,531	24,332	22,835
Book value per share	**$ 90.02**	$ 84.83	$ 80.90	$ 72.22	$ 68.17
Selected data:					
Loss and loss expense ratio(1)	**58.7%**	59.6%	65.7%	66.0%	59.4%
Underwriting and administrative expense ratio(2)	**29.4%**	28.4%	28.2%	28.7%	30.9%
Combined ratio (3)	**88.1%**	88.0%	93.9%	94.7%	90.3%
Net loss reserves to capital and surplus ratio(4)	**106.6%**	108.3%	111.8%	122.9%	122.9%
Cash dividends per share(5)	**$ 2.70**	$ 2.02	$ 2.06	$ 1.38	$ 1.30

(1) The loss and loss expense ratio is calculated by dividing Losses and loss expenses, excluding the Life segment, by Net premiums earned – excluding Life segment. Losses and loss expenses for the Life segment were $589 million, $582 million, $611 million, $593 million, and $528 million for the years ended December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

(2) The underwriting and administrative expense ratio is calculated by dividing the Policy acquisition costs and administrative expenses, excluding the Life segment, by Net premiums earned – excluding Life segment. Policy acquisition costs and administrative expenses for the Life segment were $763 million, $701 million, $662 million, $656 million, and $552 million for the years ended December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

(3) The combined ratio is the sum of loss and loss expense ratio and the underwriting and administrative expense ratio.

(4) The net loss reserves to capital and surplus ratio is calculated by dividing the sum of the Net unpaid losses and loss expenses and Net future policy benefits by Shareholders' equity.

(5) Cash dividends per share in 2014 and 2012 include a $0.12 per share increase related to the fourth quarter 2013 and 2011 dividend installments, respectively, approved by our shareholders on January 10, 2014 and January 9, 2012, respectively.

ITEM 7. 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 year ended December 31, 2014. This discussion should be read in conjunction with the consolidated financial statements and related Notes, under Item 8 of this Form 10-K.

All comparisons in this discussion are to the corresponding prior year unless otherwise indicated.

Forward-Looking Statements

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

- losses arising out of natural or man-made catastrophes such as hurricanes, typhoons, earthquakes, floods, climate change (including effects on weather patterns; greenhouse gases; sea; land and air temperatures; sea levels; and rain and snow), nuclear accidents, or terrorism which could be affected by:
    - the number of insureds and ceding companies affected;
    - the amount and timing of losses actually incurred and reported by insureds;
    - the impact of these losses on our reinsurers and the amount and timing of reinsurance recoverable actually received;
    - the cost of building materials and labor to reconstruct properties or to perform environmental remediation following a catastrophic event; and
    - complex coverage and regulatory issues such as whether losses occurred from storm surge or flooding and related lawsuits;
- actions that rating agencies may take from time to time, such as financial strength or credit ratings downgrades or placing these ratings on credit watch negative or the equivalent;
- the ability to collect reinsurance recoverable, credit developments of reinsurers, and any delays with respect thereto and changes in the cost, quality, or availability of reinsurance;
- actual loss experience from insured or reinsured events and the timing of claim payments;
- the uncertainties of the loss-reserving and claims-settlement processes, including the difficulties associated with assessing environmental damage and asbestos-related latent injuries, the impact of aggregate-policy-coverage limits, the impact of bankruptcy protection sought by various asbestos producers and other related businesses, and the timing of loss payments;
- changes to our assessment as to whether it is more likely than not that we will be required to sell, or have the intent to sell, available for sale fixed maturity investments before their anticipated recovery;
- infection rates and severity of pandemics and their effects on our business operations and claims activity;
- developments in global financial markets, including changes in interest rates, stock markets, and other financial markets, increased government involvement or intervention in the financial services industry, the cost and availability of financing, and foreign currency exchange rate fluctuations (which we refer to in this report as foreign exchange and foreign currency exchange), which could affect our statement of operations, investment portfolio, financial condition, and financing plans;
- general economic and business conditions resulting from volatility in the stock and credit markets and the depth and duration of potential recession;
- global political conditions, the occurrence of any terrorist attacks, including any nuclear, radiological, biological, or chemical events, or the outbreak and effects of war, and possible business disruption or economic contraction that may result from such events;
- judicial decisions and rulings, new theories of liability, legal tactics, and settlement terms;
- 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 (D&O) and errors and omissions (E&O) insurance; and
    - claims and litigation arising out of such disclosures or practices by other companies;

- uncertainties relating to governmental, legislative and regulatory policies, developments, actions, investigations, and treaties, which, among other things, could subject us to insurance regulation or taxation in additional jurisdictions or affect our current operations;
- the actual amount of new and renewal business, market acceptance of our products, and risks associated with the introduction of new products and services and entering new markets, including regulatory constraints on exit strategies;
- the competitive environment in which we operate, including trends in pricing or in policy terms and conditions, which may differ from our projections and changes in market conditions that could render our business strategies ineffective or obsolete;
- acquisitions made by us performing differently than expected, our failure to realize anticipated expense-related efficiencies or growth from acquisitions, the impact of acquisitions on our pre-existing organization, or announced acquisitions not closing;
- risks associated with being a Swiss corporation, including reduced flexibility with respect to certain aspects of capital management and the potential for additional regulatory burdens;
- the potential impact from government-mandated insurance coverage for acts of terrorism;
- the availability of borrowings and letters of credit under our credit facilities;
- the adequacy of collateral supporting funded high deductible programs;
- changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers;
- material differences between actual and expected assessments for guaranty funds and mandatory pooling arrangements;
- the effects of investigations into market practices in the property and casualty (P&C) industry;
- changing rates of inflation and other economic conditions, for example, recession;
- 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 our technology resources, including information systems and security, to perform as anticipated such as with respect to preventing material information technology failures or third-party infiltrations or hacking resulting in consequences adverse to ACE or its customers or partners; and
- management's response to these factors and actual events (including, but not limited to, those described above).

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

Overview

We operate through five business segments: Insurance – North American P&C, Insurance – North American Agriculture, Insurance – Overseas General, Global Reinsurance, and Life. For more information on our segments refer to "Segment Information" under Item 1.

We have grown our business through increased premium volume, expansion of product offerings and geographic reach, and acquisitions of other companies. The Insurance – Overseas General segment has recently expanded its operations through the following acquisitions in 2014, 2013, and 2012:

- The large corporate account property and casualty (P&C) insurance business of Itaú Seguros (Itaú Seguros) (October 31, 2014);
- The Siam Commercial Samaggi Insurance PCL (Samaggi) (we and our local partner acquired 60.86 percent ownership on April 28, 2014, and subsequently acquired an additional 32.17 percent ownership through a mandatory tender offer, which expired on June 17, 2014);
- ABA Seguros (May 2, 2013);
- Fianzas Monterrey (April 1, 2013); and
- PT Asuransi Jaya Proteksi (JaPro) (we acquired 80 percent on September 18, 2012, and our local partner acquired the remaining 20 percent on January 3, 2013).

The consolidated financial statements include results of acquired businesses from the acquisition dates. Refer to Note 2 to the Consolidated Financial Statements for additional information on our acquisitions.

Our product and geographic diversification differentiates us from the vast majority of our competitors and has been a source of stability during periods of industry volatility. Our long-term business strategy focuses on sustained growth in book value achieved through a combination of underwriting and investment income. By doing so, we provide value to our clients and shareholders through use of our substantial capital base in the insurance and reinsurance markets.

We are organized along a profit center structure by line of business and territory that does not necessarily correspond to corporate legal entities. Profit centers can access various legal entities, subject to licensing and other regulatory rules. Profit centers are expected to generate underwriting income and appropriate risk-adjusted returns. Our corporate structure has facilitated the development of management talent by giving each profit center's senior management team the necessary autonomy within underwriting authorities to make operating decisions and create products and coverages needed by its target customer base. We are focused on delivering underwriting profit and strive to achieve underwriting income by only writing policies which we believe adequately compensate us for the risk we accept.

Our insurance and reinsurance operations generate gross revenues from two principal sources: premiums and investment income. Cash flow is generated from premiums collected and investment income received less paid losses and loss expenses, policy acquisition costs, and administrative expenses. Invested assets are substantially held in liquid, investment grade fixed income securities of relatively short duration. Claims payments in any short-term period are highly unpredictable due to the random nature of loss events and the timing of claims awards or settlements. The value of investments held to pay future claims is subject to market forces such as the level of interest rates, stock market volatility, and credit events such as corporate defaults. The actual cost of claims is also volatile based on loss trends, inflation rates, court awards, and catastrophes. We believe that our cash balance, our highly liquid investments, credit facilities, and reinsurance protection provide sufficient liquidity to meet unforeseen claim demands that might occur in the year ahead. Refer to "Liquidity" and "Capital Resources" for additional information.

Financial Highlights for the Year Ended December 31, 2014

- Total company net premiums written increased 4.6 percent, or 5.7 percent on a constant-dollar basis.
- P&C combined ratio was 87.7 percent compared with 88.0 percent in 2013. The GAAP combined ratio was 88.1 percent compared with 88.0 percent in 2013.
- The current accident year P&C combined ratio excluding catastrophe losses was 89.3 percent compared with 90.0 percent in 2013.
- The P&C expense ratio was 29.4 percent compared with 28.4 percent in 2013.
- Total pre-tax and after-tax catastrophe losses including reinstatement premiums were $288 million (1.8 percentage points of the combined ratio) and $249 million, respectively, compared with $227 million (1.7 percentage points of the combined ratio) and $197 million, respectively, in 2013.
- Favorable prior period development pre-tax and after-tax were $527 million (3.4 percentage points of the combined ratio) and $459 million, respectively, compared with $530 million (3.7 percentage points of the combined ratio) and $450 million, respectively, in 2013.
- Operating cash flow was $4.5 billion compared with $4.0 billion in 2013.
- Net investment income was $2.3 billion compared with $2.1 billion in 2013.
- Net income decreased 24.1 percent to $2.9 billion. Net income in 2014 was negatively impacted compared to 2013 as a result of the mark to market accounting associated with our living benefit variable annuity reinsurance business. The relative difference is primarily due to interest rates, which fell during 2014 after rising during 2013.
- Share repurchases totaled $1.4 billion, or approximately 14 million shares in 2014.

We reported strong premium revenue growth and combined ratios in 2014 with all divisions contributing positively to our results. Growth was broad-based from all regions, reflecting our diversified business by product, geography, customer and distribution.

In addition to producing strong financial results, we made numerous investments intended for future growth and earnings. For example, we launched retail distribution to complement our existing wholesale capabilities for our U.S. middle market specialty and Excess & Surplus business; we started a new micro business division to serve very small U.S. commercial businesses; we made acquisitions in Thailand and Brazil, further expanding our presence and capabilities in promising developing markets. And we signed a definitive agreement in December 2014 to acquire the Fireman's Fund high net worth personal lines business. This acquisition will complement our existing personal lines business, which has tripled in size in the last five years. Our personal lines business is a strategic growth area and poised to continue its growth globally.

These are some of the investments we made in the future of our company that will strengthen our presence and capabilities and increase our ability to produce sustainable outperformance. We are off to a good start in 2015 and we remain confident in our strategy and are relentless in our drive to execute with excellence.

Critical Accounting Estimates

Our consolidated financial statements include amounts that, either by their nature or due to requirements of generally accepted accounting principles 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. We believe the items that require the most subjective and complex estimates are:

- unpaid loss and loss expense reserves, including long-tail asbestos and environmental (A&E) reserves;
- future policy benefits reserves;
- the valuation of value of business acquired (VOBA) and amortization of deferred policy acquisition costs and VOBA;
- the assessment of risk transfer for certain structured insurance and reinsurance contracts;
- reinsurance recoverable, including a provision for uncollectible reinsurance;
- the valuation of our investment portfolio and assessment of other-than-temporary impairments (OTTI);
- the valuation of deferred tax assets;
- the valuation of derivative instruments related to guaranteed living benefits (GLB); and
- the valuation of goodwill.

We believe our accounting policies for these items are of critical importance to our consolidated financial statements. The following discussion provides more information regarding the estimates and assumptions required to arrive at these amounts and should be read in conjunction with the sections entitled: Prior Period Development, Asbestos and Environmental (A&E), Reinsurance Recoverable on Ceded Reinsurance, Investments, Net Realized and Unrealized Gains (Losses), and Other (Income) and Expense Items.

Unpaid losses and loss expenses

As an insurance and reinsurance company, we are required by applicable laws and regulations and GAAP to establish loss and loss expense reserves for the estimated unpaid portion of the ultimate liability for losses and loss expenses under the terms of our policies and agreements with our insured and reinsured customers. At December 31, 2014, our gross unpaid loss and loss expense reserves were $38.3 billion and our net unpaid loss and loss expense reserves were $27.0 billion. With the exception of certain structured settlements, for which the timing and amount of future claim payments are reliably determinable, and certain reserves for unsettled claims that are discounted in statutory filings, our loss reserves are not discounted for the time value of money. In connection with such structured settlements and certain reserves for unsettled claims, we carried net discounted reserves of $111 million and $106 million at December 31, 2014 and 2013, respectively.

The following table presents a roll-forward of our unpaid losses and loss expenses:

	December 31, 2014			December 31, 2013		
(in millions of U.S. dollars)	**Gross Losses**	**Reinsurance Recoverable[1]**	**Net Losses**	Gross Losses	Reinsurance Recoverable[1]	Net Losses
Balance, beginning of year	**$ 37,443**	**$ 10,612**	**$ 26,831**	$ 37,946	$ 11,399	$ 26,547
Losses and loss expenses incurred	**12,748**	**3,099**	**9,649**	12,429	3,081	9,348
Losses and loss expenses paid	**(12,409)**	**(3,174)**	**(9,235)**	(12,785)	(3,808)	(8,977)
Other (including foreign exchange translation)	**(835)**	**(278)**	**(557)**	(246)	(73)	(173)
Losses and loss expenses acquired	**1,368**	**1,048**	**320**	99	13	86
Balance, end of year	**$ 38,315**	**$ 11,307**	**$ 27,008**	$ 37,443	$ 10,612	$ 26,831

[1] Net of provision for uncollectible reinsurance.

The estimate of the liabilities includes provisions for claims that have been reported but are unpaid at the balance sheet date (case reserves) and for obligations on claims that have been incurred but not reported (IBNR) at the balance sheet date. IBNR may also include provisions to account for the possibility that reported claims may settle for amounts that differ from the established case reserves. Loss reserves also include an estimate of expenses associated with processing and settling unpaid claims (loss expenses).

The following table segregates loss reserves by three broad line of business groupings: property and all other, casualty, and A&H (or personal accident). In the table, loss expenses are defined to include unallocated and allocated loss adjustment expenses.

	December 31, 2014			December 31, 2013		
(in millions of U.S. dollars)	**Gross**	**Ceded**	**Net**	Gross	Ceded	Net
Property and all other						
Case reserves	**$ 4,110**	**$ 1,959**	**$ 2,151**	$ 2,862	$ 998	$ 1,864
Loss expenses	**216**	**58**	**158**	222	59	163
IBNR reserves	**2,095**	**792**	**1,303**	2,098	714	1,384
Subtotal	**6,421**	**2,809**	**3,612**	5,182	1,771	3,411
Casualty						
Case reserves	**9,071**	**2,210**	**6,861**	9,023	2,271	6,752
Loss expenses	**3,881**	**1,348**	**2,533**	3,907	1,341	2,566
IBNR reserves	**17,914**	**4,672**	**13,242**	18,172	4,872	13,300
Subtotal	**30,866**	**8,230**	**22,636**	31,102	8,484	22,618
A&H						
Case reserves	**417**	**85**	**332**	514	113	401
Loss expenses	**28**	**7**	**21**	30	8	22
IBNR reserves	**583**	**176**	**407**	615	236	379
Subtotal	**1,028**	**268**	**760**	1,159	357	802
Total						
Case reserves	**13,598**	**4,254**	**9,344**	12,399	3,382	9,017
Loss expenses	**4,125**	**1,413**	**2,712**	4,159	1,408	2,751
IBNR reserves	**20,592**	**5,640**	**14,952**	20,885	5,822	15,063
Total	**$ 38,315**	**$ 11,307**	**$ 27,008**	$ 37,443	$ 10,612	$ 26,831

The process of establishing loss reserves for property and casualty claims can be complex and is subject to considerable uncertainty as it requires the use of informed estimates and judgments based on circumstances underlying the insured loss known at the date of accrual. For example, the reserves established for high excess casualty claims, asbestos and environmental claims, claims from major catastrophic events or for our various product lines each require different assumptions and judgments to be made. Necessary judgments are based on numerous factors and may be revised as additional experience and other data become available and are reviewed, as new or improved methods are developed, or as laws change. Hence, ultimate loss payments may differ from the estimate of the ultimate liabilities made at the balance sheet date. Changes to our previous estimates of prior period loss reserves impact the reported calendar year underwriting results, adversely if our estimates increase and favorably if our estimates decrease. The potential for variation in loss reserve estimates is impacted by numerous factors, which we discuss below. In particular, these considerations differ markedly depending upon whether case or IBNR reserves are being established. Reserve estimates for casualty lines are particularly uncertain given the lengthy reporting patterns and corresponding need for IBNR.

Case reserves for those claims reported by insureds or ceding companies to us prior to the balance sheet date, and where we have sufficient information, are determined by our claims personnel as appropriate based on the circumstances of the claim(s), standard claim handling practices, and professional judgment. Furthermore, for our Brandywine run-off operations and our assumed reinsurance operation, Global Reinsurance, we may adjust the ceded case reserves as notified by the ceding company via use of an additional case reserve if the judgment of our respective claims department differs from that of the cedant (see also the Assumed reinsurance section below).

With respect to IBNR reserves, and those claims that have been incurred but not reported prior to the balance sheet date, there is, by definition, limited actual information to form the case reserve estimate and reliance is placed upon historical loss experience and actuarial methods to estimate the ultimate loss obligations and the corresponding amount of IBNR. IBNR reserve estimates are generally calculated by first projecting the ultimate amount of losses for a product line and subtracting paid losses and case reserves for reported claims. The judgments involved in projecting the ultimate losses may pertain to the use and interpretation of various standard actuarial reserving methods that place reliance on the extrapolation of actual historical data, loss development patterns, and industry data, and other benchmarks as appropriate. The estimate of the required IBNR reserve also requires judgment by actuaries and management to reflect the impact of more contemporary and subjective factors, both qualitative and quantitative. Among some of these factors that might be considered are changes in business mix or volume, changes in ceded reinsurance structures, changes in claims handling practices, reported and projected loss trends, inflation, the legal environment, and the terms and conditions of the contracts sold to our insured parties.

Determining management's best estimate

Our recorded reserves represent management's best estimate of the provision for unpaid claims as of the balance sheet date. Management's best estimate is developed after collaboration with actuarial, underwriting, claims, legal, and finance departments and culminates with the input of reserve committees. Each business unit reserve committee includes the participation of the relevant parties from actuarial, finance, claims, and unit senior management and has the responsibility for finalizing and approving the estimate to be used as management's best estimate. Reserves are further reviewed by ACE's Chief Actuary and senior management. The objective of such a process is to determine a single estimate that we believe represents a better estimate than any other and which is viewed by management to be the best estimate of ultimate loss settlements.

This estimate is generally based on a combination of exposure and experience based actuarial methods (described below) and other considerations such as claims reviews, reinsurance recovery assumptions and/or input from other subject matter experts such as underwriting. Exposure-based methods are most commonly used on relatively immature origin years while experience-based methods provide a view based on the projection of loss experience that has emerged as of the valuation date. Greater reliance is placed upon experience-based methods as the pool of emerging loss experience grows and where it is deemed sufficiently credible and reliable as the basis for the estimate. In comparing the held reserve for any given origin year to the actuarial projections, judgment is required as to the credibility, uncertainty and inherent limitations of applying actuarial techniques to historical data to project future loss experience. Examples of factors that impact such judgments include, but are not limited to, the following:

- nature and complexity of underlying coverage provided and net limits of exposure provided;
- segmentation of data to provide sufficient homogeneity and credibility for loss projection methods;
- extent of credible internal historical loss data and reliance upon industry information as required;
- historical variability of actual loss emergence compared with expected loss emergence;
- extent of emerged loss experience relative to the remaining expected period of loss emergence;
- rate monitor information for new and renewal business;
- facts and circumstances of large claims;
- impact of applicable reinsurance recoveries; and
- nature and extent of underlying assumptions.

Management does not build in any specific provision for uncertainty.

We do not calculate ranges of loss reserve estimates for our individual loss reserve studies, given the lack of robust statistical approaches and the limited usefulness for such information in decision making. Determining such ranges is a complex and uncertain process, and such ranges generally do not capture the potential changes in external and internal circumstances between the balance sheet date and the final settlement date that may impact the ultimate value of loss. While we believe that our recorded reserves are reasonable and represent management's best estimate for each product line as of the current valuation date, future changes to our view of the ultimate liabilities are possible. A five percent change in our net loss reserves equates to $1.4 billion and represents five percent of shareholders' equity at December 31, 2014. Historically our reserves, at times, have developed in excess of 10 percent of recorded amounts. Refer to "Analysis of Losses and Loss Expenses Development", under Item 1, for a summary of historical volatility between estimated loss reserves and ultimate loss settlements.

We have actuarial staff within each of our business units who analyze loss reserves and regularly project estimates of ultimate losses and the corresponding indications of the required IBNR reserve. Note that losses include loss expenses for the purposes of this discussion. We perform an actuarial reserve review for each product line at least once a year. At the conclusion of each review, we establish an actuarial central estimate. The process to select the actuarial central estimate, when more than one estimate is available, may differ across product lines. For example, an actuary may base the central estimate on loss projections developed using an incurred loss development approach instead of a paid loss development approach when reported losses are viewed to be a more credible indication of the ultimate loss compared with paid losses. The availability of estimates for different projection techniques will depend upon the product line, the underwriting circumstances, and the maturity of the loss emergence. For a well-established product line with sufficient volume and history and low volatility, the actuarial central estimate may be drawn from a weighting of paid and reported loss development and/or Bornhuetter-Ferguson methods (described below). However, for a new long-tail product line for which we have limited data and experience, a rapidly growing line, or an established line with volatile experience, the emerging loss experience may not have sufficient credibility to allow selection of loss development or Bornhuetter-Ferguson methods and reliance may be placed upon the expected loss ratio method (described below) until the experience matures and becomes credible.

Typically, for each product line, one or more standard actuarial reserving methods may be used to estimate ultimate losses and loss expenses, and from these estimates, a single actuarial central estimate is selected. Exceptions to the use of standard actuarial projection methods occur for individual claims of significance that require complex legal, claims, and actuarial analysis and judgment (for example, A&E account projections or high excess casualty/professional lines accounts in litigation) or for product lines where the nature of the claims experience and/or availability of the data prevent application of such standard methods. In addition, claims arising from certain catastrophic events require evaluations that do not utilize standard actuarial loss projection methods but are based upon our exposure at the time of the event and the circumstances of the catastrophe and its post-event impact.

In addition to the annual loss reserve studies performed for each product line, we review the emergence of actual losses relative to expectations for most product lines each quarter. If warranted from findings in loss emergence tests, we may alter the timing of our product line reserve studies. Finally, loss reserve studies are performed annually by external third-parties and the findings are used to provide management an independent assessment of our internal findings.

Standard actuarial reserving methods

Standard actuarial reserving methods include, but are not limited to, expected loss ratio, paid and reported loss development, and Bornhuetter-Ferguson methods. A general description of these methods is provided below. In the subsequent discussion on short-tail and long-tail business, reference is also made, where appropriate, to how consideration in method selection impacted 2014 results. In addition to these standard methods, depending upon the product line characteristics and available data we may use other recognized actuarial methods and approaches. To ensure that the projections of future loss emergence based on historical loss development patterns are representative of the underlying business, historical loss and premium data is required to be of sufficient homogeneity and credibility. For example, to improve data homogeneity, we may subdivide product line data further by similar risk attribute (e.g., geography, coverage such as property versus liability exposure, or elements of program structure such as attachments or limits), project ultimate losses for these homogeneous groups and then combine the results to provide the overall product line estimate. The premium and loss data are aggregated by origin year (e.g., the year in which the losses were incurred - “accident year” or “report year”) and annual or quarterly development periods, and data at all valuations is converted at the same foreign exchange rates in order to avoid distortions from exchange rate movements over time. Implicit in the standard actuarial methods that we generally utilize is the need for two fundamental assumptions: first, the pattern by which losses are expected to emerge over time for each origin year, and second the expected loss ratio for each origin year.

The expected loss ratio for any particular origin year is selected after consideration of a number of factors, including historical loss ratios adjusted for rate changes, premium and loss trends, industry benchmarks, the results of policy level loss modeling at the time of underwriting, and/or other more subjective considerations for the product line (e.g., terms and conditions) and external environment as noted above. The expected loss ratio for a given origin year is initially established at the start of the origin year as part of the planning process. This analysis is performed in conjunction with underwriters and management. The expected loss ratio method arrives at an ultimate loss estimate by multiplying the expected ultimate loss ratio by the corresponding premium base. This method is most commonly used as the basis for the actuarial central estimate for immature origin periods on product lines where the actual paid or reported loss experience is not yet deemed sufficiently credible to serve as the principal basis for the selection of ultimate losses. The expected loss ratio for a given origin year may be modified over time if the underlying assumptions differ from the original assumptions (for example, the assessment of prior year loss ratios, loss trend, rate changes, actual claims, or other information).

Our selected paid and reported development patterns provide a benchmark against which the actual emerging loss experience can be monitored. Where possible, development patterns are selected based on historical loss emergence by origin year with appropriate allowance for changes in business mix, claims handling process, and/or ceded reinsurance that are likely to lead to a discernible difference between the rate of historical and future loss emergence. For product lines where the historical data is viewed to have low statistical credibility, the selected development patterns also reflect relevant industry benchmarks and/or experience from similar product lines written elsewhere within ACE. This most commonly occurs for relatively new product lines that have limited historical data or for high severity/low frequency portfolios where our historical experience exhibits considerable volatility and/or lacks credibility. The paid and reported loss development methods convert the selected loss emergence pattern to a set of multiplicative factors which are then applied to actual paid or reported losses to arrive at an estimate of ultimate losses for each period. Due to their multiplicative nature, the paid and reported loss development methods will leverage differences between actual and expected loss emergence. These methods tend to be utilized for more mature origin periods and for those portfolios where the loss emergence has been relatively consistent over time.

The Bornhuetter-Ferguson method is essentially a combination of the expected loss ratio method and the loss development method, where the loss development method is given more weight as the origin year matures. This approach allows a logical transition between the expected loss ratio method which is generally utilized at earlier maturities and the loss development methods which are typically utilized at later maturities. We usually apply this method using reported loss data although paid data may also be used.

The applicability of actuarial methods will also be impacted by the attachment point of the policy or contract with the insured or ceding company. In the case of low attachment points typical of primary insurance or working layer reinsurance, the experience tends to be more frequency driven. For these product types, standard actuarial methods are generally applicable in determining loss reserve levels given sufficient history and credible loss experience (although still subject to the same limitations and uncertainties described elsewhere in this section, for example, changing inflationary or legal environments). In the case of high attachment points typical of excess insurance or excess of loss reinsurance, the experience tends to be severity driven, as only a loss of significant size will enter the layer. For these product lines, it typically takes longer for loss experience to gain credibility, which adds uncertainty to the estimates derived from standard actuarial methods. For products such as our assumed reinsurance business, we typically supplement the standard actuarial methods with an analysis of each contract's terms, original pricing information, subsequent internal and external analyses of the ongoing contracts, market exposures and history, and qualitative input from claims managers. This approach is also used for structured or unique contracts.

Short-tail and long-tail business
The time period between the date of loss occurrence and the final payment date of the ensuing claim(s) is referred to as the "claim-tail." The following is a discussion of specific reserving considerations for both short-tail and long-tail product lines. In this section, we reference the nature of recent prior period development to give a high-level understanding of how these considerations translate through the reserving process into financial decisions. Refer to Note 7 to the Consolidated Financial Statements for additional information on prior period development.

Short-tail business
Short-tail business generally describes product lines for which losses are typically known and paid shortly after the loss actually occurs. This would include, for example, most property, personal accident, aviation hull, and automobile physical damage policies that we write. There are some exceptions on certain product lines or events (e.g., major hurricanes or aviation crashes) where the event has occurred, but the final settlement amount is highly uncertain (e.g., coverage disputes or liability-related claims) and not known with certainty for a potentially lengthy period. Due to the short reporting and development pattern for these product lines, the uncertainty associated with our estimate of ultimate losses for any particular accident period diminishes relatively quickly as actual loss experience emerges. We typically assign credibility to methods that incorporate actual loss emergence, such as the paid and reported loss development and Bornhuetter-Ferguson methods, sooner than would be the case for long-tail lines at a similar stage of development for a given origin year. The reserving process for short-tail losses arising from catastrophic events typically involves an assessment by the claims department, in conjunction with underwriters and actuaries, of our exposure and estimated losses immediately following an event and then subsequent revisions of the estimated losses as our insureds provide updated actual loss information.

For origin year 2014, loss reserves for short-tail lines were typically established for the non-catastrophe exposures using a combination of the initial expected loss ratio method (see above) and loss development methods that incorporate actual loss emergence. As the year progressed, we also adjusted these reserves for non-catastrophe large loss activity that we considered to be greater or less than the assumptions used to establish the initial expected loss ratio. Catastrophe activity was relatively low in 2014 and accordingly the judgments and uncertainties used to establish reserves for incurred catastrophe events were correspondingly less complex. For our short-tail businesses taken as a whole, overall loss trend assumptions did not differ significantly relative to prior years.

In terms of prior accident years, the bulk of the changes made in the 2014 calendar year arose from origin years 2010 through 2012. Specifically, the Insurance – North American P&C, Insurance – Overseas General, and Global Reinsurance segments experienced $56 million, $210 million, and $11 million of favorable prior period development, respectively, primarily due to lower than anticipated loss emergence rather than any significant changes to underlying actuarial assumptions such as loss development patterns. This favorable prior period development was primarily the result of changes to the ultimate loss estimates for origin years 2011 and 2012 for Insurance – North American P&C, origin years 2010 through 2013 for Insurance – Overseas General, and origin year 2012 for Global Reinsurance. Insurance – North American Agriculture experienced $34 million of adverse prior period development primarily due to higher than expected claim development for the 2013 crop year in our Multiple Peril Crop Insurance business.

Long-tail business

Long-tail business describes lines of business for which specific losses may not be known/reported for some period and for which claims can take significant time to settle/close. This includes most casualty lines such as general liability, D&O, and workers' compensation. There are various factors contributing to the uncertainty and volatility of long-tail business. Among these are:

- The nature and complexity of underlying coverage provided and net limits of exposure provided;
- Our historical loss data and experience is sometimes too immature and lacking in credibility to rely upon for reserving purposes. Where this is the case, in our reserve analysis we may utilize industry loss ratios or industry benchmark development patterns that we believe reflect the nature and coverage of the underwritten business and its future development, where available. For such product lines, actual loss experience may differ from industry loss statistics as well as loss experience for previous underwriting years;
- The considerable inherent uncertainty around loss trends, claims inflation (e.g., medical and judicial) and underlying economic conditions;
- The inherent uncertainty of the estimated duration of the paid and reported loss development patterns beyond the historical record requires that professional judgment be used in the determination of the length of the patterns based on the historical data and other information;
- The inherent uncertainty of assuming that historical paid and reported loss development patterns for older origin years will be representative of subsequent loss emergence on recent origin years. For example, changes over time in the processes and procedures for establishing case reserves can distort reported loss development patterns or changes in ceded reinsurance structures by origin year can alter the development of paid and reported losses;
- Loss reserve analyses typically require loss or other data be grouped by common characteristics in some manner. If data from two combined lines of business exhibit different characteristics, such as loss payment patterns, the credibility of the reserve estimate could be affected. Additionally, since casualty lines of business can have significant intricacies in the terms and conditions afforded to the insured, there is an inherent risk as to the homogeneity of the underlying data used in performing reserve analyses; and
- The applicability of the price change data used to estimate ultimate loss ratios for most recent origin years.

As can be seen from the above, various factors are considered when determining appropriate data, assumptions, and methods used to establish the loss reserve estimates for long-tail product lines. These factors may also vary by origin year for given product lines. The derivation of loss development patterns from data and the selection of a tail factor to project ultimate losses from actual loss emergence require considerable judgment, particularly with respect to the extent to which historical loss experience is relied upon to support changes in key reserving assumptions. Examples of the relationship between changes in historical loss experience and key reserving assumptions are provided below.

For those long-tail product lines that are less claim frequency and more claim severity oriented, such as high excess professional and casualty lines, we placed more reliance upon expert legal and claims review of the specific circumstances underlying reported cases rather than loss development patterns. Where appropriate, we then supplemented this with loss development and Bornhuetter-Ferguson approaches to provide for claims that have been reported but are too immature to develop individual claims estimates and also to provide for claims that have occurred but have not been reported. The assumptions used for these lines of business are updated over time to reflect new claim and legal advice judged to be of significance.

For origin year 2014, loss reserves were typically established through the application of individual product line expected loss ratios, as discussed earlier. Our assumptions on loss trend and development patterns reflect reliance on our historical loss data provided the length and volume of history and homogeneity afford credibility. For those lines where our internal historical experience lacks credibility, we may place reliance upon the latest benchmark patterns (where available) from external industry bodies such as Insurance Services Office (ISO) or the National Council on Compensation Insurance, Inc. (NCCI). In such cases, the assumptions used to project ultimate loss estimates will not fully reflect our own actual loss experience until our data is deemed sufficiently credible. We note that industry patterns are not always available to match the nature of the business being written; this issue is particularly problematic for non-U.S. exposed lines. Given the underlying volatility of the long-tail product lines and the lengthy period required for full paid and reported loss emergence, we typically assign little to no credibility to actual loss emergence that is lower than expected in the early development periods. Accordingly, we generally used the expected loss ratio method for the 2014 and immediately preceding origin years to establish reserves by product line. We monitor actual paid and reported loss emergence relative to expected loss emergence for most individual product lines.

As described earlier, the process to develop origin year 2014 reserves for our long-tail casualty business relies on estimates of ultimate and historical loss ratios for prior origin years adjusted to current levels through the use of key assumptions like expected rate change and loss trend. When estimating the ultimate loss levels for these prior origin years for the major long-tail lines in Insurance – North American P&C, Insurance – Overseas General, and Global Reinsurance no changes of significance were made to the loss development patterns. While we generally use trends observed in internal and/or industry data to adjust prior year losses to current levels, we have made no material changes to the prospective loss trends used to develop ultimate loss ratios for origin year 2014.

For long-tail portfolios where actual loss emergence in calendar year 2014 was lower than expected for the more recent origin years, the deviation was not typically seen as sufficiently credible, particularly given the volatility and lengthy period for full loss emergence, to fully reflect in our booked ultimate loss selections or the actuarial assumptions underlying the reserve reviews. However, for certain product lines with early loss emergence on more recent origin years that was greater than expected, we did respond where we believed that such adverse emergence was generally significant relative to the loss emergence assumptions (e.g., origin years 2012 and 2013 for casualty and financial lines in Insurance – Overseas General). Such judgments were made with due consideration to the factors impacting reserve uncertainty as discussed above. The reserve actions that we took in 2014 are discussed further below and in Note 7 to the Consolidated Financial Statements.

For more mature origin years, typically 2010 and prior, we gave meaningful weight to indicated ultimates derived from methods that rely on the paid and reported loss development patterns based on our own historical experience where sufficient credibility was deemed to exist. As noted previously, this is consistent with our practice of allowing favorable loss emergence sufficient time to be reliably established before assigning partial or full credibility.

The prior period development in 2014 for long-tail lines of business comprised several main components. First, we experienced favorable prior period development on a number of product lines where actual loss emergence was lower than expected and/or increased weighting was given to experience-based methods as relevant origin years mature (typically 2010 and prior). In particular, this included D&O, medical risk operations, and financial solutions business in Insurance – North American P&C ($179 million favorable) principally in origin years 2009 and 2010, casualty and financial lines in Insurance – Overseas General for origin years 2010 and prior ($246 million favorable), and origin years 2009 and prior for long-tail product lines in Global Reinsurance ($63 million favorable). Second, we recorded both favorable and adverse reserve actions in response to development on specific large claims. Third, we experienced adverse development from Insurance – North American P&C run-off operations including Westchester and Brandywine run-off operations ($247 million). The causes for the Westchester and Brandywine operations are described further below.

Sensitivity to underlying assumptions
While we believe that our reserve for unpaid losses and loss expenses at December 31, 2014, is adequate, new information or emerging trends that differ from our assumptions may lead to future development of losses and loss expenses that is significantly greater or less than the recorded reserve, which could have a material effect on future operating results. As noted previously, our best estimate of required loss reserves for most portfolios is judgmentally selected for each origin year after considering the results from a number of reserving methods and is not a purely mechanical process. Therefore, it is difficult to convey, in a simple and quantitative manner, the impact that a change to a single assumption will have on our best estimate. In the examples below, we attempt to give an indication of the potential impact by isolating a single change for a specific reserving method that would be pertinent in establishing the best estimate for the product line described. We consider each of the following sensitivity analyses to represent a reasonably likely deviation in the underlying assumption.

Insurance – North American P&C
Given the long reporting and paid development patterns for workers' compensation business, the development factors used to project actual current losses to ultimate losses for our current exposure requires considerable judgment that could be material to consolidated loss and loss expense reserves. Specifically, adjusting ground up ultimate losses by a one percent change in the tail factor (i.e., 1.04 changed to either 1.05 or 1.03) would cause a change of approximately $432 million, either positive or negative, for the projected net loss and loss expense reserves. This represents an impact of 10 percent relative to recorded net loss and loss expense reserves of approximately $4.3 billion.

The reserve portfolio for our ACE Bermuda operations contains exposure to predominantly high excess liability coverage on an occurrence-first-reported basis (typically with attachment points in excess of $325 million and gross limits of up to $150 million) and D&O and other professional liability coverage on a claims-made basis (typically with attachment points in excess of $125 million and gross limits of up to $75 million). Due to the layer of exposure covered, the expected frequency for this book is very low. As a result of the low frequency/high severity nature of the book, a small difference in the actual vs. expected claim frequency, either positive or negative, could result in a material change to the projected ultimate loss if such change in claim frequency was related to a policy where close to maximum limits were deployed.

Insurance – North American Agriculture

Approximately 80 percent of the reserves for this segment are from the crop related lines, which all have short payout patterns, with the majority of the liabilities expected to be resolved in the ensuing twelve months. Reserves for our Multiple Peril Crop Insurance (MPCI) product are set on a case-by-case basis and our aggregate exposure is subject to state level risk sharing formulae as well as third-party reinsurance. The majority of the development risk arises out of the accuracy of case reserve estimates. We do not view our Agriculture reserves as substantially influenced by the general assumptions and risks underlying more typical P&C reserve estimates.

Insurance – Overseas General

Certain long-tail lines, such as casualty and professional lines, are particularly susceptible to changes in loss trend and claim inflation. Heightened perceptions of tort and settlement awards around the world are increasing the demand for these products as well as contributing to the uncertainty in the reserving estimates. Our reserving methods rely on loss development patterns estimated from historical data and while we attempt to adjust such factors for known changes in the current tort environment, it is possible that such factors may not entirely reflect all recent trends in tort environments. For example, when applying the reported loss development method, the lengthening of our selected loss development patterns by six months would increase reserve estimates on long-tail casualty and professional lines for accident years 2012 and prior by approximately $281 million. This represents an impact of 12.1 percent relative to recorded net loss and loss expense reserves of approximately $2.3 billion.

Global Reinsurance

Typically, there is inherent uncertainty around the length of paid and reported development patterns, especially for certain casualty lines such as excess workers' compensation or general liability, which may take up to 30 years to fully develop. This uncertainty is accentuated by the need to supplement client development patterns with industry development patterns due to the sometimes low credibility of the data. The underlying source and selection of the final development patterns can thus have a significant impact on the selected ultimate net losses and loss expenses. For example, a 20 percent shortening or lengthening of the development patterns used for U.S. long-tail lines would cause the loss reserve estimate derived by the reported Bornhuetter-Ferguson method for these lines to change by approximately $430 million. This represents an impact of 37 percent relative to recorded net loss and loss expense reserves of approximately $1.2 billion.

Assumed reinsurance

At December 31, 2014, net unpaid losses and loss expenses for the Global Reinsurance segment aggregated to $2.0 billion, consisting of $872 million of case reserves and $1.1 billion of IBNR. In comparison, at December 31, 2013, net unpaid losses and loss expenses for the Global Reinsurance segment aggregated to $2.2 billion, consisting of $938 million of case reserves and $1.2 billion of IBNR.

For catastrophe business, we principally estimate unpaid losses and loss expenses on an event basis by considering various sources of information, including specific loss estimates reported by our cedants, ceding company and overall industry loss estimates reported by our brokers, and our internal data regarding reinsured exposures related to the geographical location of the event. Our internal data analysis enables us to establish catastrophe reserves for known events with more certainty at an earlier date than would be the case if we solely relied on reports from third parties to determine carried reserves.

For our casualty reinsurance business, we generally rely on ceding companies to report claims and then use that data as a key input to estimate unpaid losses and loss expenses. Due to the reliance on claims information reported by ceding companies, as well as other factors, the estimation of unpaid losses and loss expenses for assumed reinsurance includes certain risks and uncertainties that are unique relative to our direct insurance business. These include, but are not necessarily limited to, the following:

- The reported claims information could be inaccurate;
- Typically, a lag exists between the reporting of a loss event to a ceding company and its reporting to us as a reinsurance claim. The use of a broker to transmit financial information from a ceding company to us increases the reporting lag.

Because most of our reinsurance business is produced by brokers, ceding companies generally first submit claim and other financial information to brokers, who then report the proportionate share of such information to each reinsurer of a particular treaty. The reporting lag generally results in a longer period of time between the date a claim is incurred and the date a claim is reported compared with direct insurance operations. Therefore, the risk of delayed recognition of loss reserve development is higher for assumed reinsurance than for direct insurance lines; and

- The historical claims data for a particular reinsurance contract can be limited relative to our insurance business in that there may be less historical information available. Further, for certain coverages or products, such as excess of loss contracts, there may be relatively few expected claims in a particular year so the actual number of claims may be susceptible to significant variability. In such cases, the actuary often relies on industry data from several recognized sources.

We mitigate the above risks in several ways. In addition to routine analytical reviews of ceding company reports to ensure reported claims information appears reasonable, we perform regular underwriting and claims audits of certain ceding companies to ensure reported claims information is accurate, complete, and timely. As appropriate, audit findings are used to adjust claims in the reserving process. We also use our knowledge of the historical development of losses from individual ceding companies to adjust the level of adequacy we believe exists in the reported ceded losses.

On occasion, there will be differences between our carried loss reserves and unearned premium reserves and the amount of loss reserves and unearned premium reserves reported by the ceding companies. This is due to the fact that we receive consistent and timely information from ceding companies only with respect to case reserves. For IBNR, we use historical experience and other statistical information, depending on the type of business, to estimate the ultimate loss. We estimate our unearned premium reserve by applying estimated earning patterns to net premiums written for each treaty based upon that treaty's coverage basis (i.e., risks attaching or losses occurring). At December 31, 2014, the case reserves reported to us by our ceding companies were $851 million, compared with the $872 million we recorded. Our policy is to post additional case reserves in addition to the amounts reported by our cedants when our evaluation of the ultimate value of a reported claim is different than the evaluation of that claim by our cedant.

Within the Insurance – North American P&C segment, we also have exposure to certain liability reinsurance lines that have been in run-off since 1994. Unpaid losses and loss expenses relating to this run-off reinsurance business resides within the Brandywine Division of our Insurance – North American P&C segment. Most of the remaining unpaid loss and loss expense reserves for the run-off reinsurance business relate to A&E claims. Refer to the “Asbestos and Environmental (A&E)” section for additional information.

Asbestos and environmental reserves

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

There are many complex variables that we consider when estimating the reserves for our inventory of asbestos accounts and these variables may directly impact the predicted outcome. We believe the most significant variables relating to our A&E liabilities include the current legal environment; specific settlements that may be used as precedents to settle future claims; assumptions regarding trends with respect to claim severity and the frequency of higher severity claims; assumptions regarding the ability to allocate liability among defendants (including bankruptcy trusts) and other insurers; the ability of a claimant to bring a claim in a state in which they have no residency or exposure; the ability of a policyholder to claim the right to unaggregated coverage; whether high-level excess policies have the potential to be accessed given the policyholder's claim trends and liability situation; payments to unimpaired claimants; and, the potential liability of peripheral defendants. Based on the policies, the facts, the law, and a careful analysis of the impact that these factors will likely have on any given account, we estimate the potential liability for indemnity, policyholder defense costs, and coverage litigation expense.

The results in asbestos cases announced by other carriers or defendants may well have little or no relevance to us because coverage exposures are highly dependent upon the specific facts of individual coverage and resolution status of disputes among carriers, policyholders, and claimants.

For additional information refer to the “Asbestos and Environmental (A&E)” section and to Note 7 to the Consolidated Financial Statements.

Future policy benefits reserves
We issue contracts in our Insurance – Overseas General and Life segments that are classified as long-duration. These contracts generally include accident and supplemental health products, term and whole life products, endowment products, and annuities. In accordance with GAAP, we establish reserves for contracts determined to be long-duration based on approved actuarial methods that include assumptions related to expenses, mortality, morbidity, persistency, and investment yields with a factor for adverse deviation. These assumptions are "locked in" at the inception of the contract, meaning we use our original assumptions throughout the life of the policy and do not subsequently modify them unless we deem the reserves to be inadequate. The future policy benefits reserves balance is regularly evaluated for a premium deficiency. If experience is less favorable than assumptions, additional liabilities may be required, resulting in a charge to policyholder benefits and claims.

Valuation of value of business acquired (VOBA) and amortization of deferred policy acquisition costs and VOBA
As part of the acquisition of businesses that sell long-duration contracts, such as life products, we established an intangible asset related to VOBA, which represented the fair value of the future profits of the in-force contracts. The valuation of VOBA at the time of acquisition is derived from similar assumptions to those used to establish the associated future policy benefits reserves. The most significant input in this calculation is the discount rate used to arrive at the present value of the net cash flows. We amortize deferred policy acquisition costs associated with long-duration contracts and VOBA (collectively policy acquisition costs) over the estimated life of the contracts, generally in proportion to premium revenue recognized based upon the same assumptions used in estimating the liability for future policy benefits. For non-traditional long-duration contracts, we amortize policy acquisition costs over the expected life of the contracts in proportion to estimates of expected gross profits. The estimated life is established at the inception of the contracts or upon acquisition and is based on current persistency assumptions. Policy acquisition costs, which consist of commissions, premium taxes, and certain underwriting costs related directly to the successful acquisition of a new or renewal insurance contract, are reviewed to determine if they are recoverable from future income, including investment income. Unrecoverable costs are expensed in the period identified.

Risk transfer
In the ordinary course of business, we both purchase (or cede) and sell (or assume) reinsurance protection. We discontinued the purchase of all finite risk reinsurance contracts, as a matter of policy, in 2002. For both ceded and assumed reinsurance, risk transfer requirements must be met in order to use reinsurance accounting, principally resulting in the recognition of cash flows under the contract as premiums and losses. If risk transfer requirements are not met, a contract is to be accounted for as a deposit, typically resulting in the recognition of cash flows under the contract through a deposit asset or liability and not as revenue or expense. To meet risk transfer requirements, a reinsurance contract must include both insurance risk, consisting of underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. We also apply similar risk transfer requirements to determine whether certain commercial insurance contracts should be accounted for as insurance or a deposit. Contracts that include fixed premium (i.e., premium not subject to adjustment based on loss experience under the contract) for fixed coverage generally transfer risk and do not require judgment.

Reinsurance and insurance contracts that include both significant risk sharing provisions, such as adjustments to premiums or loss coverage based on loss experience, and relatively low policy limits, as evidenced by a high proportion of maximum premium assessments to loss limits, can require considerable judgment to determine whether or not risk transfer requirements are met. For such contracts, often referred to as finite or structured products, we require that risk transfer be specifically assessed for each contract by developing expected cash flow analyses at contract inception. To support risk transfer, the cash flow analyses must demonstrate that a significant loss is reasonably possible, such as a scenario in which the ratio of the net present value of losses divided by the net present value of premiums equals or exceeds 110 percent. For purposes of cash flow analyses, we generally use a risk-free rate of return consistent with the expected average duration of loss payments. In addition, to support insurance risk, we must prove the reinsurer's risk of loss varies with that of the reinsured and/or support various scenarios under which the assuming entity can recognize a significant loss.

To ensure risk transfer requirements are routinely assessed, qualitative and quantitative risk transfer analyses and memoranda supporting risk transfer are developed by underwriters for all structured products. We have established protocols for structured products that include criteria triggering an accounting review of the contract prior to quoting. If any criterion is triggered, a contract must be reviewed by a committee established by each of our segments with reporting oversight, including peer review, from our global Structured Transaction Review Committee.

With respect to ceded reinsurance, we entered into a few multi-year excess of loss retrospectively-rated contracts, principally in 2002. These contracts primarily provided severity protection for specific product divisions. Because traditional one-year reinsurance coverage had become relatively costly, these contracts were generally entered in order to secure a more cost-effective reinsurance program. All of these contracts transferred risk and were accounted for as reinsurance. In addition, we maintain a few aggregate excess of loss reinsurance contracts that were principally entered into prior to 2003, such as the National Indemnity Company (NICO) contracts referred to in the section entitled, "Asbestos and Environmental (A&E)". We have not purchased any other retroactive ceded reinsurance contracts since 1999.

With respect to assumed reinsurance and insurance contracts, products giving rise to judgments regarding risk transfer were primarily sold by our financial solutions business. Although we have significantly curtailed writing financial solutions business, several contracts remain in-force and principally include multi-year retrospectively-rated contracts and loss portfolio transfers. Because transfer of insurance risk is generally a primary client motivation for purchasing these products, relatively few insurance and reinsurance contracts have historically been written for which we concluded that risk transfer criteria had not been met. For certain insurance contracts that have been reported as deposits, the insured desired to self-insure a risk but was required, legally or otherwise, to purchase insurance so that claimants would be protected by a licensed insurance company in the event of non-payment from the insured.

Reinsurance recoverable

Reinsurance recoverable includes balances due to us from reinsurance companies for paid and unpaid losses and loss expenses and is presented net of a provision for uncollectible reinsurance. The provision for uncollectible reinsurance is determined based upon a review of the financial condition of the reinsurers and other factors. Ceded reinsurance contracts do not relieve our primary obligation to our policyholders. Consequently, an exposure exists with respect to reinsurance recoverable to the extent that any reinsurer is unable or unwilling to meet its obligations or disputes the liabilities assumed under the reinsurance contracts. We determine the reinsurance recoverable on unpaid losses and loss expenses using actuarial estimates as well as a determination of our ability to cede unpaid losses and loss expenses under existing reinsurance contracts.

The recognition of a reinsurance recoverable asset requires two key judgments. The first judgment involves our estimation based on the amount of gross reserves and the percentage of that amount which may be ceded to reinsurers. Ceded IBNR, which is a major component of the reinsurance recoverable on unpaid losses and loss expenses, is generally developed as part of our loss reserving process and, consequently, its estimation is subject to similar risks and uncertainties as the estimation of gross IBNR (refer to "Critical Accounting Estimates – Unpaid losses and loss expenses"). The second judgment involves our estimate of the amount of the reinsurance recoverable balance that we may ultimately be unable to recover from reinsurers due to insolvency, contractual dispute, or for other reasons. Estimated uncollectible amounts are reflected in a provision that reduces the reinsurance recoverable asset and, in turn, shareholders' equity. Changes in the provision for uncollectible reinsurance are reflected in net income.

Although the obligation of individual reinsurers to pay their reinsurance obligations is based on specific contract provisions, the collectability of such amounts requires estimation by management. The majority of the recoverable balance will not be due for collection until sometime in the future, and the duration of our recoverables may be longer than the duration of our direct exposures. Over this period of time, economic conditions and operational performance of a particular reinsurer may impact their ability to meet these obligations and while they may continue to acknowledge their contractual obligation to do so, they may not have the financial resources or willingness to fully meet their obligation to us.

To estimate the provision for uncollectible reinsurance, the reinsurance recoverable must first be determined for each reinsurer. This determination is based on a process rather than an estimate, although an element of judgment must be applied. As part of the process, ceded IBNR is allocated to reinsurance contracts because ceded IBNR is not generally calculated on a contract by contract basis. The allocations are generally based on premiums ceded under reinsurance contracts, adjusted for actual loss experience and historical relationships between gross and ceded losses. If actual premium and loss experience vary materially from historical experience, the allocation of reinsurance recoverable by reinsurer will be reviewed and may change. While such change is unlikely to result in a large percentage change in the provision for uncollectible reinsurance, it could, nevertheless, have a material effect on our net income in the period recorded.

Generally, we use a default analysis to estimate uncollectible reinsurance. The primary components of the default analysis are reinsurance recoverable balances by reinsurer, net of collateral, and default factors used to estimate the probability that the reinsurer may be unable to meet its future obligations in full. The definition of collateral for this purpose requires some judgment and is generally limited to assets held in an ACE-only beneficiary trust, letters of credit, and liabilities held by us with the same legal entity for which we believe there is a right of offset. We do not currently include multi-beneficiary trusts. However, we have several reinsurers that have established multi-beneficiary trusts for which certain of our companies are beneficiaries. The determination of the default factor is principally based on the financial strength rating of the reinsurer and a corresponding default factor applicable to the financial strength rating. Default factors require considerable judgment and are determined using the current financial strength rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions. Significant considerations and assumptions include, but are not necessarily limited to, the following:

- For reinsurers that maintain a financial strength rating from a major rating agency, and for which recoverable balances are considered representative of the larger population (i.e., default probabilities are consistent with similarly rated reinsurers and payment durations conform to averages), the judgment exercised by management to determine the provision for uncollectible reinsurance of each reinsurer is typically limited because the financial rating is based on a published source and the default factor we apply is based on a historical default factor of a major rating agency applicable to the particular rating class. Default factors applied for financial ratings of AAA, AA, A, BBB, BB, B, and CCC, are 0.8 percent, 1.2 percent, 1.7 percent, 4.9 percent, 19.6 percent, 34.0 percent, and 62.2 percent, respectively. Because our model is predicated on the historical default factors of a major rating agency, we do not generally consider alternative factors. However, when a recoverable is expected to be paid in a brief period of time by a highly-rated reinsurer, such as certain property catastrophe claims, a default factor may not be applied;
- For balances recoverable from reinsurers that are both unrated by a major rating agency and for which management is unable to determine a credible rating equivalent based on a parent or affiliated company, we may determine a rating equivalent based on our analysis of the reinsurer that considers an assessment of the creditworthiness of the particular entity, industry benchmarks, or other factors as considered appropriate. We then apply the applicable default factor for that rating class. For balances recoverable from unrated reinsurers for which our ceded reserve is below a certain threshold, we generally apply a default factor of 34.0 percent;
- For balances recoverable from reinsurers that are either insolvent or under regulatory supervision, we establish a default factor and resulting provision for uncollectible reinsurance based on specific facts and circumstances surrounding each company. Upon initial notification of an insolvency, we generally recognize expense for a substantial portion of all balances outstanding, net of collateral, through a combination of write-offs of recoverable balances and increases to the provision for uncollectible reinsurance. When regulatory action is taken on a reinsurer, we generally recognize a default factor by estimating an expected recovery on all balances outstanding, net of collateral. When sufficient credible information becomes available, we adjust the provision for uncollectible reinsurance by establishing a default factor pursuant to information received; and
- For captives and other recoverables, management determines the provision for uncollectible reinsurance based on the specific facts and circumstances.

The following table summarizes reinsurance recoverables and the provision for uncollectible reinsurance for each type of recoverable balance at December 31, 2014:

(in millions of U.S. dollars)	Gross Reinsurance Recoverables on Losses and Loss Expenses	Recoverables (net of Usable Collateral)	Provision for Uncollectible Reinsurance
Type			
Reinsurers with credit ratings	$ 9,169	$ 8,390	$ 202
Reinsurers not rated	186	146	50
Reinsurers under supervision and insolvent reinsurers	98	97	54
Captives	1,986	366	23
Other - structured settlements and pools	910	904	28
Total	$ 12,349	$ 9,903	$ 357

At December 31, 2014, the use of different assumptions within our approach could have a material effect on the provision for uncollectible reinsurance. To the extent the creditworthiness of our reinsurers were to deteriorate due to an adverse event affecting the reinsurance industry, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than our provision for uncollectible reinsurance. Such an event could have a material adverse effect on our financial condition, results of operations, and our liquidity. Given the various considerations used to estimate our uncollectible provision, we cannot precisely quantify the effect a specific industry event may have on the provision for uncollectible reinsurance. However, based on the composition (particularly the average credit quality) of the reinsurance recoverable balance at December 31, 2014, we estimate that a ratings downgrade of one notch for all rated reinsurers (i.e., from A to A- or A- to BBB+) could increase our provision for uncollectible reinsurance by approximately $73 million or approximately 0.6 percent of the gross reinsurance recoverable balance, assuming no other changes relevant to the calculation. While a ratings downgrade would result in an increase in our provision for uncollectible reinsurance and a charge to earnings in that period, a downgrade in and of itself does not imply that we will be unable to collect all of the ceded reinsurance recoverable from the reinsurers in question. Refer to Note 5 to the Consolidated Financial Statements for additional information.

Other-than-temporary impairments (OTTI)
Each quarter, we review securities in an unrealized loss position (impaired securities), including fixed maturities, securities lending collateral, equity securities, and other investments, to identify impaired securities to be specifically evaluated for a potential OTTI. Because our investment portfolio is the largest component of consolidated assets and a multiple of shareholders' equity, OTTI could be material to our financial condition and results of operations. Refer to Note 3 d) to the Consolidated Financial Statements for a description of the OTTI process.

Deferred tax assets
Many of our insurance businesses operate in income tax-paying jurisdictions. Our deferred tax assets and liabilities primarily result from temporary differences between the amounts recorded in our consolidated financial statements and the tax basis of our assets and liabilities. We determine deferred tax assets and liabilities separately for each tax-paying component (an individual entity or group of entities that is consolidated for tax purposes) in each tax jurisdiction. The realization of deferred tax assets depends upon the existence of sufficient taxable income within the carryback or carryforward periods under the tax law in the applicable tax jurisdiction.

At December 31, 2014, our net deferred tax asset was $295 million. Refer to Note 8 to the Consolidated Financial Statements for additional information. At each balance sheet date, management assesses the need to establish a valuation allowance that reduces deferred tax assets when it is more likely than not that all, or some portion, of the deferred tax assets will not be realized. The valuation allowance is based on all available information including projections of future taxable income from each tax-paying component in each tax jurisdiction, principally derived from business plans and available tax planning strategies. Projections of future taxable income incorporate several assumptions of future business and operations that are apt to differ from actual experience. The valuation allowance is also based on maintaining our ability and intent to hold our U.S. available for sale fixed maturities to recovery. If our assumptions and estimates that resulted in our forecast of future taxable income for each tax-paying component prove to be incorrect, or future market events occur that prevent our ability to hold our U.S. fixed maturities to recovery, an additional valuation allowance could become necessary, which could have a material adverse effect on our financial condition, results of operations, and liquidity. At December 31, 2014, the valuation allowance of $17 million reflects management's assessment 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.

Fair value measurements
Accounting guidance defines fair value as the price to sell an asset or transfer a liability (an exit price) in an orderly transaction between market participants and establishes a three-level valuation hierarchy based on the reliability of the inputs.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1 inputs) and the lowest priority to unobservable data (Level 3 inputs):

- Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 includes inputs other than quoted prices included within Level 1 that are observable for assets or liabilities either directly or indirectly. Level 2 inputs include, among other items, quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves.
- Level 3 inputs are unobservable and reflect our judgments about assumptions that market participants would use in pricing an asset or liability.

We categorize financial instruments within the valuation hierarchy at the balance sheet date based upon the lowest level of inputs that are significant to the fair value measurement. Accordingly, transfers between levels within the valuation hierarchy occur when there are significant changes to the inputs, such as increases or decreases in market activity, changes to the availability of current prices, changes to the transparency to underlying inputs, and whether there are significant variances in quoted prices. Transfers in and/or out of any level are assumed to occur at the end of the period.

While we obtain values for the majority of our investment securities from pricing services, it is ultimately our responsibility to determine whether the values obtained in the financial statements are representative of fair value. We periodically update our understanding of the methodologies used by our pricing services in order to validate that the prices obtained from those services are consistent with the GAAP definition of fair value as an exit price. Based on our understanding of the methodologies, our pricing services only produce an estimate of fair value if there is observable market information that would allow them to make a fair value estimate. Based on our understanding of the market inputs used by our pricing services, all applicable investments have been valued in accordance with GAAP valuation principles. We have controls to review significant price changes and stale pricing, and to ensure that prices received from pricing services have been accurately reflected in the consolidated financial statements. We do not adjust prices obtained from pricing services.

Additionally, fixed maturities valuation is more subjective when markets are less liquid due to the lack of market based inputs (i.e., stale pricing), which may increase the potential that an investment's estimated fair value is not reflective of the price at which an actual transaction would occur. For a small number of fixed maturities, we obtain a quote from a broker (typically a market maker). Due to the disclaimers on the quotes that indicate that the price is indicative only, we include these fair value estimates in Level 3.

At December 31, 2014 and 2013, Level 3 assets represented five percent of assets measured at fair value and three percent of total assets. Level 3 liabilities represented 88 percent and 74 percent of liabilities measured at fair value at December 31, 2014 and 2013, respectively, and less than one percent of our total liabilities at both December 31, 2014 and 2013. Refer to Note 4 to the consolidated financial statements for a description of the valuation techniques and inputs used to determine fair values for our financial instruments measured or disclosed at fair value by valuation hierarchy (Levels 1, 2, and 3) as well as a roll-forward of Level 3 financial instruments measured at fair value for the years ended December 31, 2014, 2013, and 2012.

Assumed reinsurance programs involving minimum benefit guarantees under variable annuity contracts
ACE reinsures various death and living benefit guarantees associated with variable annuities issued primarily in the United States and Japan. We ceased writing this business in 2007. Guarantees which are payable on death are referred to as guaranteed minimum death benefits (GMDB). Guarantees on living benefits (GLB) includes guaranteed minimum income benefits (GMIB) and guaranteed minimum accumulation benefits (GMAB). For further description of this product and related accounting treatment, refer to Note 1 j) to the Consolidated Financial Statements.

Guaranteed living benefits (GLB) derivatives
Our GLB reinsurance is classified as a derivative for accounting purposes and therefore carried at fair value. We believe that the most meaningful presentation of these GLB derivatives is as follows:

- Estimates of the average modeled value of future cash outflows is recorded as incurred losses (i.e., benefit reserves). Cash inflows or revenue are reported as net premiums earned and changes in the benefit reserves are reflected as Policy benefits expense in the consolidated statement of operations, which is included in underwriting income.
- The incremental difference between the fair value of GLB reinsurance contracts and benefit reserves is reflected in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets and related changes in fair value are reflected in Net realized gains (losses) in the consolidated statement of operations.

Determination of GLB fair value
The fair value of GLB reinsurance is estimated using an internal valuation model, which includes current market information and estimates of policyholder behavior from the perspective of a theoretical market participant that would assume these liabilities. All of our treaties contain claim limits, which are factored into the valuation model. The fair value depends on a number of factors, including interest rates, equity markets, credit risk, current account value, market volatility, expected annuitization rates and other policyholder behavior, and changes in policyholder mortality. The model and related assumptions are regularly re-evaluated by management and enhanced, as appropriate, based upon additional experience obtained related to policyholder behavior and availability of more timely market information. Due to the inherent uncertainties of the assumptions used in the valuation models to determine the fair value of these derivative products, actual experience may differ materially from the estimates reflected in our consolidated financial statements.

We intend to hold these derivative contracts to maturity (i.e., the expiration of the underlying liabilities through lapse, annuitization, death, or expiration of the reinsurance contract). To partially offset the risk of changes in the fair value of GLB reinsurance contracts, we invest in derivative hedge instruments. At maturity, the cumulative realized gains and losses (excluding cumulative hedge gains or losses) from fair value changes of GLB reinsurance contracts will net to zero because, over time, the insurance liability will be increased or decreased to equal our obligation.

Determination of GLB and Guaranteed minimum death benefits (GMDB) benefit reserves
Management established benefit reserves based on a long-term benefit ratio (or loss ratio) calculated using assumptions reflecting management's best estimate of the future short-term and long-term performance of the variable annuity line of business. Despite the long-term nature of the risk, the benefit ratio calculation is impacted by short-term market movements that may be judged by management to be transient. Management regularly examines both qualitative and quantitative analysis, including a review of the differential between the benefit ratio used at the most recent valuation date and the benefit ratio calculated on subsequent dates. Management regularly evaluates its estimates and uses judgment to determine the extent to which assumptions underlying the benefit ratio calculation should be adjusted. For the year ended December 31, 2014, management determined that no change to the benefit ratio was warranted.

For further information on the estimates and assumptions used in determining the fair value of GLB reinsurance, refer to Note 4 to the Consolidated Financial Statements. For a sensitivity discussion of the effect of changes in interest rates, equity indices, and other assumptions on the fair value of GLBs, and the resulting impact on our net income, refer to Item 7A.

Risk Management
We employ a strategy to manage the financial market and policyholder behavior risks embedded in the reinsurance of variable annuity (VA) guarantees. Risk management begins with underwriting a prospective client and guarantee design, with particular focus on protecting our position from policyholder options that, because of anti-selective behavior, could adversely impact our obligation.

A second layer of risk management is the structure of the reinsurance contracts. All VA guarantee reinsurance contracts include some form of annual or aggregate claim limit(s). For example, for 60 percent of the GMDB portfolio (based on guaranteed value), there is an annual claim limit of 2 percent of account value. The different categories of claim limits are as follows:

Reinsurance program covering	% of total guaranteed value (GV)	% of GV that has additional reinsurance coverage	Additional terms
GMDB with an annual claim limit of 2% of account value (AV)	60% of total GMDB	2% for GLB	N/A
GMDB with claim limit(s) that are a function of underlying GV (varies from 0.4% to 2.0% of GV)	30% of total GMDB	80% for GLB	• 60% of GV subject to annual claim deductibles[1] of 0.1% to 0.2% of GV • 45% of GV subject to an aggregate claim limit of approximately $384 million
GMDB and GMAB	10% of total GLB 10% of total GMDB	N/A	• Programs are quota-share (QS) agreements with QS % decreasing as ratio of AV to GV decreases: — QS 100% for ratios between 100% - 75% — QS 60% for ratios between 75% - 45% — QS 30% for ratios less than 45% • 35% of GV subject to a per policy claim deductible of 8.8% of GV for GMAB only[1]
GMIB with an annual claim limit of 10% of GV on over 95% of GV	60% of total GLB	45% for GMDB	• Annual annuitization limit range 17.5% - 30%: — 55% subject to limit of 30% — 45% subject to limit of 20% or under • 42% of GV subject to minimum annuity conversion factors that limits exposure to low interest rates
GMIB with an aggregate claim limit of $1.9 billion	30% of total GLB	40% for GMDB	• Annual annuitization limit of 20% • 60% of GV subject to minimum annuity conversion factors that limit exposure to low interest rates • 35% of GV subject to an aggregate claim deductible of 2% of underlying annuity deposits

[1] ACE would only pay total annual claims in excess of deductibles.

A third layer of risk management is the hedging strategy which looks to mitigate both long-term economic loss over time as well as dampen income statement volatility. We owned financial market instruments as part of the hedging strategy with a fair value liability of $19 million and $54 million at December 31, 2014 and 2013, respectively. The instruments are substantially collateralized by our counterparties, on a daily basis.

We also limit the aggregate amount of variable annuity reinsurance guarantee risk we are willing to assume. The last substantive transactions were quoted in late 2007. The aggregate number of policyholders is currently decreasing through policyholder withdrawals, annuitizations, and deaths at a rate of 5 percent to 15 percent per annum.

Note that GLB claims cannot occur for any reinsured policy until it has reached the end of its “waiting period”. 48 percent of the policies we reinsure reached the end of their “waiting periods” in 2014 and prior, as shown in the table below.

Year of first payment eligibility	Percent of living benefit account values
2014 and prior	48%
2015	6%
2016	6%
2017	19%
2018	13%
2019 and after	8%
Total	100%

The following table presents the historical cash flows under these policies for the periods indicated. The amounts represent accrued past premium received and claims paid, split by benefit type.

			2014			2013			2012
(in millions of U.S. dollars)	**GMDB**	**GLB**	**Total**	GMDB	GLB	Total	GMDB	GLB	Total
Premium received	**$ 71**	**$ 138**	**$ 209**	$ 77	$ 149	$ 226	$ 84	$ 160	$ 244
Less paid claims	**39**	**13**	**52**	63	23	86	99	11	110
Net cash received (paid)	**$ 32**	**$ 125**	**$ 157**	$ 14	$ 126	$ 140	$ (15)	$ 149	$ 134

Collateral

ACE holds collateral on behalf of most of its clients in the form of qualified assets in trust or letters of credit, typically in an amount sufficient for the client to obtain statutory reserve credit for the reinsurance. The timing of the calculation and amount of the collateral varies by client according to the particulars of the reinsurance treaty and the statutory reserve guidelines of the client's domicile.

Goodwill impairment

Goodwill, which represents the excess of acquisition cost over the estimated fair value of net assets acquired, was $4.9 billion and $4.6 billion at December 31, 2014 and 2013, respectively. During 2014, our goodwill balance increased 7 percent, primarily due to acquisitions. Goodwill is not amortized but is subject to a periodic evaluation for impairment at least annually, or earlier if there are any indications of possible impairment. Impairment is tested at the reporting unit level. Goodwill is assigned to applicable reporting units of acquired entities at acquisition. The most significant reporting units are:

- New York Life's Korea operations and Hong Kong operations acquired in 2011;
- Rain and Hail Insurance Service, Inc. (Rain and Hail) acquired in 2010;
- North American division of Combined Insurance acquired in 2008;
- Domestic and International divisions of ACE INA acquired in 1999, including subsequent international acquisitions; and
- ACE Tempest Re's businesses acquired in 1996 and 1998.

The impairment evaluation first uses a qualitative assessment to determine whether it is more likely than not (i.e., more than a 50 percent probability) that the fair value of a reporting unit is greater than its carrying amount. If a reporting unit fails this qualitative assessment, a quantitative analysis is then used. The quantitative analysis is a two-step process in which an initial assessment for potential impairment is performed and, if a potential impairment is present, the amount of impairment is measured and recorded.

Other reporting units from smaller acquisitions are also assessed annually. Based on our impairment testing for 2014, we determined no impairment was required and none of our reporting units were at risk for impairment.

In assessing the fair value of a reporting unit, we make assumptions and estimates about the profitability attributable to our reporting units, including:

- short-term and long-term growth rates; and
- estimated cost of equity and changes in long-term risk-free interest rates.

If our assumptions and estimates made in assessing the fair value of acquired entities change, we could be required to write-down the carrying value of goodwill which could be material to our results of operations in the period the charge is taken.

Consolidated Operating Results – Years Ended December 31, 2014, 2013, and 2012

				% Change	
(in millions of U.S. dollars, except for percentages)	**2014**	2013	2012	2014 vs. 2013	2013 vs. 2012
Net premiums written	**$ 17,799**	$ 17,025	$ 16,075	4.6 %	5.9 %
Net premiums earned	**17,426**	16,613	15,677	4.9 %	6.0 %
Net investment income	**2,252**	2,144	2,181	5.1 %	(1.7)%
Net realized gains (losses)	**(507)**	504	78	NM	NM
Total revenues	**19,171**	19,261	17,936	(0.5)%	7.4 %
Losses and loss expenses	**9,649**	9,348	9,653	3.2 %	(3.2)%
Policy benefits	**517**	515	521	0.4 %	(1.2)%
Policy acquisition costs	**3,075**	2,659	2,446	15.6 %	8.7 %
Administrative expenses	**2,245**	2,211	2,096	1.5 %	5.5 %
Interest expense	**280**	275	250	1.8 %	10.0 %
Other (income) expense	**(82)**	15	(6)	NM	NM
Total expenses	**15,684**	15,023	14,960	4.4 %	0.4 %
Income before income tax	**3,487**	4,238	2,976	(17.7)%	42.4 %
Income tax expense	**634**	480	270	32.1 %	77.8 %
Net income	**$ 2,853**	$ 3,758	$ 2,706	(24.1)%	38.9 %

NM – not meaningful

The following tables present a breakdown of consolidated net premiums written:

(in millions of U.S. dollars, except for percentages)	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Commercial P&C (retail and wholesale)	**$ 8,235**	$ 7,887	$ 7,237	4.4 %	9.0 %
Personal and small commercial lines	**2,292**	1,909	1,454	20.0 %	31.3 %
Reinsurance	**935**	991	1,025	(5.7)%	(3.3)%
Property, casualty and all other	**11,462**	10,787	9,716	6.3 %	11.0 %
Agriculture	**1,590**	1,627	1,859	(2.3)%	(12.5)%
Personal accident (A&H)	**3,735**	3,655	3,532	2.2 %	3.5 %
Life	**1,012**	956	968	5.9 %	(1.2)%
Total consolidated	**$ 17,799**	$ 17,025	$ 16,075	4.6 %	5.9 %
Total consolidated - constant dollars (C$) (1)		$ 16,847	$ 15,926	5.7 %	6.9%

	2014 % of Total	2013 % of Total	2012 % of Total
Commercial P&C (retail and wholesale)	**46%**	46%	45%
Personal and small commercial lines	**13%**	11%	9%
Reinsurance	**5%**	6%	6%
Property, casualty and all other	**64%**	63%	60%
Agriculture	**9%**	10%	12%
Personal accident (A&H)	**21%**	21%	22%
Life	**6%**	6%	6%
Total consolidated	**100%**	100%	100%

(1) On a constant-dollar basis. Amounts are calculated by translating prior period results using the same local currency rates as the comparable current period.

Net premiums written reflect the premiums we retain after purchasing reinsurance protection. Net premiums written increased in our Insurance – Overseas General segment on a constant-dollar basis from new business writings in our retail operations in all product lines - personal lines, A&H, and P&C and from the acquisitions of Fianzas Monterrey in April 2013, ABA Seguros in May 2013, Samaggi in April 2014, and Itaú Seguros in October 2014. Foreign exchange adversely impacted growth on an as reported basis. Our Insurance – North American P&C segment reported an increase in net premiums written from growth across a broad range of our product portfolio throughout our ACE USA retail and our wholesale divisions, as well as in our Commercial Risk Services and ACE Private Risk Services divisions, primarily reflecting strong renewal retention and new business. Our Life segment also reported an increase in net premiums written primarily due to growth in our Asian markets. Net premiums written decreased in our Insurance – North American Agriculture segment due to lower Multiple Peril Crop Insurance (MPCI) revenues reflecting lower commodity prices, partially offset by higher premium retention as a result of the non-renewal of a third-party proportional reinsurance agreement. Our Global Reinsurance segment also reported a decrease in net premiums written due to the non-renewal of a large workers' compensation treaty, partially offset by new business.

Net premiums written increased in 2013 due to higher net premiums written in our Insurance – Overseas General segment on a constant-dollar basis driven by strong performance in our retail operations in all product lines – P&C, A&H, and personal lines. The acquisitions of ABA Seguros and Fianzas Monterrey (Mexican Acquisitions), and Jaya Proteksi in September 2012 also added to premium growth. Foreign exchange adversely impacted growth on an as reported basis. Our Insurance – North American P&C segment also reported increases in net premiums written in our ACE USA retail division from growth across a broad range of our product portfolio reflecting rate increases, exposure changes, strong renewal retention, and new business. Net written premiums decreased in our Insurance – North American Agriculture segment due to lower premium retention in our MPCI program.

Net premiums earned for short-duration contracts, typically P&C contracts, generally reflect the portion of net premiums written that were recorded as revenues for the period as the exposure periods expire. Net premiums earned for long-duration contracts, typically traditional life contracts, generally are recognized as earned when due from policyholders. Net premiums earned increased in 2014 in our Insurance – Overseas General, Insurance – North American P&C, and Life segments as described above. Our Global Reinsurance segment also reported an increase in net premiums earned primarily from the shorter earning period on certain of the new business written this year including two non-recurring short-term treaties. Net premiums earned decreased in our Insurance – North American Agriculture segment from lower net premiums written as described above.

Net premiums earned increased in 2013 in our Insurance – Overseas General segment driven by strong performance in all product lines and our acquisitions as described above. Our Insurance – North American P&C segment also reported increases in net premiums earned from higher net premiums written as described above. Net premiums earned decreased in our Insurance – North American Agriculture and Global Reinsurance segments from lower net premiums written as described above.

Net investment income was $2.3 billion for 2014, $2.1 billion for 2013, and $2.2 billion for 2012. Refer to "Net Investment Income" and "Investments" for additional information.

In evaluating our segments excluding Life, we use the combined ratio, the loss and loss expense ratio, the policy acquisition cost ratio, and the administrative expense ratio. We calculate these ratios by dividing the respective expense amounts by net premiums earned. We do not calculate these ratios for the Life segment as we do not use these measures to monitor or manage that segment. 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 loss.

The following table presents the components of GAAP combined ratio as well as a reconciliation of GAAP combined ratio to P&C combined ratio. The P&C combined ratio is a non-GAAP financial measure and includes the impact of realized gains and losses on crop derivatives. These derivatives were purchased to provide economic benefit, in a manner similar to reinsurance protection, in the event that a significant decline in commodity pricing impacts underwriting results. We view gains and losses on these derivatives as part of the results of our underwriting operations.

	2014	2013	2012
Loss and loss expense ratio	**58.7 %**	59.6%	65.7%
Policy acquisition cost ratio	**16.8 %**	15.7%	15.3%
Administrative expense ratio	**12.6 %**	12.7%	12.9%
GAAP combined ratio	**88.1 %**	88.0%	93.9%
Gains on crop derivatives	**(0.4)%**	—	—
P&C combined ratio	**87.7 %**	88.0%	93.9%

The following table presents the impact of catastrophe losses and related reinstatement premiums and prior period reserve development on our consolidated loss and loss expense ratio, including gains on crop derivatives:

	2014	2013	2012
Loss and loss expense ratio, including gains on crop derivatives	**58.3 %**	59.6 %	65.7 %
Catastrophe losses and related reinstatement premiums	**(1.9)%**	(1.5)%	(4.6)%
Prior period development	**3.4 %**	3.7 %	3.5 %
Loss and loss expense ratio, adjusted	**59.8 %**	61.8 %	64.6 %

Total net pre-tax catastrophe losses, excluding reinstatement premiums, were $291 million in 2014, compared with $230 million in 2013 and $633 million in 2012. Catastrophe losses in 2014 were primarily related to severe weather-related events in the U.S., Japan, and Australia; flooding and hailstorms in Europe; and a hurricane in Mexico. Catastrophe losses in 2013 were primarily from flooding in Canada and Australia and severe weather-related events in the U.S. Catastrophe losses in 2012 were primarily from Superstorm Sandy, Hurricane Isaac, other severe weather-related events in the U.S. and Canada, and flooding in the U.K. The adjusted loss and loss expense was lower in 2014 due to underwriting actions improving loss ratios on several portfolios in the current year and higher losses in 2013 in our MPCI program.

Prior period development arises from changes to loss estimates recognized in the current year that relate to loss events that occurred in previous calendar years and excludes the effect of losses from the development of earned premium from previous accident years. We experienced net favorable prior period development of $527 million in 2014, $530 million in 2013, and $479 million in 2012, which includes an asbestos and environmental (A&E) and other run-off charge of $215 million, $166 million, and $140 million, respectively. Refer to “Prior Period Development” for additional information.

Policy acquisition costs consist of commissions, premium taxes, and certain underwriting costs related directly to the successful acquisition of a new or renewal insurance contract. Administrative expenses include all other operating costs. Our policy acquisition cost ratio increased in 2014 primarily due to the normal impact of initial year purchase accounting adjustments related to our Mexican acquisitions which favorably impacted the 2013 ratio. As a result of purchase accounting requirements, the unearned premiums at the date of purchase related to the businesses acquired are recognized over the remaining coverage period with no expense for the associated historical acquisition costs that were incurred to underwrite those policies. In addition, the policy acquisition cost ratio increased due to a change in the overall mix of business towards A&H and personal lines products in regions that have higher acquisition cost ratios. Our policy acquisition cost ratio increased in 2013 primarily due to a decrease in net premiums earned and higher agent commissions in our Insurance – North American Agriculture segment's MPCI business. The 2012 ratio was favorably impacted by higher premium retention and lower agent commissions in the MPCI business caused by the drought conditions in the U.S. This increase was partially offset by a lower policy acquisition cost ratio in our Insurance – Overseas General segment primarily due to the relatively lower acquisition costs expensed by our new Mexican operations.

Our administrative expense ratio decreased slightly in 2014 as growth in net premiums earned outpaced growth in administrative expenses, partially offset by the favorable impact of a $29 million prior year legal settlement. Our administrative expense ratio decreased in 2013 primarily due to the favorable impact of the legal settlement in 2013 and growth in net premiums earned that outpaced the growth in administrative expenses in our Insurance – North American P&C segment. This favorable impact was offset by a decrease in our Insurance – North American Agriculture segment's net premiums earned as well as the impact of lower Administrative and Operating expense (A&O) reimbursements in our MPCI business.

Our effective income tax rate, which we calculate as income tax expense divided by income before income tax, is dependent upon the mix of earnings from different jurisdictions with various tax rates. A change in the geographic mix of earnings would change the effective income tax rate. Our effective income tax rate was 18.2 percent in 2014, compared with 11.3 percent and 9.1 percent in 2013 and 2012, respectively. The effective income tax rate in 2014 is higher compared to 2013 primarily due to both net realized losses and a lower percentage of operating earnings being generated in lower tax paying jurisdictions as well as a $115 million change to deferred tax assets that resulted from the decline in the book value of certain foreign subsidiaries, related to unrealized foreign exchange losses. The increase in our effective income tax rate in 2013 compared to 2012 was due to the favorable resolution of various prior years' tax matters and the closing of statutes of limitations of $124 million during 2012. Partially offsetting the increase in the 2013 effective tax rate was the impact of both net realized gains on derivatives and a higher percentage of earnings being generated in lower tax paying jurisdictions during 2013. The lower tax rates attributed to our foreign operations primarily reflects lower corporate tax rates that prevail outside of the U.S. During 2014, approximately 66 percent of our total pre-tax income was tax effected based on these lower rates. The significant jurisdictions outside of the U.S. include the U.K., Switzerland, and Bermuda with effective federal income tax rates in those countries of 21.5 percent, 7.83 percent, and 0.0 percent, respectively.

Prior Period Development

Years Ended December 31 (in millions of U.S. dollars, except for percentages)	Long-tail	Short-tail	Total	% of net unpaid reserves [1]
2014				
Insurance – North American P&C – active	**$ (298)**	**$ (56)**	**$ (354)**	**2.2%**
Insurance – North American P&C – run-off[2]	**247**	**—**	**247**	**1.6%**
Insurance – North American Agriculture	**—**	**34**	**34**	**6.8%**
Insurance – Overseas General	**(181)**	**(210)**	**(391)**	**4.8%**
Global Reinsurance	**(52)**	**(11)**	**(63)**	**2.9%**
Total	**$ (284)**	**$ (243)**	**$ (527)**	**2.0%**
2013				
Insurance – North American P&C – active	$ (221)	$ (106)	$ (327)	2.1%
Insurance – North American P&C – run-off[2]	193	—	193	1.2%
Insurance – North American Agriculture	—	(13)	(13)	4.0%
Insurance – Overseas General	(127)	(172)	(299)	3.8%
Global Reinsurance	(53)	(31)	(84)	3.6%
Total	$ (208)	$ (322)	$ (530)	2.0%
2012				
Insurance – North American P&C – active	$ (245)	$ (103)	$ (348)	2.2%
Insurance – North American P&C – run-off[2]	168	—	168	1.1%
Insurance – North American Agriculture	—	(12)	(12)	2.6%
Insurance – Overseas General	(121)	(105)	(226)	3.1%
Global Reinsurance	(32)	(29)	(61)	2.7%
Total	$ (230)	$ (249)	$ (479)	1.9%

(1) Calculated based on the segment's total beginning of period net unpaid loss and loss expenses reserves.

(2) Brandywine Holdings and Westchester Specialty operations in respect of 1996 and prior years.

For a discussion of significant prior period movements by segment, refer to Note 7 to the Consolidated Financial Statements.

Segment Operating Results – Years Ended December 31, 2014, 2013, and 2012

We operate through five business segments: Insurance – North American P&C, Insurance – North American Agriculture, Insurance – Overseas General, Global Reinsurance, and Life. For additional information refer to "Segment Information" under Item 1. The discussions that follow include tables that show our segment operating results for the years ended December 31, 2014, 2013, and 2012.

Insurance – North American

Insurance – North American P&C

The Insurance – North American P&C segment comprises our operations in the U.S., Canada, and Bermuda. This segment includes our retail divisions: ACE USA (including ACE Canada), ACE Commercial Risk Services, and ACE Private Risk Services; our wholesale and specialty divisions: ACE Westchester and ACE Bermuda; and various run-off operations, including Brandywine Holdings Corporation (Brandywine).

				% Change	
(in millions of U.S. dollars, except for percentages)	**2014**	2013	2012	2014 vs. 2013	2013 vs. 2012
Net premiums written	**$ 6,263**	$ 5,915	$ 5,349	5.9 %	10.6 %
Net premiums earned	**6,107**	5,721	5,147	6.8 %	11.1 %
Losses and loss expenses	**4,086**	3,776	3,715	8.2 %	1.6 %
Policy acquisition costs	**634**	597	558	6.2 %	7.0 %
Administrative expenses	**678**	601	608	12.8 %	(1.2)%
Underwriting income	**709**	747	266	(5.1)%	180.8 %
Net investment income	**1,085**	1,021	1,066	6.3 %	(4.2)%
Net realized gains (losses)	**(67)**	72	41	NM	75.6 %
Interest expense	**9**	5	12	80.0 %	(58.3)%
Other (income) expense	**(101)**	(58)	(41)	74.1%	41.5%
Income tax expense	**306**	347	229	(11.8)%	51.5 %
Net income	**$ 1,513**	$ 1,546	$ 1,173	(2.1)%	31.8 %
Loss and loss expense ratio	**66.9%**	66.0%	72.2%		
Policy acquisition cost ratio	**10.4%**	10.4%	10.8%		
Administrative expense ratio	**11.1%**	10.5%	11.8%		
Combined ratio	**88.4%**	86.9%	94.8%		

Net premiums written increased in 2014 in our ACE USA retail division from growth across a broad range of our product portfolio, including our risk management, general and specialty casualty, A&H, professional risk, and surety lines of business reflecting strong renewal retention and new business. This growth was partially offset by reductions in our retail property division reflecting a more competitive market and rate decreases. Net premiums written grew in our wholesale division from higher production in our casualty, property, and professional lines of business, and in our Commercial Risk Services division, primarily due to growth in our specialty and program business. Our personal lines division contributed to the increase in net premiums written due to higher production in the homeowners, automobile and umbrella business offered through ACE Private Risk Services.

Net premiums written increased in 2013 in our ACE USA retail division from growth across a broad range of our product portfolio including our risk management business, specialty casualty, professional, property, and A&H lines of business reflecting rate increases, exposure changes, strong renewal retention, and new business. In addition, we grew net premiums written in our Commercial Risk Services division, primarily management and professional lines of business and programs, and our personal lines division, primarily in the homeowners, automobile, and umbrella business offered through ACE Private Risk Services. Our wholesale and specialty division contributed to the increase in net premiums written due to higher production from our property, casualty, and professional lines of business.

Net premiums earned increased in 2014 and 2013 primarily due to the increase in net premiums written as described above. In 2013, growth in net premiums earned for the retail division was partially offset by lower earned premiums from our program business.

The following tables present a line of business breakdown of Insurance – North American P&C net premiums earned:

(in millions of U.S. dollars, except for percentages)	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Commercial P&C (retail and wholesale)	$ 4,785	$ 4,524	$ 4,031	5.8%	12.2%
Personal and small commercial lines	909	812	745	11.9%	9.0%
Personal accident (A&H)	413	385	371	7.3%	3.8%
Net premiums earned	$ 6,107	$ 5,721	$ 5,147	6.8%	11.1%

	2014 % of Total	2013 % of Total	2012 % of Total
Commercial P&C (retail and wholesale)	78%	79%	78%
Personal and small commercial lines	15%	14%	15%
Personal accident (A&H)	7%	7%	7%
Net premiums earned	100%	100%	100%

The following table presents the impact of catastrophe losses and related reinstatement premiums and prior period reserve development on our loss and loss expense ratio:

	2014	2013	2012
Loss and loss expense ratio, as reported	66.9 %	66.0 %	72.2 %
Catastrophe losses and related reinstatement premiums	(2.2)%	(1.7)%	(8.5)%
Prior period development	1.9 %	2.5 %	3.7 %
Loss and loss expense ratio, adjusted	66.6 %	66.8 %	67.4 %

Net pre-tax catastrophe losses, excluding reinstatement premiums, were $132 million in 2014, compared with $94 million in 2013 and $430 million in 2012. Catastrophe losses in 2014 were primarily from severe weather-related events in the U.S., Bermuda and Australia, as well as a hurricane in Mexico. Catastrophe losses in 2013 were primarily from flooding in Canada and severe weather-related events in the U.S. Catastrophe losses in 2012 were primarily from Superstorm Sandy, Hurricane Isaac, and other severe weather-related events in the U.S. and Canada. Net favorable prior period development was $107 million in 2014, compared with $134 million in 2013 and $180 million in 2012. Refer to the “Prior Period Development” section for additional information. The adjusted loss and loss expense ratio decreased in 2014 due to lower loss ratios in several of our lines where a combination of the execution of detailed portfolio management plans, product mix and earned rate changes have resulted in improved current accident year loss ratio performance. The improvement was partially offset by higher non-catastrophe large losses in the current year. In 2013, the adjusted loss and loss expense ratio benefited from lower loss ratios in several of our lines where a combination of the execution of detailed portfolio management plans, product mix and earned rate changes have resulted in improved current accident year loss ratio performance. Partially offsetting the improvement in the 2013 current accident year loss ratio performance is higher premiums from assumed loss portfolio programs, which is written at a higher loss ratio than other lines of business.

The policy acquisition cost ratio remained flat in 2014. The policy acquisition cost ratio decreased in 2013 primarily due to growth in certain businesses that have lower acquisition cost ratios.

The administrative expense ratio was higher in 2014 compared to the prior year ratio which included a 0.5 point favorable impact related to a $29 million legal settlement. Excluding the impact of the legal settlement, the administrative expense ratio remained relatively flat compared with the prior year. The administrative expense ratio decreased in 2013 primarily due to the favorable impact of the legal settlement in 2013 as noted above and growth in net premiums earned that outpaced the growth in administrative expenses.

Insurance – North American Agriculture

The Insurance – North American Agriculture segment comprises our North American based businesses that provide a variety of coverages in the U.S. and Canada including crop insurance, primarily MPCI and crop-hail through Rain and Hail as well as farm and ranch and specialty P&C commercial insurance products and services through our ACE Agribusiness unit.

				% Change	
(in millions of U.S. dollars, except for percentages)	**2014**	2013	2012	2014 vs. 2013	2013 vs. 2012
Net premiums written	**$ 1,590**	$ 1,627	$ 1,859	(2.3)%	(12.5)%
Net premiums earned	**1,526**	1,678	1,872	(9.1)%	(10.4)%
Losses and loss expenses [1]	**1,300**	1,525	1,911	(14.8)%	(20.2)%
Policy acquisition costs	**81**	53	28	52.8 %	89.3 %
Administrative expenses	**9**	11	(7)	(18.2)%	NM
Underwriting income (loss)	**136**	89	(60)	52.8%	NM
Net investment income	**26**	26	25	—	4.0 %
Net realized gains (losses)[1]	**3**	2	1	50.0 %	100.0 %
Interest expense	**—**	1	—	NM	NM
Other (income) expense	**33**	32	32	3.1 %	—
Income tax expense (benefit)	**33**	20	(29)	65.0%	NM
Net income (loss)	**$ 99**	$ 64	$ (37)	54.7%	NM
Loss and loss expense ratio	**85.2%**	90.9%	102.1 %		
Policy acquisition cost ratio	**5.3%**	3.2%	1.5 %		
Administrative expense ratio	**0.6%**	0.6%	(0.4)%		
Combined ratio	**91.1%**	94.7%	103.2 %		

[1] (Gains) losses on crop derivatives are reclassified from Net realized gains (losses) to Losses and loss expenses for purposes of presenting Insurance – North American Agriculture underwriting income. Refer to Note 10 and Note 15 to the Consolidated Financial Statements for more information on these derivatives.

Net premiums written decreased in 2014 principally due to lower commodity prices and higher premium cessions to the U.S. government in 2014 for the MPCI business. Under the government's crop insurance profit and loss calculation formula, we retained more premiums in 2013 as losses were higher. The decrease in net premiums written was partially offset by higher premium retention as a result of the non-renewal of a third-party proportional reinsurance agreement.

Net premiums written decreased in 2013 primarily due to lower premium retention in our MPCI program. Retention for 2013 was lower due to the purchase of proportional reinsurance on the MPCI business for the 2013 crop year, which was in addition to the excess of loss reinsurance coverage historically purchased.

Net premiums earned decreased in 2014 and 2013 primarily due to the factors described above.

The following table presents the impact of catastrophe losses and related reinstatement premiums and prior period reserve development on our loss and loss expense ratio:

	2014	2013	2012
Loss and loss expense ratio, as reported	**85.2 %**	90.9 %	102.1 %
Catastrophe losses and related reinstatement premiums	**(0.8)%**	(0.4)%	(0.6)%
Prior period development	**(2.6)%**	0.8 %	0.7 %
Loss and loss expense ratio, adjusted	**81.8 %**	91.3 %	102.2 %

Net pre-tax catastrophe losses, excluding reinstatement premiums, were $13 million in 2014, compared with $7 million in 2013 and $11 million in 2012. Net prior period development was $34 million unfavorable in 2014, compared with $13 million favorable in 2013 and $12 million favorable in 2012. For 2014, the amount includes an increase in incurred losses of $64 million for higher than expected MPCI losses for the 2013 crop year, as well as $26 million of favorable increase in net premiums earned related to the government's crop insurance profit and loss calculation formula. Refer to the “Prior Period

Development" section for additional information. The adjusted loss and loss expense ratio declined in 2014 due to lower commodity prices in the prior year that resulted in higher losses in our MPCI program in 2013. The lower ratio in 2014 also reflects the benefit of our crop derivatives entered into in 2014. The adjusted loss and loss expense ratio for 2013 reflects higher losses resulting from lower commodity prices at the time of harvest as compared to the original base price used at the time the insurance contract is sold. Despite this increase, the adjusted loss and loss expense ratio for 2013 declined over 2012 because 2012 was adversely impacted by the U.S. drought.

The policy acquisition cost ratio increased in 2014, primarily due to less net premiums earned in our MPCI business as a result of lower commodity prices, a reduction in ceded commission benefits on third-party reinsurance primarily due to the non-renewal of a third-party proportional reinsurance agreement, and lower agent commission accruals in 2013. The policy acquisition cost ratio increased in 2013 primarily due to lower agent commission accruals in 2012, partially offset by the cede commission benefit from the third party proportional reinsurance purchased on the 2013 crop year. The U.S. drought significantly impacted the profitability of the MPCI business in 2012, and in years when the MPCI program is in an unprofitable position as defined in the SRA there are no agent profit share commissions. The increase for 2013 also reflects a $14 million benefit in 2012 reflecting a revision in estimated agent profit share commissions for the prior year's MPCI business.

The administrative expense ratio remained flat compared with the prior year. The administrative expense ratio increased in 2013 primarily due to higher Administrative and Operating expense (A&O) reimbursements on the MPCI business in 2012 mainly due to additional reimbursements earned for high loss ratio states and underserved states. Under the SRA with the federal government, ACE receives additional expense reimbursements when losses in individual states exceed a specified threshold.

Insurance – Overseas General

The Insurance – Overseas General segment comprises ACE International, ACE Global Markets (AGM), and the international supplemental A&H business of Combined Insurance. ACE International comprises our retail commercial P&C, A&H, and personal lines businesses serving territories outside the U.S., Bermuda, and Canada. AGM comprises the segment's London-based wholesale insurance business for excess and surplus lines; this includes Lloyd's of London Syndicate 2488. The reinsurance operations of AGM are included in the Global Reinsurance segment.

				% Change	
(in millions of U.S dollars, except for percentages)	**2014**	2013	2012	2014 vs. 2013	2013 vs. 2012
Net premiums written	**$ 6,999**	$ 6,520	$ 5,863	7.4 % [1]	11.2 % [1]
Net premiums earned	**6,805**	6,333	5,740	7.5 %	10.3 %
Losses and loss expenses	**3,189**	3,062	2,862	4.1 %	7.0 %
Policy acquisition costs	**1,625**	1,453	1,353	11.8 %	7.4 %
Administrative expenses	**1,026**	1,008	935	1.8 %	7.8 %
Underwriting income	**965**	810	590	19.1 %	37.3 %
Net investment income	**545**	539	521	1.1 %	3.5 %
Net realized gains (losses)	**(78)**	18	103	NM	(82.5)%
Interest expense	**6**	5	5	20.0 %	—
Other (income) expense	**11**	39	3	(71.8)%	NM
Income tax expense	**378**	222	133	70.3 %	66.9 %
Net income	**$ 1,037**	$ 1,101	$ 1,073	(5.8)%	2.6 %
Loss and loss expense ratio	**46.9%**	48.4%	49.8%		
Policy acquisition cost ratio	**23.9%**	22.9%	23.6%		
Administrative expense ratio	**15.0%**	15.9%	16.3%		
Combined ratio	**85.8%**	87.2%	89.7%		

[1] For the year ended December 31, 2014 and 2013, net premiums written increased $601 million or 9.4% and $787 million or 13.7% on a constant-dollar basis, respectively. Amounts are calculated by translating prior period results using the same local currency rates as the comparable current period.

Net premiums written increased in 2014 on a constant-dollar basis from new business writings in our retail operations in all product lines – personal lines, A&H, and P&C. The increase in personal lines reflected growth in all regions, and A&H growth was driven by strong results in all regions except Europe. P&C growth was driven primarily by new business writings in Asia and Latin America. In addition, the acquisitions of Fianzas Monterrey in April 2013, ABA Seguros in May 2013, Samaggi in April 2014, and Itaú Seguros in October 2014 added $310 million of growth to premiums. Foreign exchange adversely impacted growth for 2014 on an as reported basis.

Net premiums written increased in 2013 on a constant-dollar basis driven by strong performance in our retail operations and from acquisitions. Growth was reported in our retail operations in all product lines – P&C, A&H, and personal lines. P&C growth was reported across all regions of our retail operations, driven by strong renewal retention and improved new business writings. A&H growth was primarily driven by strong results in Asia and Latin America. Personal lines growth reflected new business opportunities in Europe, Latin America, and Asia. In addition, the acquisitions of ABA Seguros, Fianzas Monterrey, and Jaya Proteksi in September 2012, added $407 million of growth to premiums. Foreign exchange adversely impacted growth for 2013 on an as reported basis.

Net premiums earned increased in 2014 and 2013 primarily due to the increase in net premiums written as described above. Insurance – Overseas General conducts business internationally and in most major foreign currencies. The following tables present a line of business and regional breakdown of Insurance – Overseas General net premiums earned:

(in millions of U.S. dollars, except for percentages)	**2014**	2013	2012	C$[1] 2013	C$[1] 2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012	% Change C$[1] 2014 vs. 2013	% Change C$[1] 2013 vs. 2012
Line of Business									
Commercial P&C (retail and wholesale)	**$ 3,226**	$3,113	$ 2,941	$ 3,093	$2,902	3.6 %	5.8 %	4.3 %	7.3%
Personal and small commercial lines	**1,295**	1,038	674	987	624	24.8 %	54.0 %	31.2 %	66.4%
Personal accident (A&H)	**2,284**	2,182	2,125	2,129	2,094	4.7 %	2.7 %	7.3 %	4.2%
Net premiums earned	**$ 6,805**	$6,333	$ 5,740	$ 6,209	$5,620	7.5 %	10.3 %	9.6 %	12.7%
Region									
Europe / U.K.[2]	**$ 3,115**	$3,058	$ 2,917	$ 3,203	$2,941	1.9 %	4.8 %	(2.7)%	4.0%
Asia Pacific	**1,571**	1,383	1,244	1,235	1,231	13.6 %	11.2 %	27.2 %	12.3%
Far East	**433**	458	525	423	436	(5.5)%	(12.8)%	2.4 %	5.0%
Latin America	**1,686**	1,434	1,054	1,348	1,012	17.6 %	36.1 %	25.1 %	41.7%
Net premiums earned	**$ 6,805**	$6,333	$ 5,740	$ 6,209	$5,620	7.5 %	10.3 %	9.6 %	12.7%

	2014 % of Total	2013 % of Total	2012 % of Total
Line of Business			
Commercial P&C (retail and wholesale)	**47%**	49%	51%
Personal and small commercial lines	**19%**	16%	12%
Personal accident (A&H)	**34%**	35%	37%
Net premiums earned	**100%**	100%	100%
Region			
Europe / U.K.[2]	**46%**	48%	51%
Asia Pacific	**23%**	22%	22%
Far East	**6%**	7%	9%
Latin America	**25%**	23%	18%
Net premiums earned	**100%**	100%	100%

[1] On a constant-dollar basis. Amounts are calculated by translating prior period results using the same local currency rates as the comparable current period.
[2] Europe/U.K. includes Eurasia and Africa region.

The following table presents the impact of catastrophe losses and related reinstatement premiums and prior period reserve development on our loss and loss expense ratio:

	2014	2013	2012
Loss and loss expense ratio, as reported	**46.9 %**	48.4 %	49.8 %
Catastrophe losses and related reinstatement premiums	**(1.6)%**	(1.4)%	(1.4)%
Prior period development	**5.7 %**	4.7 %	4.0 %
Loss and loss expense ratio, adjusted	**51.0 %**	51.7 %	52.4 %

Net pre-tax catastrophe losses, excluding reinstatement premiums, were $112 million in 2014, compared with $88 million in 2013 and $76 million in 2012. Catastrophe losses in 2014 were primarily related to flooding in Europe, severe storms in Japan, a hurricane in Mexico, and a hailstorm in Australia. Catastrophe losses in 2013 were primarily related to flooding in Australia, Europe, and Canada, as well as hurricanes in Latin America, and an earthquake in New Zealand. Catastrophe losses in 2012 were primarily from Superstorm Sandy, Hurricane Isaac, and flooding in the U.K. Net favorable prior period development was $391 million in 2014, compared with $299 million in 2013 and $226 million in 2012. Refer to the "Prior Period Development" section for additional information. The adjusted loss ratio decreased in 2014 due primarily to both mix of business and underwriting actions which improved loss ratios on several portfolios. The adjusted loss ratio decreased in 2013 due primarily to large property losses in 2012 which unfavorably impacted the 2012 ratio.

The policy acquisition ratio increased in 2014 due primarily to the normal impact of initial year purchase accounting adjustments related to our Mexican acquisitions which favorably impacted the 2013 policy acquisition cost ratio by 0.6 points. As a result of purchase accounting requirements, the unearned premiums at the date of purchase related to the businesses acquired are recognized over the remaining coverage period with no expense for the associated historical acquisition costs that were incurred to underwrite those policies. In addition, the policy acquisition cost ratio increased due to a change in the overall mix of business towards A&H and personal lines products in regions that have higher acquisition cost ratios. The policy acquisition ratio decreased in 2013 primarily due to the relatively lower acquisition costs expensed by our new Mexican operations.

The administrative expense ratio decreased in 2014 due primarily to growth in net premiums earned that outpaced the growth in administrative expenses. In addition, the administrative expense ratio decreased due to increased spending in the prior year to support growth. The administrative expense ratio decreased in 2013 due to the favorable impact of foreign exchange, the Mexican acquisitions described above, which generate lower administrative expenses than our other businesses, as well as growth in net premiums earned that outpaced the growth in administrative expenses and lower A&H regulatory fees paid in Europe.

Global Reinsurance

The Global Reinsurance segment represents our reinsurance operations comprising ACE Tempest Re Bermuda, ACE Tempest Re USA, ACE Tempest Re International, and ACE Tempest Re Canada. Global Reinsurance markets its reinsurance products worldwide under the ACE Tempest Re brand name and provides a broad range of coverage to a diverse array of primary P&C companies.

				% Change	
(in millions of U.S. dollars, except for percentages)	**2014**	2013	2012	2014 vs. 2013	2013 vs. 2012
Net premiums written	**$ 935**	$ 991	$ 1,025	(5.7)%	(3.3)%
Net premiums earned	**1,026**	976	1,002	5.1 %	(2.6)%
Losses and loss expenses	**431**	396	553	8.8 %	(28.4)%
Policy acquisition costs	**257**	197	172	30.5 %	14.5 %
Administrative expenses	**54**	50	51	8.0 %	(2.0)%
Underwriting income	**284**	333	226	(14.7)%	47.3 %
Net investment income	**316**	280	290	12.9 %	(3.4)%
Net realized gains (losses)	**(29)**	53	6	NM	NM
Interest expense	**4**	5	4	(20.0)%	25.0%
Other (income) expense	**(54)**	(19)	(15)	184.2%	26.7 %
Income tax expense	**38**	36	15	5.6 %	140.0 %
Net income	**$ 583**	$ 644	$ 518	(9.5)%	24.3 %
Loss and loss expense ratio	**42.0%**	40.5%	55.2%		
Policy acquisition cost ratio	**25.0%**	20.3%	17.1%		
Administrative expense ratio	**5.3%**	5.1%	5.2%		
Combined ratio	**72.3%**	65.9%	77.5%		

Net premiums written decreased in 2014 primarily due to the non-renewal of a $79 million workers' compensation treaty, partially offset by new business. Net premiums written decreased in 2013 due to a non-recurring LPT treaty written in 2012, increased property catastrophe cessions to a sidecar, Altair Re, and lower catastrophe reinstatement premiums. This decrease was substantially offset by strong renewal retention and new business written, primarily in our U.S. property and U.S. automobile lines of business.

Net premiums earned increased in 2014 primarily from the shorter earning period on certain of the new business written this year including two non-recurring short-term treaties. Net premiums earned decreased in 2013 due to a non-recurring LPT treaty written in 2012, which was fully earned when written and, to a lesser extent, the higher property catastrophe cessions noted above. This decrease was partially offset by higher net premiums earned in our U.S. property lines due to higher premiums written in 2013 and prior years.

The following tables present a line of business breakdown of Global Reinsurance net premiums earned:

(in millions of U.S. dollars, except for percentages)	**2014**	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Property and all other	**$ 298**	$ 253	$ 194	17.8 %	30.4 %
Casualty	**475**	433	507	9.7 %	(14.6)%
Property catastrophe	**253**	290	301	(12.8)%	(3.7)%
Net premiums earned	**$ 1,026**	$ 976	$ 1,002	5.1 %	(2.6)%

	2014 % of Total	2013 % of Total	2012 % of Total
Property and all other	**29%**	26%	19%
Casualty	**46%**	44%	51%
Property catastrophe	**25%**	30%	30%
Net premiums earned	**100%**	100%	100%

The following table presents the impact of catastrophe losses and related reinstatement premiums and prior period reserve development on our loss and loss expense ratio:

	2014	2013	2012
Loss and loss expense ratio, as reported	**42.0 %**	40.5 %	55.2 %
Catastrophe losses and related reinstatement premiums	**(3.2)%**	(4.0)%	(11.1)%
Prior period development	**6.7 %**	9.1 %	6.3 %
Loss and loss expense ratio, adjusted	**45.5 %**	45.6 %	50.4 %

Net pre-tax catastrophe losses, excluding reinstatement premiums, were $34 million in 2014, compared with $41 million in 2013 and $116 million in 2012. Catastrophe losses in 2014 were related to severe storms in Japan, European hailstorms, and severe weather-related events in the U.S. Catastrophe losses in 2013 were primarily from flooding in Canada and Europe. Catastrophe losses in 2012 were primarily from Superstorm Sandy, Hurricane Isaac, and other North American weather-related events. Net favorable prior period development was $63 million in 2014, compared with $84 million in 2013 and $61 million in 2012 (2014, 2013 and 2012 are net of $10 million, $8 million, and $4 million, respectively, of unfavorable premium adjustments to loss sensitive treaties). Refer to the “Prior Period Development” section for additional information. The adjusted loss and loss expense ratio decreased slightly in 2014 and decreased in 2013 primarily due to the LPT treaty written in 2012, which unfavorably impacted the 2012 ratio.

The policy acquisition cost ratio increased in 2014 primarily due to a change in the mix of business towards products written in the U.S. that have a higher acquisition cost ratio than in other regions and the impact of the non-renewal of a large workers' compensation treaty which incurred no acquisition costs. The policy acquisition cost ratio increased in 2013 due to a change in the mix of business towards products that have a higher acquisition cost ratio as well as the LPT treaty written in 2012, which did not generate acquisition costs.

The administrative expense ratio increased in 2014 as the prior year included the favorable impact of a $2 million expense adjustment that reduced the administrative expense ratio in 2013. Excluding this adjustment, the administrative expense ratio remained flat. The administrative expense ratio remained relatively flat in 2013.

Life

The Life segment includes our international life operations (ACE Life), ACE Tempest Life Re (ACE Life Re), and the North American supplemental A&H and life business of Combined Insurance. We assess the performance of our life business based on Life underwriting income, which includes Net investment income and (Gains) losses from fair value changes in separate account assets that do not qualify for separate account reporting under GAAP.

(in millions of U.S. dollars, except for percentages)	**2014**	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Net premiums written	**$ 2,012**	$ 1,972	$ 1,979	2.0 %	(0.4)%
Net premiums earned	**1,962**	1,905	1,916	3.0 %	(0.6)%
Losses and loss expenses	**589**	582	611	1.2 %	(4.7)%
Policy benefits	**517**	515	521	0.4 %	(1.2)%
(Gains) losses from fair value changes in separate account assets[1]	**(2)**	(16)	(29)	(87.5)%	(44.8)%
Policy acquisition costs	**478**	358	334	33.5 %	7.2 %
Administrative expenses	**285**	343	328	(16.9)%	4.6 %
Net investment income	**268**	251	251	6.8 %	—
Life underwriting income	**363**	374	402	(2.9)%	(7.0)%
Net realized gains (losses)	**(383)**	360	(72)	NM	NM
Interest expense	**11**	15	12	(26.7)%	25.0%
Other (income) expense[1]	**2**	13	25	(84.6)%	(48.0)%
Income tax expense	**46**	34	58	35.3 %	(41.4)%
Net income (loss)	**$ (79)**	$ 672	$ 235	NM	186.0%

(1) (Gains) losses from fair value changes in separate account assets that do not qualify for separate account reporting under GAAP are reclassified from Other (income) expense for purposes of presenting Life underwriting income.

The following table presents a line of business breakdown of Life net premiums written and deposits collected on universal life and investment contracts:

(in millions of U.S. dollars, except for percentages)	**2014**	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
A&H[1]	**$ 1,000**	$ 1,016	$ 1,011	(1.6)%	0.5 %
Life insurance	**750**	672	654	11.6 %	2.8 %
Life reinsurance	**262**	284	314	(7.6)%	(9.6)%
Net premiums written (excludes deposits below)	**$ 2,012**	$ 1,972	$ 1,979	2.0 %	(0.4)%
Deposits collected on universal life and investment contracts	**$ 823**	$ 684	$ 509	20.3 %	34.4 %

(1) Includes the North American supplemental A&H and life business of Combined Insurance

Life net premiums written increased two percent, or four percent on a constant-dollar basis in 2014. Life net premiums written decreased 0.4 percent, or increased 0.2 percent on a constant-dollar basis in 2013. A&H net premiums written remained flat in 2014 after adjusting for the $16 million unfavorable impact of foreign exchange. A&H net premiums written increased slightly in 2013 with improved new business production and a catch-up in premium registrations. Life insurance net premiums written increased in 2014 and 2013 primarily due to growth in our Asian markets. Life reinsurance net premiums written decreased in 2014 and 2013 because there is no new life reinsurance business currently being written.

Deposits collected on universal life and investment contracts (life deposits) are not reflected as revenues in our consolidated statements of operations in accordance with GAAP. New life deposits are an important component of production and key to our efforts to grow our business. Although life deposits do not significantly affect current period income from operations, they are an important indicator of growth. The increase in life deposits collected in 2014 and 2013 is primarily due to growth in our Asian markets.

In 2014, we determined that certain A&H marketing-related costs were more appropriately classified as acquisition costs. This resulted in a $59 million increase to acquisition expenses and an offsetting decrease to administrative expenses in 2014.

Net realized gains (losses), which are excluded from Life underwriting income, relate primarily to the change in the net fair value of reported guaranteed living benefits (GLB) reinsurance liabilities and changes in the fair value of derivatives used to partially offset the risk in the variable annuity guarantee portfolio. During 2014, realized losses of $213 million were associated with a net increase in the value of GLB liabilities; this increase was primarily due to lower interest rates and the unfavorable impact of discounting future claims for one less year, partially offset by a weakening yen and rising U.S. equity levels.

In the fourth quarter of 2014, we completed an updated in-depth review of actual policyholder lapse and annuitization behavior by treaty for our variable annuity reinsurance business. As a result of our review, we made several refinements to our lapse assumptions, the most significant of which was an increase in lapses for most large, in-the-money, guaranteed minimum income benefits (GMIB) policies beyond the surrender charge period. The increase in lapse assumptions decreased the fair value of GLB liabilities and generated a realized gain of $31 million. Because of a greater degree of reported experience related to behavior in years subsequent to the first year of annuitization eligibility, we also made several adjustments to our annuitization assumptions, which generally lowered the annuitization rate for most clients, while raising it for two clients. The change in annuitization assumptions decreased the fair value of GLB liabilities and generated a realized gain of $39 million. We will continue to monitor actual policyholder behavior against our assumptions and make adjustments as appropriate. Also, during the fourth quarter of 2014, we increased the granularity of policy groupings used in our valuation model. This refinement increased the fair value of GLB liabilities and generated a realized loss of $78 million.

During 2013, realized gains of $929 million were associated with a net decrease in the value of GLB liabilities; this decrease was primarily due to rising equity levels, higher interest rates, and a weakening yen, partially offset by a net unfavorable impact of changes in lapse and annuitization assumptions and the unfavorable impact of discounting future claims for one less year.

During 2012, realized gains of $203 million were associated with a net decrease in the value of GLB liabilities; this decrease was primarily due to rising equity levels and a weakening yen, partially offset by an increased value of GLB liabilities due to falling interest rates and the unfavorable impact of discounting future claims for one less year.

In addition, we experienced realized losses of $168 million, $579 million, and $297 million in 2014, 2013, and 2012, respectively, due to a decrease in the value of derivative instruments, which decrease in value when the S&P 500 index increases.

Net Investment Income

(in millions of U.S. dollars)	Years Ended December 31 2014	2013	2012
Fixed maturities	**$ 2,199**	$ 2,093	$ 2,134
Short-term investments	**45**	29	28
Equity securities	**33**	37	34
Other	**94**	105	104
Gross investment income	**2,371**	2,264	2,300
Investment expenses	**(119)**	(120)	(119)
Net investment income	**$ 2,252**	$ 2,144	$ 2,181

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 5.1 percent in 2014 compared with 2013 primarily due to a higher overall invested asset base and call activity in our corporate bond portfolio, partially offset by the negative impact of foreign exchange. Net investment income decreased 1.7 percent in 2013 compared with 2012 primarily due to lower reinvestment rates in our fixed income portfolio, offset by a higher overall invested asset base.

The investment portfolio's average market yield on fixed maturities was 2.8 percent, 3.0 percent, and 2.3 percent at December 31, 2014, 2013, and 2012, respectively. Average market yield on fixed maturities represents the weighted average yield to maturity of our fixed income portfolio based on the market prices of the holdings at that date.

The 1.9 percent yield on short-term investments for the year ended December 31, 2014 reflects the global nature of our insurance operations. For example, yields on short-term investments in Brazil, Indonesia, Ecuador, and Malaysia range from 3.3 percent to 11.8 percent.

The 4.9 percent yield on our equity securities portfolio for the year ended December 31, 2014 is high relative to the yield on the S&P 500 Index because of dividends on preferred equity securities and because we classified our strategic emerging debt portfolio, which is a mutual fund, as equity. During the third quarter of 2014, however, we elected to exchange our interest in the strategic emerging debt portfolio for direct ownership of certain of the underlying fixed maturities, and the remainder in cash. In 2014, the strategic emerging debt portfolio, prior to the election to exchange our interest, and the preferred equity securities represented 64 percent of the gross equity securities investment income.

The following table shows the return on average invested assets:

(in millions of U.S. dollars, except for percentages)	Years Ended December 31 2014	2013	2012
Average invested assets	**$ 60,382**	$ 58,574	$ 55,655
Net investment income	**$ 2,252**	$ 2,144	$ 2,181
Return on average invested assets	**3.7%**	3.7%	3.9%

Net Realized and Unrealized Gains (Losses)

We take a long-term view with our investment strategy, and our investment managers manage our investment portfolio to maximize total return within certain specific guidelines designed to minimize risk. The majority of our investment portfolio is available for sale and reported at fair value. Our held to maturity investment portfolio is reported at amortized cost.

The effect of market movements on our available for sale investment portfolio impacts Net income (through Net realized gains (losses)) when securities are sold or when we record an Other-than-temporary impairment (OTTI) charge in Net income. For a discussion related to how we assess OTTI for all of our investments, including credit-related OTTI, and the related impact on Net income, refer to Note 3 d) to the Consolidated Financial Statements. Additionally, Net income is impacted through the reporting of changes in the fair value of derivatives, including financial futures, options, swaps, and GLB reinsurance. Changes in unrealized appreciation and depreciation on available for sale securities, which result from the revaluation of securities held, are reported as a separate component of Accumulated other comprehensive income in Shareholders' equity in the consolidated balance sheets.

The following table presents our pre-tax net realized and unrealized gains (losses) on investments:

	Year Ended December 31, 2014			Year Ended December 31, 2013		
(in millions of U.S. dollars)	**Net Realized Gains (Losses)[1]**	**Net Unrealized Gains (Losses)**	**Net Impact**	Net Realized Gains (Losses)[1]	Net Unrealized Gains (Losses)	Net Impact
Fixed maturities	**$ 23**	**$ 732**	**$ 755**	$ 90	$ (1,880)	$ (1,790)
Fixed income derivatives	**(107)**	**—**	**(107)**	78	—	78
Total fixed maturities	**(84)**	**732**	**648**	168	(1,880)	(1,712)
Public equity	**(47)**	**77**	**30**	15	(41)	(26)
Private equity	**(3)**	**42**	**39**	(2)	51	49
Other	**2**	**(7)**	**(5)**	(3)	3	—
Subtotal	**(132)**	**844**	**712**	178	(1,867)	(1,689)
Derivatives						
Fair value adjustment on insurance derivatives	**(217)**	**—**	**(217)**	878	—	878
S&P put option and futures	**(168)**	**—**	**(168)**	(579)	—	(579)
Other derivatives	**50**	**—**	**50**	(2)	—	(2)
Subtotal derivatives	**(335)**	**—**	**(335)**	297	—	297
Foreign exchange gains (losses)	**(40)**	**—**	**(40)**	29	—	29
Total gains (losses)	**$ (507)**	**$ 844**	**$ 337**	$ 504	$ (1,867)	$ (1,363)

(1) For the year ended December 31, 2014, other-than-temporary impairments include $57 million for fixed maturities, $3 million for private equity, and $8 million for public equity. For the year ended December 31, 2013, other-than-temporary impairments include $18 million for fixed maturities, $2 million for private equity, and $2 million for public equity.

At December 31, 2014, our investment portfolios held by U.S. legal entities included approximately $37 million of gross unrealized losses on fixed income investments. Our tax planning strategy related to these losses is based on our view that we will hold these fixed income investments until they recover their cost. As such, we have recognized a deferred tax asset of approximately $13 million related to these fixed income investments. This strategy allows us to recognize the associated deferred tax asset related to these fixed income investments as we do not believe these losses will ever be realized.

Other Income and Expense Items

Other (income) expense was $(82) million in 2014 compared with $15 million and $(6) million in 2013 and 2012, respectively. Refer to Note 14 to the Consolidated Financial Statements for the components of Other (income) expense.

Investments

Our investment portfolio is invested primarily in publicly traded, investment grade, fixed income securities with an average credit quality of A/Aa as rated by the independent investment rating services Standard and Poor's (S&P)/ Moody's Investors Service (Moody's). The portfolio is externally managed by independent, professional investment managers and is broadly diversified across geographies, sectors, and issuers. Other investments principally comprise direct investments, investment funds, and limited partnerships. We hold no collateralized debt obligations or collateralized loan obligations in our investment portfolio, and we provide no credit default protection. We have long-standing global credit limits for our entire portfolio across the organization. Exposures are aggregated, monitored, and actively managed by our Global Credit Committee, comprising senior executives, including our Chief Financial Officer, our Chief Risk Officer, our Chief Investment Officer, and our Treasurer. We also have well-established, strict contractual investment rules requiring managers to maintain highly diversified exposures to individual issuers and closely monitor investment manager compliance with portfolio guidelines.

The average duration of our fixed income securities, including the effect of options and swaps, was 4.0 years at both December 31, 2014 and 2013. We estimate that a 100 basis point (bps) increase in interest rates would reduce the valuation of our fixed income portfolio by approximately $2.4 billion at December 31, 2014.

The following table shows the fair value and cost/amortized cost of our invested assets:

	December 31, 2014		December 31, 2013	
(in millions of U.S. dollars)	**Fair Value**	**Cost/ Amortized Cost**	Fair Value	Cost/ Amortized Cost
Fixed maturities available for sale	**$ 49,395**	**$ 47,826**	$ 49,254	$ 48,406
Fixed maturities held to maturity	**7,589**	**7,331**	6,263	6,098
Short-term investments	**2,322**	**2,322**	1,763	1,763
	59,306	**57,479**	57,280	56,267
Equity securities	**510**	**440**	837	841
Other investments	**3,346**	**2,999**	2,976	2,671
Total investments	**$ 63,162**	**$ 60,918**	$ 61,093	$ 59,779

The fair value of our total investments increased $2.1 billion during the year ended December 31, 2014, primarily due to the investing of operating cash flows and unrealized appreciation, partially offset by share repurchases, and the impact of unfavorable foreign exchange.

During the third quarter of 2014, we decided to transfer securities, considered essential holdings in a diversified portfolio, with a total fair value of $2.0 billion from Fixed maturities available for sale to Fixed maturities held to maturity. These securities, which we have the intent and ability to hold to maturity, were transferred given the growth in ACE's investment portfolio over the last several years, as well as continued efforts to manage the diversification of our global portfolio.

The following tables present the market value of our fixed maturities and short-term investments at December 31, 2014 and 2013. The first table lists investments according to type and the second according to S&P credit rating:

	December 31, 2014		December 31, 2013	
(in millions of U.S. dollars, except for percentages)	**Market Value**	**% of Total**	Market Value	% of Total
Treasury	**$ 2,448**	**4%**	$ 2,327	4%
Agency	**1,222**	**2%**	1,454	3%
Corporate and asset-backed securities	**19,854**	**34%**	19,475	34%
Mortgage-backed securities	**12,325**	**21%**	12,273	21%
Municipal	**4,930**	**8%**	4,500	8%
Non-U.S.	**16,205**	**27%**	15,488	27%
Short-term investments	**2,322**	**4%**	1,763	3%
Total	**$ 59,306**	**100%**	$ 57,280	100%
AAA	**$ 8,943**	**15%**	$ 8,677	15%
AA	**21,589**	**36%**	21,520	38%
A	**11,625**	**20%**	11,168	19%
BBB	**8,690**	**15%**	7,193	12%
BB	**4,372**	**7%**	4,418	8%
B	**3,916**	**7%**	3,940	7%
Other	**171**	**—%**	364	1%
Total	**$ 59,306**	**100%**	$ 57,280	100%

Corporate and asset-backed securities

The following table presents our 10 largest global exposures to corporate bonds by market value at December 31, 2014:

(in millions of U.S. dollars)	**Market Value**
JP Morgan Chase & Co	**$ 447**
General Electric Co	**419**
Goldman Sachs Group Inc	**347**
Wells Fargo & Co	**270**
HSBC Holdings Plc	**265**
Verizon Communications Inc	**233**
Bank of America Corp	**231**
Morgan Stanley	**217**
AT&T Inc	**216**
Citigroup Inc	**206**

Mortgage-backed securities

	S&P Credit Rating					Market Value	Amortized Cost
December 31, 2014 (in millions of U.S. dollars)	AAA	AA	A	BBB	BB and below	Total	Total
Agency residential mortgage-backed (RMBS)	**$ —**	**$ 10,216**	**$ —**	**$ —**	**$ —**	**$ 10,216**	**$ 9,911**
Non-agency RMBS	**35**	**5**	**18**	**12**	**15**	**85**	**83**
Commercial mortgage-backed	**1,995**	**14**	**12**	**3**	**—**	**2,024**	**2,000**
Total mortgage-backed securities	**$ 2,030**	**$ 10,235**	**$ 30**	**$ 15**	**$ 15**	**$ 12,325**	**$ 11,994**

Municipal

As part of our overall investment strategy, we may invest in states, municipalities, and other political subdivisions fixed maturity securities (Municipal). We apply the same investment selection process described previously to our Municipal investments. The portfolio is highly diversified primarily in state general obligation bonds and essential service revenue bonds including education and utilities (water, power, and sewers).

Non-U.S.

Our exposure to the Euro results primarily from ACE European Group which is headquartered in London and offers a broad range of coverages throughout the European Union, Central, and Eastern Europe. ACE primarily invests in Euro denominated investments to support its local currency insurance obligations and required capital levels. ACE's local currency investment portfolios have strict contractual investment guidelines requiring managers to maintain a high quality and diversified portfolio to both sector and individual issuers. Investment portfolios are monitored daily to ensure investment manager compliance with portfolio guidelines.

Our non-U.S. investment grade fixed income portfolios are currency-matched with the insurance liabilities of our non-U.S. operations. The average credit quality of our non-U.S. fixed income securities is A and 54 percent of our holdings are rated AAA or guaranteed by governments or quasi-government agencies. Within the context of these investment portfolios, our government and corporate bond holdings are highly diversified across industries and geographies. Issuer limits are based on credit rating (AA—two percent, A—one percent, BBB—0.5 percent of the total portfolio) and are monitored daily via an internal compliance system. Because of this investment approach we do not have a direct exposure to troubled sovereign borrowers in Europe. We manage our indirect exposure using the same credit rating based investment approach. Accordingly, we do not believe our indirect exposure is material.

The following table summarizes the market value and amortized cost of our non-U.S. fixed income portfolio by country/sovereign for non-U.S. government securities at December 31, 2014:

(in millions of U.S. dollars)	Market Value	Amortized Cost
United Kingdom	$ 1,119	$ 1,090
Republic of Korea	790	705
Federative Republic of Brazil	660	663
United Mexican States	509	505
Canada	483	471
Kingdom of Thailand	407	389
Province of Ontario	373	358
Province of Quebec	263	251
Japan	243	242
Germany	200	188
Other Non-U.S. Government Securities (1)	2,788	2,659
Total	$ 7,835	$ 7,521

(1) There are no investments in Portugal, Ireland, Italy, Greece or Spain.

The following table summarizes the market value and amortized cost of our non-U.S. fixed income portfolio by country/ sovereign for non-U.S. corporate securities at December 31, 2014:

(in millions of U.S. dollars)	Market Value	Amortized Cost
United Kingdom	$ 1,621	$ 1,541
Canada	1,047	1,018
United States	566	550
Australia	542	526
Netherlands	518	495
France	508	486
Germany	420	395
Switzerland	291	279
Euro Supranational	257	246
China	247	240
Other Non-U.S. Corporate Securities	2,353	2,322
Total	$ 8,370	$ 8,098

The countries that are listed in the non-U.S. corporate fixed income portfolio above represent the ultimate parent company's country of risk. Non-U.S. corporate securities could be issued by foreign subsidiaries of U.S. corporations.

Below-investment grade corporate 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 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 investment grade issuers. At December 31, 2014, our corporate fixed income investment portfolio included below-investment grade and non-rated securities which, in total, comprised approximately 13 percent of our fixed income portfolio. Our below-investment grade and non-rated portfolio includes over 1,200 issuers, with the greatest single exposure being $96 million.

We manage high-yield bonds as a distinct and separate asset class from investment grade bonds. The allocation to high-yield bonds is explicitly set by internal management and is targeted to securities in the upper tier of credit quality (BB/B). Our minimum rating for initial purchase is BB/B. Six external investment managers are responsible for high-yield security selection and portfolio construction. Our high-yield managers have a conservative approach to credit selection and very low historical default experience. Holdings are highly diversified across industries and subject to a 1.5 percent issuer limit as a percentage of high-yield allocation. We monitor position limits daily through an internal compliance system. Derivative and structured securities (e.g., credit default swaps and collateralized loan obligations) are not permitted in the high-yield portfolio.

Reinsurance Recoverable on Ceded Reinsurance

(in millions of U.S. dollars)	**December 31 2014**	December 31 2013
Reinsurance recoverable on unpaid losses and loss expenses[1]	**$ 11,307**	$ 10,612
Reinsurance recoverable on paid losses and loss expenses[1]	**685**	615
Net reinsurance recoverable on losses and loss expenses	**$ 11,992**	$ 11,227
Reinsurance recoverable on policy benefits	**$ 217**	$ 218

(1) Net of a provision for uncollectible reinsurance.

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 uncollectible reinsurance is required principally due to the potential failure of reinsurers to indemnify us, primarily because of disputes under reinsurance contracts and insolvencies. The provision for uncollectible reinsurance is based on a default analysis applied to gross reinsurance recoverables, net of approximately $2.4 billion and $2.3 billion of collateral at December 31, 2014 and 2013, respectively. The increase in net reinsurance recoverable on loss and loss expenses was primarily due to the acquisition of Itaú Seguros, which added $1.1 billion, partially offset by unfavorable foreign exchange.

Asbestos and Environmental (A&E)

Asbestos and environmental (A&E) reserving considerations
For asbestos, ACE faces claims relating to policies issued to manufacturers, distributors, installers, and other parties in the chain of commerce for asbestos and products containing asbestos. Claims can be filed by individual claimants or groups of claimants with the potential for hundreds of individual claimants at one time. Claimants will generally allege damages across an extended time period which may coincide with multiple policies covering a wide range of time periods for a single insured.

Environmental claims present exposure for remediation and defense costs associated with the contamination of property as a result of pollution. It is common, especially for larger defendants, to be named as a potentially responsible party at multiple sites.

The following table presents count information for asbestos claims by causative agent and environmental claims by site, for direct policies only:

	Asbestos (by causative agent)		Environmental (by site)	
	2014	2013	**2014**	2013
Open at beginning of year	**1,107**	1,058	**3,339**	3,390
Newly reported	**64**	69	**201**	138
Closed or otherwise disposed	**44**	20	**422**	189
Open at end of year	**1,127**	1,107	**3,118**	3,339

Closed or otherwise disposed environmental sites were higher in 2014 primarily due to several settlements and a continuous review of pending cases completed in prior years.

Survival ratios are calculated by dividing the asbestos or environmental loss and allocated loss adjustment expense (ALAE) reserves by the average asbestos or environmental loss and ALAE payments for the three most recent calendar years (3 year survival ratio). The 3 year survival ratios for gross and net Asbestos loss and ALAE reserves were 3.9 years and 4.4 years, respectively. The 3 year survival ratios for gross and net Environmental loss and ALAE reserves were 2.0 years and 1.8 years, respectively. The survival ratios provide only a very rough depiction of reserves and are significantly impacted by a number of factors such as aggressive settlement practices, variations in gross to ceded relationships within the asbestos or environmental claims, and levels of coverage provided. We, therefore, urge caution in using these very simplistic ratios to gauge reserve adequacy.

Catastrophe Management

We actively monitor our catastrophe risk accumulation around the world. The table below presents our modeled annual aggregate pre-tax probable maximum loss (PML), net of reinsurance, for 100-year and 250-year return periods for U.S. hurricane and California earthquake at December 31, 2014 and 2013. The table also presents ACE's corresponding share of pre-tax industry losses for each of the return periods for U.S. hurricane and California earthquake. For example, according to the model, for the 1-in-100 return period scenario, there is a one percent chance that our losses incurred in any year from U.S. hurricane events could be in excess of $1,757 million (or 5.9 percent of our total shareholders' equity at December 31, 2014). We estimate that at such hypothetical loss levels, ACE's share of aggregate industry losses would be approximately 1.1 percent.

	U.S. Hurricane				California Earthquake			
	December 31 2014			December 31 2013	**December 31 2014**			December 31 2013
Modeled Annual Aggregate Net PML	**ACE**	**% of Total Shareholders' Equity**	**% of Industry**	ACE	**ACE**	**% of Total Shareholders' Equity**	**% of Industry**	ACE
(in millions of U.S. dollars, except for percentages)								
1-in-100	**$ 1,757**	**5.9%**	**1.1%**	$ 2,235	**$ 797**	**2.7%**	**2.0%**	$ 722
1-in-250	**$ 2,383**	**8.1%**	**1.1%**	$ 2,959	**$ 1,046**	**3.5%**	**1.7%**	$ 931

The above modeled loss information at December 31, 2014 reflects our in-force portfolio at October 1, 2014 and reinsurance program at January 1, 2015. The modeling estimates at December 31, 2013 reflected our reinsurance program at January 1, 2014, which excluded Named Storm coverage in North America for the time period generally considered outside U.S. Hurricane season. While this exclusion carried nominal risk, it impacted the point in time PML estimate in the prior year as the point in time estimate does not take into account the seasonality of hurricanes. We had defined "Named Storm" as a storm or storm system that has been declared by the National Hurricane Center (NHC) to be a tropical cyclone, tropical storm or a hurricane and includes wind, gusts, hail, rain, tornadoes or cyclones related to such storm. ACE established a new Global Property Catastrophe Program for our North American and International operations that provided global natural catastrophe and terrorism coverage that was effective as of July 1, 2014. Refer to "Natural catastrophe property reinsurance program" for additional information. As a result of the new reinsurance program, the modeled PML for U.S. hurricane at December 31, 2014 is lower compared to December 31, 2013.

The modeling estimates of both ACE and industry loss levels are inherently uncertain owing to key assumptions. First, while the use of third-party catastrophe modeling packages to simulate potential hurricane and earthquake losses is prevalent within the insurance industry, the models are reliant upon significant meteorology, seismology, and engineering assumptions to estimate hurricane and earthquake losses. In particular, modeled hurricane and earthquake events are not always a representation of actual events and ensuing additional loss potential. Second, there is no universal standard in the preparation of insured data for use in the models and the running of the modeling software. Third, we are reliant upon third-party estimates of industry insured exposures and there is significant variation possible around the relationship between our loss and that of the industry following an event. Fourth, we assume that our reinsurance recoveries following an event are fully collectible. These loss estimates do not represent our potential maximum exposures and it is highly likely that our actual incurred losses would vary materially from the modeled estimates.

Natural Catastrophe Property Reinsurance Program

ACE's core property catastrophe reinsurance program provides protection against natural catastrophes impacting its primary property operations (i.e., excluding our Global Reinsurance and Life segments).

We regularly review our reinsurance protection and corresponding property catastrophe exposures. This may or may not lead to the purchase of additional reinsurance prior to a program's renewal date. In addition, prior to each renewal date, we consider how much, if any, coverage we intend to buy and we may make material changes to the current structure in light of various factors, including modeled PML assessment at various return periods, reinsurance pricing, our risk tolerance and exposures, and various other structuring considerations.

ACE established a new Global Catastrophe Program for our North American and International operations. The program is effective July 1, 2014 through June 30, 2015, and consists of two layers in excess of losses retained by ACE. Approximately 20 percent of the coverage was placed with reinsurers providing upfront collateral equal to the limit of their participation and without a reinstatement. The remaining coverage was placed without upfront collateral and with one additional reinstatement limit in the event of a natural peril loss. In addition, we also purchased terrorism coverage (excluding nuclear, biological, chemical and radiation coverage) for the United States from July 1, 2014 to June 30, 2015 with the same limits and retention and percentage placed except that the majority of terrorism coverage is on an aggregate basis above our retentions without a reinstatement.

Loss Location	Layer of Loss	Comments	Notes
United States (excluding Alaska and Hawaii)	\$0 million – \$500 million	Losses retained by ACE	(a)
United States (excluding Alaska and Hawaii)	\$500 million – \$1.0 billion	All natural perils, and terrorism (excluding nuclear, biological, chemical and radiation)	(b)
United States (excluding Alaska and Hawaii)	\$1.0 billion – \$1.275 billion	All natural perils, and terrorism (excluding nuclear, biological, chemical and radiation)	(c)
International (including Alaska and Hawaii)	\$0 million – \$150 million	Losses retained by ACE	(a)
International (including Alaska and Hawaii)	\$150 million – \$650 million	All natural perils, and terrorism (excluding nuclear, biological, chemical and radiation)	(b)
Alaska, Hawaii, and Canada	\$650 million – \$925 million	All natural perils, and terrorism (excluding nuclear, biological, chemical and radiation)	(c)

[a] Ultimate retention will depend upon the nature of the loss and the interplay between the underlying per risk programs and certain other catastrophe programs purchased by individual business units. These other catastrophe programs have the potential to reduce our effective retention below the stated levels.

[b] These coverages are both part of the same Core layer within the Global Catastrophe Program and are approximately 90% placed with Reinsurers. As such, it may be exhausted in one region and not available in the other.

[c] These coverages are both part of the same Second layer within the Global Catastrophe Program and are approximately 98% placed with Reinsurers. As such, it may be exhausted in one region and not available in the other.

Political Risk, Trade Credit, and Structured Trade Credit

Political risk insurance is a specialized coverage that provides clients with protection against unexpected, catastrophic political or macroeconomic events, primarily in developing markets. We participate in this market through our wholly-owned subsidiary Sovereign Risk Insurance Ltd. (Sovereign), and through a unit of our London-based AGM operation. Sovereign is one of the world's leading underwriters of political risk insurance and has a global portfolio spread across more than 100 countries. Its clients include financial institutions, national export credit agencies, leading multilateral agencies, and multinational corporations. AGM writes political risk, trade credit, and structured trade credit business out of underwriting offices in London, England; Hamburg, Germany; Sao Paulo, Brazil; Singapore; and in the U.S. in the following locations: New York, New York; Los Angeles; California; and Washington, D.C.

Our political risk insurance provides protection to commercial lenders against defaults on cross border loans, insulates investors against equity losses, and protects exporters against defaults on contracts. Commercial lenders, our largest client segment, are covered for missed scheduled loan repayments due to acts of confiscation, expropriation or nationalization by the host government, currency inconvertibility or exchange transfer restrictions, or war or other acts of political violence. In addition, in the case of loans to government-owned entities or loans that have a government guarantee, political risk policies cover scheduled payments against risks of non-payment or non-honoring of government guarantees. Equity investors and corporations receive similar coverage to that of lenders, except they are protected against financial losses, inability to repatriate dividends, and physical damage to their operations caused by covered events. Our export contracts protection provides coverage for both exporters and their financing banks against the risk of contract frustration due to government actions, including non-payment by government entities.

AGM's trade credit and structured trade credit businesses cover losses due to insolvency, protracted default, and political risk perils including export and license cancellation. It provides trade credit coverage to larger companies that have sophisticated credit risk management systems, with exposure to multiple customers and that have the ability to self-insure losses up to a certain level through excess of loss coverage. Its structured trade credit business provides coverage to trade finance banks, exporters, and trading companies, with exposure to trade-related financing instruments.

We have implemented structural features in our policies in order to control potential losses within the political risk, trade credit, and structured credit businesses. These include basic loss sharing features that include co-insurance and deductibles, and in the case of trade credit, the use of non-qualifying losses that drop smaller exposures deemed too difficult to assess. Ultimate loss severity is also limited by using waiting periods to enable the insurer and insured to agree on recovery strategies, and the subrogation of the rights of the lender/exporter to the insurer following a claim. We have the option to pay claims over the original loan payment schedule, rather than in a lump sum in order to provide insureds and the insurer additional time to remedy problems and work towards full recoveries. It is important to note that political risk, trade credit, and structured trade credit policies are named peril conditional contracts, not financial guarantees, and claims are only paid after conditions and warranties are fulfilled. Political risk, trade credit, and structured trade credit insurance do not cover currency devaluations, bond defaults, any form of derivatives, movements in overseas equity markets, transactions deemed illegal, or situations where corruption or misrepresentation has occurred, or debt that is not legally enforceable. In addition to assessing and mitigating potential exposure on a policy-by-policy basis, we also have specific risk management measures in place to manage overall exposure and risk. These measures include placing country and individual transaction limits based on country risk and credit ratings, combined single loss limits on multi-country policies, the use of reinsurance protection, and regular modeling and stress-testing of the portfolio.

Crop Insurance

We are, and have been since the 1980s, one of the leading writers of crop insurance in the U.S. and have conducted that business through a managing general agent subsidiary of Rain and Hail. We provide protection throughout the U.S. on a variety of crops and are therefore geographically diversified, which reduces the risk of exposure to a single event or a heavy accumulation of losses in any one region. Our crop insurance business comprises two components – Multiple Peril Crop Insurance (MPCI) and crop-hail insurance.

The MPCI program is offered in conjunction with the U.S. Department of Agriculture (USDA). The policies cover revenue shortfalls or production losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. Generally, policies have deductibles ranging from 10 percent to 50 percent of the insured's risk. The USDA's Risk Management Agency (RMA) sets the policy terms and conditions, rates and forms, and is also responsible for setting compliance standards. As a participating company, we report all details of policies underwritten to the RMA and are party to a Standard Reinsurance Agreement (SRA). The SRA sets out the relationship between private insurance companies and the Federal Crop Insurance Corporation (FCIC) concerning the terms and conditions regarding the risks each will bear including the pro-rata and state stop-loss provisions which allows companies to limit the exposure of any one state or group of states on their underwriting results. In addition to the pro-rata and excess of loss reinsurance protections inherent in the SRA, we also purchase third-party proportional and stop-loss reinsurance for our MPCI business to reduce our exposure. We may also enter into crop derivative contracts to further manage our risk exposure.

Each year the RMA issues a final SRA for the subsequent reinsurance year. In June 2014, the RMA released the 2015 SRA which establishes the terms and conditions for the 2015 reinsurance year (i.e., July 1, 2014 through June 30, 2015) that replaced the 2014 SRA. There were no significant changes in the terms and conditions.

On the MPCI business, we recognize net premiums written as soon as estimable, which is generally when we receive acreage reports from the policyholders on the various crops throughout the U.S. This allows us to best determine the premium associated with the liability that is being planted. The MPCI program has specific timeframes as to when producers must report acreage to us and in certain cases, the reporting occurs after the close of the respective reinsurance year. Once the net premium written has been recorded, the premium is then earned over the growing season for the crops. A majority of the crops that are covered in the program are typically subject to the SRA in effect at the beginning of the year. Given the major crops covered in the program, we typically see a substantial written and earned premium impact in the second and third quarters.

The pricing of MPCI premium is determined using a number of factors including commodity prices and related volatility. For instance, in most states the pricing for the MPCI Revenue Product for corn includes a factor that is based on the average price in February of the Chicago Board of Trade December corn futures. To the extent that the corn commodity prices are higher in February than they were in the previous February, and all other factors are the same, the increase in corn prices will increase the corn premium year over year.

Our crop-hail program is a private offering. Premium is earned on the crop-hail program over the coverage period of the policy. Given the very short nature of the growing season, most crop-hail business is typically written in the second and third quarters with the earned premium also more heavily occurring during this time frame. We use industry data to develop our own rates and forms for the coverage offered. The policy primarily protects farmers against yield reduction caused by hail and/or fire, and related costs such as transit to storage. We offer various deductibles to allow the grower to partially self-insure for a reduced premium cost. We limit our crop-hail exposures through the use of township liability limits and third-party proportional and stop-loss reinsurance on our net retained hail business.

Liquidity

Liquidity is a measure of a company's ability to generate cash flows sufficient to meet short-term and long-term cash requirements. As a holding company, ACE Limited possesses assets that consist primarily of the stock of its subsidiaries and other investments. In addition to net investment income, ACE Limited's cash flows depend primarily on dividends or other statutorily permissible payments. Historically, these dividends and other payments have come from ACE's Bermuda-based operating subsidiaries, which we refer to as our Bermuda subsidiaries. Our consolidated sources of funds consist primarily of net premiums written, fees, net investment income, and proceeds from sales and maturities of investments. Funds are used at our various companies primarily to pay claims, operating expenses, and dividends, to service debt, and to purchase investments.

We anticipate that positive cash flows from operations (underwriting activities and investment income) should be sufficient to cover cash outflows under most loss scenarios for the near term. Should the need arise, we generally have access to capital markets and available credit facilities. Refer to “Credit Facilities” below for additional information. Our access to funds under an existing credit facility is dependent on the ability of the bank that is a party to the facility to meet its funding commitments. Our existing credit facility has a remaining term expiring in November 2017 and requires that we maintain certain financial covenants, all of which we met at December 31, 2014. Should our existing credit provider experience financial difficulty, we may be required to replace credit sources, possibly in a difficult market. If we cannot obtain adequate capital or sources of credit on favorable terms, on a timely basis, or at all, our business, operating results, and financial condition could be adversely affected. To date, we have not experienced difficulty accessing our credit facility.

To further ensure the sufficiency of funds to settle unforeseen claims, we hold certain invested assets in cash and short-term investments. In addition, for certain insurance, reinsurance, or deposit contracts that tend to have relatively large and reasonably predictable cash outflows, we attempt to establish dedicated portfolios of assets that are duration-matched with the related liabilities. With respect to the duration of our overall investment portfolio, we manage asset durations to both maximize return given current market conditions and provide sufficient liquidity to cover future loss payments. All things being equal, in a low interest rate environment, the overall duration of our fixed maturities tends to be shorter and in a high interest rate environment, such duration tends to be longer. At December 31, 2014, the average duration of our fixed maturities (4.0 years) is less than the average expected duration of our insurance liabilities (4.8 years). The increase in duration of our insurance liabilities (4.8 years in 2014 and 4.5 years in 2013) is principally due to decreases in interest rates in 2014.

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

The payment 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. During 2014, we were able to meet all of our obligations, including the payments of dividends on our Common Shares, with our net cash flows.

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. ACE Limited received dividends of $300 million and $825 million from its Bermuda subsidiaries in 2014 and 2013, respectively.

The payment of any dividends from AGM or its subsidiaries is subject to applicable U.K. insurance laws and regulations. In addition, the release of funds by Syndicate 2488 to subsidiaries of AGM is subject to regulations promulgated by the Society of Lloyd's. ACE Limited received no dividends from AGM in 2014 and 2013.

The U.S. insurance subsidiaries of ACE INA Holdings Inc. (ACE INA) may pay dividends, without prior regulatory approval, subject to restrictions set out in state law of the subsidiary's domicile (or, if applicable, commercial domicile). ACE INA's international subsidiaries are also subject to insurance laws and regulations particular to the countries in which the subsidiaries operate. These laws and regulations sometimes include restrictions that limit the amount of dividends payable without prior approval of regulatory insurance authorities. ACE Limited received no dividends from ACE INA in 2014 and 2013. Debt issued by ACE INA is serviced by statutorily permissible distributions by ACE INA's insurance subsidiaries to ACE INA as well as other group resources. ACE INA received $401 million of dividends from its subsidiaries, of which $374 million was paid in cash, in 2014 and no dividends in 2013. At December 31, 2014, the amount of dividends available to be paid to ACE INA in 2015 from its subsidiaries without prior approval of insurance regulatory authorities totals $1.1 billion.

Cash Flows

Our insurance and reinsurance operations provide liquidity in that premiums are received in advance, sometimes substantially in advance, of the time claims are paid. Generally, cash flows are affected by claim payments that, due to the nature of our operations, may comprise large loss payments on a limited number of claims and which can fluctuate significantly from period to period. The irregular timing of these loss payments can create significant variations in cash flows from operations between periods. Refer to “Contractual Obligations and Commitments” for our estimate of future claim payments by period. Sources of liquidity include cash from operations, routine sales of investments, and financing arrangements. The following is a discussion of our cash flows for 2014, 2013, and 2012.

Operating cash flows reflect Net income for each period, adjusted for non-cash items and changes in working capital.

Operating cash flows were $4.5 billion in 2014, compared with $4.0 billion in both 2013 and 2012. Operating cash flows increased in 2014 compared with 2013, primarily due to higher net premiums collected of $1.0 billion, partially offset by higher net losses paid of $406 million. Operating cash flows in 2013 were comparable to 2012, as higher net premiums collected of $276 million and lower income taxes paid of $220 million were offset by higher net losses paid of $287 million and higher expenses paid of $136 million.

Cash used for investing was $2.5 billion in 2014, compared with $4.4 billion and $3.4 billion in 2013 and 2012, respectively. Cash used for investing in 2014 was lower compared to 2013 primarily due to lower net purchases of fixed maturities. Cash used for investing in 2013 was higher compared to 2012 primarily due to the acquisitions of ABA Seguros and Fianzas Monterrey of $977 million, compared to acquisitions in 2012 of $98 million.

Cash used for financing was $1.8 billion in 2014, compared with cash flows from financing of $391 million in 2013, and cash used for financing of $550 million in 2012. Cash used for financing in 2014 included $1.4 billion of share repurchases and $862 million of dividends paid on Common Shares. Cash flows from financing in 2013 included $947 million of proceeds from the issuance of long-term debt, partially offset by dividends paid on Common Shares of $517 million. Cash used for financing in 2012 primarily related to dividends paid on Common Shares of $815 million. Dividends paid on Common Shares were higher in 2014 compared to 2013 due to a $0.12 per share increase in our quarterly dividend approved by our shareholders in January 2014 and an additional three percent increase approved by our shareholders at our May 2014 annual general meeting. Dividends paid on Common Shares in 2013 were lower compared to 2012 due to the accelerated payment of the fourth quarter 2012 dividend in December 2012, which would normally have been paid in the first quarter 2013.

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.

In the current low interest rate environment, we use repurchase agreements as a low-cost alternative for short-term funding needs and to address short-term cash timing differences without disrupting our investment portfolio holdings. At December 31, 2014, there were $1.4 billion in repurchase agreements outstanding.

In addition to cash from operations, routine sales of investments, and financing arrangements, we have agreements with a third-party bank provider which implemented two international multi-currency notional cash pooling programs to enhance cash management efficiency during periods of short-term timing mismatches between expected inflows and outflows of cash by currency. The programs allow us to optimize investment income by avoiding portfolio disruption. In each program, participating ACE entities establish deposit accounts in different currencies with the bank provider. Each day the credit or debit balances in every account are notionally translated into a single currency (U.S. dollars) and then notionally pooled. The bank extends overdraft credit to all participating ACE entities as needed, provided that the overall notionally pooled balance of all accounts in each pool at the end of each day is at least zero. Actual cash balances are not physically converted and are not commingled between legal entities. ACE entities may incur overdraft balances as a means to address short-term liquidity needs. Any overdraft balances incurred under this program by an ACE entity would be guaranteed by ACE Limited (up to $300 million in the aggregate). Our syndicated letter of credit facility allows for same day drawings to fund a net pool overdraft should participating ACE entities withdraw contributed funds from the pool.

Capital Resources

Capital resources consist of funds deployed or available to be deployed to support our business operations.

(in millions of U.S. dollars, except for percentages)	**December 31 2014**	December 31 2013
Short-term debt	**$ 2,552**	$ 1,901
Long-term debt	**3,357**	3,807
Total debt	**5,909**	5,708
Trust preferred securities	**309**	309
Total shareholders' equity	**29,587**	28,825
Total capitalization	**$ 35,805**	$ 34,842
Ratio of debt to total capitalization	**16.5%**	16.4%
Ratio of debt plus trust preferred securities to total capitalization	**17.4%**	17.3%

In 2014, we reclassified $450 million of 5.6 percent senior notes due May 2015 and $700 million of 2.6 percent senior notes due November 2015, from Long-term debt to Short-term debt in the consolidated balance sheet. In May 2014, we issued $700 million of 3.35 percent senior notes due May 2024. The proceeds from the debt issuance are expected to be used to repay at maturity the $700 million of 2.6 percent senior notes due November 2015. In June 2014, ACE INA's $500 million of 5.875 percent senior notes matured and were fully paid. For discussion of our debt outstanding, refer to Note 9 to the Consolidated Financial Statements.

We believe our financial strength provides us with the flexibility and capacity to obtain available 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. We generally maintain the ability to issue certain classes of debt and equity securities via an unlimited SEC shelf registration which is renewed every three years. This allows us capital market access for refinancing as well as for unforeseen or opportunistic capital needs. Our current shelf registration on file with the SEC expires in December 2017.

As part of our capital management program, in November 2013, our Board of Directors (Board) authorized the repurchase of up to $2.0 billion of ACE's Common Shares through December 31, 2014, replacing prior Board authorizations. We repurchased $1,449 million, $290 million, and $7 million of Common Shares in a series of open market transactions in 2014, 2013, and 2012, respectively. As of December 31, 2014, there were 14,172,726 Common Shares in treasury with a weighted average cost of $102.17 per share.

In November 2014, our Board authorized the repurchase of $1.5 billion of ACE's Common Shares through December 31, 2015, replacing the November 2013 authorization when it expired on December 31, 2014. For the period January 1, 2015 through February 26, 2015, we repurchased 1,877,463 Common Shares for a total of $211 million in a series of open market transactions. At February 26, 2015, $1.3 billion in share repurchase authorization remained through December 31, 2015.

Common Shares

Our Common Shares had a par value of CHF 24.77 each at December 31, 2014.

Under Swiss law, dividends must be stated in Swiss francs though dividend payments are made by ACE in U.S. dollars. Following ACE's redomestication to Switzerland, dividends have generally been distributed by way of a par value reduction (under the methods approved by our shareholders at our annual general meetings).

Our annual dividend is payable in four quarterly installments. At the January 10, 2014 extraordinary general meeting, our shareholders approved a resolution to increase our quarterly dividend 24 percent from $0.51 per share to $0.63 per share for the payments made on January 31, 2014 and April 17, 2014, with the $0.12 per share increase for each installment distributed from capital contribution reserves (and the $0.51 per share distributed by way of par value reduction). At our May 2014 annual general meeting, our shareholders approved an annual dividend for the following year of $2.60 per share, payable in four quarterly installments of $0.65 per share after the annual general meeting in the form of a distribution by way of a par value reduction. Refer to Note 11 to the Consolidated Financial Statements for additional information on our dividends.

Dividend distributions on Common Shares amounted to CHF 2.47 ($2.70) per share for the year ended December 31, 2014 (including par value reductions of CHF 2.27 per share).

Contractual Obligations and Commitments

The following table presents our future payments due by period under contractual obligations at December 31, 2014:

	Payments Due By Period				
(in millions of U.S. dollars)	Total	2015	2016 and 2017	2018 and 2019	Thereafter
Payment amounts determinable from the respective contracts					
Deposit liabilities[1]	$ 1,027	$ 16	$ 48	$ 44	$ 919
Purchase obligations[2]	379	167	202	8	2
Limited partnerships – funding commitments[3]	1,010	483	398	110	19
Operating leases	474	108	171	100	95
Short-term debt	2,552	2,552	—	—	—
Long-term debt	3,361	—	502	802	2,057
Trust preferred securities	309	—	—	—	309
Interest on debt obligations	2,221	221	367	284	1,349
Total obligations in which payment amounts are determinable from the respective contracts	11,333	3,547	1,688	1,348	4,750
Payment amounts not determinable from the respective contracts					
Estimated gross loss payments under insurance and reinsurance contracts	38,368	9,492	10,103	5,551	13,222
Estimated payments for future policy benefits	19,573	773	1,697	1,471	15,632
Total contractual obligations and commitments	$ 69,274	$ 13,812	$ 13,488	$ 8,370	$ 33,604

(1) Refer to Note 1 k) to the Consolidated Financial Statements.

(2) Primarily comprises audit fees and agreements with vendors to purchase system software administration and maintenance services.

(3) The timing of the payments of these commitments is uncertain and will differ from the estimated timing in the table.

The above table excludes the following items:

- Pension obligations: Minimum funding requirements for our pension obligations are immaterial. Subsequent funding commitments are apt to vary due to many factors and are difficult to estimate at this time. Refer to Note 13 to the Consolidated Financial Statements for additional information.
- Liabilities for unrecognized tax benefits: The liability for unrecognized tax benefits, excluding interest, was $23 million at December 31, 2014. We recognize accruals for interest and penalties, if any, related to unrecognized tax benefits in Income tax expense in the consolidated statements of operations. At December 31, 2014, we had $9 million in liabilities for income tax-related interest and penalties in our consolidated balance sheets. We are unable to make a reasonably reliable estimate for the timing of cash settlement with respect to these liabilities. Refer to Note 8 to the Consolidated Financial Statements for additional information.

We have no other significant contractual obligations or commitments not reflected in the table above. We do not have any off-balance sheet arrangements that are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Estimated gross loss payments under insurance and reinsurance contracts
We are obligated to pay claims under insurance and reinsurance contracts for specified loss events covered under those contracts. Such loss payments represent our most significant future payment obligation as a P&C insurance and reinsurance company. In contrast to other contractual obligations, cash payments are not determinable from the terms specified within the contract. For example, we do not ultimately make a payment to our counterparty for many insurance and reinsurance contracts (i.e., when a loss event has not occurred) and if a payment is to be made, the amount and timing cannot be determined from the contract. In the table above, we estimate payments by period relating to our gross liability for unpaid losses and loss expenses included in the consolidated balance sheet at December 31, 2014, and do not take into account reinsurance recoverable. These estimated loss payments are inherently uncertain and the amount and timing of actual loss payments are likely to differ from these estimates and the differences could be material. Given the numerous factors and assumptions involved in both estimates of loss and loss expense reserves and related estimates as to the timing of future loss and loss expense payments in the table above, differences between actual and estimated loss payments will not necessarily indicate a commensurate change in ultimate loss estimates. The liability for unpaid losses and loss expenses presented in our balance sheet is discounted for certain structured settlements for which the timing and amount of future claim payments are reliably determinable and certain reserves for unsettled claims that are discounted in statutory filings. Accordingly, the estimated amounts in the table exceed the liability for Unpaid losses and loss expenses presented in our balance sheet. Refer to Note 1 h) to the Consolidated Financial Statements for additional information.

Estimated payments for future policy benefits
We establish reserves for future policy benefits for life, long-term health, and annuity contracts. The amounts in the table are gross of fees or premiums due from the underlying contracts. The liability for future policy benefits for life, long-term health, and annuity contracts presented in our balance sheet is discounted and reflected net of fees or premiums due from the underlying contracts. Accordingly, the estimated amounts in the table exceed the liability for future policy benefits presented in our balance sheet. Payment amounts related to these reserves must be estimated and are not determinable from the contract. Due to the uncertainty with respect to the timing and amount of these payments, actual results could materially differ from the estimates in the table.

Credit Facilities

As our Bermuda subsidiaries are non-admitted insurers and reinsurers in the U.S., the terms of certain U.S. insurance and reinsurance contracts require them to provide collateral, which can be in the form of letters of credit (LOCs). LOCs may also be used for general corporate purposes.

We have a $1 billion unsecured operational LOC facility guaranteed by ACE Limited (adjustable to $1.5 billion upon consent of the issuers) expiring in November 2017. We are allowed to use up to $300 million of this LOC facility as an unsecured revolving credit facility. At December 31, 2014, outstanding LOCs issued under this facility were $479 million.

We did not renew our $500 million bilateral LOC facility that expired in June 2014. We also did not renew our $425 million series of four bilateral uncollateralized LOC facilities supporting AGM underwriting capacity for Lloyd's Syndicate 2488. We elected instead to satisfy our collateral obligations primarily by pledging additional fixed income securities from our investment portfolio into existing insurance trusts.

It is anticipated that our $1 billion unsecured operational LOC facility will be renewed on expiry but such renewal is subject to the availability of credit from banks utilized by ACE. In the event that such credit support is insufficient, we could be required to provide alternative security to clients. This could take the form of additional insurance trusts supported by our investment portfolio or funds withheld using our cash resources. The value of LOCs required is driven by, among other things, statutory liabilities reported by variable annuity guarantee reinsurance clients, loss development of existing reserves, the payment pattern of such reserves, the expansion of business, and loss experience of such business.

The facility noted above requires that we maintain certain covenants, all of which have been met at December 31, 2014. These covenants include:

(i) Maintenance of a minimum consolidated net worth in an amount not less than the “Minimum Amount”. For the purpose of this calculation, the Minimum Amount is an amount equal to the sum of the base amount (currently $20.2 billion) plus 25 percent of consolidated net income for each fiscal quarter, ending after the date on which the current base amount became effective, plus 50 percent of any increase in consolidated net worth during the same period, attributable to the issuance of Common and Preferred Shares. The Minimum Amount is subject to an annual reset provision.

(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 December 31, 2014, (a) the minimum consolidated net worth requirement under the covenant described in (i) above was $20.9 billion and our actual consolidated net worth as calculated under that covenant was $27.7 billion and (b) our ratio of debt to total capitalization was 0.165 to 1, which is below the maximum debt to total capitalization ratio of 0.35 to 1 as described in (ii) above.

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 LOCs under such facility. Our failure to repay material financial obligations, as well as our failure with respect to certain other events expressly identified, would result in an event of default under the facility.

Ratings

ACE Limited and its subsidiaries are assigned credit and financial strength (insurance) ratings from internationally recognized rating agencies, including S&P, A.M. Best, Moody's, and Fitch. The ratings issued on our companies by these agencies are announced publicly and are available directly from the agencies. Our Internet site (www.acegroup.com, under Investor Information) also contains some information about our ratings, but such information on our website is not incorporated by reference into this report.

Financial strength ratings reflect the rating agencies' opinions of a company's claims paying ability. 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.

Credit ratings assess a company's ability to make timely payments of principal and interest on its debt.

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. Also, we have insurance and reinsurance contracts which contain rating triggers. In the event the S&P or A.M. Best financial strength ratings of ACE fall, we may be faced with the cancellation of premium or be required to post collateral on our underlying obligation associated with this premium. We estimate that at December 31, 2014, a one-notch downgrade of our S&P or A.M. Best financial strength ratings would result in an immaterial loss of premium or requirement for collateral to be posted.

ITEM 7A. 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 losses from various market risks including changes in interest rates, equity prices, and foreign currency exchange rates. Further, through writing the GLB and GMDB products, we are exposed to volatility in the equity and credit markets, as well as interest rates. Our investment portfolio consists primarily of fixed income securities, denominated in both U.S. dollars and foreign currencies, which are sensitive to changes in interest rates and foreign currency exchange rates. The majority of our fixed income portfolio is classified as available for sale. The effect of market movements on our available for sale investment portfolio impacts Net income (through Net realized gains (losses)) when securities are sold or when we record an OTTI charge in Net income. Changes in interest rates and foreign currency exchange rates will have an immediate effect on Shareholders' equity and Comprehensive income and in certain instances, Net income. From time to time, we also use derivative instruments such as futures, options, swaps, and foreign currency forward contracts to manage the duration of our investment portfolio and foreign currency exposures and also to obtain exposure to a particular financial market. At December 31, 2014 and 2013, our notional exposure to derivative instruments was $7.4 billion and $8.2 billion, respectively. These instruments are recognized as assets or liabilities in our consolidated financial statements and are sensitive to changes in interest rates, foreign currency exchange rates, and equity security prices. As part of our investing activities, we from time to time purchase to be announced mortgage backed securities (TBAs). Changes in the fair value of TBAs are included in Net realized gains (losses) and therefore, have an immediate effect on both our Net income and Shareholders' equity.

We seek to mitigate market risk using a number of techniques, including maintaining and managing the assets and liabilities of our international operations consistent with the foreign currencies of the underlying insurance and reinsurance businesses, thereby limiting exchange rate risk to net assets denominated in foreign currencies.

The following is a discussion of our primary market risk exposures at December 31, 2014. Our policies to address these risks in 2014 were not materially different from 2013. We do not currently anticipate significant changes in our primary market risk exposures or in how those exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

Interest rate risk – fixed income portfolio and debt obligations

Our fixed income portfolio and debt obligations have exposure to interest rate risk. Changes in investment values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of our insurance reserves and debt obligations. We monitor this exposure through periodic reviews of our asset and liability positions.

The following table presents the impact at December 31, 2014 and 2013, on the fair value of our fixed income portfolio of a hypothetical increase in interest rates of 100 bps applied instantly across the U.S. yield curve (an immediate time horizon was used as this presents the worst case scenario):

(in billions of U.S. dollars, except for percentages)	**2014**	2013
Fair value of fixed income portfolio	**$ 59.3**	$ 57.3
Pre-tax impact of 100 bps increase in interest rates:		
In dollars	**$ 2.4**	$ 2.3
As a percentage of total fixed income portfolio at fair value	**4.0%**	4.0%

Changes in interest rates will have an immediate effect on Comprehensive income and Shareholders' equity but will not ordinarily have an immediate effect on Net income. Variations in market interest rates could produce significant changes in the timing of prepayments due to available prepayment options. For these reasons, actual results could differ from those reflected in the tables.

Although our debt and trust preferred securities (collectively referred to as debt obligations) are reported at amortized cost and not adjusted for fair value changes, changes in interest rates could have a material impact on their fair value, albeit there would be no impact on our consolidated financial statements.

The following table presents the impact at December 31, 2014 and 2013, on the fair value of our debt obligations of a hypothetical decrease in interest rates of 100 bps applied instantly across the U.S. yield curve (an immediate time horizon was used as this presents the worst case scenario):

(in millions of U.S. dollars, except for percentages)	2014	2013
Fair value of debt obligations	$ 6,723	$ 6,439
Impact of 100 bps decrease in interest rates:		
In dollars	$ 362	$ 282
As a percentage of total debt obligations at fair value	5.4%	4.4%

Foreign currency management
As a global company, ACE entities transact business in multiple currencies. Our policy is to match assets, liabilities and required capital in the local currency. We do not hedge our currency exposure to foreign currency net asset positions. We do consider hedging for planned cross border transactions.

The following table summarizes the net assets in non-U.S. currencies at December 31, 2014 and 2013:

	2014		2013		2014 vs. 2013
(in millions of U.S. dollars, except for percentages)	Value of Net Assets	Exchange rate per USD	Value of Net Assets	Exchange rate per USD	% change in exchange rate per USD
British pound sterling (GBP)	$ 1,274	1.5577	$ 1,227	1.6557	(5.9)%
Brazilian real (BRL)	918	0.3763	264	0.4234	(11.1)%
Mexican peso (MXN)	822	0.0678	989	0.0767	(11.6)%
Euro (EUR)	704	1.2098	1,036	1.3743	(12.0)%
Canadian dollar (CAD)	580	0.8605	608	0.9414	(8.6)%
Korean won (KRW)	559	0.0917	435	0.0953	(3.8)%
Australian dollar (AUD)	509	0.8175	612	0.8918	(8.3)%
Japanese yen (JPY)	476	0.0084	431	0.0095	(12.1)%
Other foreign currencies	1,635	various	1,341	various	
Value of net assets denominated in foreign currencies	$ 7,477		$ 6,943		
As a percentage of total net assets	25.3%		24.1%		
Pre-tax impact on shareholders' equity of a hypothetical 10 percent strengthening of the U.S. dollar	$ 677		$ 628		

Reinsurance of GMDB and GLB guarantees
ACE views its variable annuity reinsurance business as having a similar risk profile to that of catastrophe reinsurance with the probability of long-term economic loss relatively small, at the time of pricing. Adverse changes in market factors and policyholder behavior will have an impact on both life underwriting income and net income. When evaluating these risks, we expect to be compensated for taking both the risk of a cumulative long-term economic net loss, as well as the short-term accounting variations caused by these market movements. Therefore, we evaluate this business in terms of its long-term economic risk and reward.

Net income is directly impacted by changes in benefit reserves calculated in connection with reinsurance of variable annuity guarantees, primarily GMDB and GLB. In addition, net income is directly impacted by changes in the fair value of the GLB liability (FVL), which is classified as a derivative for accounting purposes. The FVL established for a GLB reinsurance contract represents the difference between the fair value of the contract and the benefit reserves. Benefit reserves and FVL calculations are directly affected by market factors, including equity levels, interest rate levels, credit risk, and implied volatilities, as well as policyholder behaviors, such as annuitization and lapse rates.

The tables below are estimates of the sensitivities to instantaneous changes in economic inputs (e.g., equity shock, interest rate shock etc.) or actuarial assumptions at December 31, 2014 of the FVL and of the fair value of specific derivative instruments held (hedge value) to partially offset the risk in the variable annuity guarantee reinsurance portfolio. The following assumptions should be considered when using the below tables:

- No changes to the benefit ratio used to establish benefit reserves at December 31, 2014.
- Equity shocks impact all global equity markets equally
  - Our liabilities are sensitive to global equity markets in the following proportions: 70 percent—80 percent U.S. equity, 10 percent—20 percent international equity ex-Japan, up to 10 percent Japan equity.
  - Our current hedge portfolio is sensitive to global equity markets in the following proportions: 100 percent U.S. equity.
  - We would suggest using the S&P 500 index as a proxy for U.S. equity, the MSCI EAFE index as a proxy for international equity, and the TOPIX as a proxy for Japan equity.
- Interest rate shocks assume a parallel shift in the U.S. yield curve
  - Our liabilities are also sensitive to global interest rates at various points on the yield curve, mainly the U.S. Treasury curve in the following proportions: up to 10 percent short-term rates (maturing in less than 5 years), 20 percent—30 percent medium-term rates (maturing between 5 years and 10 years, inclusive), and 70 percent—80 percent long-term rates (maturing beyond 10 years).
  - A change in AA-rated credit spreads (AA-rated credit spreads are a proxy for both our own credit spreads and the credit spreads of the ceding insurers) impacts the rate used to discount cash flows in the fair value model.
- The sensitivities are not directly additive because changes in one factor will affect the sensitivity to changes in other factors. The sensitivities do not scale linearly and may be proportionally greater for larger movements in the market factors. The sensitivities may also vary due to foreign exchange rate fluctuations. The calculation of the FVL is based on internal models that include assumptions regarding future policyholder behavior, including lapse, annuitization, and asset allocation. These assumptions impact both the absolute level of the FVL as well as the sensitivities to changes in market factors shown below. Actual sensitivity of our net income may differ from those disclosed in the tables below due to differences between short-term market movements and management judgment regarding the long-term assumptions implicit in our benefit ratios. Furthermore, the sensitivities below could vary by multiples of the sensitivities in the tables below.
- In addition, the tables below do not reflect the expected quarterly run rate of net income generated by the variable annuity guarantee reinsurance portfolio if markets remain unchanged during the period. All else equal, if markets remain unchanged during the period, the Gross FVL will increase, resulting in a realized loss. The realized loss occurs primarily because, during the period, we will collect premium while paying little or no claims on our GLB reinsurance (since most policies are not eligible to annuitize until 2015 or later). This increases the Gross FVL because future premiums are lower by the amount collected in the quarter, and also because future claims are discounted for a shorter period. We refer to this increase in Gross FVL as "timing effect". The unfavorable impact of timing effect on our Gross FVL in a quarter is not reflected in the sensitivity tables below. For this reason, when using the tables below to estimate the sensitivity of Gross FVL in the first quarter 2015 to various changes, it is necessary to assume an additional $5 million to $45 million increase in Gross FVL and realized losses. However, the impact to Net income is substantially mitigated because the majority of this realized loss is offset by the positive quarterly run rate of Life underwriting income generated by the variable annuity guarantee reinsurance portfolio if markets remain unchanged during the period. Note that both the timing effect and the quarterly run rate of Life underwriting income change over time as the book ages.

Interest Rate Shock (in millions of U.S. dollars)		Worldwide Equity Shock +10%	Flat	-10%	-20%	-30%	-40%
+100 bps	(Increase)/decrease in Gross FVL	$ 386	$ 261	$ 57	$ (222)	$ (574)	$ (1,012)
	Increase/(decrease) in hedge value	(139)	—	140	282	428	581
	Increase/(decrease) in net income	$ 247	$ 261	$ 197	$ 60	$ (146)	$ (431)
Flat	(Increase)/decrease in Gross FVL	$ 197	$ —	$ (263)	$ (599)	$ (1,017)	$ (1,508)
	Increase/(decrease) in hedge value	(139)	—	140	283	429	582
	Increase/(decrease) in net income	$ 58	$ —	$ (123)	$ (316)	$ (588)	$ (926)
-100 bps	(Increase)/decrease in Gross FVL	$ (112)	$ (354)	$ (672)	$ (1,073)	$ (1,543)	$ (2,080)
	Increase/(decrease) in hedge value	(139)	—	140	283	429	583
	Increase/(decrease) in net income	$ (251)	$ (354)	$ (532)	$ (790)	$ (1,114)	$ (1,497)

Sensitivities to Other Economic Variables	AA-rated Credit Spreads		Interest Rate Volatility		Equity Volatility	
(in millions of U.S. dollars)	+100 bps	-100 bps	+2%	-2%	+2%	-2%
(Increase)/decrease in Gross FVL	$ 61	$ (69)	$ (1)	$ —	$ (20)	$ 18
Increase/(decrease) in hedge value	—	—	—	—	1	—
Increase/(decrease) in net income	$ 61	$ (69)	$ (1)	$ —	$ (19)	$ 18

Sensitivities to Actuarial Assumptions	Mortality			
(in millions of U.S. dollars)	+20%	+10%	-10%	-20%
(Increase)/decrease in Gross FVL	$ 23	$ 12	$ (12)	$ (24)
Increase/(decrease) in hedge value	—	—	—	—
Increase/(decrease) in net income	$ 23	$ 12	$ (12)	$ (24)

	Lapses			
(in millions of U.S. dollars)	+50%	+25%	-25%	-50%
(Increase)/decrease in Gross FVL	$ 212	$ 117	$ (146)	$ (314)
Increase/(decrease) in hedge value	—	—	—	—
Increase/(decrease) in net income	$ 212	$ 117	$ (146)	$ (314)

	Annuitization			
(in millions of U.S. dollars)	+50%	+25%	-25%	-50%
(Increase)/decrease in Gross FVL	$ (279)	$ (154)	$ 183	$ 351
Increase/(decrease) in hedge value	—	—	—	—
Increase/(decrease) in net income	$ (279)	$ (154)	$ 183	$ 351

Variable Annuity Net Amount at Risk

All our VA reinsurance treaties include annual or aggregate claim limits and many include an aggregate deductible which limit the net amount at risk under these programs. The tables below present the net amount at risk at December 31, 2014 following an immediate change in equity market levels, assuming all global equity markets are impacted equally. For further information on the net amount at risk, refer to Note 5 to the Consolidated Financial Statements.

a) Reinsurance covering the GMDB risk only

	Equity Shock					
(in millions of U.S. dollars)	+20%	Flat	-20%	-40%	-60%	-80%
GMDB net amount at risk	$ 365	$ 418	$ 932	$ 1,525	$ 1,540	$ 1,313
Claims at 100% immediate mortality	230	245	268	267	247	226

The treaty claim limits function as a ceiling on the net amount at risk as equity markets fall. In addition, if all of the policyholders were to die immediately the claims payable declines as equity markets fall due to the specific nature of these claim limits, many of which are annual claim limits calculated as a percentage of the reinsured account value. There is also some impact due to a small portion of the GMDB reinsurance under which claims are positively correlated to equity markets (claims decrease as equity markets fall).

b) Reinsurance covering the GLB risk only

	Equity Shock					
(in millions of U.S. dollars)	+20%	Flat	-20%	-40%	-60%	-80%
GLB net amount at risk	$ 226	$ 440	$ 987	$ 1,908	$ 2,655	$ 2,933

The treaty claim limits cause the net amount at risk to increase at a declining rate as equity markets fall.

c) Reinsurance covering both the GMDB and GLB risks on the same underlying policyholders

	Equity Shock					
(in millions of U.S. dollars)	+20%	Flat	-20%	-40%	-60%	-80%
GMDB net amount at risk	$ 53	$ 76	$ 111	$ 144	$ 170	$ 190
GLB net amount at risk	126	235	483	1,051	1,602	2,057
Claims at 100% immediate mortality	19	19	215	406	565	715

The treaty limits control the increase in the GMDB net amount at risk as equity markets fall. The GMDB net amount at risk continues to grow as equity markets fall because most of these reinsurance treaties do not have annual claim limits calculated as a percentage of the underlying account value.

The treaty limits cause the GLB net amount at risk to increase at a declining rate as equity markets fall.

ITEM 8. Financial Statements and Supplementary Data

The financial statements and supplementary data are included in this Form 10-K commencing on page F-1.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

ACE’s management, with the participation of ACE’s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of ACE’s disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 as of December 31, 2014. Based upon that evaluation, ACE’s Chief Executive Officer and Chief Financial Officer concluded that ACE’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, and that such information is accumulated and communicated to ACE’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In accordance with the SEC's published guidance, the disclosure controls and procedures of the large corporate account P&C business of Itaú Seguros, S.A. (Itaú Seguros), which was acquired on October 31, 2014, was excluded from our evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2014. As of and for the year ended December 31, 2014, Itaú Seguros' assets represented approximately three percent of consolidated assets, revenues represented less than one percent of consolidated revenues, and net income represented less than one percent of consolidated net income.

There has been no change in ACE’s internal controls over financial reporting during the three months ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, ACE’s internal controls over financial reporting. ACE's management report on internal control over financial reporting is included on page F-3 and PricewaterhouseCoopers LLP's audit report is included on page F-4.

ITEM 9B. Other Information

None.

ITEM 10. Directors, Executive Officers and Corporate Governance

Information pertaining to this item is incorporated by reference to the sections entitled “Election of Directors”, “Corporate Governance - Director Nomination Process and Annual Board Skills Review”, “Corporate Governance - Director Independence and Other Information”, and “Corporate Governance - Did Our Officers and Directors Comply with Section 16(a) Beneficial Ownership Reporting in 2014?” of the definitive proxy statement for the 2015 Annual General Meeting of Shareholders which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A. Also incorporated herein by reference is the text under the caption “Executive Officers of the Registrant” appearing at the end of Part I Item 1. of the Annual Report on Form 10-K.

Code of Ethics

ACE has adopted a Code of Conduct, which sets forth standards by which all ACE employees, officers, and directors must abide as they work for ACE. ACE has posted this Code of Conduct on its Internet site (www.acegroup.com, under Investor Information / Corporate Governance / ACE Ethics Helpline / Integrity First: The ACE Code of Conduct). ACE intends to disclose on its Internet site any amendments to, or waivers from, its Code of Conduct that are required to be publicly disclosed pursuant to the rules of the SEC or the New York Stock Exchange.

ITEM 11. Executive Compensation

This item is incorporated by reference to the section entitled “Executive Compensation” of the definitive proxy statement for the 2015 Annual General Meeting of Shareholders which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders[(1)]	9,623,986	$ 69.06	8,943,524

[(1)] These totals include securities available for future issuance under the following plans:

(i) *ACE Limited 2004 Long-Term Incentive Plan (the 2004 LTIP).* A total of 38,600,000 Common Shares of ACE are authorized to be issued pursuant to awards made as options, stock appreciation rights, performance shares, performance units, restricted stock, and restricted stock units. The maximum number of shares that may be delivered to participants and their beneficiaries under the 2004 LTIP shall be equal to the sum of: (i) 38,600,000 shares; and (ii) any shares that are represented by awards granted under the ACE Limited 1995 Long-Term Incentive Plan, the ACE Limited 1995 Outside Directors Plan, the ACE Limited 1998 Long-Term Incentive Plan, and the ACE Limited 1999 Replacement Long-Term Incentive Plan (the Prior Plans) that are forfeited, expired, or are canceled after the effective date of the 2004 LTIP of February 25, 2004, without delivery of shares or which result in the forfeiture of the shares back to ACE to the extent that such shares would have been added back to the reserve under the terms of the applicable Prior Plan. As of December 31, 2014, a total of 9,623,986 option awards are outstanding and 7,811,839 shares remain available for future issuance under this plan.

(ii) *Employee Stock Purchase Plan.* A total of 4,500,000 shares are authorized for purchase at a discount. As of December 31, 2014, 1,131,685 shares remain available for future issuance under this plan.

Additional information is incorporated by reference to the section entitled “Information About our Share Ownership” of the definitive proxy statement for the 2015 Annual General Meeting of Shareholders which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 13. Certain Relationships and Related Transactions and Director Independence

This item is incorporated by reference to the sections entitled “Corporate Governance - What Is Our Related Party Transactions Approval Policy and What Procedures Do We Use to Implement It?”, “Corporate Governance - What Related Person Transactions Do We Have?”, and “Corporate Governance - Director Independence and Other Information” of the definitive proxy statement for the 2015 Annual General Meeting of Shareholders which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 14. Principal Accounting Fees and Services

This item is incorporated by reference to the section entitled “Election of Auditors - Ratification of appointment of PricewaterhouseCoopers LLP (United States) as independent registered public accounting firm for purposes of United States securities law reporting for the year ending December 31, 2015” of the definitive proxy statement for the 2015 Annual General Meeting of Shareholders which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 15. Exhibits, Financial Statement Schedules

(a) Financial Statements, Schedules, and Exhibits

Other schedules have been omitted as they are not applicable to ACE, or the required information has been included in the Consolidated Financial Statements and related notes.

3. Exhibits

		Incorporated by Reference			
Exhibit Number	Exhibit Description	Form	Original Number	Date Filed	Filed Herewith
3.1	Articles of Association of the Company, as amended and restated	8-K	3	December 17, 2014	
3.2	Organizational Regulations of the Company as amended	8-K	3.1	November 21, 2014	
4.1	Articles of Association of the Company, as amended and restated	8-K	4	December 17, 2014	
4.2	Organizational Regulations of the Company as amended	8-K	4.1	November 21, 2014	
4.3	Specimen share certificate representing Common Shares	8-K	4.3	July 18, 2008	
4.4	Form of 2.6 percent Senior Notes due 2015	8-K	4.1	November 23, 2010	
4.5	Indenture, dated March 15, 2002, between ACE Limited and Bank One Trust Company, N.A.	8-K	4.1	March 22, 2002	
4.6	Senior Indenture, dated August 1, 1999, among ACE INA Holdings, Inc., ACE Limited and Bank of New York Mellon Trust Company, N.A. (as successor), as trustee	S-3 ASR	4.4	December 10, 2014	
4.7	Indenture, dated November 30, 1999, among ACE INA Holdings, Inc. and Bank One Trust Company, N.A., as trustee	10-K	10.38	March 29, 2000	

		Incorporated by Reference			
Exhibit Number	Exhibit Description	Form	Original Number	Date Filed	Filed Herewith
4.8	Indenture, dated December 1, 1999, among ACE INA Holdings, Inc., ACE Limited and Bank One Trust Company, National Association, as trustee	10-K	10.41	March 29, 2000	
4.9	Amended and Restated Trust Agreement, dated March 31, 2000, among ACE INA Holdings, Inc., Bank One Trust Company, National Association, as property trustee, Bank One Delaware Inc., as Delaware trustee and the administrative trustees named therein	10-K	4.17	March 16, 2006	
4.10	Common Securities Guarantee Agreement, dated March 31, 2000	10-K	4.18	March 16, 2006	
4.11	Capital Securities Guarantee Agreement, dated March 31, 2000	10-K	4.19	March 16, 2006	
4.12	Form of 2.70 percent Senior Notes due 2023	8-K	4.1	March 13, 2013	
4.13	Form of 4.15 percent Senior Notes due 2043	8-K	4.2	March 13, 2013	
4.14	First Supplemental Indenture dated as of March 13, 2013 to the Indenture dated as of August 1, 1999 among ACE INA Holdings, Inc., as Issuer, ACE Limited, as Guarantor, and The Bank of New York Mellon Trust Company, N.A., as Successor Trustee	8-K	4.3	March 13, 2013	
4.15	Form of 3.35 percent Senior Notes due 2024	8-K	4.1	May 27, 2014	
10.1*	Form of Indemnification Agreement between the Company and individuals who became directors of the Company after the Company's redomestication to Switzerland	10-Q	10.1	August 6, 2010	
10.2*	Second Amended and Restated Indemnification Agreement in the form executed between the Company and directors (except for Olivier Steimer) and/or officers	10-Q	10.1	August 7, 2007	
10.3*	Indemnification agreement between the Company and Olivier Steimer, dated November 20, 2008	10-K	10.2	February 27, 2009	
10.4	Credit Agreement for $1,000,000,000 Senior Unsecured Letter of Credit Facility, dated as of November 6, 2012, among ACE Limited, and certain subsidiaries and Wells Fargo Bank, National Association as Administrative Agent, the Swingline Bank and an Issuing Bank	10-K	10.13	February 28, 2013	
10.5*	Employment Terms dated October 29, 2001, between ACE Limited and Evan Greenberg	10-K	10.64	March 27, 2003	
10.6*	Employment Terms dated November 2, 2001, between ACE Limited and Philip V. Bancroft	10-K	10.65	March 27, 2003	
10.7*	Executive Severance Agreement between ACE Limited and Philip Bancroft, effective January 2, 2002	10-Q	10.1	May 10, 2004	
10.8*	Letter Regarding Executive Severance between ACE Limited and Philip V. Bancroft	10-K	10.17	February 25, 2011	
10.9*	Employment Terms dated April 10, 2006, between ACE and John Keogh	10-K	10.29	February 29, 2008	
10.10*	Executive Severance Agreement between ACE and John Keogh	10-K	10.30	February 29, 2008	
10.11*	ACE Limited Executive Severance Plan as amended effective May 18, 2011	10-K	10.21	February 24, 2012	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Original Number	Date Filed	Filed Herewith
10.12*	Form of employment agreement between the Company (or subsidiaries of the Company) and executive officers of the Company to allocate a percentage of aggregate salary to the Company (or subsidiaries of the Company)	8-K	10.1	July 16, 2008	
10.13*	Description of Executive Officer Cash Compensation for 2011	10-Q	10.1	November 3, 2011	
10.14*	Description of Directors Compensation	10-Q	10.1	May 2, 2014	
10.15*	ACE Limited Annual Performance Incentive Plan	S-1	10.13	January 21, 1993	
10.16*	ACE Limited Elective Deferred Compensation Plan (as amended and restated effective January 1, 2005)	10-K	10.24	March 16, 2006	
10.17*	ACE USA Officer Deferred Compensation Plan (as amended through January 1, 2001)	10-K	10.25	March 16, 2006	
10.18*	ACE USA Officer Deferred Compensation Plan (as amended and restated effective January 1, 2011)	10-Q	10.7	October 30, 2013	
10.19*	ACE USA Officer Deferred Compensation Plan (as amended and restated effective January 1, 2009)	10-K	10.36	February 27, 2009	
10.20*	First Amendment to the Amended and Restated ACE USA Officers Deferred Compensation Plan	10-K	10.28	February 25, 2010	
10.21*	Form of Swiss Mandatory Retirement Benefit Agreement (for Swiss-employed named executive officers)	10-Q	10.2	May 7, 2010	
10.22*	ACE Limited Supplemental Retirement Plan (as amended and restated effective July 1, 2001)	10-Q	10.1	November 14, 2001	
10.23*	ACE Limited Supplemental Retirement Plan (as amended and restated effective January 1, 2011)	10-Q	10.6	October 30, 2013	
10.24*	Amendments to the ACE Limited Supplemental Retirement Plan and the ACE Limited Elective Deferred Compensation Plan	10-K	10.38	February 29, 2008	
10.25*	ACE Limited Elective Deferred Compensation Plan (as amended and restated effective January 1, 2009)	10-K	10.39	February 27, 2009	
10.26*	ACE Limited Elective Deferred Compensation Plan (as amended and restated effective January 1, 2011)	10-Q	10.5	October 30, 2013	
10.27*	Deferred Compensation Plan amendments, effective January 1, 2009	10-K	10.40	February 27, 2009	
10.28*	Amendment to the ACE Limited Supplemental Retirement Plan	10-K	10.39	February 29, 2008	
10.29*	Amendment and restated ACE Limited Supplemental Retirement Plan, effective January 1, 2009	10-K	10.42	February 27, 2009	
10.30*	ACE USA Supplemental Employee Retirement Savings Plan	10-Q	10.6	May 15, 2000	
10.31*	ACE USA Supplemental Employee Retirement Savings Plan (as amended through the Second Amendment)	10-K	10.30	March 1, 2007	
10.32*	ACE USA Supplemental Employee Retirement Savings Plan (as amended through the Third Amendment)	10-K	10.31	March 1, 2007	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Original Number	Date Filed	Filed Herewith
10.33*	ACE USA Supplemental Employee Retirement Savings Plan (as amended and restated)	10-K	10.46	February 27, 2009	
10.34*	First Amendment to the Amended and Restated ACE USA Supplemental Employee Retirement Savings Plan	10-K	10.39	February 25, 2010	
10.35*	The ACE Limited 1995 Outside Directors Plan (as amended through the Seventh Amendment)	10-Q	10.1	August 14, 2003	
10.36*	ACE Limited 1998 Long-Term Incentive Plan (as amended through the Fourth Amendment)	10-K	10.34	March 1, 2007	
10.37*	ACE Limited 2004 Long-Term Incentive Plan (as amended through the Fifth Amendment)	8-K	10	May 21, 2010	
10.38*	ACE Limited 2004 Long-Term Incentive Plan (as amended through the Sixth Amendment)	8-K	10.1	May 20, 2013	
10.39*	ACE Limited Rules of the Approved U.K. Stock Option Program	10-Q	10.2	February 13, 1998	
10.40*	Form of Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-K	10.54	February 27, 2009	
10.41*	Form of Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-K	10.55	February 27, 2009	
10.42*	Director Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.1	November 9, 2009	
10.43*	Form of Restricted Stock Unit Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.1	May 8, 2008	
10.44*	Form of Restricted Stock Unit Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.2	May 8, 2008	
10.45*	Form of Restricted Stock Unit Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-K	10.60	February 27, 2009	
10.46*	Form of Restricted Stock Unit Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.2	October 30, 2013	
10.47*	Form of Restricted Stock Unit Award Terms under the ACE Limited 2004 Long-Term Incentive Plan for Chief Executive Officer, Chief Financial Officer and the General Counsel	10-K	10.56	February 28, 2014	
10.48*	Form of Incentive Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	8-K	10.4	September 13, 2004	
10.49*	Form of Incentive Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.4	May 8, 2008	
10.50*	Form of Incentive Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-K	10.63	February 27, 2009	
10.51*	Form of Incentive Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.3	October 30, 2013	
10.52*	Form of Non-Qualified Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	8-K	10.5	September 13, 2004	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Original Number	Date Filed	Filed Herewith
10.53*	Form of Non-Qualified Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.3	May 8, 2008	
10.54*	Form of Non-Qualified Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.4	October 30, 2013	
10.55*	Form of Performance Based Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan, as updated through May 4, 2006	10-Q	10.3	May 5, 2006	
10.56*	Revised Form of Performance Based Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.2	November 8, 2006	
10.57*	Revised Form of Performance Based Restricted Stock Award Terms under The ACE Limited 2004 Long-Term Incentive Plan	10-K	10.65	February 25, 2011	
10.58*	Form of Performance Based Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-K	10.67	February 28, 2014	
10.59*	Form of Performance Based Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan for Chief Executive Officer, Chief Financial Officer and the General Counsel	10-K	10.68	February 28, 2014	
10.60*	Form of Restricted Stock Unit Award Terms (for outside directors) under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.2	November 7, 2007	
10.61*	Form of Restricted Stock Unit Award Terms (for outside directors) under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.2	August 7, 2009	
10.62*	Form of Incentive Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan for Messrs. Greenberg and Cusumano	10-Q	10.1	August 4, 2011	
10.63*	Form of Non-Qualified Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan for Messrs. Greenberg and Cusumano	10-Q	10.2	August 4, 2011	
10.64*	Form of Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan for Messrs. Greenberg and Cusumano	10-Q	10.3	August 4, 2011	
10.65*	ACE Limited Employee Stock Purchase Plan, as amended	8-K	10.1	May 22, 2012	
10.66*	Form of Performance Based Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan for Messrs. Greenberg and Cusumano	10-K	10.72	February 24, 2012	
10.67*	Separation and Release Agreement between the Company and Robert Cusumano, dated July 24, 2013	10-Q	10.8	October 30, 2013	
10.68*	Form of Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan for Swiss Executive Management				X
10.69*	Form of Performance Based Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan for Swiss Executive Management				X

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Original Number	Date Filed	Filed Herewith
10.70*	Form of Restricted Stock Unit Award Terms under the ACE Limited 2004 Long-Term Incentive Plan for Swiss Executive Management				X
10.71*	Form of Incentive Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan for Swiss Executive Management				X
10.72*	Form of Non-Qualified Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan for Swiss Executive Management				X
12.1	Ratio of earnings to fixed charges				X
18.1	Preferability Letter of Independent Registered Public Accounting Firm	10-Q	18.1	October 29, 2014	
21.1	Subsidiaries of the Company				X
23.1	Consent of Independent Registered Public Accounting Firm				X
31.1	Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002				X
31.2	Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002				X
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002				X
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002				X
101	The following financial information from ACE Limited's Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL: (i) Consolidated Balance Sheets at December 31, 2014 and 2013; (ii) Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2014, 2013, and 2012; (iii) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2014, 2013, and 2012; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013, and 2012; and (v) Notes to the Consolidated Financial Statements				X

* Management Contract or Compensation Plan

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACE LIMITED

By: /s/ Philip V. Bancroft

Philip V. Bancroft
Chief Financial Officer

February 27, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Evan G. Greenberg **Evan G. Greenberg**	Chairman, President, Chief Executive Officer, and Director	February 27, 2015
/s/ Philip V. Bancroft **Philip V. Bancroft**	Chief Financial Officer (Principal Financial Officer)	February 27, 2015
/s/ Paul B. Medini **Paul B. Medini**	Chief Accounting Officer (Principal Accounting Officer)	February 27, 2015
/s/ Michael G. Atieh **Michael G. Atieh**	Director	February 27, 2015
/s/ Mary A. Cirillo **Mary A. Cirillo**	Director	February 27, 2015
/s/ Michael P. Connors **Michael P. Connors**	Director	February 27, 2015
/s/ John A. Edwardson **John A. Edwardson**	Director	February 27, 2015
/s/ Robert M. Hernandez **Robert M. Hernandez**	Director	February 27, 2015
/s/ Peter Menikoff **Peter Menikoff**	Director	February 27, 2015

Signature	Title	Date
/s/ Leo F. Mullin **Leo F. Mullin**	Director	February 27, 2015
/s/ Kimberly A. Ross **Kimberly A. Ross**	Director	February 27, 2015
/s/ Robert W. Scully **Robert W. Scully**	Director	February 27, 2015
/s/ Eugene B. Shanks, Jr. **Eugene B. Shanks, Jr.**	Director	February 27, 2015
/s/ Theodore E. Shasta **Theodore E. Shasta**	Director	February 27, 2015
/s/ David H. Sidwell **David H. Sidwell**	Director	February 27, 2015
/s/ Olivier Steimer **Olivier Steimer**	Director	February 27, 2015

Audited Consolidated Financial Statements of ACE Limited for the fiscal year ended December 31, 2014 have been included as part of Exhibit 7.

Other selected information as required by Swiss Law

The following disclosures are required by Swiss Law and are included below as ACE Limited is a Swiss domesticated company.

(i) Expenses
Total personnel expenses amounted to $2.0 billion, $1.8 billion, and $1.7 billion for the years ended December 31, 2014, 2013, and 2012, respectively. Amortization expense related to tangible property amounted to $140 million, $128 million, and $117 million for the years ended December 31, 2014, 2013, and 2012, respectively.

(ii) Fire insurance values of property and equipment
Total fire insurance values of property and equipment amounted to $852 million and $693 million at December 31, 2014 and 2013, respectively.

(iii) Risk assessment and management
The management of ACE is responsible for assessing risks related to the financial reporting process and establishing and maintaining adequate internal controls over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chairman of the Board of Directors/Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of ACE's consolidated financial statements for external purposes in accordance with GAAP. In addition, under Swiss Law, the Board of Directors of ACE has the ultimate responsibility for establishing an internal control system on the financial statements.

The Board, operating through its Audit Committee comprised entirely of directors who are not officers or employees of ACE, is ultimately responsible for oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use, or disposition. The Audit Committee meets with management, the independent registered public accountants and the internal auditor; approves the overall scope of audit work and related fee arrangements; and reviews audit reports and findings. In addition, the independent registered public accountants and the internal auditor meet separately with the Audit Committee, without management representatives present, to discuss the results of their audits; the adequacy of ACE's internal control; the quality of our financial reporting; and the safeguarding of assets against unauthorized acquisition, use, or disposition.

ACE's management is responsible for assessing operational risks facing us and sets policies designed to address such risks. Examples of key areas addressed by ACE's risk management processes follow.

a) Underwriting
Our underwriting strategy is to manage risk by employing consistent, disciplined pricing and risk selection. Global product boards ensure consistency of approach and the establishment of best practices throughout the world. Our priority is to help ensure adherence to criteria for risk selection by maintaining high levels of experience and expertise in our underwriting staff. In addition, we employ a business review structure that helps ensure control of risk quality and conservative use of policy limits and terms and conditions.

Qualified actuaries in each region work closely with the underwriting teams to provide additional expertise in the underwriting process. We use sophisticated catastrophe loss and risk modeling techniques designed to ensure appropriate spread of risk and to analyze correlation of risk across different product lines and territories.

b) Reinsurance protection
As part of our risk management strategy, we purchase reinsurance protection to mitigate our exposure to losses, including catastrophes, to an acceptable level. Although reinsurance agreements contractually obligate our reinsurers to reimburse us for an agreed-upon portion of our gross paid losses, this reinsurance does not discharge our primary liability to our insureds and, thus, we ultimately remain liable for the gross direct losses. In certain countries, reinsurer selection is limited by local laws or regulations. In most countries there is more freedom of choice, and the counterparty is selected based upon its financial strength, claims settlement record, management, line of business expertise, and its price for assuming the risk transferred. In support of this process, we maintain an ACE authorized reinsurer list that stratifies these authorized reinsurers by classes of business and acceptable limits. This list is maintained by our Reinsurance Security Committee (RSC), a committee comprising senior management personnel and a dedicated reinsurer security team. Changes to the list are authorized by the RSC and recommended to the Chair of the Enterprise Risk Management Board. The reinsurers on the authorized list and potential new markets are regularly reviewed and the list may be modified following these reviews. In addition to the authorized list, there is a formal exception process that allows authorized reinsurance buyers to use reinsurers already on the authorized list for higher

limits or different lines of business, for example, or other reinsurers not on the authorized list if their use is supported by compelling business reasons for a particular reinsurance program.

c) Investments
Our objective is to maximize investment income and total return while ensuring an appropriate level of liquidity, investment quality and diversification. As such, ACE's investment portfolio is invested primarily in investment-grade fixed-income securities as measured by the major rating agencies. We do not allow leverage or complex credit structures in our investment portfolio.

The critical aspects of the investment process are controlled by ACE Asset Management, an indirect wholly-owned subsidiary of ACE. These aspects include asset allocation, portfolio and guideline design, risk management and oversight of external asset managers. In this regard, ACE Asset Management:

- conducts formal asset allocation modeling for each of the ACE subsidiaries, providing formal recommendations for the portfolio's structure;
- establishes recommended investment guidelines that are appropriate to the prescribed asset allocation targets;
- provides the analysis, evaluation, and selection of our external investment advisors;
- establishes and develops investment-related analytics to enhance portfolio engineering and risk control;
- monitors and aggregates the correlated risk of the overall investment portfolio; and
- provides governance over the investment process for each of our operating companies to ensure consistency of approach and adherence to investment guidelines.

Under our guidance and direction, external asset managers conduct security and sector selection and transaction execution. This use of multiple managers benefits ACE in several ways – it provides us with operational and cost efficiencies, diversity of styles and approaches, innovations in investment research and credit and risk management, all of which enhance the risk adjusted returns of our portfolios.

ACE Asset Management determines the investment portfolio's allowable, targeted asset allocation and ranges for each of the segments. These asset allocation targets are derived from sophisticated asset and liability modeling that measures correlated histories of returns and volatility of returns. Allowable investment classes are further refined through analysis of our operating environment, including expected volatility of cash flows, potential impact on our capital position, as well as regulatory and rating agency considerations.

The Board has established a Risk & Finance Committee which helps execute the Board's supervisory responsibilities pertaining to enterprise risk management including investment risk. Under the overall supervision of the Risk & Finance Committee, ACE's governance over investment management is rigorous and ongoing. Among its responsibilities, the Risk & Finance Committee of the Board:

- reviews and approves asset allocation targets and investment policy to ensure that it is consistent with our overall goals, strategies, and objectives;
- reviews and approves investment guidelines to ensure that appropriate levels of portfolio liquidity, credit quality, diversification, and volatility are maintained; and
- systematically reviews the portfolio's exposures including any potential violations of investment guidelines.

We have long-standing global credit limits for our entire portfolio across the organization and for individual obligors. Exposures are aggregated, monitored, and actively managed by our Global Credit Committee, comprising senior executives, including our Chief Financial Officer, our Chief Risk Officer, our Chief Investment Officer, and our Treasurer.

Within the guidelines and asset allocation parameters established by the Risk & Finance Committee, individual investment committees of the segments determine tactical asset allocation. Additionally, these committees review all investment-related activity that affects their operating company, including the selection of outside investment advisors, proposed asset allocations changes, and the systematic review of investment guidelines.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF ACE LIMITED, ZURICH ON THE (US GAAP) FINANCIAL STATEMENTS

Report of the statutory auditor on the consolidated financial statements
As statutory auditor, we have audited the consolidated financial statements of ACE Limited, which comprise the balance sheet, statement of operations and comprehensive income, statement of shareholders' equity, statement of cash flows and notes (pages F-5 to F-76 and F-83 to F-84) for the year ended December 31, 2014.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2014 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

/s/ Ray Kunz	/s/ Philip Kirkpatrick
Ray Kunz	Philip Kirkpatrick
Audit expert Auditor in charge	Audit expert

Zurich, February 27, 2015

[This Page Intentionally Left Blank]

ACE LIMITED

SWISS STATUTORY FINANCIAL STATEMENTS

DECEMBER 31, 2014

SWISS STATUTORY BALANCE SHEETS (Unconsolidated)

ACE Limited

(in millions of Swiss francs)	December 31 2014	December 31 2013
Assets		
Cash and cash equivalents	—	1
Treasury shares	2	47
Accounts receivable and prepaid assets	—	1
Receivable from subsidiaries	56	47
Total current assets	58	96
Investments in subsidiaries	18,671	18,671
Loans to subsidiaries	621	788
Other assets	6	4
Total non-current assets	19,298	19,463
Total assets	19,356	19,559
Liabilities		
Accounts payable	301	192
Payable to subsidiaries	288	214
Capital distribution payable	213	156
Deferred unrealized exchange gain	—	2
Total liabilities	802	564
Shareholders' equity		
Share capital	8,492	9,270
Legal reserves:		
Capital contribution reserves	5,944	6,012
Reserve for treasury shares	1,325	237
Free reserves:		
Retained earnings	2,388	2,564
Net income	405	912
Total shareholders' equity	18,554	18,995
Total liabilities and shareholders' equity	19,356	19,559

The accompanying notes form an integral part of these statutory financial statements

SWISS STATUTORY STATEMENTS OF INCOME (Unconsolidated)

ACE Limited

For the years ended December 31, 2014 and 2013 (in millions of Swiss francs)	2014	2013
Revenues		
Royalty income	**175**	196
Interest income	**34**	32
Net realized gains (losses)	**(4)**	(4)
Foreign exchange translation losses	**(14)**	—
Dividend income	**286**	748
Debt guarantee fee income	**13**	12
Total revenues	**490**	984
Expenses		
Administrative and other expenses	**69**	58
Tax expense	**16**	14
Total expenses	**85**	72
Net income	**405**	912

The accompanying notes form an integral part of these statutory financial statements

1. Basis of presentation

ACE Limited (ACE) is the holding company of ACE Group (Group) with a listing on the New York Stock Exchange (NYSE). ACE's principal activity is the holding of subsidiaries. Revenues consist mainly of royalty, dividend, and interest income. The accompanying financial statements comply with Swiss Law. The financial statements present the financial position of the holding company on a standalone basis and do not represent the consolidated financial position of the holding company and its subsidiaries.

These financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the Swiss Code of Obligations effective until December 31, 2012. Pursuant to the transitional provisions of the new accounting law, which would otherwise be effective in 2013, ACE will adopt the new accounting law in 2015.

All amounts in the notes are shown in millions of Swiss francs unless otherwise stated.

2. Significant accounting policies

a) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits with an original maturity of three months or less at time of purchase.

ACE and certain of its subsidiaries (participating entities) have agreements with a third party bank provider which implemented two international multi-currency notional cash pooling programs. In each program, participating entities establish deposit accounts in different currencies with the bank provider and each day the credit or debit balances in every account are notionally translated into a single currency (U.S. dollars) and then notionally pooled. The bank extends overdraft credit to any participating entity as needed, provided that the overall notionally-pooled balance of all accounts in each pool at the end of each day is at least zero. Actual cash balances are not physically converted and are not commingled between legal entities. Any overdraft balances incurred under this program by a participating entity would be guaranteed by ACE (up to $300 million in the aggregate). Our syndicated letter of credit facility allows for same day drawings to fund a net pool overdraft should participating entities withdraw contributed funds from the pool.

b) Investments in subsidiaries

Investments in subsidiaries are equity interests, which are held on a long-term basis for the purpose of the holding company's business activities. They are carried at a value no higher than their cost less adjustments for impairment.

c) Translation of foreign currencies

The financial statements are translated into Swiss francs using the following exchange rates:

- Investments in subsidiaries at historical exchange rates;
- Other assets and liabilities at year end exchange rates;
- Treasury shares and shareholders' equity at historical exchange rates; and
- Revenues and expenses at average exchange rates.

Exchange losses are recorded in the statement of income and unrealized exchange gains are deferred until realized.

d) Royalty income

ACE collects royalty income from various subsidiaries earned in connection with subsidiary use of certain ACE trademarks in connection with products, services, advertising, and promotions.

e) Debt guarantee fee income

ACE collects an annual fee for ACE's guarantee of the debt issued by one of its subsidiaries.

3. Commitments, contingencies, and guarantees

a) Letters of credit (LOC)

ACE has a $1 billion (CHF 1 billion) unsecured operational LOC facility (adjustable to $1.5 billion (CHF 1.5 billion) upon consent of the issuers) expiring in November 2017. ACE is allowed to use up to $300 million (CHF 298 million) of this LOC facility as an unsecured revolving credit facility. At December 31, 2014, outstanding LOCs issued under this facility were $479 million (CHF 476 million).

This facility requires that ACE and/or certain of its subsidiaries continue to maintain certain covenants, including a minimum consolidated net worth and a maximum leverage ratio, all of which have been met at December 31, 2014.

ACE did not renew a $500 million (CHF 497 million) bilateral letter of credit facility that expired in June 2014. ACE also did not renew a $425 million (CHF 422 million) series of four bilateral uncollateralized LOC facilities supporting underwriting capacity for ACE's Lloyd's Syndicate 2488. Instead, ACE elected to satisfy collateral obligations primarily with insurance trusts supported by their investment portfolio.

b) Lease commitments
ACE leases property under an operating lease which expires in 2018. The following table presents expected future minimum lease payments as of December 31, 2014:

Year ending December 31 (in millions of Swiss francs)	
2015	1.76
2016	1.76
2017	1.76
2018	1.31
Thereafter	—
Total minimum future lease commitments	6.59

At December 31, 2013, the total minimum future lease commitments were CHF 8.35 million.

c) Guarantee of debt
ACE fully and unconditionally guarantees certain subsidiary debt totaling $4.4 billion (CHF 4.3 billion) and $4.6 billion (CHF 4.1 billion) at December 31, 2014 and 2013, respectively.

4. Significant investments

The following table presents information related to significant investments. Share capital amounts are expressed in whole U.S. dollars or Swiss francs.

	Country	% of Possession	Currency	Share Capital	Purpose
ACE Group Holdings, Inc.	U.S.A.	100%	USD	11	Holding company
ACE Insurance (Switzerland) Limited	Switzerland	100%	CHF	250,000,000	Insurance company
ACE Group Management and Holdings Ltd.	Bermuda	100%	USD	100	Holding company

5. Shareholders' equity

The following table presents issued, authorized, and conditional share capital, at December 31, 2014 and 2013. Treasury shares held by ACE which are issued, but not outstanding and discussed in Note 5 d) below totaled 21,902 shares and 589,323 shares at December 31, 2014 and 2013, respectively. In addition to the treasury shares held by ACE, at December 31, 2014 and 2013, subsidiaries of ACE held 14,150,824 treasury shares at a cost of $1.4 billion (CHF 1.3 billion) and 2,449,154 treasury shares at a cost of $207 million (CHF 190 million), respectively.

	2014	2013
Issued share capital	**342,832,412**	342,832,412
Authorized share capital for general purposes	**140,000,000**	140,000,000
Conditional share capital for bonds and similar debt instruments	**33,000,000**	33,000,000
Conditional share capital for employee benefit plans	**25,410,929**	25,410,929

a) Shares authorized and issued
All Common Shares are authorized under Swiss Corporate law. At both December 31, 2014 and 2013, ACE's share capital consisted of 342,832,412 Common Shares, with a par value of CHF 24.77 per share and CHF 27.04 per share, respectively. The Board of Directors (the Board) is currently authorized to increase the share capital from time to time through the issue of up to 140,000,000 fully paid up shares with a par value equal to the par value of ACE's shares as set forth in the Articles of Association at the time of such issuance.

b) Conditional share capital
(i) Conditional share capital for bonds and similar debt instruments
At both December 31, 2014 and 2013, the share capital of ACE was authorized to be increased through the issuance of a maximum of 33,000,000 fully paid up shares each with a par value of CHF 24.77 per share and CHF 27.04 per share, respectively, through the exercise of conversion and/or option or warrant rights granted in connection with bonds, notes, or similar instruments, issued or to be issued by ACE or a subsidiary of ACE, including convertible debt instruments.

(ii) Conditional share capital for employee benefit plans
At both December 31, 2014 and 2013, the share capital of ACE was authorized to be increased through the issuance of a maximum of 25,410,929 fully paid up shares each with a par value of CHF 24.77 per share and CHF 27.04 per share, respectively, in connection with the exercise of option rights granted to any employee of ACE or a subsidiary, and any consultant, director, or other person providing services to ACE or a subsidiary.

c) Capital contribution reserves
At our May 2013 and 2014 annual general meetings, our shareholders approved an annual dividend for the following year, payable in four quarterly installments after the annual general meetings in the form of a distribution by way of a par value reduction. At the January 10, 2014 Extraordinary General Meeting, our shareholders approved a resolution to increase our quarterly dividend from $0.51 per share to $0.63 per share for the payment made on January 31, 2014 (CHF 0.55) and the payment on April 18, 2014 (CHF 0.55) as recommended by our board in November 2013. The effect of this dividend increase was a decrease to Capital contribution reserves and an increase to Capital distribution payable of CHF 67 million ($82 million) as of January 10, 2014.

The following table presents dividend distributions per Common Share in Swiss francs (CHF) and U.S. dollars (USD) for the years ended December 31, 2014 and 2013:

	2014		2013	
	CHF	**USD**	CHF	USD
Dividends - par value reduction	**2.27**	**$ 2.46**	1.85	$ 2.02
Dividends - distributed from Capital contribution reserves	**0.20**	**0.24**	—	—
Total dividend distributions per common share	**2.47**	**$ 2.70**	1.85	$ 2.02

d) Reserve for Treasury shares
Treasury shares held by ACE are carried at the lower of cost or market. The following table presents a roll-forward of treasury shares held by ACE for the years ended December 31, 2014 and 2013:

	2014		2013	
(cost in millions of Swiss francs)	**Number of Shares**	**Cost**	Number of Shares	Cost
Balance – beginning of year	**589,323**	**47**	404,129	27
Additions related to share-based compensation plans	**71,520**	**7**	843,070	67
Redeemed under share-based compensation plans	**(638,941)**	**(52)**	(657,876)	(47)
Balance – end of year	**21,902**	**2**	589,323	47

Treasury shares held by ACE subsidiaries are carried at the lower of cost or market. The following table presents a roll-forward of treasury shares held by ACE subsidiaries for the years ended December 31, 2014 and 2013:

	2014		2013	
(cost in millions of Swiss francs)	**Number of Shares**	**Cost**	Number of Shares	Cost
Balance – beginning of year	**2,449,154**	**190**	2,106,749	121
Repurchase of shares	**13,982,358**	**1,327**	3,266,531	268
Additions related to share-based compensation plans	**739,885**	**64**	79,137	6
Redeemed under share-based compensation plans	**(3,020,573)**	**(258)**	(3,003,263)	(205)
Balance – end of year	**14,150,824**	**1,323**	2,449,154	190

Decreases in treasury shares held by ACE and its subsidiaries are principally due to issuances of shares upon the exercise of employee stock options, grants of restricted stock, and purchases under the Employee Stock Purchase Plan (ESPP). Increases in treasury shares are due to open market repurchases of shares and the surrender of shares to satisfy tax withholding obligations in connection with the vesting of restricted stock and the forfeiture of unvested restricted stock.

e) Movements in Retained earnings

(in millions of Swiss francs)	**2014**	2013
Balance – beginning of year	**3,476**	2,647
Par value reduction on treasury shares	**—**	6
Attribution to reserve for treasury shares	**(1,088)**	(89)
Net income	**405**	912
Balance – end of year	**2,793**	3,476

f) ACE securities repurchase authorization

On November 21, 2013, the Board announced authorization of a share repurchase program of up to $2 billion (CHF 1.8 billion) of ACE's Common Shares through December 31, 2014. This $2 billion (CHF 1.8 billion) authorization replaced the previous authorizations which expired on December 31, 2013.

On November 24, 2014, the Board announced authorization of a share repurchase program of $1.5 billion (CHF 1.5 billion) of ACE's Common Shares for the period January 1, 2015 through December 31, 2015 to replace the authorization when it expired on December 31, 2014. At February 26, 2015, $1.3 billion (CHF 1.3 billion) in share repurchase authorization remained through December 31, 2015. Such repurchases may be made in the open market, in privately negotiated transactions, block trades, accelerated repurchases and/or through option or other forward transactions.

g) General restrictions

Holders of Common Shares are entitled to receive dividends as proposed by the Board and approved by the shareholders. Holders of Common Shares are allowed one vote per share provided that, if the controlled shares of any shareholder constitute ten percent or more of the outstanding Common Shares of ACE, only a fraction of the vote will be allowed so as not to exceed ten percent. Entry of acquirers of Common Shares as shareholders with voting rights in the share register may be refused if it would confer voting rights with respect to ten percent or more of the registered share capital recorded in the commercial register.

6. Common Share ownership of the Board of Directors and Group Executives

a) Board of Directors

The following table presents information, at December 31, 2014 and 2013, with respect to the beneficial ownership of Common Shares by each of our directors. At the end of the 2014 Annual General Meeting Thomas J. Neff and Robert Ripp retired from the Board of Directors. Although Evan G. Greenberg is Chairman of the Board, details of Mr. Greenberg's Common share ownership are included in Note 6 b) below. Unless otherwise indicated, the named individual has sole voting and investment power over the Common Shares listed in the Common Shares Beneficially Owned column.

Name of Beneficial Owner	Year	Common Shares	Restricted Stock Units (1)	Restricted Common Stock (2)
Michael G. Atieh (3)	**2014**	**3,183**	**31,645**	**1,564**
	2013	7,043	30,853	1,520
Mary A. Cirillo	**2014**	**13,162**	**13,176**	**2,659**
	2013	11,290	12,847	2,497
Michael P. Connors	**2014**	**6,959**	**—**	**1,564**
	2013	4,924	—	2,714
John A. Edwardson	**2014**	**—**	**—**	**2,542**
	2013	—	—	—
Robert M. Hernandez	**2014**	**58,189**	**23,123**	**1,564**
	2013	57,050	22,545	1,520
Peter Menikoff (4) (5)	**2014**	**3,765**	**50,798**	**2,542**
	2013	3,985	49,527	2,497
Leo F. Mullin	**2014**	**9,979**	**5,165**	**1,564**
	2013	8,839	5,035	1,520
Kimberly A. Ross	**2014**	**—**	**—**	**2,542**
	2013	—	—	—
Robert W. Scully	**2014**	**—**	**—**	**2,542**
	2013	—	—	—
Thomas J. Neff	**2014**	**—**	**—**	**—**
	2013	9,933	40,848	2,627
Robert Ripp	**2014**	**—**	**—**	**—**
	2013	20,188	25,884	1,520
Eugene B. Shanks, Jr.	**2014**	**4,049**	**—**	**1,564**
	2013	2,909	—	1,520
Theodore E. Shasta	**2014**	**6,036**	**—**	**1,564**
	2013	4,896	—	1,520
David H. Sidwell	**2014**	**3,000**	**—**	**1,564**
	2013	—	—	—
Olivier Steimer	**2014**	**10,153**	**3,192**	**1,564**
	2013	8,737	3,112	1,520
Total	**2014**	**118,475**	**127,099**	**25,339**
	2013	139,794	190,651	20,975

(1) Represents Common Shares that will be issued to the director immediately upon his or her termination from the Board and Common Shares that will be issued to the director no earlier than six months following his or her termination from the Board. The Common Shares relate to stock units granted as director's compensation and associated dividend reinvestment accruals.

(2) Represents Common Shares with respect to which the individual has the power to vote (but not to dispose of).

(3) Mr. Atieh shares with other persons the power to vote and/or dispose of 341 of the Common Shares listed at December 31, 2014 and 2013.

(4) Mr. Menikoff shares with other persons the power to vote and/or dispose of 3,765 and 3,985 of the Common Shares listed at December 31, 2014 and 2013, respectively.

(5) Mr. Menikoff has pledged 3,765 and 3,985 Common Shares in connection with a margin account at December 31, 2014 and 2013, respectively.

b) Group Executives

The following table presents information, at December 31, 2014 and 2013, with respect to the beneficial ownership of Common Shares by each of the following Group Executives. Unless otherwise indicated, the named individual has sole voting and investment power over the Common Shares listed in the Common Shares Beneficially Owned column.

Name of Beneficial Owner	Year	Common Shares Beneficially Owned	Common Shares Subject to Options (1)	Weighted Average Option Exercise Price in CHF	Option Exercise Years	Restricted Common Stock (2)
Evan G. Greenberg (3) (4)	**2014**	**919,738**	**1,081,707**	**54.50**	**4.71**	**216,636**
	2013	830,820	1,102,191	50.90	4.77	224,550
Philip V. Bancroft (5)	**2014**	**206,070**	**145,747**	**54.42**	**4.75**	**42,008**
	2013	184,358	151,822	50.50	4.69	47,042
John W. Keogh	**2014**	**73,304**	**166,366**	**58.83**	**5.58**	**80,818**
	2013	70,254	130,899	53.12	5.85	85,652
John J. Lupica (6)	**2014**	**81,903**	**103,717**	**57.83**	**5.32**	**50,899**
	2013	72,067	80,128	53.51	5.55	44,977
Joseph Wayland	**2014**	**2,786**	**2,295**	**88.57**	**9.16**	**20,424**
Total	**2014**	**1,283,801**	**1,499,832**	**55.25**	**4.86**	**410,785**
	2013	1,157,499	1,465,040	51.20	4.90	402,221

(1) Represents Common Shares that the individual has the right to acquire within 60 days of December 31, 2014 and 2013, respectively, through option exercises, both vested and unvested.

(2) Represents Common Shares with respect to which the individual has the power to vote (but not to dispose of).

(3) Mr. Greenberg shares with other persons the power to vote and/or dispose of 121,624 and 72,664 of the Common Shares listed at December 31, 2014 and 2013, respectively.

(4) Mr. Greenberg pledged 41,070 and 80,000 Common Shares in connection with a margin account at December 31, 2014 and 2013, respectively.

(5) Mr. Bancroft pledged 41,000 Common Shares in connection with a margin account at December 31, 2014 and 2013.

(6) Mr. Lupica shares with other persons the power to vote and/or dispose of 35,700 Common Shares listed at December 31, 2014 and 2013.

7. Significant shareholders

The following table presents information regarding each person, including corporate groups, known to ACE to own beneficially or of record more than five percent of ACE's outstanding Common Shares at December 31, 2014 and 2013.

	2014		2013	
Name of Beneficial Owner	**Number of Shares Beneficially Owned**	**Percent of Class**	Number of Shares Beneficially Owned	Percent of Class
Wellington Management Company, LLP	**28,193,212**	**8.5%**	25,294,492	7.43%
Capital World Investors	**24,024,534**	**7.20%**	25,604,900	7.50%
BlackRock, Inc.	**21,386,205**	**6.40%**	27,287,925	8.00%
Vanguard Group, Inc.	**19,469,537**	**5.86%**	17,654,634	5.18%
JP Morgan Chase & Co.	**17,847,619**	**5.30%**	*	*
State Street Corporation	**17,142,592**	**5.20%**	*	*
FMR LLC	*	*	19,078,852	5.61%

* Represented less than five percent

8. Risk assessment and management

The management of ACE is responsible for assessing risks related to the financial reporting process and establishing and maintaining adequate internal controls over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of the Chairman of the Board of Directors/Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of ACE's consolidated financial statements for external purposes in accordance with GAAP. In addition, under Swiss Law, the Board of Directors of ACE has the ultimate responsibility for establishing an internal control system on the financial statements.

The Board, operating through its Audit Committee comprised entirely of directors who are not officers or employees of ACE, is ultimately responsible for oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use, or disposition. The Board usually meets four times per year in regularly scheduled meetings, but will meet more often if necessary. The Board met six times during 2014, including two telephonic meetings. The Audit Committee participated in: eight regularly scheduled meetings (four of which were telephonic); one telephonic discussion regarding Company matters; four telephonic earnings discussions; one joint session with the Risk and Finance Committee relating to ERM and review of reserves; and one in-depth review session of important accounting topics relevant to ongoing Committee activities. The Audit Committee meets with management, the independent registered public accountants and the internal auditor; approves the overall scope of audit work and related fee arrangements; and reviews audit reports and findings. In addition, the independent registered public accountants and the internal auditor meet separately with the Audit Committee, without management representatives present, to discuss the results of their audits; the adequacy of ACE's internal control; the quality of its financial reporting; and the safeguarding of assets against unauthorized acquisition, use, or disposition.

9. Subsequent events

Effective January 1, 2015 ACE Reinsurance (Switzerland) Limited (ARSL) has been sold to ACE Limited, from ACE Insurance (Switzerland) Limited (AISL). The shares in ARSL have been sold to ACE Limited at book value for a note payable to AISL.

10. Other disclosures required by Swiss law

a) Expenses
Total personnel expenses amounted to CHF 7.9 million and CHF 8.2 million for the years ended December 31, 2014 and 2013, respectively.

Total amortization expense related to tangible property amounted to CHF 0.6 million and CHF 0.6 million for the years ended December 31, 2014 and 2013, respectively.

b) Fire insurance values of property and equipment
Total fire insurance values of property and equipment amounted to CHF 8.9 million and CHF 8.0 million at December 31, 2014 and 2013, respectively.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

ACE Limited

Proposed appropriation of available earnings

Our Board of Directors proposes to the Annual General Meeting that the Company's disposable profit (including the net income and the other items as shown below) be carried forward. The following table shows the appropriation of available earnings as proposed by the Board of Directors for the year ended December 31, 2014.

(in millions of Swiss francs)	**2014**	2013
Net income	**405**	912
Balance brought forward	**3,476**	2,647
Par value reduction on treasury shares	—	6
Attribution reserve for treasury shares	**(1,088)**	(89)
Balance carried forward	**2,793**	3,476

In order to pay dividends, our Board of Directors proposes that an aggregate amount equal to CHF 1.245 billion be released from the capital contribution reserves account of legal reserves in 2015 and allocated to a segregated dividend reserve account (the "Dividend Reserve"). The Board proposes to distribute a dividend to the shareholders up to an aggregate amount totaling $2.68 per Common Share from, and limited at a maximum to the amount of, the Dividend Reserve in one or more installments, in such amounts and on such record and payment dates as determined by the Board in its discretion. If the Board deems it advisable for the Company, the Board shall be authorized to abstain (in whole or in part) from distributing a dividend in its discretion. The authorization of the Board to distribute the installments from the Dividend Reserve will expire on the date of the 2016 annual general meeting, on which date any balance remaining in the Dividend Reserve will be automatically reallocated to the capital contribution reserves account of legal reserves.

If the Annual General Meeting approves this proposal, our Board currently intends to distribute the dividend in four equal installments of $0.67 each, on record dates at about the end of June, September, December and March, respectively, with payment dates about 21 days thereafter.

At December 31, 2014, 342,832,412 of the Company's Common Shares were eligible for dividends.

At the 2014 annual general meeting, the Company’s shareholders approved an aggregate annual dividend in the form of a par value reduction in 2014 totaling $2.60 per Common Share. The annual dividend was payable in four installments, each denominated in CHF but adjusted appropriately so that the U.S. dollar value of the installment remained at $0.65. The installments were subject to a dividend cap expressed in CHF which was not reached for 2014. Following the 2014 annual general meeting, pursuant to this shareholder resolution, the Company paid distributions through reduction in par value of the Common Shares totaling CHF 1.82 (USD $1.95), representing the first three of the approved installments. Since each of those installments and the distributions to shareholders in 2015 before the 2015 annual general meeting were through a reduction in par value of Common Shares, which are reflected as a reduction in Share Capital in the Company’s balance sheet, no dividend has been reflected above.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF ACE LIMITED, ZURICH ON THE (SWISS STATUTORY) FINANCIAL STATEMENTS

Report of the statutory auditor on the financial statements
As statutory auditor, we have audited the financial statements of ACE Limited, which comprise the balance sheet, statement of income and notes (pages S-2 to S-10), for the year ended December 31, 2014.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2014 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

/s/ Ray Kunz	/s/ Philip Kirkpatrick
Ray Kunz	Philip Kirkpatrick
Audit expert Auditor in charge	Audit expert

Zurich, March 2, 2015

ACE LIMITED

SWISS STATUTORY COMPENSATION REPORT

December 31, 2014

A General

Under the new Swiss ordinance against excessive pay in stock exchange listed companies (the “Minder Ordinance”) we are now required to prepare a separate Swiss Statutory Compensation Report each year that contains specific items in a presentation format determined by these regulations. This report must be included in the materials made available to our shareholders each year.

We have proposed amendments to our Articles of Association, specifically Article 20, to implement this requirement. In our Proxy Statement, this requirement is included in “Agenda Item 9: Amendments to the Articles of Association to Implement New Requirements under the Minder Ordinance Regarding Elections, Related Corporate Governance and Certain Other Matters” for shareholder ratification at our Annual General Meeting in May 2015.

Our executive management (as defined under Swiss law) consists of Evan G. Greenberg, Chairman, President and CEO; Philip V. Bancroft, Chief Financial Officer; John W. Keogh, Vice Chairman and Chief Operating Officer; Chairman, ACE Overseas General; John J. Lupica, Vice Chairman; Chairman, Insurance—North America; and Joseph F. Wayland, General Counsel and Secretary.

For more detailed information about compensation for our Board of Directors and Executive Management, please review our Proxy Statement. You may access this report on the Investor Information section of our website at http://investors.acegroup.com/investor-information/shareholder-meeting-materials/default.aspx or by contacting Investor Relations by telephone, email or mail at:

Telephone	+1 (441) 299-9283; or
Email	investorrelations@acegroup.com
Mail:	Investor Relations, ACE Limited, 17 Woodbourne Avenue, Hamilton, HM08, Bermuda

B Compensation of the Board of Directors and Executive Management

Basis of Presentation

The following information sets forth the compensation for the years ended December 31, 2014 and 2013, of the members of the Board and Executive Management for all of the functions that they have performed for ACE. Compensation of the Board is paid by ACE. Compensation of Executive Management is paid by ACE and the ACE group entities where they are employed. Compensation is paid as a combination of both U.S. dollars, our functional reporting currency, with translation of certain amounts to whole Swiss francs. Where presented, 2014 Swiss franc compensation figures have been translated at 2014 average exchange rates. The 2014 average exchange rate we used for U.S. dollars into Swiss francs was .915313.

This report is established in accordance with the provisions of the Minder Ordinance.

Compensation of the Board of Directors

Our directors receive compensation in accordance with our Director Compensation Parameters. The Director Compensation Parameters have not been changed (a zero percent increase) since 2013, other than to clarify that all per-meeting fees are subject to a maximum amount approved by shareholders. Non-management directors received

$260,000 (CHF 237,981) per year in 2014 for their service as directors. ACE paid $160,000 (CHF 146,450) of this fee in the form of restricted stock awards, based on the fair value of ACE's common shares at the date of award, with the remaining portion of the annual fee paid to directors in cash quarterly.

Committee chairmen received committee chair retainers as follows:

Audit Committee – $25,000 (CHF 22,883);

Compensation Committee – $20,000 (CHF 18,306);

Risk & Finance Committee – $15,000 (CHF 13,730); and

Nominating & Governance Committee – $12,000 (CHF 10,984).

The Lead Director received a retainer of $50,000 (CHF 45,766), which is in addition to any retainer received as a committee chairman. Directors are not paid fees for attending regular Board or committee meetings but, at the discretion of the Chairman of the Board and the Lead Director, ACE may pay an additional $2,000 (CHF 1,831) fee for each special meeting attended by telephone and $3,000 (CHF 2,746) for each special meeting attended in person. ACE pays the retainers and premiums for committee service and special Board meeting fees quarterly in cash.

Directors may elect to receive all of their compensation, other than compensation for special meetings, in the form of restricted stock awards. Restricted stock awards vest at the following year's annual general meeting.

In addition to the compensation described above, ACE has a matching contribution program for non-management directors under which ACE will match director charitable contributions to registered charities, churches, and other places of worship or schools up to a maximum of $10,000 (CHF 9,153).

ACE's Corporate Governance Guidelines specify director equity ownership requirements. ACE awards independent directors restricted stock awards. ACE mandates minimum equity ownership of $600,000 (CHF 596,182) for outside directors (based on the stock price on the date of award). Each Director has until the fifth anniversary of his or her initial election to the Board to achieve this minimum. The previously granted restricted stock awards (whether or not vested) will be counted toward achieving this minimum. Stock options will not be counted toward achieving this minimum.

Once a Director has achieved the minimum equity ownership, this requirement will remain satisfied going forward as long as he or she retains the number of shares valued at the minimum amount based on the NYSE closing price for ACE's Common Shares as of the date the minimum threshold is initially met. Any vested shares held by a Director in excess of the minimum share equivalent specified above may be sold at the Director's discretion after consultation with ACE's General Counsel.

No compensation was paid to former directors nor did any former director receive any benefits in kind or waivers of claims during the year ended December 31, 2014.

During the year ended December 31, 2014, no current directors received benefits in kind or waivers of claims and no compensation had been paid to any related party of current or former directors. Additionally, no related party of current or former directors received any benefits in kind or waivers of claims during 2014. At December 31, 2014, no current or former directors or any related party of current or former directors had outstanding loans or credits from ACE.

The following table presents information concerning director compensation paid or, in the case of restricted stock awards, earned in the years ended December 31, 2014 and 2013. Although Evan G. Greenberg is Chairman of the Board, Mr.

Greenberg received no compensation in respect of these duties. Details of Mr. Greenberg's compensation in his capacity as a member of Executive Management are included in the table below.

Table 1 - audited

Name	Year	Board Function	Fees Earned or Paid	Stock Awards (1)	All Other (2)	**Total in USD**	**Total in CHF**
Michael G. Atieh	**2014**	**Member**	**136,250**	**152,500**	**89,933**	**378,683**	**346,613**
	2013	Member	130,000	140,000	56,095	326,095	302,282
Mary A. Cirillo	**2014**	**Member**	**15,000**	**256,250**	**43,213**	**314,463**	**287,835**
	2013	Member	15,000	230,000	29,192	274,192	254,169
Michael P. Connors	**2014**	**Member**	**90,000**	**193,750**	**10,000**	**293,750**	**268,873**
	2013	Member	15,000	250,000	10,000	275,000	254,918
John Edwardson	**2014**	**Member**	**-**	**162,500**	**10,000**	**172,500**	**157,891**
	2013		-	--	--	--	--
Robert M. Hernandez	**2014**	**Lead Director**	**161,250**	**152,500**	**68,285**	**382,035**	**349,681**
	2013	Lead Director	155,000	140,000	43,682	338,682	313,950
Peter Menikoff	**2014**	**Member**	**15,000**	**248,750**	**138,044**	**401,794**	**367,767**
	2013	Member	15,000	230,000	83,993	328,993	304,968
Leo F. Mullin	**2014**	**Member**	**111,250**	**152,500**	**23,019**	**286,769**	**262,483**
	2013	Member	105,000	140,000	17,523	262,523	243,352
Thomas J. Neff	**2014**	**Member**	**15,000**	**90,750**	**94,170**	**199,920**	**182,990**
	2013	Member	15,000	242,000	71,027	328,027	304,073
Robert Ripp	**2014**	**Member**	**48,750**	**52,500**	**62,739**	**163,989**	**150,101**
	2013	Member	105,000	140,000	48,670	293,670	272,225
Kimberly Ross	**2014**	**Member**	**-**	**162,500**	**7,000**	**169,500**	**155,145**
	2013		-	--	--	--	--
Robert Scully	**2014**	**Member**	**-**	**162,500**	**10,000**	**172,500**	**157,891**
	2013		-	--	--	--	--
Eugene B. Shanks, Jr.	**2014**	**Member**	**111,250**	**152,500**	**10,000**	**273,750**	**250,567**
	2013	Member	105,000	140,000	10,000	255,000	236,379
Theodore E. Shasta	**2014**	**Member**	**111,250**	**152,500**	**10,000**	**273,750**	**250,567**
	2013	Member	105,000	140,000	10,000	255,000	236,379
David Sidwell	**2014**	**Member**	**62,500**	**100,000**	**10,000**	**172,500**	**157,891**
	2013		-	--	--	--	--
Olivier Steimer	**2014**	**Member**	**126,250**	**152,500**	**18,046**	**296,796**	**271,660**
	2013	Member	120,000	140,000	14,650	274,650	254,594
Total (3)	**2014**		**1,003,750**	**2,344,500**	**604,449**	**3,952,699**	**3,617,955**
	2013		885,000	1,932,000	394,832	3,211,832	2,977,289

(1) The Stock Awards column reflects restricted stock awards earned during 2014 and 2013. These stock awards were granted in May 2014 and May 2013, respectively, at the annual general meetings and vest at the subsequent year's annual general meeting.

(2) The All Other column includes dividend equivalents on our deferred restricted stock units (which we stopped issuing in 2009) held by our longer-serving directors. We issue stock units equivalent in value to the dividend payments that those directors would have received if they held stock. This column also includes our matching contribution program for non-management directors, pursuant to which we match charitable contributions by directors to registered charities, churches, and other places of worship or schools, as well as personal use of corporate aircraft and retirement gifts.

(3) Total director compensation in 2014 included two additional directors compared to 2013, since four new directors were elected to our Board at the May 2014 annual general meeting, while two directors retired.

C Compensation of Executive Management

The following table presents information concerning Executive Management's 2014 compensation. During this year, no member of Executive Management received waivers of claims other than as described in the footnotes to this table or benefits in kind.

Table 2 - audited

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (2)	All Other Compensation (3)	**Total in USD**	**Total in CHF**
Evan G. Greenberg Chairman, President and Chief Executive Officer, ACE Limited (highest paid executive)	**2014**	**1,200,000**	**6,600,000**	**8,849,997**	**2,371,296**	**1,323,314**	**20,344,607**	**18,621,683**
	2013	1,200,000	6,250,000	8,550,004	2,004,856	900,776	18,905,636	17,525,052
All Other Executive Management	**2014**	**3,060,000**	**5,795,000**	**7,942,546**	**2,128,139**	**1,396,494**	**20,322,179**	**18,601,155**
	2013	2,645,000	5,054,500	6,854,866	1,607,422	1,278,641	17,440,429	16,166,842
Total	**2014**	**4,260,000**	**12,395,000**	**16,792,543**	**4,499,435**	**2,719,808**	**40,666,786**	**37,222,838**
	2013	3,845,000	11,304,500	15,404,870	3,612,278	2,179,417	36,346,065	33,691,894

(1) The Stock Awards column discloses the fair value of the restricted stock awards granted on February 26, 2015 for 2014 and on February 27, 2014 for 2013. This column includes time-based and performance-based restricted stock awards.

(2) The Option Awards column discloses the fair value of the stock options granted on February 26, 2015 for 2014 and on February 27, 2014 for 2013.

(3) All Other Compensation column includes:

Perquisites and other personal benefits, consisting of the following:

- Perquisites including personal use of the corporate aircraft and corporate apartment, and miscellaneous other benefits, including club memberships, financial planning, executive medical coverage, home leave, car allowance or car lease and car maintenance allowance.
  - Included in this column are amounts for personal use of corporate aircraft by any or all members of Executive Management. The Board required Mr. Greenberg to use corporate aircraft for all travel whenever practicable for security reasons. For all other members of Executive Management, personal use of the corporate aircraft was limited to space available on normally scheduled management business flights.
- Other personal benefits including housing allowances and cost of living allowance.
  - In 2014 and 2013, housing allowances were provided to Mr. Bancroft because ACE requires him to maintain a second residence in Bermuda in addition to maintaining his own personal residence.
- Contributions to retirement plans for 2014 and 2013 totaled $1.80 million (CHF 1.65 million) and $1.54 million (CHF 1.43 million), respectively. These consist of discretionary and non-discretionary employer contributions. The discretionary employer contributions for 2014 have been calculated and are expected to be paid in April 2015.

During the year ended December 31, 2014, no compensation was paid to former Executive Management or to any related party of current or former Group Management. Additionally, none of these persons received benefits in kind or waivers of claims during 2014. At December 31, 2014, no current or former Executive Management or any related party of current or former Executive Management had outstanding loans or credits from ACE.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF ACE LIMITED, ZURICH ON THE (SWISS STATUTORY) FINANCIAL STATEMENTS

Report of the statutory auditor on the financial statements
We have audited Tables 1 and 2 within the accompanying remuneration report of ACE Limited for the year ended 31 December 2014.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies ("the Ordinance"). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report of ACE Limited for the year ended 31 December 2014 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

/s/ Ray Kunz	/s/ Philip Kirkpatrick
Ray Kunz Audit expert Auditor in charge	Philip Kirkpatrick Audit expert

Zürich, 19 March 2015

ACE Group Greenhouse Gas Reduction Programs

As an insurance company, ACE's "environmental footprint" is relatively modest, but through our Corporate Greenhouse Gas Inventory Program and Corporate Environmental Strategy, we work to reduce it even further. Some of the primary objectives of our environmental strategy are to measure, record and reduce ACE's corporate GHG emissions.

In 2007, ACE joined the voluntary U.S. Environmental Protection Agency (EPA)-sponsored Climate Leaders program, through which the company was able to develop long-term, comprehensive climate-change strategies, inventory its emissions and set a six-year GHG reduction goal of 8% per employee. While the program was discontinued in September 2011, ACE's Corporate GHG Inventory Program remains active using its methodology, which is based on the World Resources Institute and the World Business Council for Sustainable Development (WRI/WBCSD) GHG Protocol for data collection and analysis. In 2012, ACE successfully met its first generation GHG reduction goal with a 27% reduction in emissions per employee since 2006. In order to continue ACE's global commitment to reducing its environmental footprint, a new GHG reduction target was announced in September of 2014. The new reduction goal promises to reduce emissions 10% per employee by 2020 from a 2012 base year. In 2014, we achieved a decrease in emissions of 0.1% per employee from the 2012 base year.

ACE Group 2014 GHG Inventory Data - Normalized Emissions Goal Tracking

	2012 (base)	2014	**Change**
Total Emissions (CO_2-eq. (metric tons))	66,636	70,330	**5.5%**
Normalization Factor (FTE employees)	18,137	19,162	**5.7%**
Normalized Emissions (CO_2-eq./NF Units)	3.674	3.670	**(0.1)%**

NOTE: In 2014, a recalculation of the previously reported base year (2012) was performed due to business acquisitions made in 2013. Normalization accounts for part-time employees and acquisitions.

The data above represent 16,471 metric tons of CO_2-eq. of Scope 1 emissions from fossil fuel combustion, 41,747 metric tons of CO_2-eq. of Scope 2 emissions from purchased electricity and 12,112 metric tons of CO_2-eq. of Scope 3 emissions from United States and Bermuda employee business travel. ACE's GHG emissions data are reviewed by a third-party on an annual basis. The company's most recent 2014 GHG inventory was reviewed by Bureau Veritas and the verification statement can be found on the following page.

In addition to tracking GHG emissions versus its goals, ACE reports its GHG emissions data to the Carbon Disclosure Project (CDP), an organization that scores carbon emissions information from thousands of corporations on behalf of the global investment community. In 2014, ACE's response to the questionnaire resulted in scores of 93 for Disclosure and B for Performance.

ACE's Global GHG Management Plan concentrates primarily on reducing energy consumption at the facility level – specifically, in owned buildings and larger, long-term leased spaces. Projects have been implemented at many of our major offices including: Philadelphia, Pa., Wilmington, Del., Hamilton, Bermuda, Sydney, Australia, the ACE Conference Center and Club and London, U.K. The projects include installation of new HVAC equipment, lighting upgrades and installation of a central building automation system (BAS) in order to improve operations within the building and reduce energy consumption. Energy efficiency projects implemented in 2014 represent an estimated savings of approximately 700 metric tons of CO_2e per year.

In ACE's North American headquarters in Philadelphia, we have reduced energy consumption by over 20% since 2006 through the installation of new boilers and LED lighting, the use of variable speed drive HVAC equipment and installation of an exhaust energy recovery ventilator. Through these steps, ACE earned LEED Silver certification in 2009 and was recently awarded LEED Gold certification in 2014. It was also awarded Energy Star Certification by the U.S. EPA in 2010 and 2012.

In July 2011, our Bermuda office building was awarded LEED Gold certification – the first building in Bermuda to be awarded the designation – due in large part to a re-lamping of office lights, applying a floating temperature set point and installing motion sensors and timers on office equipment. These actions reduced electrical needs by approximately 500,000 kWh (358 mtons CO_2e) per year. In 2014, the building engaged with the U.S. Green Building Council (USGBC) to become one of the early buildings using LEED Dynamic Plaque, a tool that continuously monitors and encourages improvement of overall building performance.

Information about ACE's full range of environmental efforts, including insurance solutions to help customers manage their environmental and climate change risks, corporate initiatives to control our own ecological impact and philanthropic actions in support of environmental causes, can be found in the company's annual Environmental Report, which is available at www.acegroup.com.

VERIFICATION STATEMENT
GREENHOUSE GAS EMISSIONS

Bureau Veritas North America, Inc. (BVNA) was engaged to provide Limited Assurance and conduct an independent verification of the greenhouse gas (GHG) emissions and energy consumption reported by ACE Group from January 1, 2014 to December 31, 2014. This Verification Statement applies to the related information included within the scope of work described below.

The determination of the GHG emissions is the sole responsibility of ACE Group. BVNA was not involved in determining the GHG emissions. Our sole responsibility was to provide independent verification on the accuracy of the GHG emissions reported, and on the underlying systems and processes used to collect, analyze and review the information.

Boundaries of the reporting company GHG emissions covered by the verification:

- Operational Control
- Global

Emissions verified in Metric tonnes of CO_2-equivalent (tCO_2e):

- Scope 1 Emissions: **16,471**
- Scope 2 Emissions: **41,747**
- Scope 3 Emissions (Business Travel (Air, Rail, and Personal Car Mileage) in the United States and Bermuda): **12,112**

Data and information supporting the Scope 1 & Scope 2 GHG emissions were historical in nature and in some cases estimated based on historical data for similar properties in similar locations. Data and information supporting the Scope 3 GHG emissions assertion were in some cases estimated rather than historical in nature.

Period covered by GHG emissions verification:

- January 1, 2014 to December 31, 2014

Reporting Protocols against which verification was conducted:

- World Resources Institute (WRI)/World Business Council for Sustainable Development (WBCSD) Greenhouse Gas Protocol, Corporate Accounting and Reporting Standard **(Scope 1 & 2)**
- WRI/WBCSD Corporate Value Chain (Scope 3) Accounting and Reporting Standard **(Scope 3)**

GHG Verification Protocols used to conduct the verification:

- ISO 14064-3: Greenhouse gases -- Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions

Level of Assurance and Qualifications:

- Limited

Verification Methodology:

- Interviews with relevant personnel of ACE Group;
- Review of documentary evidence produced by ACE Group;
- Review of ACE Group data and information systems and methodology for collection, aggregation, analysis and review of information used to determine GHG emissions;
- Audit of samples of data used by ACE Group to determine GHG emissions.

Assurance Opinion:

Based on the results of our verification process, BVNA provides Limited Assurance of the GHG emissions and energy assertion shown above, and found no evidence that the assertion:

- is not materially correct;
- is not a fair representation of the GHG emissions and energy data and information; and
- is not prepared in accordance with the WRI/WBCSD GHG Protocol Corporate Accounting and Reporting Standard.

It is our opinion that ACE Group has established appropriate systems for the collection, aggregation and analysis of quantitative data for determination of GHG emissions for the stated period and boundaries.

Statement of independence, impartiality and competence

The Bureau Veritas Group is an independent professional services company that specializes in Quality, Health, Safety, Social and Environmental management with over 180 years history in providing independent assurance services, and an annual 2014 revenue of 4.2 Billion Euros.

No member of the verification team has a business relationship with ACE Group, its Directors or Managers beyond that required of this assignment. We conducted this verification independently and to our knowledge there has been no conflict of interest.

BVNA has implemented a Code of Ethics across the business to maintain high ethical standards among staff in their day-to-day business activities.

The verification team has extensive experience in conducting assurance over environmental, social, ethical and health and safety information, systems and processes, has over 20 years combined experience in this field and an excellent understanding of BVNA standard methodology for the verification of greenhouse gas emissions data.

Attestation:

Trevor A. Donaghu, Lead Verifier

Lead Verifier, Senior Project Manager

Sustainability and Climate Change Services

Bureau Veritas North America, Inc.

March 11, 2015

This verification statement, including the opinion expressed herein, is provided to ACE Group and is solely for the benefit of ACE Group in accordance with the terms of our agreement. We consent to the release of this statement by you to the CDP in order to satisfy the terms of CDP disclosure requirements but without accepting or assuming any responsibility or liability on our part to CDP or to any other party who may have access to this statement.

Bureau Veritas North America, Inc.

Health, Safety and Environmental Services

2430 Camino Ramon, Suite 122

San Ramon, California 94583

Main : (925) 426.2600

Fax : (925) 426.0106

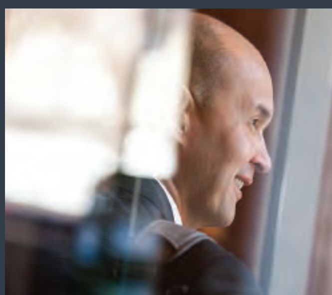
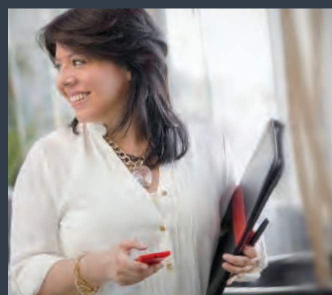
www.BureauVeritasHSE.com

[This Page Intentionally Left Blank]

[This Page Intentionally Left Blank]

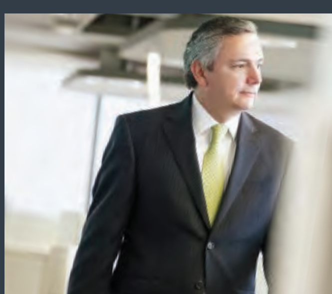




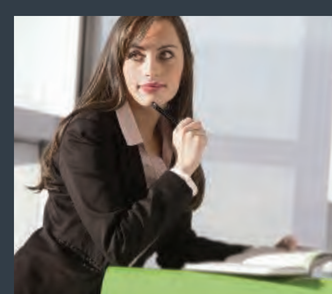
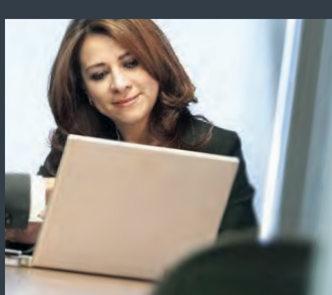


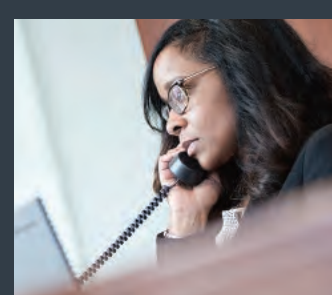






ACE Limited
Bärengasse 32
CH-8001 Zurich
Switzerland

www.acegroup.com

®

002CSN4C0C


ACE LIMITED
ANNUAL REPORT 2013
ACE HAS A CULTURE
OF EXECUTION—WE GET IT DONE.
WE ARE CAN-DO PEOPLE.
insured.™

ACE Group is one of the world's largest multiline property and casualty insurers. With operations in 54 countries, ACE provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients. ACE Limited, the parent company of ACE Group, is listed on the New York Stock Exchange (NYSE: ACE) and is a component of the S&P 500 index.

In January 2013, ACE introduced a new brand promise: "We bring a can-do attitude to everything we do." ACE employees around the globe immediately identified with the new promise, seeing themselves as energetic, disciplined, optimistic and driven to deliver results for their customers and business partners. "We're not kidding ourselves that we currently deliver on this promise every day to every customer around the world," explained ACE Chairman & CEO Evan Greenberg at the time. "But I think as an ACE family, we can wear this promise and be inspired by it. Our job collectively is to make that promise a reality."

CONTENTS

FINANCIAL SUMMARY

(in millions of U.S. dollars except per share data and ratios)	Years Ended Dec. 31, 2013	Dec. 31, 2012	Percentage Change
Gross premiums written	**$22,828**	$21,413[4]	7%
Net premiums written	**17,025**	15,926[4]	7%
Net premiums earned	**16,613**	15,542[4]	7%
Operating income[1]	**3,217**	2,624	23%
Net income	**3,758**	2,706	39%
Diluted earnings per share – Net Income	**10.92**	7.89	38%
Diluted earnings per share – Operating Income[1]	**9.35**	7.65	22%
Combined ratio[2]	**88.0%**	93.9%	NM
Total assets	**94,510**	92,545	2%
Shareholders' equity	**28,825**	27,531	5%
Book value per share	**84.83**	80.90	5%
Tangible book value per share	**68.93**	66.28	4%
Operating return on equity[3]	**12.2%**	11.0%	NM

Five-Year Financial Performance

Compound annual growth rates and averages, 2009-2013

Shareholders' equity	**15.0%**
Book value per share	**14.5%**
Tangible book value per share	**16.7%**
Average operating return on equity[3]	**12.5%**
Average combined ratio[2]	**91.0%**

(1) Operating income or income excluding net realized gains (losses), net of tax, is a non-GAAP measure. We have chosen to make this disclosure because it enhances the understanding of our results from operations by highlighting the underlying profitability of our insurance business. We exclude net realized gains (losses) because the amount of these gains (losses) is heavily influenced by, and fluctuates in part according to, the availability of market opportunities.

(2) The combined ratio is the sum of the loss and loss expense ratio, policy acquisition cost ratio, and administrative expense ratio.

(3) Calculated using operating income divided by average shareholders' equity for the period excluding unrealized gains (losses) on investments after tax.

(4) On a constant-dollar basis, which means amounts are calculated by translating prior period results using the same local currency rates as the comparable current period. On an as-reported basis, gross premiums written, net premiums written, and net premiums earned were $21.6 billion, $16.1 billion, and $15.7 billion, respectively, in 2012. The term constant dollar is used elsewhere in this annual report.

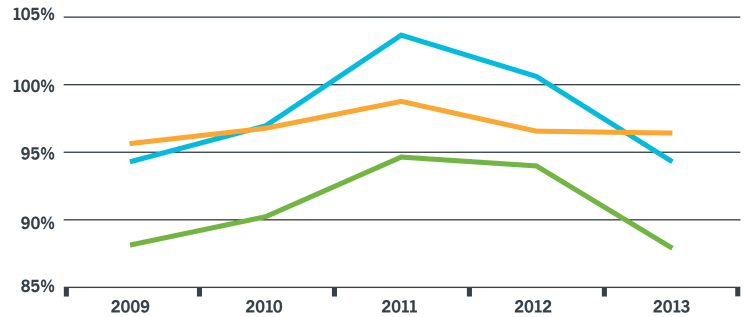
NM – not meaningful

Combined Ratio vs. Peers

ACE's underwriting results outperformed the averages of North American and global peers over the last 5 years.

	Averages		
	1 year	3 year	5 year
North American Peers[1]	94.2%	99.5%	98.0%
Global Peers[2]	96.4%	97.3%	96.9%
ACE	88.0%	92.2%	91.0%

[1] AIG, Chubb, CNA, Hartford, Travelers, XL
[2] Allianz, AXA, Munich Re, QBE, RSA, Zurich

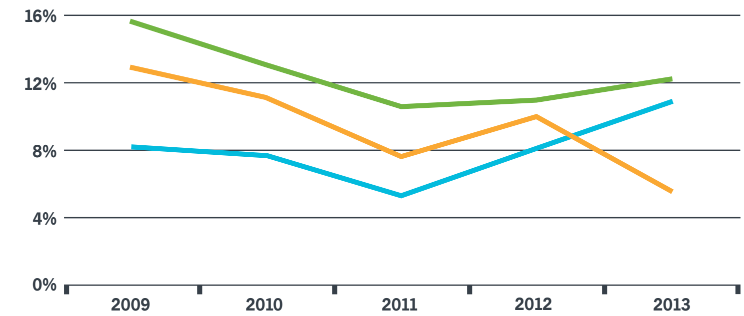


Operating ROE vs. Peers

ACE's operating return on equity has exceeded the averages of North American and global peers over the last 5 years.

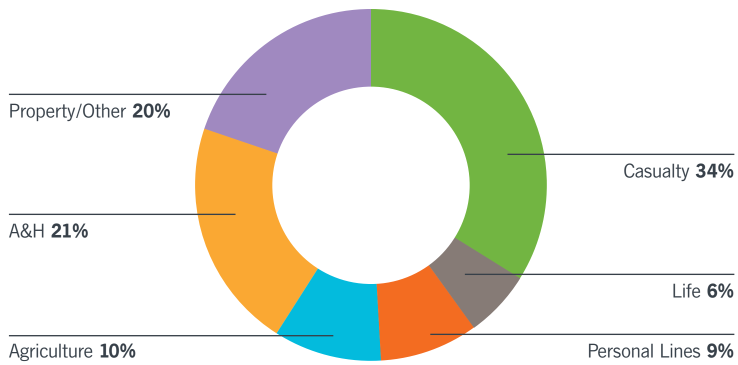
	Averages		
	1 year	3 year	5 year
ACE	12.2%	11.3%	12.5%
Global Peers[2]	5.6%	7.7%	9.5%
North American Peers[1]	10.9%	8.1%	8.0%

[1] AIG, Chubb, CNA, Hartford, Travelers, XL
[2] Allianz, AXA, Munich Re, QBE, RSA, Zurich



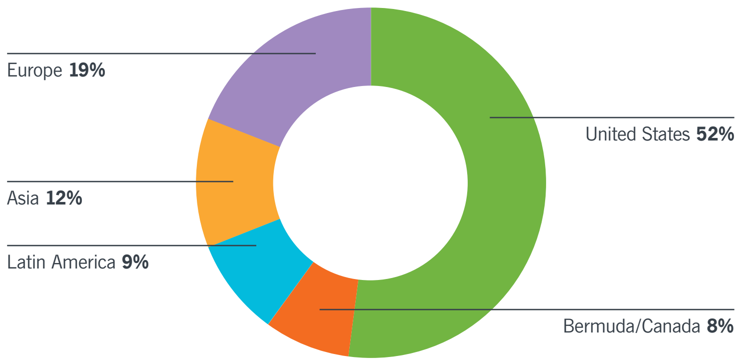
Premium Distribution by Product

2013 Net Premiums Written



Geographic Sources of Premium

2013 Gross Premiums Written



Evan G. Greenberg
Chairman and Chief Executive Officer

ACE had an excellent year in 2013. We produced record operating and net income as a result of strong premium revenue growth and near-record margins. We continued to invest and expand our product offerings, deepen our geographic presence and improve our technical capabilities to take advantage of current opportunities and better position ourselves for future ones. Without a doubt, I have never been more confident in the future of this great company.

After-tax operating income was $3.2 billion, up nearly 23%, while net income was up 39% to $3.8 billion. With investment income essentially flat given the prolonged, historically low interest rates, our earnings growth last year was driven by outstanding underwriting income results. As I have often said, ACE is an underwriting company and underwriting is embedded in our ethos. Underwriting defines us because it's what we do – we analyze and take risk. In a year when the industry performed relatively well, benefiting from light catastrophe losses (CATS), our underwriting results stood out. We produced over $2.1 billion of underwriting income, up 73% from prior year and also a record, and our P&C combined ratio, or our margin from underwriting, was 88.0% versus 93.9% in 2012. By the way, the record combined ratio for our company, at least in the last 15 years, was 87.9% in 2007. Our strong underwriting income growth was driven by a combination of premium growth and margin expansion. With the former, we took advantage of our product breadth, distribution and deep physical presence all over the world as our diversification strategies, initiated years ago, continue to drive profitable growth. As for the latter, we secured underwriting margin expansion as a result of improved pricing in the U.S., our product mix globally and our underwriting portfolio management efforts, including expanded use of sophisticated data analytics that are sharpening our individual risk selection insights.

I mentioned catastrophe losses were lower in 2013 – $227 million pre-tax versus $638 million in 2012, which was larger than our expected average. Light catastrophe losses are the favorable side of volatility and we certainly don't rely on that to make money. As sure as CATS are light one year, they're potentially heavy the next – it's just not predictable. Strip out the catastrophe losses and the benefit we received from prior years' loss reserve releases, which were up 11% compared to prior year, and you get to the current accident year, or the result on the underwriting exposures we earned last year. The current accident year combined ratio was 90%, which is an excellent result that speaks to the fundamental health of our current-year business. We are conservative underwriters so it is gratifying that our underwriting performance shows up not only in our current-year results but also when our reserves for the business we wrote in prior years develop favorably.

We are in a profession where you don't know the true cost of your goods when you sell them and the future is unknowable, so it's best to post reserves prudently and protect the balance sheet and shareholder capital. It's easy to make current-year results look good by posting deficient or optimistic reserves, and we will not knowingly do that. But remember, we are in the risk business. When you assess the quality of our calendar year underwriting earnings, the contribution from positive prior period reserve development is as meaningful as the terrific current year's performance.

Beyond underwriting, our other source of income comes from investing our loss reserves and shareholder capital. Net investment income of $2.1 billion was down less than 2% for the year given our strong cash flow of $4 billion. This is a good result considering the continued pressure from record low interest rates. Our investment portfolio yield was 3.8% at both the beginning and end of 2013, while the current new money rate at the time of this writing is 3% if we were to invest in a similar distribution to our existing portfolio. Like our underwriting, we take a conservative approach to our investing activities and don't reach for yield in our predominantly investment-grade fixed income portfolio. We never forget we are fiduciaries of these invested assets since they comprise shareholder capital – your money – and the loss reserves we hold to pay our policyholder claims. That said, it is frustrating that long-term savers globally, including insurers, have been penalized for so long by central bank policies intended to stimulate economic activity through low interest rates. Although rates likely will remain low for some time, the U.S. central bank is unwinding its stimulus efforts as economic conditions improve. Frankly, sustained central bank stimulus programs such as quantitative easing are in part a product of ineffective political leadership and government inaction to implement policies to address the important cyclical and structural growth-related issues developed countries face.

Dividend increase and share repurchase plan

Turning to capital and our balance sheet, ACE has never been stronger financially. Total capital grew 7% last year to $34.8 billion at December 31. In November, our board announced its intention to increase our quarterly dividend 24% – a recommendation that was approved by you, our shareholders, in January. We have a long-term commitment to a stable dividend with a target payout ratio of approximately 30% of operating earnings. The announcement also included a plan to target the repurchase of up to $1.5 billion of our shares in 2014, which I believe clearly demonstrates what we have been saying for years – that we are not religious about our views on capital management. The buybacks are not a change in our strategy or view of opportunity. We have simply reached a point, all things being equal, where we have built up sufficient capital flexibility for both opportunity and risk that we can return additional capital surplus we generate in 2014 via share repurchases without impacting our growth capability. By the way, we consider the share repurchases a good buy because we are undervalued. We will continue to capture organic growth where the returns are attractive while pursuing acquisitions opportunistically to complement our growth strategies. To be clear, our preference is to put shareholder capital to work to grow the company. If we find a great growth opportunity that requires capital and will generate a favorable risk-adjusted return, that's our preferred way to use it.

ACE is a growth company as measured by growth in book value and we see great opportunity to increase shareholder value over time by growing the company, although growth in a risk business with market cycles is generally not smooth and requires a long-term view and strategic patience. At the same time, we are consistently producing an operating ROE that is attractive – an average 12.5% over five years and 13.7% over 10 – with last year's coming in at 12.2%. That's well in excess of our cost of capital and a good return given risk-free rates of around 2.5% for the year. For perspective, the overall industry generates a mid-single digit average ROE. In 2013, our book value per share grew 5%, or over 11% if you exclude unrealized losses from our investment portfolio from rising interest rates. I prefer to look at our book value growth this way because we are fundamentally a long-term, buy-and-hold fixed income investor, so it's really a timing question. Book value, or shareholder net worth, has doubled in the last five years and tripled in the last 10 and now stands at $29 billion. As I have observed in previous letters, sustained book value growth and quality ROEs ultimately find their way into the stock price, which crossed the symbolic $100 threshold in 2013. This is a sign of confidence in our company and the way we run our business. Last year, investors in ACE stock were rewarded with a 31.9% total return compared to 32.4% for the S&P 500, which had one of its greatest years ever. Over a 10-year period, ACE shares have been superior with twice the total return of the S&P 500. Over a five-year period, ACE's total return was 120% while the S&P 500's was 128% – relatively close.

Looking ahead, we are quite optimistic about our growth prospects because we have so much scope for growth by virtue of our product positioning, our geographic presence, our distribution breadth, our operating culture and, frankly, our small share of the global insurance business in both its totality and within any one of our businesses. As I said, we are patient about growth, and due to the market-driven pricing cycles of property casualty, we are willing to trade market share without hesitation to preserve an underwriting profit. It is our responsibility to never knowingly let underwriting destroy book value, which is our measure of shareholder wealth creation. Many companies espouse commitment to underwriting discipline but few see this through. I will return to this last point later when I touch on the external environment.

So, with that as prologue, let me tell you a bit more about who we are and give you an update on our businesses.

Diversification by product, geography and distribution

ACE is predominantly a global multiline P&C insurance company. Ten years ago, three-fourths of our company's business as measured by gross premiums was concentrated in industrial commercial and specialty commercial P&C insurance. Consistent with our long-term strategy, we have made great strides over the last five and 10 years to diversify our business so that today 50% of our business comes from this area with one-third coming from consumer insurance lines – accident and health (A&H), personal lines and life insurance – and the remaining 12% and 5% from our agriculture insurance and our reinsurance divisions, respectively. Our diversification efforts have also focused on achieving significantly greater balance by geography. Today, approximately half of our business is in the U.S. with the balance conducted locally in 53 other countries, making ACE one of the world's very few truly global multiline P&C insurance companies. Lastly, our distribution capabilities have evolved dramatically from a company that was once dependent primarily on retail and wholesale commercial P&C brokerage. Today, we reach individual consumers and commercial customers of all sizes through a myriad of distribution channels – brokerage, agency (both independent and exclusive), bancassurance and direct marketing. For many of our businesses, marketing and distribution often make the difference between success and failure, so we make our distribution choices based on the country, economic conditions and culture to best reach our target customer.

While our diversification efforts are clearly not finished – in fact, in many ways we are just getting started – our current balance is terrific. When one area of the world is down, another is up – that's the beauty of being global. For example, ACE's significant and expanding capabilities in Asia and Latin America are designed to capitalize on many faster-growing economies with strong new business creation and an emerging middle class. Similarly, while we have consistently grown our commercial P&C business globally – and there is plenty of room for future growth – we have developed at a faster rate our personal accident, personal lines, small commercial and life insurance businesses, many of which are distributed in unique and novel ways. These lines of business present an enormous growth opportunity while providing us with a hedge against our exposure to the commercial P&C industry pricing cycle.

Our broad geographic presence and expanded product capabilities contributed greatly to our premium revenue results last year. Total company net premiums written, including P&C, A&H, life and reinsurance, grew 7% on a constant dollar basis to $17 billion with growth well balanced by territory and product area. If we exclude agriculture, which is a $1.6 billion business and where we are a leading provider of crop insurance in the United States, net premium revenue grew 9.5% on the remaining $15.4 billion. This is the measure I look at most to see how the company is doing from a growth perspective. Crop insurance is a unique public-private partnership in the U.S. and premium growth is affected substantially by commodity prices and how we share premium and loss with the government. Premium levels, therefore, can be volatile from period to period and have nothing to do with the underlying health of the business or the competitive environment.

If we find a great growth opportunity that requires capital and will generate a favorable risk-adjusted return, that's our preferred way to use it.

For the year, our commercial and specialty P&C businesses, which represent about 50% of the company and $12 billion in gross premiums, generated growth of 10% globally in constant dollars – about three times the industry average growth rate – with contributions from every region. In North America, where we benefited from a favorable rate environment, our commercial P&C net premiums grew 11%. We have two retail broker-distributed businesses in North America: ACE USA, which serves large account and upper-middle market clients, and ACE Commercial Risk Services, which is focused on small commercial customers for specialty coverages. Premiums in these two businesses grew 11%. Our two predominantly wholesale broker-distributed businesses in North America are ACE Westchester, which is focused on middle market specialty, and ACE Bermuda, which serves large corporate accounts. Both performed well in 2013 with premiums up over 11%. While we have good market share in the U.S. large corporate segment, we see plenty of room for growth. We are also investing to expand our product and geographic presence to better penetrate the broker and independent agent universe for the insurance needs of middle market commercial customers.

Internationally, we are expanding in particular where economic growth is occurring. For commercial P&C, Latin America led the way with growth of over 20%, followed by solid single-digit growth in Asia and Europe. ACE International, our retail broker-distributed business in 51 countries, had commercial net premium growth of 10% in constant dollars while ACE Global Markets, our London-based wholesale market business, grew at a modest 2% owing to more competition during the year.

Our commercial P&C businesses globally benefited last year from our continued emphasis on improving our underwriting portfolio management capabilities, where I believe we are still in the early stages. These efforts are being implemented across our P&C portfolio globally. We are focused intently on strengthening our data analytics to improve our insights into risks as we segment our businesses into ever-smaller, more discrete risk cohorts. This is and will be a fundamental ACE capability and will separate winners from also-rans in what has become the long-term arms race of our industry.

In our global A&H business, which now represents about 18% of the company, we've also been making investments in data analytics, in this case to constantly refine the performance of our direct marketing efforts to reach the customers, members and employees of organizations that sponsor our products. Net premiums written in 2013 grew about 5% on a constant dollar basis, with international up double-digit, led by growth in Asia and Latin America of 13%, and respectable single-digit growth in the U.S. and Europe. Premiums for our Combined Insurance business, which generates sales through a captive agency force, were down modestly, but agent recruitment is way up for our core business and so is the growth in new sales those agents are producing. Those factors will ultimately translate into premium growth. When we bought this business, it had suffered from years of neglect and underinvestment, but we saw tremendous potential and I am a believer in its distribution model and the customer market it is meant to serve. While a business like this takes years to restore to true vitality, I see the company making great progress and am convinced Combined Insurance will soon return to growth.

I'm pleased with the growth of our personal lines business, which has become a $2 billion business for ACE – or about 8% of the company – from practically nothing 10 years ago and $700 million five years ago. We have done what we said we were going to do – this is now a more meaningful business that we have been patiently building, organically and through select acquisitions, as part of our long-term diversification strategy. Net premiums written were up 40% in constant dollars in 2013, or 11.5% excluding the contributions from our acquisitions, particularly in Mexico. We have done a good job to date of integrating the personal lines-oriented companies we bought and they have been accretive to our earnings in the first year. We are making them more valuable by combining their impressive talent and local product and market expertise with our global underwriting, distribution management capabilities and product portfolio. Meanwhile, for ACE Private Risk Services, which focuses on high net worth consumers in the U.S., net premiums were up over 9%. We are making an impact by striving to deliver outstanding service quality and a broad portfolio of coverage to meet the complex needs of these discriminating customers. If you fit the profile of the customer we best serve, try us out. With the benefit of substantial investments in our capabilities, our global personal lines business is poised to continue its strong growth.

Premium production for our international life insurance business, which is focused primarily in Asia and secondarily on Latin America, grew 18.5% in constant dollars. We continue to make investments to build our own captive agency capabilities – from recruitment and training to management and systems – and now have 35,000 proprietary life insurance agents in Asia including Huatai Life, our 36%-owned venture in China with Huatai Insurance. We had standout performances last year in a number of countries, with Indonesia, Korea and Hong Kong, for example, registering premium production growth of 35%, 18% and 16%, respectively.

We are continuing to build a strong distribution capability that deepens our geographic presence in individual countries. Enhanced distribution will be critical for our commercial P&C, personal lines, A&H and life businesses as we continue to introduce new products, enter new target markets and expand our presence in existing ones such as Thailand, where we announced in January 2014 our intention to acquire a majority stake in Siam Commercial Samaggi Insurance, a well-established and trusted general insurer. Samaggi distributes its personal lines and small commercial products through its own branches, 1,000 independent agents and more than 1,100 branches of Siam Commercial Bank, one of the country's largest and most venerable financial institutions. The acquisition should complement our existing commercial P&C, A&H and life capabilities in Thailand and further strengthen our valuable Southeast Asia network.

The expansion of our physical branch office networks enables us to tap into the economic activity occurring locally in countries like Mexico, where we have 78 offices in 46 cities; Brazil, where we have branches in 19 cities; Malaysia, where we have 2,100 agents and 23 offices nationwide; Indonesia, where we have over 40 branch offices for life and non-life business; and the U.S. with major sales and underwriting offices in 22 cities. In addition, our direct marketing capabilities, including over 100 call centers in 34 countries that make about 90 million calls annually, are key to reaching the customers of third-party affinity sponsors such as utilities, mobile phone operators, department stores and financial institutions.

Lastly, our global reinsurance business had an excellent year with a combined ratio of 66% and underwriting income up over 45%. These great numbers reflect low catastrophe losses and good results from the core P&C book. With flat-to-declining reinsurance rates and with competition increasing as the year progressed, net premiums declined 3%. The reinsurance market is awash in capital, so we aren't looking for near-term growth in this business. We accept that and are fully prepared to walk away from business and shed further volume if necessary to maintain an underwriting profit. This is a relatively small business for ACE but important, and we take pride in the underwriting discipline of our reinsurance colleagues – we applaud them and reward them for it.

On the other side of the coin, ACE is a substantial buyer of reinsurance, one of the largest in the world, and our risk appetite has not changed – it remains steady. We pride ourselves on the long-term relationships we have with reinsurers and the money we have made for them over the years. We are a sought-after cedant. The softening reinsurance market benefits ACE in terms of pricing and improved terms that will positively impact our future financial results.

Insurance market conditions

Turning to the subject of insurance market conditions, the insurance business globally is competitive and there are plenty of companies and capital chasing market share in every line of business. That's nothing new. In the U.S., market conditions are competitive but reasonable. Pricing has varied depending on overall experience in a given class. Large, high-quality carriers have shown leadership and have sought to focus on earning a reasonable margin for the risk assumed. Many companies have benefited from an improved price environment, modest catastrophe losses and low inflation.

In the U.S., for commercial P&C insurance, we are likely at the beginning of a transition market that will lead to a more competitive market and already has for property insurance. At the same time, the reinsurance market is softening, both in terms of pricing and terms, and this, too, will impact the primary insurance market. At the moment, insurance company balance sheet reserves are adequate in aggregate and most insurers are feeling greater earnings growth pressures, exacerbated by low interest rates and relatively slow revenue growth while underwriting margins in aggregate have improved. To achieve earnings growth from here, most companies will be unable to meaningfully improve margins except in a few distressed classes like workers' comp and will therefore likely go for growth in classes where they perceive better margins. That means the return of a more competitive cycle.

Overseas, the commercial P&C rate environment is more competitive but remains reasonably stable. Asia and Latin America are the growth regions of the world and many global insurers, particularly Europeans and a few Americans, as well as local company participants, are focusing more attention there, and that means increased competition. The Continent is reasonably stable while the U.K. is competitive, particularly the London wholesale market, which is heavily dependent on catastrophe insurance as a source of revenue. CAT insurance is also a major source of earnings for Lloyd's – they are caught in the same predicament as traditional reinsurers – and I will address that next. The London wholesale market is quite competitive and it will only become more so. There is no doubt in my mind that there will be more competition globally in the future. I don't say any of this to be negative. On the contrary, we are ready for a more challenging insurance market and are clear-eyed and hard-nosed about reality. I believe we will outperform in any market and continue to generate superior returns.

The reinsurance landscape is changing in some fundamental ways. It's not simply the beginning of a typical soft cycle. There are new sources of capital, and not just one flavor. Some of this new capital represents typical soft market cyclical behavior – cheap capital chasing a perceived source of earnings. In my judgment, this is naïve and these capital providers will simply be abused and eventually disappear. It takes more than capital to make money in our business. The capital needs to be backed by smart underwriting.

On the other hand, major sources of the alternative capital are thoughtful and rational entities with enormous resources – they represent a more structural and permanent change to the reinsurance market landscape. Capital markets players have noticed the margins

We are ready for a more challenging insurance market and are clear-eyed and hard-nosed about reality. I believe we will outperform in any market.

reinsurers have made on reinsuring catastrophe exposure of insurance, as well as the uncorrelated nature and data- and model-centric aspects of a portion of that business. They seem to like the business and appear committed to it, and their appetite for risk is growing beyond the easiest business to model. Many reinsurers have been dependent on the CAT business for a disproportionate share of their profits – though it is only about 10% of reinsurance market revenues. So, these new market entrants have come into the business and taken share, driving down pricing and margins, and putting pressure on traditional reinsurers. I can imagine reinsurers over time will have to adjust the pricing in their traditional P&C lines to earn an adequate return because they will no longer be able to depend on greater returns on their CAT business. In the meantime, it will be a painful and likely prolonged adjustment.

By the way, right now the capital markets players, who are managed by the wholesale market, both reinsurers and fund managers, aren't the global originators of risk; primary companies like ACE are. The company that can originate and package risk at the wellhead, all over the world, across a broad swath of products, and has the capability to manage it better through sophisticated data analytics supporting good underwriting discipline has a winning model for the future. I can envision a day when we aren't simply accessing traditional reinsurers but originating risk globally that we package and distribute directly through the capital markets.

The macroenvironment

We also face a macroeconomic environment that, while improving, remains challenging. Overall, I see global economic growth improving modestly, driven principally by developed markets. But the world is not all moving in one direction. With central banks, particularly the Fed, unwinding their stimulus programs, and China's economic growth slowing, more volatility and uncertainty exist in developing markets in the short term.

U.S. growth is on a more solid footing and more broad-based – construction, manufacturing (particularly auto), energy and housing – and there is less impact from recent government fiscal contraction, i.e., the sequester. But due to a lack of actionable government policy, the economy is underperforming its potential and will do so for some time. Leadership at the federal level is the single greatest issue impacting our economy. In fact, there has been a failure of government to address major issues – for example, over-regulation of the financial sector and business generally, infrastructure, immigration reform and worker skills, which are impacting medium-term growth; and education, deficit reduction and entitlement reform, which are impacting longer-term growth. Underemployment and income inequality, as a result of technology and globalization displacing lower-skilled labor, will remain serious problems for years. It's a generational challenge and, in my judgment, education and closing the skills gap, not government wealth redistribution, are the answer.

Europe is more stable than it has been for several years. While economic growth will be very low if not nonexistent, a stability has returned to the Eurozone as we appear to be past the threat of acute currency and financial crisis. While many of the fundamental issues impacting growth remain unresolved at the core of Europe, progress has been and continues to be made, particularly on the periphery in countries that suffered the most, took decisive fiscal and pro-growth actions and are now beginning to see signs of recovery.

Japan at the moment is experiencing its best growth in 20 years. Japan has fired two of its three policy-directed "arrows" to stimulate growth and reinflate its economy. So far, so good, although medium-term growth is likely unsustainable without the tough market- and labor-oriented reforms previously announced. That's the third arrow and it's the most difficult one.

So, developed countries lead the world in improved growth over the short term.

As I noted earlier, the U.S. is beginning to shrink quantitative easing, or QE, and that is impacting emerging markets. QE provided a cheap source of debt and equity capital to the emerging markets – it was very stimulative. That, along with China growing between 8.5% and 10%, meant high demand and inflated prices for the natural resources that developing countries had to sell. China has slowed down and has accepted slower economic growth as a trade-off for fundamental, structural economic reform that will lead to a more solid long-term growth trajectory. These reforms are broad-based, politically difficult and will take time to implement. With an end to cheap capital and lower prices for commodities, the emerging markets will be a mixed bag in terms of growth and stability. Emerging economies that have practiced more sound fiscal and market-oriented policy reform are in better shape from a growth perspective. Think Mexico, Chile, Colombia, Singapore and the Philippines, to name a few. On the other hand, major developing countries, particularly those with current account deficits and that haven't progressed with more difficult reforms – such as Brazil, Indonesia, India and Turkey, for example – will likely experience lower growth and the rising specter of inflation over the short and medium term. However, developing and emerging markets as a whole are in much better fiscal and monetary shape than in the late 90s when the last crises struck, and that gives me greater confidence over the medium and longer term.

Geopolitical risk

I am concerned about the increased political risk around the globe, which is another threat to economic growth and stability. Problems in the Middle East, parts of North Africa, and Central and South Asia that will take generations to resolve spawn the seeds of greater problems – i.e., transnational terrorism and spreading Sunni-Shia conflict. Some problems, like in Syria, Iraq and Afghanistan, have no easy answers.

In these circumstances, the U.S. is the only global power with real capability and influence. The U.S. has an obligation to engage with strength – it's in the national interest. Yet, there is a growing perception around the world of American leadership weakness and U.S. lack of resolve and willingness to lead. The U.S. draws lines in the sand but has no will to act. This perception is dangerous – it opens the doors to opportunism or miscalculation and exposes the world to greater risk. Traditional allies have diminished confidence and that, too, increases risk – for example, Egypt, Saudi Arabia and Israel. And then in Asia, allies watch and grow uneasy that the U.S. may not be reliable in the face of China's growing power and assertiveness in the Sea of Japan and the South China Sea, and that raises the specter of an arms race as countries move to defend themselves.

China's interests and influence now extend well beyond its borders. They are wrestling with their own economic and social issues at home and are learning how to engage beyond their borders. These issues are profound and, given the country's size, impact not just China's immediate neighbors throughout the Asia Pacific region but the entire world. The U.S.-China relationship is the most important bilateral relationship in the world and it will be for decades to come. The relationship, however, is not without its challenges. History has shown that established and rising powers have rarely been able to accommodate each other's interests peacefully. Both countries have interests in common and areas of competition. Focusing on the areas of common interest while understanding each other's core national interests and the fact that it's not a zero-sum game is a constructive way forward. Each must learn to accommodate the other's interests without compromising its own important national interest.

However, at the most fundamental level there is a deep lack of trust and a suspicion between the two countries as to intentions. We each have such different histories, values and circumstances that inform our views and priorities, and at times each takes actions the other interprets as a move to undermine its interest. While the U.S. and China are competitors, both have many interests in common, and that's what we first have to focus on if we are to build greater trust: energy security, climate change, rules-based global market access for trade and investment, terrorism, and freedom of navigation, to name a few. Both have a vested interest to cooperate toward a vision where geopolitical stability and rules-based behavior lead to increased prosperity for both countries and benefit the world at large. It won't be easy because we often see the issues and their solutions differently, but it's in our mutual long-term national interest. Right now, both countries need strong economic growth to address problems at home, and that requires a more peaceful globe with a more open, rules-based trading and investment system – one where foreign participants, with few exceptions, are treated the same as domestic ones, where government-owned companies aren't advantaged over the private sector, and where the rule of law enforces basic property rights.

ACE is a corporate citizen of the world and an economic stakeholder in many of the places I have mentioned. The U.S. private sector has a responsibility to encourage its nation's leaders to lead and engage with confidence. On the trade front, it is so important that the U.S. conclude the multilateral trade agreements now pending – including the Trans-Pacific Partnership, and the Transatlantic Trade and Investment Partnership. President Obama must make the case for trade and lead the effort to secure trade-promotion authority or TPA. In its absence, it will be difficult to conclude these agreements. American CEOs are ambassadors for their country and help demonstrate the benefits of market-oriented policies and what foreign companies can bring in terms of know-how and capital. By engaging and opening our markets, we have the opportunity to influence other countries' policies toward a vision of open markets, free trade and rule of law. But we are most effective, again, when our country is leading with confidence and a clear sense of strategic priority.

Our industry and regulation

I would like to say a few words about our industry, which I think is generally misunderstood by the public. Many think of insurance as kind of bureaucratic and slow-moving. Nothing could be further from the truth. We are a reflection of society globally – we are part of the financial grease that supports economic growth – and we assume a portion of the risk that is created as a result of that economic activity. As an industry, for us to remain relevant in an environment where risk is dynamic, we need to assume appropriate amounts of risk in areas that matter to our clients. We are expected to innovate in the areas where exposure is being created. Risks such as cybersecurity, natural catastrophe and terrorism come to mind, and ACE will be at the forefront of these issues in a thoughtful way. Of course, it goes without saying, we can only take risk to the extent that we understand it and we have the balance sheet wherewithal to assume it. With that said, we shouldn't be so quick to expect and accept government involvement, which should be limited to extreme and systemic types of events truly beyond industry balance sheet capabilities.

A topical example of an extreme and systemic event is an act of terrorism, so let me say a few words about the U.S. Terrorism Risk Insurance Act or TRIA. TRIA is one of those rare situations where legislation actually works as intended. As you may know, the program expires at the end of 2014 and we are already facing the challenge of issuing insurance policies that extend into this uncertain period. Bills are pending in Congress and there appears to be support for it on both sides of the aisle. I am reasonably confident that TRIA will be extended. The question is whether this goes to the eleventh hour and for how long TRIA is renewed.

As an industry, for us to remain relevant in an environment where risk is dynamic, we need to assume appropriate amounts of risk in areas that matter to our clients.

Over the past decade, the insurance industry has shouldered an increasing share of terrorism risk as part of the TRIA quid pro quo: we are compelled to offer terrorism coverage in return for the government taking the extreme event risk, or what we call tail risk. Without this certainty, insurers would have to severely limit the coverage provided to fit their balance sheet limitations and in recognition of the difficulty terrorism presents in underwriting given the nature of the risk. This is hardly a bailout. In fact, if TRIA didn't exist, the ultimate insurers would be the banks, whose mortgage collateral would be exposed, and industry in general, which would have responsibility for its workers and property. I can imagine, as a consequence of this renewal, insurers may assume a greater percentage of the risk – as we should but within the bounds of what we can reasonably shoulder while protecting our balance sheets against the risk of ruin. We don't look to government for handouts. TRIA renewal is not automatic though – it won't happen unless business leads an effort. We have to keep lobbying Congress, both Republicans and Democrats. They have to hear from their constituents – real estate, banking and manufacturing, for example – that this is important. Congress has shown an ability lately to hit singles and doubles when it comes to legislation. Well, TRIA is a single or double.

On a separate subject, our industry faces a difficult, politically charged regulatory environment globally that is in a state of change following the financial crisis. The environment has never been more complex, demanding, and in my judgment, confused. It is one of the greatest challenges our industry faces today. Many of the regulatory bodies we report to around the globe do a reasonably good job and have a reasonably clear sense of mission. On the other hand, some important regulators and policymaking bodies, particularly at the national and multilateral level, are confused about mission and the issues. At the leadership levels, they are directed by those with banking experience and very little knowledge of or appreciation for our industry and its important differences. This is deeply troubling and I have three specific concerns.

First is the designation of certain large global insurance companies as systemically important, or SIFIs. This designation, to the extent it impacts their traditional insurance business, in my judgment, is wrong-headed and simply not relevant. Traditional P&C and life insurers are not systemic, and the failure of an insurance company engaged in traditional life or non-life insurance, while potentially a major event, does not pose a systemic threat to the global financial system. But multilateral bodies and some national regulators seem to be trading down the definition of systemic to include a shortage of coverage availability, which is nonsense and represents regulator overreach.

If you agree with me that traditional insurers are not systemically important, then the notion of requiring them to hold additional capital for their traditional business doesn't make sense either. It would needlessly disadvantage them and raise insurance buyers' costs, and for what benefit? To go further, requiring companies designated as internationally active insurance groups – such as ACE – to hold more capital because of an ill-conceived view that they are somehow riskier than large domestic giants because they do business across borders would be needlessly counterproductive. It would restrict fair competition, impact availability and raise costs. In fact, judging riskiness is about understanding concentrations of exposure and not cross-border presence – that's a separate issue about regulator coordination and it's not solved with capital.

The second concern is related to the first – it's around the notion of one set of uniform global industry capital standards, which is being pursued aggressively by the International Association of Insurance Supervisors (IAIS) and the Financial Stability Board. I'm supportive of minimum standards for capital that an insurer must hold to protect policyholder obligations in the event of an insurer failure. Our obligation to policyholders is the special fiduciary nature of our industry – it's a responsibility that's recognized in the modern regulatory construct governing insurers dating back a long way. Like all corporations, insurers should be allowed to fail, but in recognition of this special fiduciary responsibility, we're required to hold a sufficient level of capital to meet policyholder obligations. However, a number of proposals being discussed by international regulators reflect what I would characterize as more socialist views about insurer responsibility and require levels of statutory capital well beyond that purpose. For example, the IAIS approach would require capital to protect bondholders and shareholders – a so-called "going concern" approach. Our unique fiduciary responsibility is to our policyholders, and insurers shouldn't be expected to bear a similar regulatory responsibility for bondholders and shareholders when general corporations aren't required to do the same.

My third concern is about legislative and regulatory efforts we see around the globe aimed at balkanizing capital and restricting cross-border risk transfer flows. Behind these efforts are essentially two motivations. One is the desire of regulators to force an insurer to retain more risk and capital in their jurisdiction in order to fully control the capital backing the exposure the insurer is assuming for its own account. The other is protectionist – the desire to protect their own domestic insurance market at the expense of competition from global companies capable of assuming large amounts of risk at competitive prices.

In the U.S., for example, the Neal bill now in Congress would thoughtlessly limit cross-border intercompany reinsurance to advantage a few domestic insurers – though intercompany reinsurance within our borders is exactly what these companies employ for capital efficiency purposes. This threat to freedom of reinsurance is truly tax- and protectionist-driven – it impacts the ability to use internal reinsurance properly, which is fundamental to efficient capital management for all insurance companies.

There are consequences to these misguided efforts. Requiring global insurers to hold greater levels of risk and capital locally will drive up prices and restrict the availability of capacity. Ironically, this is occurring as business continues to globalize with insured values and demand for coverage growing. These proposals single out and discriminate against foreign insurers. They violate tax treaties and trade agreements because their real aim is to restrict competition. Our regulators and legislators have a role to play, but it should be to support our freedom to build businesses and to innovate for the benefit of society in a responsible manner.

A culture that's frank and self-critical

ACE is a successful company – we're one of the best in the business – and we're optimistic because there's so much more to accomplish. But our future success is not guaranteed. I'm concerned – in fact, paranoid – about becoming victims of our own success – that we think we have "arrived." I don't believe that for a minute – we are never as good as our potential. A separate but related concern is that as we grow bigger, our employees and managers develop a "followers" mentality and wait for direction from senior management instead of thinking for themselves – that they stop truly "seeing" the details of their business and stop conceptualizing the substance and over-rely on process. In a risk business such as ours, it's the substance that matters first. This happens sometimes to large, successful companies – they stop excelling and become more inward-looking. They develop and enforce process and rules to ensure conformity and outcome, which can lead to less real individual thinking, more process and routine, and less focus on content. This momentum is difficult to break.

Part of my job as CEO is to be intimately in touch with the reality of our business and be able to stand back, observe our operations dispassionately and make judgments. The world is dynamic and constantly changing so we must be willing to evaluate and remake ourselves where necessary. We must be frank, self-critical and never at rest. Nowhere does this apply more in our company than underwriting and claims, where we are good – in fact, very good – but only on a relative basis, because on an absolute basis we are on a never-ending journey. ACE has a culture of execution – we get it done. We are can-do people. As we get bigger and older and yes, more successful, we have to be watchful that we don't allow too much unnecessary bureaucracy to creep in – that we don't develop too many rules in an effort to create a regiment around all behavior. We do need structure, a degree of uniformity, and the important rules that inform how we should behave in areas that are fundamental, such as underwriting, claims, accounting and sales processes. But we don't want to choke off individual thinking or substitute process for substance. Process and rules have a place, but not to replace individual leadership, judgment, decision-making and accountability.

Another hallmark of the ACE culture is our work ethic. It begins with leadership and permeates the entire organization. For example, at ACE, the higher you go the harder you work. It's our inconvenient truth – we don't apologize for it – and as part of our vision it makes us different. As our managers grow and seek greater positions of authority, they quickly learn that they must take on greater responsibility and perform with excellence – they must be willing to pay that price. Fortunately, we have a large and talented employee community of leaders and technical experts – at all ages and levels – many of whom are hungry and driven to take on more. We are focused on helping them achieve that because collectively they produced our great results last year and they will fuel our ability to take on more opportunity. I am grateful for their tremendous effort as well as for the outsized contributions of my senior management team and board of directors, without whom our success last year would not have been possible. In particular, I want to acknowledge the contributions of two longstanding directors, Tom Neff and Bob Ripp, both of whom are retiring from the board this year after a collective 40 years of service to the company. It has been a pleasure and an honor to work with them.

My first 10 years

As I conclude in 2014 a decade of service as CEO, I have developed a rather personal perspective about ACE – where we've come from and what we are today. Ten years ago, in the middle of a hard market, we were scrambling to add people and products at a rapid pace. It was like putting wings on a plane while we were taxiing to take off. Today, we have capabilities and presence we could only have dreamed about a decade ago and now are positioned to take advantage of so much opportunity we see around the globe. We are hungry, humble, restless and, now, especially self-critical.

This is a special place, a special organization – we can only describe it in personal terms because we all take it so personally. It's not just a company. It's an expression of who we are collectively as a group of like-minded people – our place in the world and what we are trying to achieve. I am invigorated by what we have accomplished together and optimistic about what this organization can and will achieve in the years ahead.

On behalf of all my colleagues, we are ready for the next 10 years. I hope you are, too.

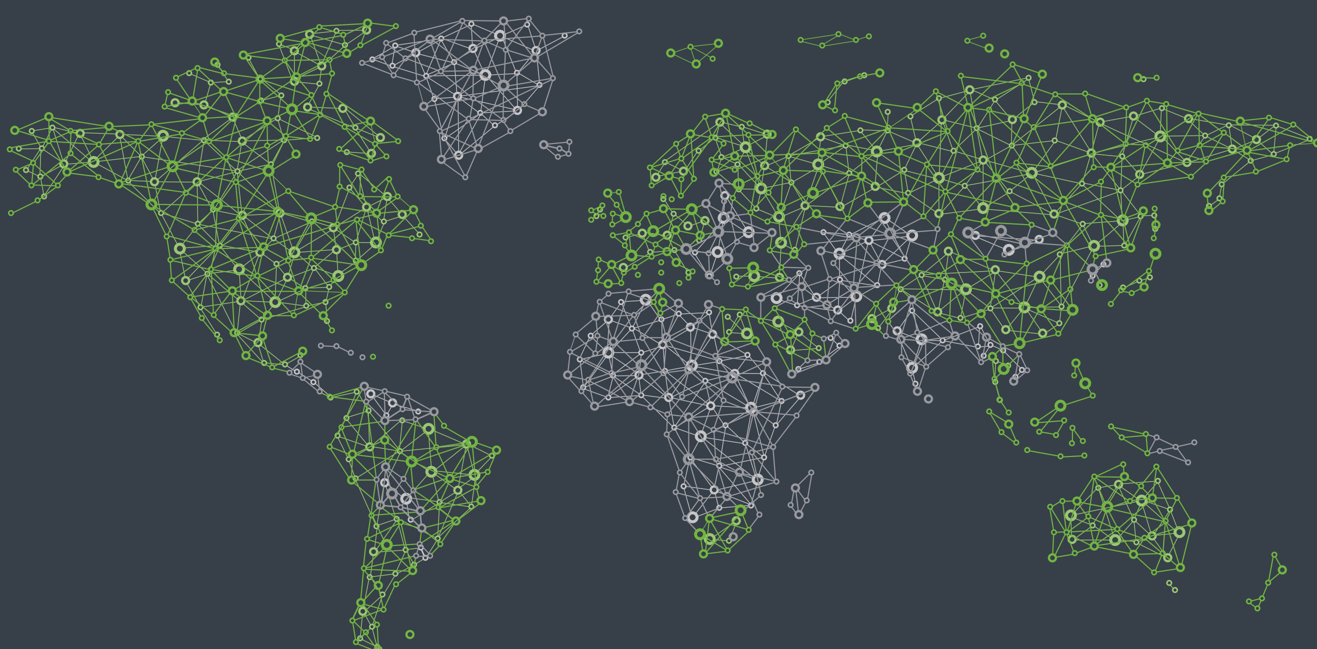
Sincerely,

Evan G. Greenberg
Chairman and Chief Executive Officer

A LOCAL PRESENCE GLOBALLY

ACE has operations in the countries and territories listed below and can help clients manage their risks anywhere in the world.

Argentina
Australia
Austria
Bahrain
Belgium
Bermuda
Brazil
Canada
Chile
China
Colombia
Czech Republic
Denmark
Ecuador
Egypt
Finland
France
Germany
Gibraltar
Hong Kong
Hungary
Indonesia
Ireland
Italy
Japan
Korea
Macao
Malaysia
Mexico
Netherlands
New Zealand
Norway
Pakistan
Panama
Peru
Philippines
Poland
Portugal
Puerto Rico
Russia
Saudi Arabia
Singapore
South Africa
Spain
Sweden
Switzerland
Taiwan
Thailand
Tunisia
Turkey
United Arab Emirates
United Kingdom
United States
Vietnam



PRODUCTS AND DISTRIBUTION AROUND THE WORLD

Insurance — Overseas General

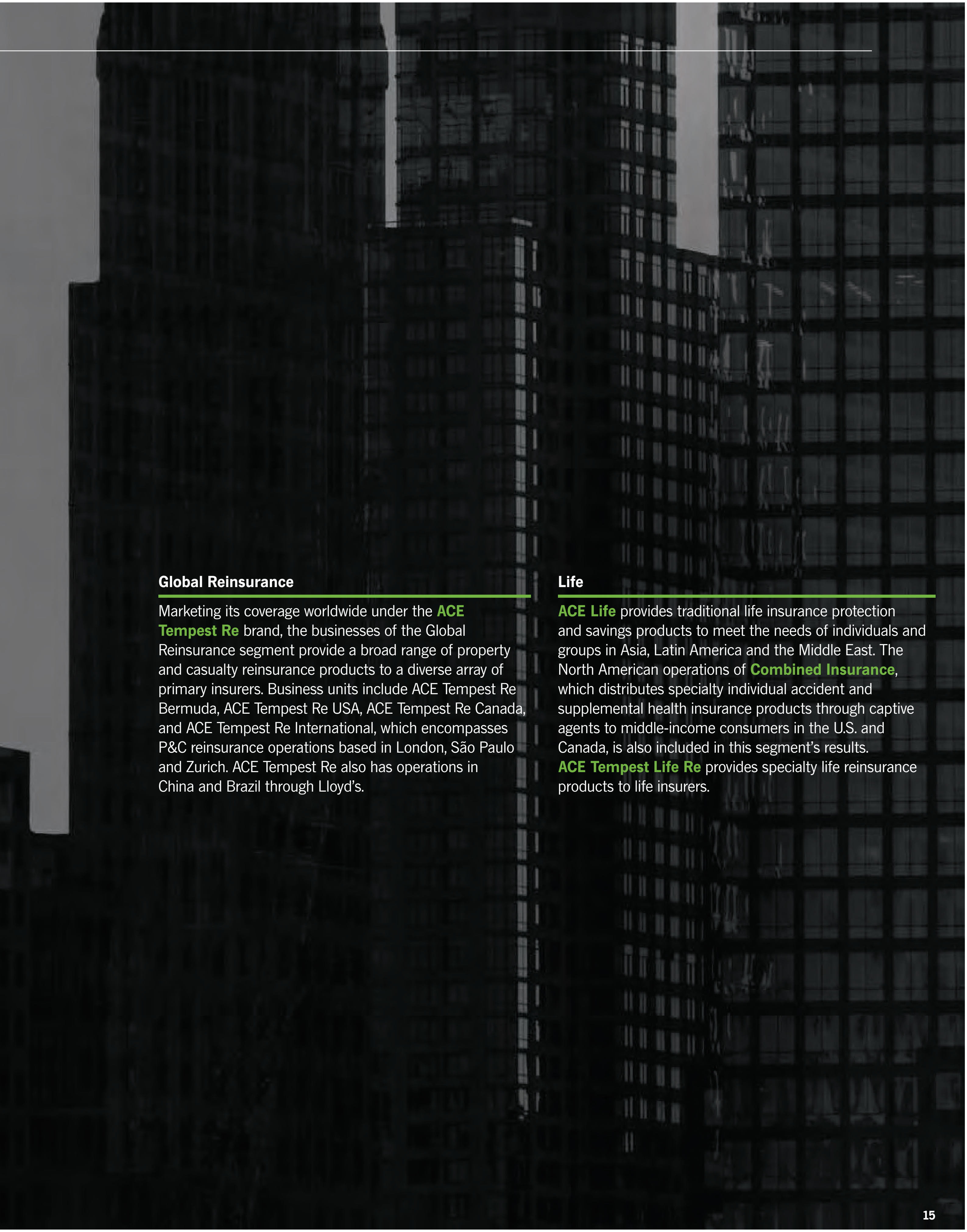
Insurance – Overseas General comprises **ACE International**, the company's retail broker-distributed business outside of North America, and **ACE Global Markets**, a London-based wholesale market business that includes a syndicate on the Lloyd's trading floor. These businesses write a variety of coverages, including property, casualty, professional lines, marine, energy, aviation, political risk, construction risk, A&H and specialty consumer-oriented products. The segment also includes the international operations of **Combined Insurance**, which provides specialty accident and supplemental health insurance products to middle-income consumers in Europe, Latin America and Asia Pacific.

Insurance — North American P&C

The businesses of the Insurance – North American P&C segment serve clients ranging from the largest multinationals to mid-size and small businesses to high net worth individuals. **ACE USA**, which distributes coverage through retail brokers, provides a broad array of specialty property, casualty, and A&H insurance products and risk management services to corporate clients across the U.S. and Canada. **ACE Westchester** specializes in excess and surplus lines specialty products, including property, inland marine, casualty, professional lines, and environmental liability products distributed through wholesale brokers. **ACE Bermuda** writes high-level excess liability, property, political risk and directors and officers insurance worldwide. **ACE Private Risk Services** provides high net worth individuals and families with homeowners, automobile, valuables, umbrella and recreational marine insurance. **ACE Commercial Risk Services** offers specialty insurance products and solutions for small businesses through several distribution channels.

Insurance — North American Agriculture

Insurance – North American Agriculture comprises **Rain and Hail**, which provides comprehensive multiple peril crop and crop-hail insurance distributed through a nationwide network of specialized agents; and **ACE Agribusiness**, which offers farm and ranch property as well as specialty P&C coverages distributed through brokers and agents for companies that manufacture, process and distribute agriculture products.



Global Reinsurance

Marketing its coverage worldwide under the **ACE Tempest Re** brand, the businesses of the Global Reinsurance segment provide a broad range of property and casualty reinsurance products to a diverse array of primary insurers. Business units include ACE Tempest Re Bermuda, ACE Tempest Re USA, ACE Tempest Re Canada, and ACE Tempest Re International, which encompasses P&C reinsurance operations based in London, São Paulo and Zurich. ACE Tempest Re also has operations in China and Brazil through Lloyd's.

Life

ACE Life provides traditional life insurance protection and savings products to meet the needs of individuals and groups in Asia, Latin America and the Middle East. The North American operations of **Combined Insurance**, which distributes specialty individual accident and supplemental health insurance products through captive agents to middle-income consumers in the U.S. and Canada, is also included in this segment's results. **ACE Tempest Life Re** provides specialty life reinsurance products to life insurers.

INSURANCE – OVERSEAS GENERAL

The Insurance – Overseas General segment maintained its growth trajectory in 2013, with strong premium revenue and income contributions from every region. Product and distribution capabilities developed and acquired over the years started to bear more fruit, and these investments were instrumental in driving the segment's excellent performance. Net premiums written grew nearly 14% in constant dollars. Operating income for the segment increased 10% to $1.1 billion while the combined ratio was 87.2%.

Faster economic growth in developing markets continued to foster robust new business creation and raise the standard of living for a burgeoning middle class with additional income to purchase and protect their valuables and safeguard their health and well-being. ACE increased its commitment to and penetration in these regions, reaching more prospective customers through new distribution channels. For example, the acquisition of ABA Seguros, one of Mexico's largest personal lines insurers, included relationships with 2,000 independent agents across the country who can now offer a host of auto, homeowners, small commercial, personal accident and specialty insurance products.

In the commercial P&C business, ACE achieved strong premium growth, even with insurance rates flat to down slightly throughout the year. The company demonstrated its ability to outperform as a result of good product mix, underwriting discipline and experienced, on-the-ground underwriters with local insight. For example, ACE International, the retail broker-distributed business outside of North America, produced double-digit premium growth, with Latin America leading the way with net premiums up 20% followed by solid single-digit growth in Asia Pacific and Japan. In Europe, where economic growth was slower, ACE found niches for profitable growth with specialty underwriting classes, such as professional lines, surety and environmental liability, and delivered its best underwriting profit to date. ACE Global Markets, the company's London-based wholesale market business, also delivered solid underwriting results and profitability in the city's highly competitive environment. In Latin America, the acquisition of Fianzas Monterrey, a leading surety lines writer in Mexico, further diversified ACE's business in that country and strengthened its offerings for commercial clients in the industrial and construction sectors.

The accident and health (A&H) insurance business continued its historic emphasis on Asia and Latin America and their emerging middle class populations while maintaining a strong European and Australian presence. The direct marketing channel added new sponsors and distribution partners, including mobile network operators and retailers. On any given day, more than 5,000 outbound telemarketers work on ACE's behalf to acquire new customers and offer additional products to existing customers. In certain markets, A&H products fill a gap where much-needed personal insurance coverage is minimal or doesn't exist.

In the travel insurance business, new partnerships with airlines and online travel agencies helped spur growth in emerging markets, where personal and business trips are on the rise, as well as in the more mature markets of Europe, where travel is a way of life.

Net premiums written for international personal lines and small commercial business grew by 65% over prior year through a combination of focused and disciplined organic growth and opportunistic acquisitions in strategic countries. The company generally concentrates on traditional products – auto, homeowners and renters – in developing markets, and specialty products in developed countries. The company also launched new products, expanded distribution, and leveraged predictive analytics, portfolio management and more advanced agency distribution management techniques. The premium growth was accompanied by reasonable underwriting margins.

"Staying the course with our strategy of deeper penetration in developing markets with faster-growing economies contributed to our excellent performance for the year."
– John Keogh

Net Premiums Written

2009-2013 (in millions of U.S. dollars)

2013	$6,520
2012	$5,863
2011	$5,629
2010	$5,189
2009	$5,043

Combined Ratio

2009-2013

2013	87.2%
2012	89.7%
2011	94.5%
2010	90.5%
2009	89.0%

Left to right:

David Furby
Division President
Commercial Property & Casualty
ACE Overseas General

Juan Andrade
Executive Vice President
ACE Group
Personal Lines

Chief Operating Officer
ACE Overseas General

Darryl Page
Division President
International Personal &
Business Insurance
ACE Overseas General

John Keogh
Vice Chairman and Chief
Operating Officer
ACE Limited/ACE Group

Chairman
Insurance – Overseas General

Edward M. Levin
Division President
Accident & Health
ACE Overseas General

ACE's business in Mexico, the company's third largest country by premium, includes commercial P&C, A&H, personal lines, surety lines and life insurance.

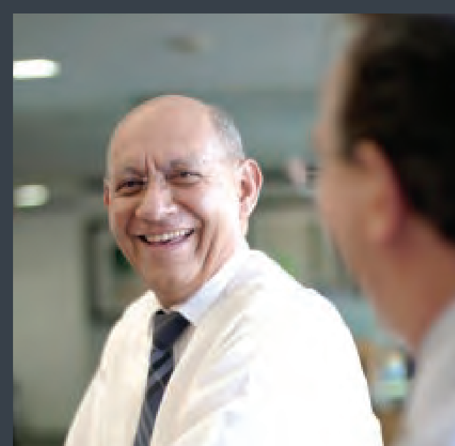
Clockwise from top left:

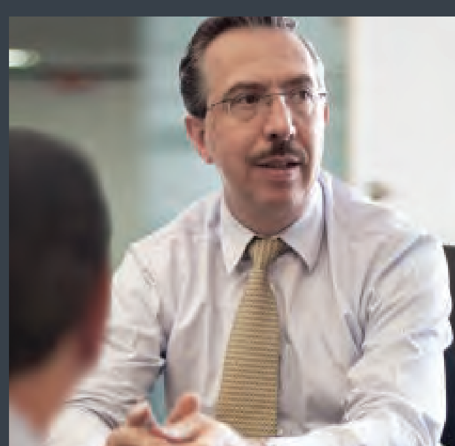
Elda Conde
Director, Auto Finance & Dealer
Network Sales, ABA Seguros

Arturo Martinez
Vice President, Surety
Latin America
Director General
ACE Fianzas Monterrey

Marcos Gunn
Regional Chief Operating Officer
Latin America

Jose Antonio Garcia
Director, Multi-Distribution
ACE Seguros





INSURANCE – NORTH AMERICAN P&C
INSURANCE – NORTH AMERICAN AGRICULTURE

Favorable market conditions, which included a positive rate environment, modest economic growth and a relatively benign catastrophe year, contributed to strong results for the Insurance – North American P&C segment. Just as significant was the execution of key strategies put in place over the years, coupled with new investments made in the business. This combination created a fertile environment for strong financial performance, including growth in net premiums written of 11%, operating income of $1.4 billion and a combined ratio of 86.9%.

Following two years marked by severe weather-related catastrophes, and a low interest rate environment that put stress on the industry's ROE, insurance rates in North America continued to trend upward in 2013. In this more favorable market, the portfolio management and risk selection process established years ago was taken to a new level, further enabling the business to identify profitable product and customer segments.

At ACE USA, the company's retail broker-distributed business, there was a greater focus on distribution management to enhance broker relationships at the national and local levels. In addition, the creation of the Global Accounts division – which includes the North American National Accounts segment – demonstrated ACE's commitment to multinational clients in all regions, and to its large National Accounts customers in the U.S. Feedback from clients and brokers led to the expansion of ACE Worldview,® the award-winning account information portal and one of 30 new or enhanced products introduced in North America. Originally developed for multinational clients, Worldview now delivers electronic policies and endorsements to ACE Risk Management clients. Enhancements were also made to streamline ACE Accelerator,℠ the Web-based tool for documenting uninsured and underinsured motorist coverage elections.

Expanded broker and agent distribution across the country, along with new program business, helped spur growth for ACE Commercial Risk Services, the U.S.-based small business division. This business has grown rapidly and was a significant contributor in 2013, with premiums up double-digit over prior year.

New investments in the business were evident within ACE Westchester, the excess and surplus lines division. Specialty casualty business units were consolidated across North America, and new ones – including a railroad unit – were added to create an expanded division with a broad array of primary and excess casualty products. In addition, critical catastrophe limits were significantly increased to meet the capacity needs of wholesale brokers and their clients.

Steady progress in brand recognition enabled ACE Private Risk Services, the U.S. high net worth personal lines business, to take full advantage of ACE's footprint across the country. ACE Bermuda also delivered another year of solid net premium growth and once again demonstrated its importance as a global provider of high excess capacity.

The Insurance – North American Agriculture segment delivered operating income of $63 million and a combined ratio of 94.7%. ACE is the largest insurer of crops in the U.S. Offered through the company's Rain and Hail affiliate and one of North America's centerpiece product lines, crop insurance is a $2.7 billion business for the company as measured by gross premiums but is coming off two difficult underwriting years. A combination of crop commodity prices and drought made underwriting conditions sub-par in historical terms, though the company earned a profit. A key development in 2013 was the merger of Rain and Hail's farm and ranch division with the Penn Millers commercial agricultural business under a new name: ACE Agribusiness. The combined entity offers farm and ranch coverage, as well as specialty P&C commercial insurance products and services, to the agriculture market.

"We continued to take a more data-driven approach to our risk selection. That, combined with a favorable rate environment, enabled us to identify areas where we could profitably grow our business."
– John Lupica

INSURANCE – NORTH AMERICAN P&C

Net Premiums Written
2011-2013 (in millions of U.S. dollars)

2013	$5,915
2012	$5,349
2011	$4,900

Combined Ratio
2011-2013

2013	86.9%
2012	94.8%
2011	94.7%

INSURANCE – NORTH AMERICAN AGRICULTURE

Net Premiums Written
2011-2013 (in millions of U.S. dollars)

2013	$1,627
2012	$1,859
2011	$1,951

Combined Ratio
2011-2013

2013	94.7%
2012	103.2%
2011	91.3%

Effective with the first quarter of 2013, the company's Insurance – North American business is presented in two distinct reporting segments: Insurance – North American P&C and Insurance – North American Agriculture.

Left to right:

David Lupica
Division President
ACE Commercial Risk Services

Michael Coleman
Division President
ACE Agriculture

Bruce Kessler
Division President
ACE Westchester

Rees Fletcher
Division President
ACE Bermuda

Robert Courtemanche
Division Chairman
ACE Private Risk Services

Chris Maleno
Division President
ACE USA

John Lupica
Vice Chairman
ACE Limited/ACE Group

Chairman
Insurance – North America

ACE Bermuda, ACE's original insurance company, offers a suite of excess casualty, professional liability and property products, as well as political risk insurance through its Sovereign Risk subsidiary, and rent-a-captive programs through its Paget Re subsidiary.

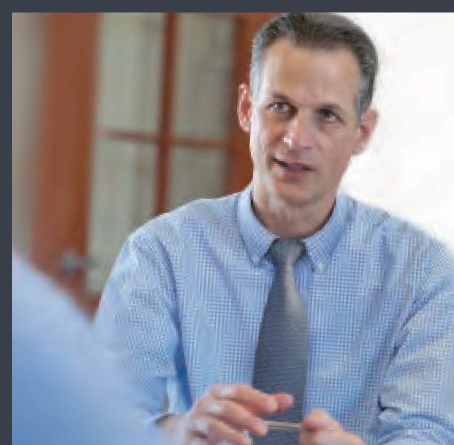
Clockwise from top left:

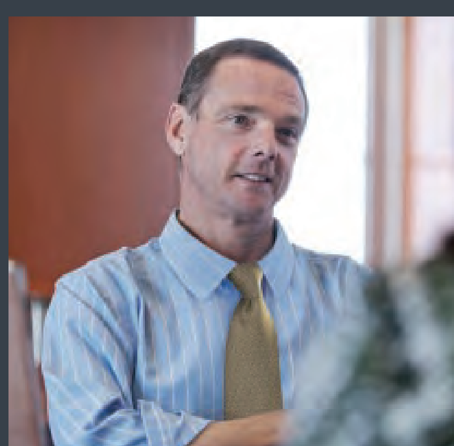
Jeffrey Jabon
Senior Vice President
Professional Lines

Robert Rebellato
Executive Vice President
Property

Judy Gonsalves
Executive Vice President
Excess Liability

Price Lowenstein
President
Sovereign Risk





GLOBAL REINSURANCE

A number of factors converged in 2013 to put downward pressure on reinsurance rates: industry balance sheets strengthened due to low catastrophe losses and continued positive prior period reserve development; ceding companies increased their retentions; and capital from alternative sources flowed in at near-record levels. This combination added to what was already an overabundance of capacity. Faced with these challenges, the Global Reinsurance segment maintained its underwriting discipline and delivered strong results, with after-tax operating income of $576 million and a combined ratio of 65.9%.

While the year began with a rise in property catastrophe rates on accounts impacted by Superstorm Sandy, competition increased throughout the year and rates declined for property catastrophe contracts. Some of the competition was fueled by capital from nontraditional sources such as insurance-linked securities. Their investors – often seeking diversification in a low interest rate environment – injected significant capital into the market, which added to the supply of reinsurance capacity.

Other lines of business saw slightly increased competition, depending on the line and the geographic area. While market conditions became increasingly more challenging, ACE Tempest Re was successful in keeping its premium levels essentially flat with prior year by actively managing its portfolio and changing its mix of business to reflect clients' needs and market conditions.

ACE Tempest Re established two $95 million special purpose vehicles – Altair Re in April 2013 followed by Altair Re II in January 2014 – to align itself with alternative capital providers. The SPVs enable investors to benefit from ACE Tempest Re's technical prowess, customer and broker relationships, and long track record of consistent performance and superior underwriting results.

Beyond Altair Re, additional facilities were developed for managing catastrophe capacity for others. These risk-sharing partnerships generate fee income for ACE Tempest Re and provide additional reinsurance capacity that can be used to take on bigger lines and respond to opportunities in the marketplace.

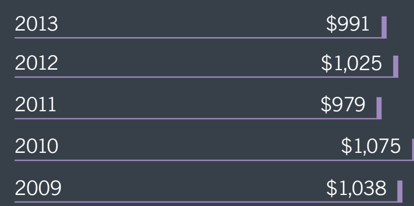
In 2013, ACE Tempest Re entered a number of new geographic markets after a thorough analysis and understanding of the risks in relation to its risk appetite and controlled accumulations. For example, ACE Tempest Re expanded its presence in Thailand, where catastrophic floods in 2011 resulted in dislocation in the reinsurance market. Similarly, ACE Tempest Re continued to cautiously grow its footprint in China and Latin America in recognition of opportunities in these areas.

Whether it's a new market in a developing nation or a longstanding client in the developed world, ACE Tempest Re looks to provide stable and substantial capacity at a price that reflects the risk and strong financial security while demonstrating a readiness to explore alternative structures. At the same time, by not chasing market share or the vagaries of market cycles, ACE Tempest Re once again maintained its underwriting discipline and delivered strong results in a competitive environment.

> "ACE Tempest Re demonstrated its ability to respond to the evolving reinsurance landscape – including the influx of alternative capital – and we delivered strong results through disciplined underwriting."
>
> **– Jacques Bonneau**

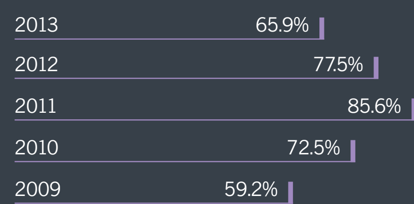
Net Premiums Written

2009-2013 (in millions of U.S. dollars)



Combined Ratio

2009-2013



Left to right:

Jacques Q. Bonneau
Chairman
ACE Tempest Re Group

James E. Wixtead
Division President
ACE Tempest Re USA

With offices in London, Zurich, Shanghai and São Paulo, ACE Tempest Re International writes all lines of traditional and structured property risk, property catastrophe and casualty, including marine, aviation and specialty lines, with an emphasis on risks outside of North America.

Clockwise from top left:

Michael van der Straaten
Senior Vice President
Deputy Head of London

Steve Roberts
Division President

Matthias Meyenhofer
Division President
Zurich

Harald Jacobsen
Vice President
Property Underwriting

LIFE

The Life segment comprises three distinct businesses: an international life insurance business, ACE Life, with fast-growing sales; the North American operations of Combined Insurance, which had flat growth; and the company's life reinsurance operations, which have been closed to new business since 2007. The segment delivered good results in 2013 including net written premiums and deposits of $2.8 billion and operating income of $307 million.

There was a marked build-up of momentum in 2013 for ACE Life. A growth strategy targeting key emerging markets with a rising middle class, along with an emphasis on execution, resulted in premium production growth of over 18% in constant dollars in 2013. Life operations in Korea and Hong Kong, which were acquired from New York Life in 2011, were ramped up significantly in 2013. Agent count was up nearly 40%, and both had strong top-line premium growth. Korea began diversifying its distribution outlets by introducing products through banks and other new channels, while Hong Kong demonstrated its ability to stay attuned to demographic shifts by increasing its focus on the insurance needs of families and individuals arriving from mainland China.

In Indonesia, ACE Life experienced sizable growth, with production up 35%. The operation was awarded top honors by Indonesia's leading business newspaper and named the 2013 "Best Practices Improvement – Life Insurance" company for its ability to grow efficiently over a five-year period.

Vietnam is one of the fastest growing economies in Asia and it plays a critical role in ACE Life's regional growth plans. The life network in Vietnam now spans 17 offices in 15 provinces and cities, with an agency force of nearly 10,000 and growing. In 2013, Vietnam rolled out ACE eSMART, a tablet-based mobile platform for end-to-end sales and client management for its agents. The rollout made ACE Life the first life insurance company in Vietnam to offer a mobile payment option for its customers.

ACE Life continued to leverage the company's existing infrastructure wherever possible in 2013. In Thailand, ACE's life and general insurance operations entered into a relationship with one of the country's leading hypermarket chains. This new channel provides ACE with telemarketing access to the retailer's loyalty card base, as well as to the 500,000 customers who visit their stores throughout Thailand each day.

In China, additional measures were taken to strengthen the agency force at Huatai Life, ACE's joint venture with Huatai Insurance Group. As one of the largest foreign life companies in China, Huatai Life is well positioned for future growth in this important market. In Latin America, ACE continued to form partnerships with affinity groups and employer channels to meet the insurance needs of the region's growing middle class. Operations in Europe experienced steady growth by taking advantage of existing A&H relationships and niche brokerages.

In the North American operations of Combined Insurance, net premium growth was essentially flat although agent count was up over 30% and new business annualized premium growth is tracking along with increased manpower. Measures to improve agent productivity took a step forward with the introduction of eAgent. The new mobile system is designed to improve efficiency by cutting down on administrative tasks so that agents can have more time to build their business. (The results of the international operations of Combined Insurance are reported in the Insurance – Overseas General segment.)

The company's life reinsurance portfolio continues to generate attractive economic returns and produced net premiums of $284 million in 2013.

"Our international life insurance franchise is young but growing quickly, and our products are well suited for a rising middle class – particularly in Asia and Latin America – that aspires to a better way of life."

– Ed Clancy

Net Premiums Written and Deposits*

2009-2013 (in millions of U.S. dollars)

2013	$2,793
2012	$2,590
2011	$2,416
2010	$1,904
2009	$1,981

Operating Income

2009-2013 (in millions of U.S. dollars)

2013	$307
2012	$324
2011	$315
2010	$283
2009	$262

*Includes deposits collected on universal life and investment contracts. Consistent with GAAP, premiums collected on universal life and investment contracts are considered deposits and excluded from revenues in ACE's consolidated statements of operations. However, the company includes life deposits in presenting growth in the Life business because new life deposits are an important component of production and key to efforts in growing the business.

Left to right:

Russell G. Bundschuh
President
ACE Life

Brad Bennett
President
Combined Insurance

Ed Clancy
Executive Vice President
ACE Group
Global Accident & Health
and Life

ACE Life in Thailand has a network of more than 2,300 exclusive agents and also partners with financial institutions and other companies to tailor individual policies for their customers and employees.

Clockwise from top left:

Sally O'Hara
Country President

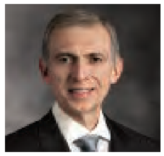
Rosaporn Attawiriyanupap
Vice President, Actuarial

Boonlux Sudprasurt
Vice President, Accounting
and Finance

Krittham Kritmanorote
Chief Agency Officer

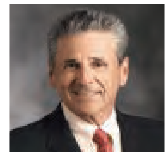
ACE LIMITED BOARD OF DIRECTORS

Evan G. Greenberg
Chairman and
Chief Executive Officer
ACE Limited



Robert M. Hernandez
Lead Director
ACE Limited

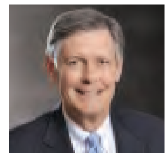
Retired Vice Chairman
and Chief Financial
Officer
USX Corporation



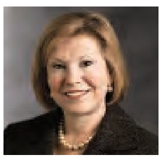
Robert Ripp
Chairman
Lightpath
Technologies Inc.

Michael G. Atieh
Retired Executive
Chairman
Eyetech, Inc.

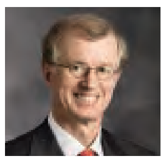
Peter Menikoff
Private Investor



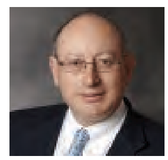
Eugene B. Shanks, Jr.
Director
Federal Home Loan
Mortgage Corporation



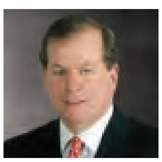
Mary A. Cirillo
Advisor
Hudson Venture
Partners L.P.



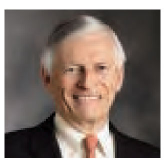
Leo F. Mullin
Senior Advisor
Goldman Sachs Capital
Partners



Theodore E. Shasta
Retired Partner
Wellington Management
Company



Michael P. Connors
Chairman and
Chief Executive Officer
Information Services
Group, Inc.



Thomas J. Neff
Chairman
Spencer Stuart, U.S.

Olivier Steimer
Chairman of the Board
Banque Cantonale
Vaudoise

Board Committees

Audit Committee

Michael G. Atieh, Chairman
Peter Menikoff
Robert Ripp
Theodore E. Shasta

Compensation Committee

Michael P. Connors, Chairman
Mary A. Cirillo
Robert M. Hernandez
Thomas J. Neff

Nominating and Governance Committee

Thomas J. Neff, Chairman
Mary A. Cirillo
Michael P. Connors
Robert M. Hernandez

Risk & Finance Committee

Olivier Steimer, Chairman
Leo F. Mullin
Eugene B. Shanks, Jr.

Executive Committee

Evan G. Greenberg, Chairman
Michael G. Atieh
Michael P. Connors
Robert M. Hernandez
Thomas J. Neff
Olivier Steimer

ACE Group Corporate Officers

Evan G. Greenberg*
Chairman &
Chief Executive Officer
ACE Limited/ACE Group

John Keogh*
Vice Chairman &
Chief Operating Officer
ACE Limited/ACE Group;
Chairman
Insurance – Overseas General

John Lupica*
Vice Chairman
ACE Limited/ACE Group;
Chairman
Insurance – North America

Juan Andrade
Executive Vice President
ACE Group
Personal Lines;
Chief Operating Officer
ACE Overseas General

Philip V. Bancroft*
Executive Vice President
Chief Financial Officer
ACE Limited/ACE Group

Jacques Q. Bonneau
Executive Vice President
ACE Group;
Chairman
ACE Tempest Re Group

Timothy Boroughs*
Executive Vice President
Chief Investment Officer
ACE Limited/ACE Group

Edward Clancy
Executive Vice President
ACE Group
Global Accident & Health
and Life

Sean Ringsted*
Executive Vice President
Chief Risk Officer &
Chief Actuary
ACE Limited/ACE Group

Joseph Wayland*
Executive Vice President
General Counsel
ACE Limited/ACE Group

Brad Bennett
Senior Vice President
ACE Group;
President
Combined Insurance

Russell G. Bundschuh
Senior Vice President
ACE Group;
President
ACE Life

Jorge Luis Cazar
Senior Vice President
ACE Group;
Regional President
ACE Latin America

Phillip B. Cole
Senior Vice President
Global Human
Resources Officer
ACE Group

Andrew Kendrick
Senior Vice President
ACE Group;
President
ACE European Group

Bruce Kessler
Senior Vice President
ACE Group;
Division President
ACE Westchester

Rainer Kirchgaessner
Senior Vice President
Global Corporate
Development Officer
ACE Group

Ken Koreyva
Senior Vice President
Treasurer
ACE Group

Frank Lattal
Senior Vice President
Chief Claims Officer
ACE Group

Edward M. Levin
Senior Vice President
ACE Group;
Division President
Accident & Health
ACE Overseas General

Chris Maleno
Senior Vice President
ACE Group;
Division President
ACE USA

Patrick McGovern
Senior Vice President
Chief Communications Officer
ACE Group

Paul Medini
Senior Vice President
Chief Accounting Officer
ACE Group

Damien Sullivan
Senior Vice President
ACE Group;
Chairman
ACE Asia Pacific

Richard Betzler
Vice President
Global Tax
ACE Group

Charles Brooks
Vice President
Global Operations & IT Officer
ACE Group

David Furby
Vice President
ACE Group;
Division President
Commercial Property
& Casualty
ACE Overseas General

Patricia Henry
Vice President
Government Affairs
ACE Group

Paul O'Connell
Vice President
Chief Actuary
Global Property & Casualty
ACE Group

William O'Farrell
Vice President
Chief Reinsurance Officer
ACE Group

Juan Luis Ortega
Vice President
ACE Group;
Regional President
ACE Asia Pacific

Darryl Page
Vice President
ACE Group;
Division President
International Personal &
Business Insurance
ACE Overseas General

Julie Schaekel
Vice President
Chief Auditor
ACE Group

Kevin Shearan
Vice President
Chief Information Officer
ACE Group

*Executive Officers for SEC reporting purposes

Other ACE Executives

Michael Coleman
Division President
ACE Agriculture

Robert Courtemanche
Division Chairman
ACE Private Risk Services

Brian E. Dowd
Office of the Chairman

Rees Fletcher
Division President
ACE Bermuda

Samantha Froud
Chief Administration Officer
Bermuda Operations

Kevin Goulding
Regional President
Asia Pacific
ACE Life

Marcos Gunn
Regional Chief Operating
Officer
ACE Latin America

Jeffery Hager
Regional President
ACE Far East

Eric Larson
Chief Compliance Officer
ACE Group

David Lupica
Division President
ACE Commercial Risk Services

Timothy Mardon
Division President
ACE Tempest Re Bermuda

Jeff Moghrabi
Regional President
ACE Continental Europe

Steve Roberts
Division President
ACE Tempest Re International

David Robinson
Regional President
ACE UK and Ireland

Matthew Shaw
Division President
ACE Global Markets

Karen Sothern
Chief Culture Officer
ACE Group

James E. Wixtead
Division President
ACE Tempest Re USA

Visit the Investor Information section of acegroup.com, write to the Investor Relations Department at ACE Limited or e-mail investorrelations@acegroup.com for copies of the company's reports to the Securities and Exchange Commission on Form 10-K, Form 10-Q or Form 8-K, all of which are available without charge.

Address Investor Relations Inquiries to:

Investor Relations
ACE Limited
17 Woodbourne Avenue
Hamilton HM 08
Bermuda
Tel: 441 299 9283
E-mail: investorrelations@acegroup.com

Transfer Agent & Registrar

Computershare
250 Royall Street
Canton, MA 02021 USA
US: 1 877 522 3752
Outside the US: 201 680 6898

Address Shareholder Inquiries to:
By regular mail:

Computershare
P.O. Box 43006
Providence, RI 02940-3006 USA

By overnight delivery:
Computershare
250 Royall Street
Canton, MA 02021 USA

Website: www-us.computershare.com/Investor

Send Certificates for Transfer and Address Changes to:

Computershare
P.O. Box 43078
Providence, RI 02940-3078 USA
Attn: Shareholder Services

Independent Auditors

PricewaterhouseCoopers AG
Birchstrasse 160
8050 Zurich
Switzerland
Tel: 41 58 792 44 00

PricewaterhouseCoopers LLP
Two Commerce Square, Suite 1700
Philadelphia, PA 19103 USA
Tel: 267 330 3000

New York Stock Exchange Symbol

ACE

ACE Common Shares CUSIP Number

H0023R10-5

CEO and CFO Certifications

In 2013, ACE Limited's Chief Executive Officer (CEO) provided to the New York Stock Exchange the annual CEO certification regarding ACE Limited's compliance with the New York Stock Exchange's corporate governance listing standards. In addition, in 2013, ACE Limited filed with the U.S. Securities and Exchange Commission all certifications of its CEO and Chief Financial Officer required by the Sarbanes-Oxley Act of 2002.

Price Range of Common Shares and Dividends

As of February 14, 2014, the company had 336,657,376 Common Shares outstanding with 4,245 registered holders of Common Shares. The accompanying table sets forth the cash dividends and the high and low closing sales prices of the company's Common Shares, as reported on the NYSE Composite Tape for the periods indicated. Dividends have been paid each quarter since ACE became a public company in 1993. Following ACE's re-domestication to Switzerland, dividends have been distributed primarily by way of a par value reduction. During 2011 and 2012, certain dividends were distributed from capital contribution reserves (additional paid-in capital) through the transfer of dividends from additional paid-in capital to retained earnings. This method was also used to pay the dividend increase approved by shareholders on January 10, 2014.

	2013				2012			
			Dividends				Dividends	
Quarter Ending	**High**	**Low**	**USD**	**CHF**	High	Low	USD	CHF
March 31	**$89.06**	**$79.99**	**$0.49**	**0.46**	$74.21	$68.98	$0.59(2)	0.53
June 30	**$92.67**	**$85.79**	**$0.51**	**0.48**	$77.00	$70.00	$0.49	0.48
September 30	**$95.58**	**$87.72**	**$0.51**	**0.46**	$77.04	$69.17	$0.49	0.45
December 31	**$103.53**	**$91.01**	**$0.51(1)**	**0.45**	$81.70	$76.10	$0.49	0.45

(1) On January 10, 2014, ACE's shareholders approved an increase to the dividend from $0.51 per share to $0.63 per share for the final two quarterly installments that had been earlier approved at the 2013 annual general meeting. The $0.12 per share increase was to be distributed from capital contribution reserves while the $0.51 per share was to be distributed by way of a par value reduction in accordance with the May 2013 resolution. The above $0.51 per share and the $0.12 per share increase, applicable to that installment were paid on January 31, 2014.

(2) On January 9, 2012, ACE's shareholders approved a dividend resolution that increased the quarterly dividend installments from $0.35 to $0.47 per share for the quarters ended December 31, 2011, and March 31, 2012. Due to the timing of the approval, the $0.12 per share increase related to the quarter ended December 31, 2011, installment is included in the quarter ended March 31, 2012, dividend amount.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the Transition Period from to

Commission File No. 1-11778

ACE LIMITED

(Exact name of registrant as specified in its charter)

Switzerland	**98-0091805**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Baerengasse 32

Zurich, Switzerland CH-8001

(Address of principal executive offices) (Zip Code)

+41 (0)43 456 76 00

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, par value CHF 27.04 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES ☑ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES ☐ NO ☑

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 the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☑ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference into Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑		Accelerated filer ☐
Non-accelerated filer ☐	(Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☑

The aggregate market value of voting stock held by non-affiliates as of June 28, 2013 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately $30 billion. For the purposes of this computation, shares held by directors and officers of the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of February 14, 2014 there were 336,657,376 Common Shares par value CHF 27.04 of the registrant outstanding.

Documents Incorporated by Reference

Certain portions of the registrant's definitive proxy statement relating to its 2014 Annual General Meeting of Shareholders are incorporated by reference into Part III of this report.

[This Page Intentionally Left Blank]

ITEM 1. Business

General

ACE Limited is the Swiss-incorporated holding company of the ACE Group of Companies. ACE Limited, which is headquartered in Zurich, Switzerland, and its direct and indirect subsidiaries (collectively, the ACE Group of Companies, ACE, we, us, or our) are a global insurance and reinsurance organization, serving the needs of a diverse group of clients worldwide. At December 31, 2013, we had total assets of $95 billion and shareholders' equity of $29 billion. ACE opened its first business office in Bermuda in 1985 and continues to maintain operations in Bermuda.

We offer commercial insurance products and service offerings such as risk management programs, loss control and engineering and complex claims management. We provide specialized insurance products ranging from Directors & Officers (D&O) and professional liability to various specialty-casualty and umbrella and excess casualty lines to niche areas such as aviation and energy. We also offer personal lines insurance coverage including homeowners, automobile, valuables, umbrella liability, and recreational marine products. In addition, we supply personal accident, supplemental health, and life insurance to individuals in select countries. We have grown our business through increased premium volume, expansion of product offerings and geographic reach, and acquisition of other companies. During 2013, we acquired Fianzas Monterrey, a leading surety lines company in Mexico offering administrative performance bonds primarily to clients in the construction and industrial sectors and ABA Seguros, a property and casualty insurer in Mexico that provides automobile, homeowners, and small business coverages. These businesses operate under our Insurance – Overseas General segment and the consolidated financial statements include the results of these businesses from the acquisition date. Refer to Note 2 to the Consolidated Financial Statements for additional information on our acquisitions.

At December 31, 2013, we employed approximately 20,000 people. We believe that employee relations are satisfactory.

We make available free of charge through our website (www.acegroup.com, under Investor Information / SEC - Section 16 Filings) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, if any, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they have been electronically filed with or furnished to the U.S. Securities and Exchange Commission (SEC). Also available through our website (under Investor Information / Corporate Governance) are our Corporate Governance Guidelines, Code of Conduct, and Charters for the Committees of our Board of Directors (the Board). Printed documents are available by contacting our Investor Relations Department (Telephone: +1 (441) 299-9283,
E-mail: investorrelations@acegroup.com).

We also use our website as a means of disclosing material, non-public information and for complying with our disclosure obligations under SEC Regulation FD (Fair Disclosure). Accordingly, investors should monitor the Investor Information portion of our website, in addition to following our press releases, SEC filings, and public conference calls and webcasts. The information contained on, or that may be accessed through, our website is not incorporated by reference into, and is not a part of, this report. The public may also read and copy any materials ACE files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Customers

For most commercial lines of business we offer, insureds typically use the services of an insurance broker or agent. An insurance broker acts as an agent for the insureds, offering advice on the types and amount of insurance to purchase and also assisting in the negotiation of price and terms and conditions. We obtain business from the local and major international insurance brokers and typically pay a commission to brokers for any business accepted and bound. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business. In our opinion, no material part of our business is dependent upon a single insured or group of insureds. We do not believe that the loss of any one insured would have a material adverse effect on our financial condition or results of operations, and no one insured or group of affiliated insureds account for as much as 10 percent of our total revenues.

Competition

Competition in the insurance and reinsurance marketplace is substantial. Competitors include other stock companies, mutual companies, alternative risk sharing groups (such as group captives and catastrophe pools), and other underwriting organizations. Competitors sell through various distribution channels and business models, across a broad array of product lines, and with a high level of variation regarding geographic, marketing, and customer segmentation. We compete for business not only on the basis of price but also on the basis of availability of coverage desired by customers and quality of service. Our ability to compete is dependent on a number of factors, particularly our ability to maintain the appropriate financial strength ratings as assigned by independent rating agencies. Our broad market capabilities in personal, commercial, specialty, and A&H lines made available by our underwriting expertise, business infrastructure, and global presence, define our competitive advantage. Our strong balance sheet is attractive to businesses, and our strong capital position and global platform affords us opportunities for growth not available to smaller, less diversified insurance companies. Refer to "Segment Information" for competitive environment by segment.

Trademarks and Trade Names

Various trademarks and trade names we use protect names of certain products and services we offer and are important to the extent they provide goodwill and name recognition in the insurance industry. We use commercially reasonable efforts to protect these proprietary rights, including various trade secret and trademark laws. One or more of the trademarks and trade names could be material to our ability to sell our products and services. We have taken appropriate steps to protect our ownership of key names, and we believe it is unlikely that anyone would be able to prevent us from using names in places or circumstances material to our operations.

Segment Information

We operate through five business segments. The following table presents net premiums earned (NPE) by segment:

Years Ended December 31 (in millions of U.S. dollars)	**2013 Net Premiums Earned**	**% of Total**	2012 Net Premiums Earned	% of Total	2011 Net Premiums Earned	% of Total
Insurance – North American P&C	**$ 5,721**	**34%**	$ 5,147	33%	$ 4,969	32%
Insurance – North American Agriculture	**1,678**	**10%**	1,872	12%	1,942	13%
Insurance – Overseas General	**6,333**	**38%**	5,740	37%	5,614	36%
Global Reinsurance	**976**	**6%**	1,002	6%	1,003	7%
Life	**1,905**	**12%**	1,916	12%	1,859	12%
Total	**$ 16,613**	**100%**	$ 15,677	100%	$ 15,387	100%

Effective January 1, 2013, the former Insurance – North American segment is presented in two distinct reportable segments: Insurance – North American P&C and Insurance – North American Agriculture. Prior year amounts contained in this report have been adjusted to conform to the new segment presentation.

Additional financial information about our segments, including net premiums earned by geographic region, is included in Note 15 to the Consolidated Financial Statements.

Insurance – North American P&C (34 percent of 2013 Consolidated NPE)

Overview

The Insurance – North American P&C segment comprises operations in the U.S., Canada, and Bermuda. This segment includes:

- Our retail divisions: ACE USA (including ACE Canada), ACE Commercial Risk Services, and ACE Private Risk Services
- Our wholesale and specialty divisions: ACE Westchester and ACE Bermuda
- Various run-off operations, including Brandywine Holdings Corporation (Brandywine)

Products and Distribution

ACE USA, the segment's largest operation, represented approximately 70 percent of Insurance – North American P&C's net premiums earned in 2013. ACE USA provides a broad array of traditional and specialty P&C, A&H, and risk management products and services to a diverse group of North American commercial and non-commercial enterprises and consumers. ACE USA distributes its insurance products primarily through a limited number of retail brokers. In addition to using brokers, certain products are also distributed through general agents, independent agents, managing general agents (MGA), managing general underwriters, alliances, affinity groups, and direct marketing operations. Products and services offered include property, general liability, umbrella and excess liability, workers' compensation, commercial marine, automobile liability, professional lines D&O and errors and omissions (E&O), surety, medical liability, environmental, inland marine, aerospace, A&H coverages, as well as claims and risk management products and services.

ACE USA's on-going operations are organized into the following distinct business units each offering specialized products and services targeted at specific niche markets:

- ACE Risk Management offers a wide range of customized casualty products designed to help mid-size to large insureds, including national accounts, address the significant costs of financing and managing risk for workers' compensation, general liability and automobile liability coverages. Within ACE Risk Management, ACE Financial Solutions (AFS) underwrites assumed loss portfolio transfer (LPT) contracts in which insured loss events have occurred prior to the inception of the contract. AFS LPTs involve sufficient risk transfer to be accounted for as insurance contracts. LPT contracts can cause significant variances to premiums, losses and loss expenses, and expense ratios in the periods in which they are written.
- ACE Foreign Casualty provides products which insure specific global operating risks of U.S.-based multinational companies and include deductible programs, captive programs, and paid or incurred loss retrospective plans for U.S.-based insured's foreign operations.
- ACE North America Property & Specialty Lines provide products and services including primary, quota share and excess all-risk insurance, risk management programs and services, commercial and inland marine products, and aerospace products.
- ACE Casualty Risk key coverages include umbrella and excess liability, environmental risk, and casualty programs for commercial construction related projects.
- ACE Professional Risk provides management liability and professional liability (D&O and E&O) products.
- ACE Surety offers a wide variety of surety products and specializes in underwriting both commercial and contract bonds and has the capacity for bond issuance on an international basis.
- ACE Canada (ACE USA's Canadian operations) offers a broad range of P&C products as well as life and A&H coverages.
- ACE Accident & Health products include employee benefit plans, occupational accident, student accident, and worldwide travel accident and global medical programs. With respect to products that include supplemental medical and hospital indemnity coverages, we typically pay fixed amounts for claims and are therefore insulated from rising health care costs. ACE Accident & Health also provides specialty personal lines products, including credit card enhancement programs (identity theft, rental car collision damage waiver, trip travel, and purchase protection benefits) distributed through affinity groups.
- ACE Medical Risk offers a wide range of specialty liability products for the health care industry through licensed excess and surplus lines brokers. Products include primary coverages for professional liability and general liability for selected types of medical facilities, excess/umbrella liability for medical facilities, primary and excess coverages for products liability for biotechnology and specialty pharmaceutical companies, and liability insurance for human clinical trials.
- ESIS Inc. (ESIS), ACE USA's in-house third-party claims administrator, performs claims management and risk control services for domestic and international organizations as well as for the Insurance – North American P&C segment. ESIS services include comprehensive medical managed care, integrated disability services, pre-loss control and risk management, and health, safety and environmental consulting, and salvage and subrogation and health care recovery services. The net results for ESIS are included in Insurance – North American P&C's administrative expenses.

ACE Commercial Risk Services offers a broad array of specialty product solutions for targeted industries that lend themselves to technology-assisted underwriting. Core products and services for small businesses include disaster protection, casualty insurance (including international casualty), environmental, inland marine, professional risk, medical risk, and claims and risk management services. Products are offered through wholesale, retail, program agent and alternative distribution channels. In addition, ACE Commercial Risk Services offers coverage for specialty programs through program agents.

ACE Private Risk Services provides high-value personal lines coverages including homeowners, automobile, valuables, umbrella liability, and recreational marine insurance offered through independent regional agents and brokers.

ACE Westchester serves the market for business risks that tend to be hard to place due to unique or complex exposures. Products offered include wholesale excess and surplus lines property, casualty, environmental, professional liability, inland marine, and product recall coverages in North America.

ACE Bermuda, our original insurance company, provides commercial insurance products on an excess basis including excess liability, D&O, professional liability, property insurance, and political risk, the latter being written on a subscription basis by Sovereign Risk Insurance Ltd. (Sovereign), a wholly-owned managing agent. ACE Bermuda offers these products primarily through the Bermuda offices of major, internationally recognized insurance brokers.

The run-off operations do not actively sell insurance products, but are responsible for the management of certain existing policies and settlement of related claims.

Competitive Environment
ACE USA and ACE Westchester compete against a number of large, national carriers as well as regional competitors and other entities offering risk alternatives such as self-insured retentions and captive programs. The markets in which we compete are subject to significant cycles of fluctuating capacity and wide disparities in price adequacy. We strive to offer superior service, which we believe has differentiated us from our competitors. The ACE USA and ACE Westchester operations pursue a specialist strategy and focus on market opportunities where we can compete effectively based on service levels and product design, while still achieving an adequate level of profitability. A competitive advantage is also achieved through ACE USA's innovative product offerings and our ability to provide multiple products to a single client due to our nationwide local presence. An additional competitive strength of all our domestic commercial units is the ability to deliver global products and coverage to customers in concert with our Insurance – Overseas General segment. ACE USA has grown, in part, from the leveraging of cross-marketing opportunities with our other operations to take advantage of our organization's global presence. ACE Bermuda competes against international commercial carriers writing business on an excess of loss basis. ACE Commercial Risk Services competes against numerous insurance companies ranging from large national carriers to small and mid-size insurers who provide specialty coverages and standard P&C products. ACE Private Risk Services competes against insurance companies of varying sizes that sell products through various distribution channels, including through the Internet.

Insurance – North American Agriculture (10 percent of 2013 Consolidated NPE)

Overview
The Insurance – North American Agriculture segment comprises Rain and Hail Insurance Service, Inc. (Rain and Hail) and ACE Agribusiness.

Products and Distribution
The Insurance – North American Agriculture segment comprises Rain and Hail, which provides comprehensive Multiple Peril Crop Insurance (MPCI) and crop-hail insurance, and ACE Agribusiness, which offers farm and ranch coverages as well as specialty P&C coverages for companies that manufacture, process and distribute agriculture products. The MPCI program is offered in conjunction with the U.S. Department of Agriculture (USDA). The USDA's Risk Management Agency (RMA) sets the policy terms and conditions, rates and forms, and is also responsible for setting compliance standards. As a participating company, we report all details of policies underwritten to the RMA and are party to a Standard Reinsurance Agreement (SRA). The SRA sets out the relationship between private insurance companies and the Federal Crop Insurance Corporation (FCIC) concerning the terms and conditions regarding the risks each will bear including the pro-rata and state stop-loss provisions which allow companies to limit the exposure of any one state or group of states on their underwriting results. In addition to the pro-rata and excess of loss reinsurance protections inherent in the SRA, we also purchase third-party proportional and stop-loss reinsurance for our MPCI business to reduce our exposure. For additional information, refer to “Crop Insurance”, under Item 7.

Competitive Environment
Rain and Hail primarily operates in a federally regulated program where all approved providers offer the same product forms and rates through independent and/or captive agents. ACE Agribusiness competes against both national and regional competitors offering specialty P&C insurance coverages to companies that manufacture, process, and distribute agricultural products.

Insurance – Overseas General (38 percent of 2013 Consolidated NPE)

Overview

The Insurance – Overseas General segment comprises ACE International and ACE Global Markets (AGM). ACE International comprises our retail commercial P&C, A&H, and personal lines businesses serving territories outside the U.S., Bermuda, and Canada, and the international supplemental A&H business of Combined Insurance. AGM, our London-based international specialty and excess and surplus lines business, includes Lloyd's of London (Lloyd's) Syndicate 2488 (Syndicate 2488), a wholly-owned ACE syndicate. ACE provides funds at Lloyd's to support underwriting by Syndicate 2488, which is managed by ACE Underwriting Agencies Limited and has an underwriting capacity of £350 million for 2014. The reinsurance operation of AGM is included in the Global Reinsurance segment.

Products and Distribution

ACE International maintains a presence in every major insurance market in the world and is organized geographically along product lines as follows: ACE Europe, ACE Asia Pacific, ACE Far East, and ACE Latin America. Products offered include P&C, A&H, specialty coverages, and personal lines insurance products and services. During 2013, ACE International enhanced its P&C offerings through the acquisition of ABA Seguros and expanded its global franchise in the surety business and enhanced its commercial lines and personal accident insurance business through the acquisition of Fianzas Monterrey. ACE International's P&C business is generally written, on both a direct and assumed basis, through major international, regional, and local brokers and agents. Certain ACE Europe branded products are also offered via an e-commerce platform, ACE Online, that allows brokers to quote, bind, and issue specialty policies online. Property insurance products include traditional commercial fire coverage as well as energy industry-related, marine, construction, and other technical coverages. Principal casualty products are commercial primary and excess casualty, environmental, and general liability. A&H and other consumer lines products are distributed through brokers, agents, direct marketing programs, and sponsor relationships. ACE International specialty coverages include D&O, professional indemnity, energy, aviation, political risk, and specialty personal lines products. The A&H operations primarily offer personal accident and supplemental medical coverages including accidental death, business/holiday travel, specified disease, disability, medical and hospital indemnity, and income protection. We are not in the primary health care business. With respect to our supplemental medical and hospital indemnity products, we typically pay fixed amounts for claims and are therefore largely insulated from the direct impact of rising health care costs. ACE International's personal lines operations provide specialty products and services designed to meet the needs of specific target markets and include property damage, automobile, homeowners, and personal liability.

Combined Insurance uses an international sales force to distribute a wide range of supplemental A&H products including personal accident, short-term disability, critical conditions and cancer aid, and hospital confinement/recovery. Most of these products are primarily fixed-indemnity obligations and are not subject directly to escalating medical cost inflation.

AGM offers products through its parallel distribution network via ACE European Group Limited (AEGL) and Syndicate 2488. AGM uses Syndicate 2488 to underwrite P&C business on a global basis through Lloyd's worldwide licenses. AGM uses AEGL to underwrite similar classes of business through its network of U.K. and European licenses, and in the U.S. where it is eligible to write excess and surplus lines business. Factors influencing the decision to place business with Syndicate 2488 or AEGL include licensing eligibilities, capitalization requirements, and client/broker preference. All business underwritten by AGM is accessed through registered brokers. The main lines of business include aviation, property, energy, professional lines, marine, political risk, and A&H.

Competitive Environment

ACE International's primary competitors include U.S.-based companies with global operations, as well as non-U.S. global carriers and indigenous companies in regional and local markets. For the A&H lines of business, including those offered by Combined Insurance, locally-based competitors include financial institutions and bank-owned insurance subsidiaries. Our international operations have the distinct advantage of being part of one of the few international insurance groups with a global network of licensed companies able to write policies on a locally admitted basis. The principal competitive factors that affect the international operations are underwriting expertise and pricing, relative operating efficiency, product differentiation, producer relations, and the quality of policyholder services. A competitive strength of our international operations is our global network and breadth of insurance programs, which assist individuals and business organizations to meet their risk management objectives, while also giving us the advantage of accessing local technical expertise, accomplishing a spread of risk, and offering a global network to service multinational accounts.

AGM is one of the preeminent international specialty insurers in London and is an established lead underwriter on a significant portion of the risks it underwrites for all lines of business. This leadership position allows AGM to set the policy terms and conditions of many of the policies written. All lines of business face competition, depending on the business class, from Lloyd's syndicates, the London market, and other major international insurers and reinsurers. Competition for international risks is also seen from domestic insurers in the country of origin of the insured. AGM differentiates itself from competitors through long standing experience in its product lines, its multiple insurance entities (Syndicate 2488 and AEGL), and the quality of its underwriting and claims service.

Global Reinsurance (6 percent of 2013 Consolidated NPE)

Overview

The Global Reinsurance segment represents ACE's reinsurance operations comprising ACE Tempest Re Bermuda, ACE Tempest Re USA, ACE Tempest Re International, and ACE Tempest Re Canada. The Global Reinsurance segment also includes AGM's reinsurance operations. Global Reinsurance markets reinsurance products worldwide under the ACE Tempest Re brand name and provides solutions for small to mid-sized clients and multinational ceding companies including licensed reinsurance capabilities, property and workers' compensation catastrophe, loss-warranty, stop-loss cover, marine and aviation programs.

Products and Distribution

Global Reinsurance services clients globally through its major units. Major international brokers submit business to one or more of these units' underwriting teams who have built strong relationships with both key brokers and clients by providing a responsive, client-focused approach to risk assessment and pricing.

ACE Tempest Re Bermuda principally provides property catastrophe reinsurance on an excess of loss basis globally to insurers of commercial and personal property. Property catastrophe reinsurance is on an occurrence basis and protects a ceding company against an accumulation of losses covered by its issued insurance policies, arising from a common event or occurrence. ACE Tempest Re Bermuda underwrites reinsurance principally on an excess of loss basis, meaning that its exposure only arises after the ceding company's accumulated losses have exceeded the attachment point of the reinsurance policy. ACE Tempest Re Bermuda also writes other types of reinsurance on a limited basis for selected clients. Examples include proportional property where the reinsurer shares a proportional part of the premiums and losses of the ceding company and per risk excess of loss treaty reinsurance where coverage applies on a per risk basis rather than per event or aggregate basis, together with casualty and specialty lines (catastrophe workers' compensation, crop and terrorism). ACE Tempest Re Bermuda's business is produced through reinsurance intermediaries.

ACE Tempest Re USA writes all lines of traditional and specialty P&C reinsurance, and surety and fidelity reinsurance for the North American market, principally on a treaty basis, with a focus on writing property per risk and casualty reinsurance. ACE Tempest Re USA underwrites reinsurance on both a proportional and excess of loss basis. This unit's diversified portfolio is produced through reinsurance intermediaries.

ACE Tempest Re International provides traditional and specialty P&C reinsurance to insurance companies worldwide, with emphasis on non-U.S. and Canadian risks. ACE Tempest Re International writes all lines of traditional and specialty reinsurance including property risk and property catastrophe, casualty, marine, aviation, and specialty through our London- and Zurich-based divisions. The London-based divisions of ACE Tempest Re International focus on the development of business sourced through London market brokers and, consequently, write a diverse book of international business using Syndicate 2488 and AEGL. The Zurich-based division focuses on providing reinsurance to continental European insurers via continental European brokers. ACE Tempest Re International also includes our Shanghai, China office which provides reinsurance coverage for Chinese-based risks and our Sao Paulo, Brazil office which provides reinsurance for Brazilian-based risks. ACE Tempest Re International underwrites reinsurance on both a proportional and excess of loss basis.

ACE Tempest Re Canada offers a full array of traditional and specialty P&C reinsurance to the Canadian market, including casualty, property risk and property catastrophe. ACE Tempest Re Canada provides coverage through its Canadian company platform and also offers clients access to Syndicate 2488. ACE Tempest Re Canada underwrites reinsurance on both a proportional and excess of loss basis.

Competitive Environment

The Global Reinsurance segment competes worldwide with major U.S. and non-U.S. reinsurers as well as reinsurance departments of numerous multi-line insurance organizations. In addition, over the last several years, capital markets participants have developed financial products intended to compete with traditional reinsurance. In addition, government sponsored or backed catastrophe funds can affect demand for reinsurance. Global Reinsurance is considered a lead reinsurer and is typically involved in the negotiation and quotation of the terms and conditions of the majority of the contracts in which it participates. Global Reinsurance competes effectively in P&C markets worldwide because of its strong capital position, analytical capabilities and quality customer service, the leading role it plays in setting the terms, pricing, and conditions in negotiating contracts, and its customized approach to risk selection. The key competitors in our markets vary by geographic region and product line. An advantage of our international platform is that we are able to change our mix of business in response to changes in competitive conditions in the territories in which we operate. Our geographic reach is also sought by multinational ceding companies since all of our offices, with the exception of Bermuda, provide local reinsurance license capabilities which benefit our clients in dealing with country regulators.

Life (12 percent of 2013 Consolidated NPE)

Overview
The Life segment comprises ACE's international life operations (ACE Life), ACE Tempest Life Re (ACE Life Re), and the North American supplemental A&H and life business of Combined Insurance.

Products and Distribution
ACE Life provides individual life and group benefit insurance primarily in emerging markets, including Egypt, Hong Kong, Indonesia, South Korea, Taiwan, Thailand, and Vietnam; also throughout Latin America; selectively in Europe; and in China through a non-consolidated joint venture insurance company. ACE Life offers a broad portfolio of protection and savings products including whole life, endowment plans, individual term life, group term life, group medical, personal accident, credit life, universal life, and unit linked contracts. The policies written by ACE Life generally provide funds to beneficiaries of insureds after death and/or protection and/or savings benefits while the contract owner is living. ACE Life sells to consumers through a variety of distribution channels including agency, bancassurance, worksite marketing, retailers, brokers, and direct to consumer marketing. We continue to expand ACE Life with a focus on opportunities in emerging markets that we believe will result in strong and sustainable operating profits as well as a favorable return on capital commitments over time. Our dedicated agency distribution channel, whereby agents sell ACE Life products exclusively, enables us to maintain direct contact with the individual consumer, promote quality sales practices, and exercise greater control over the future of the business. We have developed a substantial sales force of agents principally located in our Asia-Pacific countries. ACE also maintains approximately 35.8 percent direct and indirect ownership interest in Huatai Life Insurance Co., Ltd. (Huatai Life), which commenced operations in 2005 and has since grown to become one of the largest life insurance foreign joint ventures in China. Huatai Life offers a broad portfolio of insurance products through a variety of distribution channels including approximately 265 licensed sales locations in 13 Chinese provinces.

ACE Life Re's core business is a Bermuda-based operation which provides reinsurance to primary life insurers, focusing on guarantees included in certain fixed and variable annuity products and also on more traditional mortality reinsurance protection. ACE Life Re's U.S.-based traditional life reinsurance operation was discontinued for new business in January 2010. Since 2007, ACE Life Re has not quoted on new opportunities in the variable annuity reinsurance marketplace and our focus has been on successfully managing the current portfolio of risk, both in the aggregate and on a contract basis. This business is managed with a long-term perspective and short-term earnings volatility is expected.

Combined Insurance distributes specialty supplemental A&H and life insurance products targeted to middle income consumers and businesses in the U.S. and Canada. Combined Insurance's substantial North American sales force distributes a wide range of supplemental accident and sickness insurance products, including personal accident, short-term disability, critical illness, Medicare supplement products, and hospital confinement/recovery. Most of these products are primarily fixed-indemnity benefit obligations and are not directly subject to escalating medical cost inflation.

Competitive Environment
ACE Life's competition differs by location but generally includes multinational insurers, and in some locations, local insurers, joint ventures, or state-owned insurers. ACE's financial strength and reputation as an entrepreneurial organization with a global presence gives ACE Life a strong base from which to compete. While ACE Life Re is not currently quoting on new opportunities in the variable annuity reinsurance marketplace, we continue to monitor developments in this market. Combined Insurance competes for A&H business in the U.S. against numerous A&H and life insurance companies across various industry segments.

Underwriting

ACE is an underwriting company and we strive to emphasize quality of underwriting rather than volume of business or market share. Our underwriting strategy is to manage risk by employing consistent, disciplined pricing and risk selection. This, coupled with writing a number of less cyclical product lines, has helped us develop flexibility and stability of our business, and has allowed us to maintain a profitable book of business throughout market cycles. Clearly defined underwriting authorities, standards, and guidelines coupled with a strong underwriting audit function are in place in each of our local operations and global profit centers. Global product boards ensure consistency of approach and the establishment of best practices throughout the world. Our priority is to help ensure adherence to criteria for risk selection by maintaining high levels of experience and expertise in our underwriting staff. In addition, we employ a business review structure that helps ensure control of risk quality and conservative use of policy limits and terms and conditions. Underwriting discipline is at the heart of our operating philosophy.

Qualified actuaries in each region work closely with the underwriting teams to provide additional expertise in the underwriting process. We use sophisticated catastrophe loss and risk modeling techniques designed to ensure appropriate spread of risk and to analyze correlation of risk across different product lines and territories. This helps to ensure that losses are contained within our risk tolerance and appetite for individual product lines, businesses, and ACE as a whole. We also purchase reinsurance as a tool to diversify risk and limit the net loss potential of catastrophes and large or unusually hazardous risks. For additional information refer to “Reinsurance Protection”, below, “Insurance and Reinsurance Markets”, under Item 1A, “Catastrophe Management” and “Natural Catastrophe Property Reinsurance Program”, under Item 7, and Note 5 to the Consolidated Financial Statements, under Item 8.

Reinsurance Protection

As part of our risk management strategy, we purchase reinsurance protection to mitigate our exposure to losses, including certain catastrophes, to a level consistent with our risk appetite. Although reinsurance agreements contractually obligate our reinsurers to reimburse us for an agreed-upon portion of our gross paid losses, reinsurance does not discharge our primary liability to our insureds and, thus, we ultimately remain liable for the gross direct losses. In certain countries, reinsurer selection is limited by local laws or regulations. In most countries there is more freedom of choice, and the counterparty is selected based upon its financial strength, claims settlement record, management, line of business expertise, and its price for assuming the risk transferred. In support of this process, we maintain an ACE authorized reinsurer list that stratifies these authorized reinsurers by classes of business and acceptable limits. This list is maintained by our Reinsurance Security Committee (RSC), a committee comprising senior management personnel and a dedicated reinsurer security team. Changes to the list are authorized by the RSC and recommended to the Chair of the Enterprise Risk Management Board. The reinsurers on the authorized list and potential new markets are regularly reviewed and the list may be modified following these reviews. In addition to the authorized list, there is a formal exception process that allows authorized reinsurance buyers to use reinsurers already on the authorized list for higher limits or different lines of business, for example, or other reinsurers not on the authorized list if their use is supported by compelling business reasons for a particular reinsurance program.

A separate policy and process exists for captive reinsurance companies. Generally, these reinsurance companies are established by our clients or our clients have an interest in them. It is generally our policy to obtain collateral equal to the expected losses that may be ceded to the captive. Where appropriate, exceptions to the collateral requirement are granted but only after senior management review. Specific collateral guidelines and an exception process are in place for ACE USA and Insurance – Overseas General, both of which have credit management units evaluating the captive's credit quality and that of their parent company. The credit management units, working with actuaries, determine reasonable exposure estimates (collateral calculations), ensure receipt of collateral in an acceptable form, and coordinate collateral adjustments as and when needed. Financial reviews and expected loss evaluations are performed annually for active captive accounts and as needed for run-off exposures. In addition to collateral, parental guarantees are often used to enhance the credit quality of the captive.

In general, we seek to place our reinsurance with highly rated companies with which we have a strong trading relationship. For additional information refer to “Catastrophe Management” and “Natural Catastrophe Property Reinsurance Program” under Item 7, and Note 5 to the Consolidated Financial Statements.

Unpaid Losses and Loss Expenses

We establish reserves for unpaid losses and loss expenses, which are estimates of future payments on reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. These reserves are recorded in Unpaid losses and loss expenses in the consolidated balance sheets. The process of establishing loss and loss expense reserves for P&C claims can be complex and is subject to considerable uncertainty as it requires the use of informed estimates and judgments based on circumstances known at the date of accrual. These estimates and judgments are based on numerous factors, and may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed, or as laws change. Internal actuaries regularly analyze the levels of loss and loss expense reserves, taking into consideration factors that may impact the ultimate settlement value of the unpaid losses and loss expenses. These analyses could result in future changes in the estimates of loss and loss expense reserves or reinsurance recoverables and any such changes would be reflected in our results of operations in the period in which the estimates are changed. Losses and loss expenses are charged to income as incurred. The reserve for unpaid losses and loss expenses represents the estimated ultimate losses and loss expenses less paid losses and loss expenses, and comprises case reserves and incurred but not reported (IBNR) loss reserves. With the exception of certain structured settlements, for which the timing and amount of future claim payments are reliably determinable, and certain reserves for unsettled claims that are discounted in statutory filings, our loss reserves are not discounted for the time value of money. In connection with such structured settlements and certain reserves for unsettled claims, we carried net discounted reserves of $106 million at December 31, 2013.

During the loss settlement period, which can be many years in duration, additional facts regarding individual claims and trends often will become known. As these become apparent, case reserves may be adjusted by allocation from IBNR with or without any change in the overall reserve. In addition, the circumstances of individual claims or the application of statistical and actuarial methods to loss experience data may lead to the adjustment of the overall reserves upward or downward from time to time. Accordingly, the ultimate settlement of losses may be significantly greater than or less than reported loss and loss expense reserves.

We have considered asbestos and environmental (A&E) claims and claims expenses in establishing the liability for unpaid losses and loss expenses and have developed reserving methods which consider historical experience as well as incorporate new sources of data to estimate the ultimate losses arising from A&E exposures. The reserves for A&E claims and claims expenses represent management's best estimate of future loss and loss expense payments and recoveries that are expected to develop over the next several decades. We continuously monitor evolving case law and its effect on environmental and latent injury claims, we monitor A&E claims activity quarterly, and we perform a full reserve review annually.

For each product line, management, in conjunction with internal actuaries, develops a “best estimate” of the ultimate settlement value of the unpaid losses and loss expenses that it believes provides a reasonable estimate of the required reserve. We evaluate our estimates of reserves quarterly in light of developing information. While we are unable at this time to determine whether additional reserves may be necessary in the future, we believe that our reserves for unpaid losses and loss expenses are adequate at December 31, 2013. Future additions to reserves, if needed, could have a material adverse effect upon our financial condition, results of operations, and cash flows. For additional information refer to “Critical Accounting Estimates – Unpaid losses and loss expenses”, under Item 7, and Note 7 to the Consolidated Financial Statements, under Item 8.

The “Analysis of Losses and Loss Expenses Development” table shown below presents, for each balance sheet date over the period 2003-2013, the gross and net loss and loss expense reserves recorded at the balance sheet date and subsequent net payments on the associated liabilities. The reserves represent the amount required for the estimated future settlement value of liabilities incurred at or prior to the balance sheet date and those estimates may change subsequent to the balance sheet date as new information emerges regarding the ultimate settlement value of the liability. Accordingly, the table also presents through December 31, 2013, for each balance sheet date, the cumulative impact of subsequent valuations of the liabilities incurred at the original balance sheet date. The table is presented in accordance with SEC reporting requirements. This table should be interpreted with care by those not familiar with its format or those who are familiar with other triangulations arranged by origin year of loss such as accident or underwriting year rather than balance sheet date, as shown below. To clarify the interpretation of the table, we use the reserves established at December 31, 2003, in the following example.

The top two lines of the table show, for successive balance sheet dates, the gross and net unpaid losses and loss expenses recorded as provision for liabilities incurred at or prior to each balance sheet date. It can be seen that at December 31, 2003, a reserve of $14.7 billion, net of reinsurance, had been established.

The upper (paid) triangulation shows the net amounts paid as of periods subsequent to the balance sheet date. Hence in the 2004 financial year, $2.9 billion of payments were made on liabilities contemplated in the December 31, 2003, reserve balance. At the end of the 2013 financial year, there were cumulative net payments of $11.3 billion on this block of liabilities.

The lower triangulation within the table shows the revised estimate of the net liability originally recorded at each balance sheet date as of the end of subsequent financial years. With the benefit of actual loss emergence and hindsight over the intervening period, the net liabilities incurred as of December 31, 2003, are now estimated to be $16.3 billion, rather than the original estimate of $14.7 billion. One of the key drivers of this change has been adverse development on latent claims that we categorize as A&E covered under the National Indemnity Company (NICO) reinsurance treaties. Of the cumulative deficiency of $1.6 billion recognized in the ten years since December 31, 2003, $0.4 billion relates to non-latent claims and $1.2 billion relates to latent claims. The deficiency of $1.6 billion was identified and recorded as follows: $547 million deficient in 2004, $247 million deficient in 2005, $264 million deficient in 2006, $283 million deficient in 2007, $71 million deficient in 2008, $92 million redundant in 2009, $29 million redundant in 2010, $25 million deficient in 2011, $151 million deficient in 2012, and $153 million deficient in 2013. This development subsequent to the balance sheet date of valuation is referred to as prior period development.

Importantly, the cumulative deficiency or redundancy for different balance sheet dates are not independent and, therefore, should not be added together. In the last financial year, we revised our estimate of the December 31, 2003, liabilities from $16.1 billion to $16.3 billion. This adverse development of $153 million is also included in each column to the right of the December 31, 2003, column to recognize that this additional amount was also required in the reserves established for each annual balance sheet date from December 31, 2004 to December 31, 2013.

The loss development table shows that our original estimate of the net unpaid loss and loss expense requirement at December 31, 2012, of $26.5 billion has, with the benefit of actual loss emergence and hindsight, been revised to $26.0 billion at December 31, 2013. This favorable movement of $530 million reflects prior period development and is the net result of a number of underlying movements both favorable and adverse. The key underlying movements are discussed in more detail in Note 7 to the Consolidated Financial Statements under Item 8.

The bottom lines of the table show the re-estimated amount of previously recorded gross liabilities at December 31, 2013, together with the change in reinsurance recoverable. Similar to the net liabilities, the cumulative redundancy or deficiency on the gross liability is the difference between the gross liability originally recorded and the re-estimated gross liability at December 31, 2013. For example, with respect to the gross unpaid loss and loss expenses of $27.1 billion for December 31, 2003, this gross liability was re-estimated to be $31.6 billion at December 31, 2013, resulting in the cumulative deficiency on the gross liability originally recorded for the 2003 balance sheet year of $4.6 billion. This deficiency relates primarily to U.S. liabilities, including A&E liabilities for 1996 and prior. The gross deficiency results in a net deficiency of $1.6 billion after consideration of substantial reinsurance coverage that reduces the gross loss; approximately $1.6 billion was covered by reinsurance placed when the risks were originally written and $1.3 billion and $110 million of the remaining insurance coverage has been ceded under the Brandywine NICO Agreement and Westchester NICO Agreement, respectively.

We do not consider it appropriate to extrapolate future deficiencies or redundancies based upon the table, as conditions and trends that have affected development of the liability in the past may not necessarily recur in the future. We believe that our current estimates of net liabilities appropriately reflect our current knowledge of the business profile and the prevailing market, social, legal, and economic conditions while giving due consideration to historical trends and volatility evidenced in our markets over the longer term. The key issues and considerations involved in establishing our estimate of the net liabilities are discussed in more detail within the "Critical Accounting Estimates – Unpaid losses and loss expenses" section of Item 7.

The Unpaid losses and loss expense information for acquired businesses has been included in the table from the acquisition date forward:

- Combined Insurance (April 1, 2008);
- Jerneh Insurance Berhad (December 1, 2010);
- Rain and Hail (we acquired all of the outstanding common stock not previously owned by us on December 28, 2010);
- Penn Millers Holding Corporation (November 30, 2011);
- Rio Guayas Compania de Seguros y Reaseguros (December 28, 2011);
- PT Asuransi Jaya Proteski (we acquired 80 percent on September 18, 2012 and our local partner acquired the remaining 20 percent on January 3, 2013);
- Fianzas Monterrey (April 1, 2013); and
- ABA Seguros (May 2, 2013).

Analysis of Losses and Loss Expenses Development

	Years Ended December 31										
(in millions of U.S. dollars)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
Gross unpaid losses	$27,083	$31,483	$35,055	$35,517	$37,112	$37,176	$37,783	$37,391	$37,477	$37,946	**$37,443**
Net unpaid losses	14,674	17,517	20,458	22,008	23,592	24,241	25,038	25,242	25,875	26,547	**26,831**
Net paid losses (cumulative) as of:											
1 year later	2,855	3,293	3,711	4,038	3,628	4,455	4,724	4,657	4,894	5,035	
2 years later	4,878	5,483	6,487	6,356	6,092	7,526	7,510	7,281	7,714		
3 years later	6,427	7,222	7,998	8,062	8,393	9,690	9,404	9,424			
4 years later	7,819	8,066	9,269	9,748	9,949	11,114	11,097				
5 years later	8,416	8,920	10,597	10,826	10,951	12,502					
6 years later	9,049	9,810	11,428	11,496	11,985						
7 years later	9,781	10,478	11,957	12,312							
8 years later	10,332	10,859	12,664								
9 years later	10,647	11,462									
10 years later	11,255										
Net liability re-estimated as of:											
End of year	14,674	17,517	20,458	22,008	23,592	24,241	25,038	25,242	25,875	26,547	**26,831**
1 year later	15,221	17,603	20,446	21,791	22,778	23,653	24,481	24,686	25,396	26,017	
2 years later	15,468	17,651	20,366	21,188	22,158	23,127	23,801	24,167	24,887		
3 years later	15,732	17,629	19,926	20,650	21,596	22,576	23,363	23,690			
4 years later	16,015	17,509	19,589	20,080	21,037	22,184	22,955				
5 years later	16,086	17,276	19,258	19,618	20,773	21,913					
6 years later	15,994	17,116	19,136	19,584	20,760						
7 years later	15,965	17,061	19,180	19,684							
8 years later	15,990	17,167	19,329								
9 years later	16,141	17,354									
10 years later	16,294										
Cumulative redundancy/ (deficiency) on net unpaid losses	(1,620)	163	1,129	2,324	2,832	2,328	2,083	1,552	988	530	
Cumulative deficiency related to A&E	(1,247)	(782)	(782)	(730)	(701)	(650)	(567)	(463)	(364)	(194)	
Cumulative redundancy/ (deficiency) excluding A&E	(373)	945	1,911	3,054	3,533	2,978	2,650	2,015	1,352	724	
Gross unpaid losses	27,083	31,483	35,055	35,517	37,112	37,176	37,783	37,391	37,477	37,946	**37,443**
Reinsurance recoverable on unpaid losses	12,409	13,966	14,597	13,509	13,520	12,935	12,745	12,149	11,602	11,399	**10,612**
Net unpaid losses	14,674	17,517	20,458	22,008	23,592	24,241	25,038	25,242	25,875	26,547	**26,831**
Gross liability re-estimated	31,649	32,348	33,508	32,872	33,414	34,240	34,903	34,898	35,890	36,996	
Reinsurance recoverable on unpaid losses	15,355	14,994	14,179	13,188	12,654	12,327	11,948	11,208	11,003	10,979	
Net liability re-estimated	16,294	17,354	19,329	19,684	20,760	21,913	22,955	23,690	24,887	26,017	
Cumulative redundancy/ (deficiency) on gross unpaid losses	$ (4,566)	$ (865)	$ 1,547	$ 2,645	$ 3,698	$ 2,936	$ 2,880	$ 2,493	$ 1,587	$ 950	

The reference to “losses” in the table above refers to losses and loss expenses.

Reconciliation of Unpaid Losses and Loss Expenses
Net losses and loss expenses incurred for 2013 were \$9.3 billion, compared with \$9.7 billion in 2012, and \$9.5 billion in 2011 which includes \$530 million, \$479 million, and \$556 million of net favorable prior period development (PPD), respectively. Refer to Note 7 to the Consolidated Financial Statements under Item 8 for a reconciliation of Unpaid losses and loss expenses and for additional information on PPD.

Investments
Our objective is to maximize investment income and total return while ensuring an appropriate level of liquidity and investment quality and diversification. As such, ACE's investment portfolio is invested primarily in investment-grade fixed-income securities as measured by the major rating agencies. We do not allow leverage or complex credit structures in our investment portfolio.

The critical aspects of the investment process are controlled by ACE Asset Management, an indirect wholly-owned subsidiary of ACE. These aspects include asset allocation, portfolio and guideline design, risk management and oversight of external asset managers. In this regard, ACE Asset Management:

- conducts formal asset allocation modeling for each of the ACE subsidiaries, providing formal recommendations for the portfolio's structure;
- establishes recommended investment guidelines that are appropriate to the prescribed asset allocation targets;
- provides the analysis, evaluation, and selection of our external investment advisors;
- establishes and develops investment-related analytics to enhance portfolio engineering and risk control;
- monitors and aggregates the correlated risk of the overall investment portfolio; and
- provides governance over the investment process for each of our operating companies to ensure consistency of approach and adherence to investment guidelines.

Under our guidance and direction, external asset managers conduct security and sector selection and transaction execution. Use of multiple managers benefits ACE in several ways – it provides us with operational and cost efficiencies, diversity of styles and approaches, innovations in investment research and credit and risk management, all of which enhance the risk adjusted returns of our portfolios.

ACE Asset Management determines the investment portfolio's allowable, targeted asset allocation and ranges for each of the segments. These asset allocation targets are derived from sophisticated asset and liability modeling that measures correlated histories of returns and volatility of returns. Allowable investment classes are further refined through analysis of our operating environment, including expected volatility of cash flows, potential impact on our capital position, as well as regulatory and rating agency considerations.

The Board has established a Risk & Finance Committee which helps execute the Board's supervisory responsibilities pertaining to enterprise risk management including investment risk. Under the overall supervision of the Risk & Finance Committee, ACE's governance over investment management is rigorous and ongoing. Among its responsibilities, the Risk & Finance Committee of the Board:

- reviews and approves asset allocation targets and investment policy to ensure that it is consistent with our overall goals, strategies, and objectives;
- reviews and approves investment guidelines to ensure that appropriate levels of portfolio liquidity, credit quality, diversification, and volatility are maintained; and
- systematically reviews the portfolio's exposures including any potential violations of investment guidelines.

We have long-standing global credit limits for our entire portfolio across the organization and for individual obligors. Exposures are aggregated, monitored, and actively managed by our Global Credit Committee, comprising senior executives, including our Chief Financial Officer, our Chief Risk Officer, our Chief Investment Officer, and our Treasurer.

Within the guidelines and asset allocation parameters established by the Risk & Finance Committee, individual investment committees of the segments determine tactical asset allocation. Additionally, these committees review all investment-related activity that affects their operating company, including the selection of outside investment advisors, proposed asset allocation changes, and the systematic review of investment guidelines.

For additional information regarding the investment portfolio, including breakdowns of the sector and maturity distributions, refer to Note 3 to the Consolidated Financial Statements, under Item 8.

Regulation

Our insurance and reinsurance subsidiaries conduct business globally, including in all 50 states of the United States and the District of Columbia. Our businesses in each of these jurisdictions are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which our insurance and reinsurance subsidiaries are domiciled require among other things that these subsidiaries maintain minimum levels of statutory capital, surplus, and liquidity, meet solvency standards, and submit to periodic examinations of their financial condition. The complex regulatory environments in which ACE operates are subject to change and are regularly monitored.

Group Supervision

In September 2012, pursuant to recently enacted legislation passed in the state of Pennsylvania, U.S., based on the Model Insurance Holding Company System Regulatory Act (model law) adopted by the National Association of Insurance Commissioners (NAIC), the Pennsylvania Insurance Department (Department), in consultation with other insurance regulatory bodies that oversee ACE's insurance activities, convened the first ACE Group Supervisory College (College). Regulators from approximately 15 jurisdictions worldwide were invited to participate in the College, the purpose of which was to initiate establishment of, and to clarify the membership, participation, functionality, and ongoing activities in, the College with respect to group-wide supervision of ACE. Representatives from approximately ten jurisdictions attended the College in Philadelphia, Pennsylvania, during which the supervisors reviewed, without adverse comment, information on our group governance, risk assessment and management, capital adequacy, and material intercompany transactions. On October 19, 2012, the Department, in cooperation with the other supervisory college regulators, published a notice of its determination that it is the appropriate group-wide supervisor for ACE. In December 2013, the Department circulated an invitation to various regulators to participate in ACE’s next College to be held in Philadelphia, Pennsylvania in September 2014.

The following is an overview discussion of regulations for our operations in Switzerland, the U.S., Bermuda, and other international locations.

Swiss Operations

The Swiss Financial Market Supervisory Authority (FINMA), has the discretion to supervise ACE on a group-wide basis. However, FINMA issued a letter to us in January 2013 acknowledging the Department's assumption of group supervision over us.

In 2008, we formed ACE Insurance (Switzerland) Limited which offers property and casualty insurance to Swiss companies, A&H insurance to individuals as well as reinsurance predominantly in Continental Europe. We have also formed a reinsurance subsidiary named ACE Reinsurance (Switzerland) Limited, which we operate as primarily a provider of reinsurance to ACE entities. Both companies are licensed and governed by FINMA.

U.S. Operations

Our U.S. insurance subsidiaries are subject to extensive regulation and supervision by the states in which they do business. The laws of the various states establish departments of insurance with broad authority to regulate, among other things: the standards of solvency that must be met and maintained, the licensing of insurers and their producers, approval of policy forms and rates, the nature of and limitations on investments, restrictions on the size of the risks which may be insured under a single policy, deposits of securities for the benefit of policyholders, requirements for the acceptability of reinsurers, periodic examinations of the affairs of insurance companies, the form and content of reports of financial condition required to be filed, and the adequacy of reserves for unearned premiums, losses, and other purposes.

Our U.S. insurance subsidiaries are required to file detailed annual and quarterly reports with state insurance regulators. In addition, our U.S. insurance subsidiaries' operations and financial records are subject to examination at regular intervals by state regulators.

All states have enacted legislation that regulates insurance holding companies. This legislation provides that each insurance company in the system is required to register with the insurance department of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management, or financial condition of the insurers within the system. All transactions within a holding company system must be fair and equitable. Notice to the insurance departments is required prior to the consummation of transactions affecting the ownership or control of an insurer and of certain material transactions between an insurer and an entity in its holding company system. In addition, certain transactions may not be consummated without the department's prior approval.

Statutory surplus is an important measure used by the regulators and rating agencies to assess our U.S. insurance subsidiaries' ability to support business operations and provide dividend capacity. Our U.S. insurance subsidiaries are subject to various state statutory and regulatory restrictions that limit the amount of dividends that may be paid without prior approval from regulatory authorities. These restrictions differ by state, but are generally based on calculations incorporating statutory surplus, statutory net income, and/or investment income.

The NAIC has a risk-based capital requirement for P&C insurance companies. This risk-based capital formula is used by many state regulatory authorities to identify insurance companies that may be undercapitalized and which merit further regulatory attention. These requirements are designed to monitor capital adequacy using a formula that prescribes a series of risk measurements to determine a minimum capital amount for an insurance company, based on the profile of the individual company. The ratio of a company's actual policyholder surplus to its minimum capital requirement will determine whether any state regulatory action is required. There are progressive risk-based capital failure levels that trigger more stringent regulatory action. If an insurer's policyholders' surplus falls below the Mandatory Control Level (70 percent of the Authorized Control Level, as defined by the NAIC), the relevant insurance commissioner is required to place the insurer under regulatory control.

However, an insurance commissioner may allow a P&C company operating below the Mandatory Control Level that is writing no business and is running off its existing business to continue its run-off. Brandywine is running off its liabilities consistent with the terms of an order issued by the Insurance Commissioner of Pennsylvania. This includes periodic reporting obligations to the Department.

Government intervention has also occurred in the insurance and reinsurance markets in relation to terrorism coverage in the U.S. (and through industry initiatives in other countries). The U.S. Terrorism Risk Insurance Act (TRIA), which was enacted in 2002 to ensure the availability of insurance coverage for certain types of terrorist acts in the U.S., was extended in 2007 for seven years, through December 31, 2014, and applies to certain of our operations.

From time to time, ACE and its subsidiaries and affiliates receive inquiries from state agencies and attorneys general, with which we generally comply, seeking information concerning business practices, such as underwriting and non-traditional or loss mitigation insurance products. Moreover, many recent factors, such as consequences of and reactions to industry and economic conditions and focus on domestic issues, have contributed to the potential for change in the legal and regulatory framework applicable to ACE's U.S. operations and businesses. We cannot assure that changes in laws or investigative or enforcement activities in the various states in the U.S. will not have a material adverse impact on our financial condition, results of operations, or business practices.

Bermuda Operations
The Insurance Act 1978 of Bermuda and related regulations, as amended (the Insurance Act), regulates the insurance business of our Bermuda insurance subsidiaries and provides that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority (BMA). The Insurance Act imposes solvency and liquidity standards and auditing and reporting requirements on Bermuda insurance companies and grants the BMA powers to supervise, investigate, and intervene in the affairs of insurance companies. Our Bermuda domiciled insurance subsidiaries must prepare annual statutory financial statements and file them with the BMA, and certain subsidiaries must file audited annual financial statements prepared in accordance with accounting principles generally accepted in the U.S. (GAAP), International Financial Reporting Standards (IFRS), or any such other generally accepted accounting principles as the BMA may recognize. These audited financials are made public by the BMA. The Insurance Act prescribes rules for the preparation and content of the statutory financial statements that requires ACE subsidiaries to give detailed information and analyses regarding premiums, claims, reinsurance, and investments.

In 2008, the BMA issued the Insurance Amendment Act 2008 that established new risk-based regulatory capital adequacy and solvency margin requirements for Bermuda insurers. Under the new regulatory framework, the BMA has promulgated the Insurance Order 2008 which, among other things, mandates that a Class 4 insurer's Enhanced Capital Requirement (ECR) be calculated by either (a) the BMA model, or (b) an internal capital model which the BMA has approved for use for this purpose. ACE's Bermuda Class 4 insurance subsidiaries use the BMA model in calculating their solvency requirements. In 2011, the BMA issued the Insurance Amendment Rules 2011 and the Insurance Rules 2011. The Insurance Amendment Rules 2011 amend the Order for Class 4 companies issued in 2008 and the Insurance Rules 2011 require that as of December 31, 2011, Class E (long-term business) companies and Class 3A (general business) companies follow similar rules as those set out above for Class 4 companies.

The risk-based regulatory capital adequacy and solvency margin regime provides a risk-based capital model, termed the Bermuda Solvency Capital Requirement (BSCR), as a tool to assist the BMA both in measuring risk and in determining appropriate levels of capitalization. The BSCR employs a standard mathematical model that correlates the risk underwritten by Bermuda insurers to their capital. The BSCR framework applies a standard measurement format to the risk associated with an insurer's assets, liabilities, and premiums, including a formula to take account of catastrophe risk exposure. In order to minimize the risk of a shortfall in capital arising from an unexpected adverse deviation and in moving towards the implementation of a risk based capital approach, the BMA has established a threshold capital level, (termed the Target Capital Level (TCL)), set at 120 percent of ECR, that serves as an early warning tool for the BMA and failure to maintain statutory capital at least equal to the TCL will likely result in increased BMA regulatory oversight.

Under the Insurance Act, Class 4 insurers are prohibited from declaring or paying any dividends of more than 25 percent of total statutory capital and surplus, as shown in its previous financial year statutory balance sheet, unless at least seven days before payment of the dividends, it files with the BMA an affidavit that it will continue to meet its required solvency margins. In addition, Class 4, 3A, and E insurers must obtain the BMA's prior approval before reducing total statutory capital, as shown in its previous financial year statutory balance sheet, by 15 percent or more. Furthermore, under the Companies Act, the Bermuda insurance subsidiaries may only declare and pay a dividend from retained earnings, and a dividend or distribution from contributed surplus if it has no reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due, or if the realizable value of its assets would not be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Other International Operations
The extent of insurance regulation varies significantly among the countries in which the non-U.S. ACE operations conduct business. While each country imposes licensing, solvency, auditing, and financial reporting requirements, the type and extent of the requirements differ substantially. For example:

- in some countries, insurers are required to prepare and file quarterly financial reports, and in others, only annual reports;
- some regulators require intermediaries to be involved in the sale of insurance products, whereas other regulators permit direct sales contact between the insurer and the customer;
- the extent of restrictions imposed upon an insurer's use of local and offshore reinsurance vary;
- policy form filing and rate regulation vary by country;
- the frequency of contact and periodic on-site examinations by insurance authorities differ by country; and
- regulatory requirements relating to insurer dividend policies vary by country.

Significant variations can also be found in the size, structure, and resources of the local regulatory departments that oversee insurance activities. Certain regulators prefer close relationships with all subject insurers and others operate a risk-based approach.

ACE operates in some countries through subsidiaries and in some countries through branches of subsidiaries. Local capital requirements applicable to a subsidiary generally include its branches. Certain ACE companies are jointly owned with local companies to comply with legal requirements for local ownership. Other legal requirements include discretionary licensing procedures, compulsory cessions of reinsurance, local retention of funds and records, data privacy and protection program requirements, and foreign exchange controls. ACE's international companies are also subject to multinational application of certain U.S. laws.

There are various regulatory bodies and initiatives that impact ACE in multiple international jurisdictions and the potential for significant impact on ACE could be heightened as a result of recent industry and economic developments. In particular, the European Union's (EU) executive body, the European Commission, is implementing new capital adequacy and risk management regulations for the European insurance industry, known as Solvency II, which aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current Solvency I requirements. The Solvency II requirements are expected to be effective January 1, 2016.

Under Solvency II, it is possible that a U.S. domiciled parent company of a subsidiary domiciled in the EU could be subject to certain requirements if determined by the regulator that its subsidiary's capital position is dependent on the U.S. parent company that is not subject to requirements deemed to be "equivalent" to Solvency II. While it is not certain how or if these actions will impact ACE, we do not currently expect that our capital management strategies, results of operations, and financial condition will be materially affected by the Solvency II requirements.

Enterprise Risk Management

As an insurer, ACE is in the business of profitably managing risk for its customers. Since risk management must permeate an organization conducting a global insurance business, we have an established Enterprise Risk Management (ERM) framework that is integrated into management of our businesses and is led by ACE's senior management. As a result, ERM is a part of the day-to-day management of ACE and its operations.

Our global ERM framework is broadly multi-disciplinary and its objectives include:

- **External Risks**: identify, analyze, quantify, and where possible, mitigate significant external risks that could hamper achievement of corporate business objectives;
- **Exposure Accumulations**: identify and quantify the accumulation of exposure to individual counterparties, products or industry sectors, particularly those that extend across or correlate between business units or divisions;
- **Risk Modeling**: develop and use various analytical tools, metrics and processes (including economic capital) that enable the application of a consistent set of risk/return decisions globally;
- **Governance**: establish and coordinate risk guidelines that reflect the corporate appetite for risk, monitor exposure accumulations relative to established guidelines, and ensure effective internal risk management communication up to management and the Board, down to the various business units and legal entities, and across the firm; and
- **Disclosure**: develop protocols and processes for risk-related disclosure internally as well as externally to rating agencies, regulators, shareholders and analysts.

ACE's Enterprise Risk Management Board (ERMB) reports to and assists the Chief Executive Officer in the oversight and review of the ERM framework which covers the processes and guidelines used to manage insurance risk, financial risk, strategic risk, and operational risk. The ERMB is chaired by ACE's Chief Risk Officer and Chief Actuary. The ERMB meets at least monthly, and is comprised of ACE's most senior executives, in addition to the Chair, including the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Claims Officer, General Counsel, Chairman for Insurance – North America, Chairman for ACE Overseas General, and our Chairman for Global Reinsurance.

Various sources, including the Enterprise Risk Unit (ERU) and Product Boards, provide support to the ERMB. The ERU is responsible for the collation and analysis of two types of information. First, external information that provides insight to the ERMB on risks that might significantly impact ACE's key objectives and second, internal risk aggregations from its business writings and other activities such as investments. The ERU is independent of the operating units and reports to our Chief Risk Officer and Chief Actuary. The Product Boards exist to provide oversight for products that we offer globally. A Product Board currently exists for each of the following products; property/energy, marine, casualty, professional lines, aviation, employer liability, environmental, medical, surety and political risk. Each Product Board is responsible for ensuring consistency in underwriting and pricing standards, identification of emerging issues, and guidelines for relevant accumulations.

ACE's Chief Risk Officer and Chief Actuary also reports to the Board's Risk & Finance Committee, which helps execute the Board's supervisory responsibilities pertaining to ERM. The role of the Risk & Finance Committee includes evaluation of the integrity and effectiveness of our ERM procedures, systems, and information; governance on major policy decisions pertaining to risk aggregation and minimization; and assessment of our major decisions and preparedness levels pertaining to perceived material risks. The Audit Committee meets annually and on an as needed basis with the Risk & Finance Committee in order to exercise its duties under New York Stock Exchange Rules.

Others within the ERM structure contribute toward accomplishing ACE's ERM objectives, including regional management, Internal Audit, Compliance, external consultants, and managers of our internal control processes and procedures.

Tax Matters

Refer to "Risk Factors", under Item 1A and Note 1 n) and Note 8 to the Consolidated Financial Statements.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position
Evan G. Greenberg	59	Chairman, President, Chief Executive Officer, and Director
John W. Keogh	49	Vice Chairman, Chief Operating Officer; Chairman, ACE Overseas General
Philip V. Bancroft	54	Chief Financial Officer
John J. Lupica	48	Vice Chairman; Chairman, Insurance – North America
Joseph F. Wayland	56	General Counsel and Secretary
Sean Ringsted	50	Chief Risk Officer and Chief Actuary
Timothy A. Boroughs	64	Chief Investment Officer

Evan G. Greenberg has been a director of ACE Limited since August 2002. Mr. Greenberg was elected Chairman of the Board of Directors in May 2007. Mr. Greenberg became a director of The Coca-Cola Company in February 2011. Mr. Greenberg was appointed to the position of President and Chief Executive Officer of ACE Limited in May 2004, and in June 2003, was appointed President and Chief Operating Officer of ACE Limited. Mr. Greenberg was appointed to the position of Chief Executive Officer of ACE Overseas General in April 2002. He joined ACE as Vice Chairman, ACE Limited, and Chief Executive Officer of ACE Tempest Re in November 2001. Prior to joining ACE, Mr. Greenberg was most recently President and Chief Operating Officer of American International Group (AIG), a position he held from 1997 until 2000.

John W. Keogh was appointed Chief Operating Officer of ACE Limited in July 2011 and Vice Chairman of ACE Limited and ACE Group Holdings in August 2010. Mr. Keogh joined ACE as Chief Executive Officer of ACE Overseas General in April 2006 and became Chairman of ACE Overseas General in August 2010. Prior to joining ACE, Mr. Keogh served as Senior Vice President, Domestic General Insurance of AIG, and President and Chief Executive Officer of National Union Fire Insurance Company, AIG's member company that specializes in D&O and fiduciary liability coverages. Mr. Keogh joined AIG in 1986. He served in a number of other senior positions there including as Executive Vice President of AIG's Domestic Brokerage Group and as President and Chief Operating Officer of AIG's Lexington Insurance Company unit.

Philip V. Bancroft was appointed Chief Financial Officer of ACE Limited in January 2002. For nearly 20 years, Mr. Bancroft worked for PricewaterhouseCoopers LLP. Prior to joining ACE, he served as partner-in-charge of the New York Regional Insurance Practice. Mr. Bancroft had been a partner with PricewaterhouseCoopers LLP for ten years.

John J. Lupica was appointed Vice Chairman of ACE Limited and ACE Group Holdings in November 2013 and Chairman, Insurance – North America, in July 2011. Mr. Lupica had been Chief Operating Officer, Insurance – North America, since 2010 and President of ACE USA since 2006. He also previously served as Division President of ACE Professional Risk and ACE USA Regional Operations. Mr. Lupica joined ACE USA as Executive Vice President of Professional Risk in 2000. Prior to joining ACE, he served as Senior Vice President for Munich-American Risk Partners, Inc. He also held various management positions at AIG.

Joseph F. Wayland was appointed General Counsel and Secretary of ACE Limited in July 2013. Mr. Wayland joined ACE from the law firm of Simpson Thacher & Bartlett LLP, where he was a partner since 1994. From 2010 to 2012, he served in the United States Department of Justice, first as Deputy Assistant Attorney General of the Antitrust Division, and was later appointed as the Acting Assistant Attorney General in charge of that division.

Sean Ringsted was appointed Chief Risk Officer and Chief Actuary of ACE Limited in November 2008. Mr. Ringsted’s previous roles at ACE include Chief Actuary for ACE Group from 2004 to 2008, Executive Vice President and Chief Risk Officer for ACE Tempest Re from 2002 to 2004, and Senior Vice President and Chief Actuary for ACE Tempest Re from 1998 to 2002. Prior to joining ACE, Mr. Ringsted was a consultant at Tillinghast-Towers Perrin.

Timothy A. Boroughs was appointed Chief Investment Officer of ACE Group in June 2000. Prior to joining ACE, Mr. Boroughs was Director of Fixed Income at Tudor Investment Corporation from 1997 to 2000, and Managing Partner and Director of Global Leveraged Investment Activity at Fischer Francis Trees & Watts from 1976 to 1997.

ITEM 1A. Risk Factors

Factors that could have a material impact on our results of operations or financial condition are outlined below. Additional risks not presently known to us or that we currently deem insignificant may also impair our business or results of operations as they become known facts or as facts and circumstances change. Any of the risks described below could result in a significant or material adverse effect on our results of operations or financial condition.

Business

Our results of operations or financial condition could be adversely affected by the occurrence of natural and man-made disasters.
We have substantial exposure to losses resulting from natural disasters, man-made catastrophes, and other catastrophic events. This could impact a variety of our businesses, including both commercial and personal lines products. Catastrophes can be caused by various events, including hurricanes, typhoons, earthquakes, hailstorms, drought, explosions, severe winter weather, fires, war, acts of terrorism, nuclear accidents, political instability, and other natural or man-made disasters, including a global or other wide-impact pandemic or a significant cyber breach. The incidence and severity of catastrophes are inherently unpredictable and our losses from catastrophes could be substantial. In addition, climate conditions may be changing, primarily through changes in global temperatures, which may increase the frequency and severity of natural catastrophes and the resulting losses in the future. We cannot predict the impact that changing climate conditions, if any, may have on our results of operations or our financial condition. Additionally, we cannot predict how legal, regulatory and/or social responses to concerns around global climate change may impact our business. The occurrence of claims from catastrophic events could result in substantial volatility in our results of operations or financial condition for any fiscal quarter or year. Increases in the values and concentrations of insured property may also increase the severity of these occurrences in the future. Although we attempt to manage our exposure to such events through the use of underwriting controls and the purchase of third-party reinsurance, catastrophic events are inherently unpredictable and the actual nature of such events when they occur could be more frequent or severe than contemplated in our pricing and risk management expectations. As a result, the occurrence of one or more catastrophic events could have an adverse effect on our results of operations or financial condition.

If actual claims exceed our loss reserves, our financial results could be adversely affected.
Our results of operations and financial condition depend upon our ability to accurately assess the potential losses associated with the risks that we insure and reinsure. We establish reserves for unpaid losses and loss expenses, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred at or prior to the date of the balance sheet. The process of establishing reserves can be highly complex and is subject to considerable variability as it requires the use of informed estimates and judgments.

We have actuarial staff in each of our segments who analyze insurance reserves and regularly evaluate the levels of loss reserves. Any such evaluations could result in future changes in estimates of losses or reinsurance recoverables and would be reflected in our results of operations in the period in which the estimates are changed. Losses and loss expenses are charged to income as incurred. During the loss settlement period, which can be many years in duration for some of our lines of business, additional facts regarding individual claims and trends often will become known which may result in a change in overall reserves. In addition, application of statistical and actuarial methods may require the adjustment of overall reserves upward or downward from time to time.

Included in our liabilities for losses and loss expenses are liabilities for latent claims such as A&E. At December 31, 2013, these A&E liabilities represented approximately 4.9 percent of our liabilities for losses and loss expenses. These claims are principally related to claims arising from remediation costs associated with hazardous waste sites and bodily-injury claims related to exposure to asbestos products and environmental hazards. The estimation of these liabilities is subject to many complex variables including: the current legal environment; specific settlements that may be used as precedents to settle future claims; assumptions regarding trends with respect to claim severity and the frequency of higher severity claims; assumptions regarding the ability to allocate liability among defendants (including bankruptcy trusts) and other insurers; the ability of a claimant to bring a claim in a state in which they have no residency or exposure; the ability of a policyholder to claim the right to non-products coverage; whether high-level excess policies have the potential to be accessed given the policyholder's claim trends and liability situation; payments to unimpaired claimants; and, the potential liability of peripheral defendants.

Accordingly, the ultimate settlement of losses, arising from either latent or non-latent causes (e.g., greater than anticipated inflation), may be significantly greater or less than the loss and loss expense reserves held at the date of the balance sheet.

If our loss reserves are determined to be inadequate, we may be required to increase loss reserves at the time of the determination and our net income and/or capital could be reduced.

The effects of emerging claim and coverage issues on our business are uncertain.
As industry practices and legislative, regulatory, judicial, social, financial, technology and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the frequency and severity of claims. In some instances, these changes may not become apparent until some time after we have issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance or reinsurance contracts may not be known for many years after a contract is issued.

The failure of any of the loss limitation methods we employ could have an adverse effect on our results of operations or financial condition.
We seek to manage our loss exposure by maintaining a disciplined underwriting process throughout our insurance operations. We also look to limit our loss exposure by writing a number of our insurance and reinsurance contracts on an excess of loss basis. Excess of loss insurance and reinsurance indemnifies the insured against losses in excess of a specified amount. In addition, we limit program size for each client and purchase third-party reinsurance for our own account. In the case of our assumed proportional reinsurance treaties, we seek per occurrence limitations or loss and loss expense ratio caps to limit the impact of losses ceded by the client. In proportional reinsurance, the reinsurer shares a proportional part of the premiums and losses of the reinsured. We also seek to limit our loss exposure by geographic diversification. Geographic zone limitations involve significant underwriting judgments, including the determination of the area of the zones and the inclusion of a particular policy within a particular zone's limits. Various provisions of our policies, such as limitations or exclusions from coverage or choice of forum negotiated to limit our risks, may not be enforceable in the manner we intend. As a result, one or more catastrophic or other events could result in claims that substantially exceed our expectations, which could have an adverse effect on our results of operations or financial condition.

We may be unable to purchase reinsurance, and if we successfully purchase reinsurance, we are subject to the possibility of non-payment.
We purchase reinsurance to protect against catastrophes, to increase the amount of protection we can provide our clients, and as part of our overall risk management strategy. Our reinsurance business also purchases some retrocessional protection which allows a reinsurer to cede to another company all or part of the reinsurance originally assumed by the reinsurer. A reinsurer's or retrocessionaire's insolvency or inability or unwillingness to make timely payments under the terms of its reinsurance agreement with us could have an adverse effect on us because we remain liable to the insured. From time to time, market conditions have limited, and in some cases have prevented, insurers and reinsurers from obtaining the types and amounts of reinsurance or retrocessional reinsurance that they consider adequate for their business needs.

There is no guarantee our desired amounts of reinsurance or retrocessional reinsurance will be available in the marketplace in the future. In addition to capacity risk, the remaining capacity may not be on terms we deem appropriate or acceptable or with companies with whom we want to do business. Finally, we face some degree of counterparty risk whenever we purchase reinsurance or retrocessional reinsurance. Consequently, the insolvency, inability, or unwillingness of any of our present or future reinsurers to make timely payments to us under the terms of our reinsurance or retrocessional agreements could have an adverse effect on us. At December 31, 2013, we had $11.2 billion of reinsurance recoverables, net of reserves for uncollectible recoverables.

Certain of our subsidiaries are liable for A&E and other exposures they have reinsured to our inactive run-off company Century Indemnity Company (Century). At December 31, 2013, the aggregate reinsurance balances ceded by our active subsidiaries to Century were approximately $929 million. Should Century's loss reserves experience adverse development in the future and should Century be placed into rehabilitation or liquidation, the reinsurance recoverables due from Century to its affiliates would be payable only after the payment in full of certain expenses and liabilities, including administrative expenses and direct policy liabilities. Thus, the intercompany reinsurance recoverables would be at risk to the extent of the shortage of assets remaining to pay these recoverables. While we believe the intercompany reinsurance recoverables from Century are not impaired at this time, we cannot assure that adverse development with respect to Century's loss reserves, if manifested, will not result in Century's insolvency, which could result in our recognizing a loss to the extent of any uncollectible reinsurance from Century. This could have an adverse effect on our results of operations or financial condition.

Our net income may be volatile because certain products sold by our Life business expose us to reserve and fair value liability changes that are directly affected by market and other factors and assumptions.
Our pricing, establishment of reserves for future policy benefits and valuation of life insurance and annuity products, including reinsurance programs, are based upon various assumptions, including but not limited to market changes, mortality rates, morbidity rates, and policyholder behavior. The process of establishing reserves for future policy benefits relies on our ability to accurately estimate insured events that have not yet occurred but that are expected to occur in future periods. Significant deviations in actual experience from assumptions used for pricing and for reserves for future policy benefits could have an adverse effect on the profitability of our products and our business.

Under reinsurance programs covering variable annuity guarantees, we assumed the risk of guaranteed minimum death benefits (GMDB) and guaranteed living benefits (GLB) associated with variable annuity contracts. We ceased writing this business in 2007. Our net income is directly impacted by changes in the reserves calculated in connection with the reinsurance of GMDB and GLB liabilities. In addition, our net income is directly impacted by the change in the fair value of the GLB liability. Reported liabilities for both GMDB and GLB reinsurance are determined using internal valuation models which require considerable judgment and are subject to significant uncertainty. Refer to the “Critical Accounting Estimates – Guaranteed living benefits (GLB) derivatives”, under Item 7 and “Quantitative and Qualitative Disclosures about Market Risk – Reinsurance of GLB and GMDB guarantees”, under Item 7A for additional information on the assumptions used in this program. We view our variable annuity reinsurance business as having a similar risk profile to that of catastrophe reinsurance, with the probability of long-term economic loss relatively small at the time of pricing. Adverse changes in market factors and policyholder behavior will have an impact on both life underwriting income and net income.

A failure in our operational systems or infrastructure or those of third parties could disrupt business, damage our reputation, and cause losses.
Our operations rely on the secure processing, storage, and transmission of confidential and other information, including in our computer systems and networks. Our business depends on effective information security and systems and the integrity and timeliness of the data our information systems use to run our business. Our ability to adequately price products and services, to establish reserves, to provide effective, efficient and secure service to our customers, to value our investments and to timely and accurately report our financial results also depends significantly on the integrity of the data we maintain, including that within our information systems, as well as data in third-party service provider systems. Although we have implemented administrative and technical controls and take protective actions to reduce the risk of cyber incidents and protect our information technology, and we endeavor to modify such procedures as circumstances warrant, such measures may be insufficient to prevent unauthorized access, computer viruses, malware or other malicious code or cyber-attack, catastrophic events, system failures and disruptions and other events that could have security consequences (each, a Security Event). Like other global companies, we have from time to time experienced Security Events, none of which had a material adverse impact on our business, results of operations or financial condition. If additional Security Events occur, these events may jeopardize ACE's or its clients' or counterparties' confidential and other information processed and stored within ACE, and transmitted through its computer systems and networks, or otherwise cause interruptions or malfunctions in ACE's, its clients', its counterparties', or third parties' operations, or result in data loss which could result in significant losses or reputational damage. ACE may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered by insurance maintained.

Despite the contingency plans and facilities we have in place, our ability to conduct business may be adversely affected by a disruption of the infrastructure that supports our business in the communities in which we are located, or of outsourced services or functions. This may include a disruption involving electrical, communications, transportation, or other services used by ACE. If a disruption occurs in one location and ACE employees in that location are unable to occupy our offices and conduct business or communicate with or travel to other locations, our ability to service and interact with clients may suffer and we may not be able to successfully implement contingency plans that depend on communication or travel.

Our exposure to counterparties in various industries, our reliance on brokers, and certain of our policies may subject us to credit risk.
We have exposure to counterparties through reinsurance and in various industries, including banks, hedge funds and other investment vehicles, and derivative transactions that expose us to credit risk in the event our counterparty fails to perform its obligations. We also have exposure to financial institutions in the form of secured and unsecured debt instruments and equity securities.

In accordance with industry practice, we generally pay amounts owed on claims to brokers who, in turn, remit these amounts to the insured or ceding insurer. Although the law is unsettled and depends upon the facts and circumstances of the particular case, in some jurisdictions, if a broker fails to make such a payment, we might remain liable to the insured or ceding insurer for the deficiency. Conversely, in certain jurisdictions, if the brokers do not remit premiums paid for these policies over to us, these premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums from the broker. Consequently, we assume a degree of credit risk associated with brokers with whom we transact business. However, due to the unsettled and fact-specific nature of the law, we are unable to quantify our exposure to this risk. To date, we have not experienced any material losses related to these credit risks.

Under the terms of certain high-deductible policies which we offer, such as workers' compensation and general liability, our customers are responsible to reimburse us for an agreed-upon dollar amount per claim. In nearly all cases we are required under such policies to pay covered claims first, and then seek reimbursement for amounts within the applicable deductible from our customers. This obligation subjects us to credit risk from these customers. While we generally seek to mitigate this risk through collateral agreements and maintain a provision for uncollectible accounts associated with this credit exposure, an increased inability of customers to reimburse us in this context could have an adverse effect on our financial condition and results of operations. In addition, a lack of credit available to our customers could impact our ability to collateralize this risk to our satisfaction, which in turn, could reduce the amount of high-deductible policies we could offer.

The integration of acquired companies may not be as successful as we anticipate.
Acquisitions involve numerous risks, including operational, strategic, financial, accounting, legal and tax risks such as potential liabilities associated with the acquired business. Difficulties in integrating an acquired company may result in the acquired company performing differently than we expected or in our failure to realize anticipated expense-related efficiencies. Our existing businesses could also be negatively impacted by acquisitions. In addition, goodwill and intangible assets recorded in connection with insurance company acquisitions may be impaired if premium growth, underwriting profitability, agency retention and policy persistency, among other factors, differ from expectations.

There is also the potential that proposed acquisitions that have been publicly announced will not be consummated, even if a definitive agreement has been signed by the parties. If an agreement is terminated before closing, the result would be that our proposed acquisition would not occur, which could, among other things, expose us to damages or liability and adversely impact our stock price and future operations.

We use analytical models to assist our decision making in key areas such as underwriting, claims, reserving, and catastrophe risks but actual results could differ materially from the model outputs and related analyses.
We employ various modeling techniques (e.g., scenarios, predictive, stochastic and/or forecasting) and data analytics to analyze and estimate exposures, loss trends and other risks associated with our assets and liabilities. We use the modeled outputs and related analyses to assist us in decision-making (e.g., underwriting, pricing, claims, reserving, reinsurance, and catastrophe risk) and to maintain competitive advantage. The modeled outputs and related analyses are subject to various assumptions, uncertainties, model errors and the inherent limitations of any statistical analysis, including the use of historical internal and industry data. Consequently, actual results may differ materially from our modeled results. If, based upon these models or other factors, we misprice our products or underestimate the frequency and/or severity of loss events, or overestimate the risks we are exposed to, new business growth and retention of our existing business may be adversely affected which could have a material adverse effect on our results of operations or financial condition.

U.S. and global economic and financial industry events and their consequences could harm our business, our liquidity and financial condition, and our stock price.
The consequences of adverse global market and economic conditions may affect (among other aspects of our business) the demand for and claims made under our products, the ability of customers, counterparties, and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources, the availability of reinsurance protection, the risks we assume under reinsurance programs covering variable annuity guarantees, and our investment performance. Volatility in the U.S. and other securities markets may adversely affect our stock price.

Financial Strength and Debt Ratings

A decline in our financial strength ratings could affect our standing among brokers and customers and cause our premiums and earnings to decrease. A decline in our debt ratings could increase our borrowing costs and impact our ability to access capital markets.
Ratings are an important factor in establishing the competitive position of insurance and reinsurance companies. The objective of these rating systems is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to its policyholders. A ratings downgrade could result in a substantial loss of business as insureds, ceding companies, and brokers move to other insurers and reinsurers with higher ratings. If one or more of our debt ratings were downgraded, we could also incur higher borrowing costs, and our ability to access the capital markets could be impacted. Additionally, we could be required to post collateral or be faced with the cancellation of policies and resulting premium in certain circumstances. We cannot give any assurance regarding whether or to what extent any of the rating agencies may downgrade our ratings in the future.

Loss of Key Executives

We could be adversely affected by the loss of one or more key executives or by an inability to attract and retain qualified personnel.
Our success depends on our ability to retain the services of our existing key executives and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key executives or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct or grow our business. This risk may be particularly acute for us relative to some of our competitors because some of our senior executives work in countries where they are not citizens and work permit and immigration issues could adversely affect the ability to retain or hire key persons. We do not maintain key person life insurance policies with respect to our employees.

Loss of Business Provided by Brokers

Since we depend on a few brokers for a large portion of our revenues, loss of business provided by any one of them could adversely affect us.
We market our insurance and reinsurance worldwide primarily through insurance and reinsurance brokers. Marsh, Inc. and its affiliates provided approximately 11 percent of our gross premiums written in 2013. Loss of all or a substantial portion of the business provided by one or more of these brokers could have an adverse effect on our business.

Liquidity and Investments

Our investment performance may affect our financial results and ability to conduct business.
Our investment assets are invested by professional investment management firms under the direction of our management team in accordance with investment guidelines approved by the Risk & Finance Committee of the Board of Directors. Although our investment guidelines stress diversification of risks and conservation of principal and liquidity, our investments are subject to market risks and risks inherent in individual securities. Interest rates are highly sensitive to many factors, including inflation, monetary and fiscal policies, and domestic and international political conditions. The volatility of our losses may force us to liquidate securities, which may cause us to incur capital losses. Realized and unrealized losses in our investment portfolio would generally reduce our book value, and if significant, can affect our ability to conduct business.

Volatility in interest rates could impact the performance of our investment portfolio which could have an adverse effect on our investment income and operating results. Although we take measures to manage the risks of investing in a changing interest rate environment, we may not be able to effectively mitigate interest rate sensitivity. Our mitigation efforts include maintaining a high quality portfolio of primarily fixed income investments with a relatively short duration to reduce the effect of interest rate changes on book value. A significant increase in interest rates would generally have an adverse effect on our book value. Our life insurance investments typically focus on longer duration bonds to better match the obligations of this business. For the life business, policyholder behavior may be influenced by changing interest rate conditions and require a rebalancing of duration to effectively manage our asset/liability position.

Our fixed income portfolio is primarily invested in high quality, investment-grade securities. A smaller portion of the portfolio, approximately 16 percent at December 31, 2013, is invested in below investment-grade securities. These securities, which pay a higher rate of interest, also have a higher degree of credit or default risk and may also be less liquid in times of economic weakness or market disruptions. While we have put in place procedures to monitor the credit risk and liquidity of our invested assets, it is possible that, in periods of economic weakness (such as recession), we may experience credit or default losses in our portfolio, which could adversely affect our results of operations and financial condition.

As a part of our ongoing analysis of our investment portfolio, we are required to assess whether the debt and equity securities we hold for which we have recorded an unrealized loss have been “other-than-temporarily impaired” under GAAP, which implies an inability to recover the full economic benefits of these securities. Refer to Note 3 to the Consolidated Financial Statements for additional information. This analysis requires a high degree of judgment and requires us to make certain assessments about the potential for recovery of the assets we hold. Declines in relevant stock and other financial markets, and other factors impacting the value of our investments, could result in impairments and could adversely affect our net income and other financial results.

We may require additional capital or financing sources in the future, which may not be available or may be available only on unfavorable terms.
Our future capital and financing requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses, as well as our investment performance. We may need to raise additional funds through financings or access funds through existing or new credit facilities or through short-term repurchase agreements. We also from time to time seek to refinance debt or credit as amounts become due or commitments expire. Any equity or debt financing or refinancing, if available at all, may be on terms that are not favorable to us. In the case of equity financings, dilution to our shareholders could result, and in any case, such securities may have rights, preferences, and privileges that are senior to those of our Common Shares. Our access to funds under existing credit facilities is dependent on the ability of the banks that are parties to the facilities to meet their funding commitments. If we cannot obtain adequate capital or sources of credit on favorable terms, or at all, we could be forced to use assets otherwise available for our business operations, and our business, results of operations, and financial condition could be adversely affected.

We may be required to post additional collateral because of changes in our reinsurance liabilities to regulated insurance companies, or because of regulatory changes that affect our companies.
If our reinsurance liabilities increase, we may be required to post additional collateral for insurance company clients. In addition, regulatory changes sometimes affect our obligations to post collateral. The need to post this additional collateral, if significant enough, may require us to sell investments at a loss in order to provide securities of suitable credit quality or otherwise secure adequate capital at an unattractive cost. This could adversely impact our net income and liquidity and capital resources.

Exchange Rates

Our operating results and shareholders' equity may be adversely affected by currency fluctuations.
Our reporting currency is the U.S. dollar. In general, we match assets and liabilities in local currencies. Where possible, capital levels in local currencies are limited to satisfy minimum regulatory requirements and to support local insurance operations. The principal currencies creating foreign exchange risk are the British pound sterling, the euro, the yen, the Mexican peso, the Canadian dollar, and the Australian dollar. At December 31, 2013, approximately 24.1 percent of our net assets were denominated in foreign currencies. We may experience losses resulting from fluctuations in the values of non-U.S. currencies, which could adversely impact our results of operations and financial condition.

Regulatory and Other Governmental Developments

The regulatory and political regimes under which we operate, and their volatility, could have an adverse effect on our business.
Our insurance and reinsurance subsidiaries conduct business globally. Our businesses in each jurisdiction are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which our insurance and reinsurance subsidiaries are domiciled require, among other things, maintenance of minimum levels of statutory capital, surplus, and liquidity; various solvency standards; and periodic examinations of subsidiaries' financial condition. In some jurisdictions, laws and regulations also restrict payments of dividends and reductions of capital. Applicable statutes, regulations, and policies may also restrict the ability of these subsidiaries to write insurance and reinsurance policies, to make certain investments, and to distribute funds. The purpose of insurance laws and regulations generally is to protect policyholders and ceding insurance companies, not our shareholders. For example, some jurisdictions have enacted various consumer protection laws that make it more burdensome for insurance companies to sell policies and interact with customers in personal lines businesses. Failure to

comply with such regulations can lead to significant penalties and reputational injury. Also, governmental support of individual competitors can lead to increased pricing pressure and a distortion of market dynamics.

The insurance industry is affected by political, judicial, and legal developments that may create new and expanded regulations and theories of liability. The current economic climate and the recent financial crisis present additional uncertainties and risks relating to increased regulation and the potential for increased involvement of the U.S. and other governments in the financial services industry.

In addition, various legislative initiatives may impact the conduct of our business. For example, in the U.S., Congress may make changes in, or fail to renew the terrorism risk insurance program, which could have adverse effects on our business.

Regulators in countries where we have operations are working with the International Association of Insurance Supervisors (IAIS) to consider changes to insurance company supervision, including with respect to group supervision and solvency requirements. The IAIS is developing a common framework to supervise internationally active insurance groups, known as Com Frame. As part of Com Frame, the IAIS has announced plans to develop an international capital standard for insurance groups. The details of Com Frame including this global capital standard and its applicability to ACE is uncertain at this time. In addition, the European Union (EU) is implementing a new capital and risk management regime known as Solvency II that would apply to our businesses across the EU, effective January 1, 2016. ACE businesses are also subject to the requirements of the Swiss Financial Market Supervisory Authority (FINMA) whose regulations include Swiss Solvency Tests. There are also Risk Based Capital Requirements in the U.S. which are also subject to revision in response to global developments. While it is not certain how or if these actions will impact ACE, we do not currently expect that our capital management strategies, results of operations and financial condition will be materially affected by these regulatory changes.

In the event or absence of changes in applicable laws and regulations in particular jurisdictions, we may from time to time face challenges, or changes in approach to oversight of our business from insurance or other regulators, including challenges resulting from requiring the use of information technology that cannot be quickly adjusted to address new regulatory requirements.

We may not be able to comply fully with, or obtain appropriate exemptions from, applicable statutes and regulations and any changes thereto, which could have an adverse effect on our business. Failure to comply with or to obtain appropriate authorizations and/or exemptions under any applicable laws and regulations could result in restrictions on our ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which we conduct business and could subject us to fines and other sanctions.

Our operations in developing nations expose us to political developments that could have an adverse effect on our business, liquidity, results of operations, and financial condition.
Our international operations include operations in various developing nations. Both current and future foreign operations could be adversely affected by unfavorable political developments including law changes, tax changes, regulatory restrictions, government leadership changes and nationalization of our operations without compensation. Adverse actions in any one country could have an adverse effect on our business, liquidity, results of operations, and financial condition depending on the magnitude of the events and our net financial exposure at that time in that country.

Company Structure

Our ability to pay dividends and to make payments on indebtedness may be constrained by our holding company structure.
ACE Limited is a holding company and does not have any significant operations or assets other than its ownership of the shares of its operating insurance and reinsurance subsidiaries. Dividends and other permitted distributions from our insurance subsidiaries are our primary source of funds to meet ongoing cash requirements, including any future debt service payments and other expenses, and to pay dividends to our shareholders. Some of our insurance subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. The inability of our insurance subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could have an adverse effect on our operations and our ability to pay dividends to our shareholders and/or meet our debt service obligations.

ACE Limited is a Swiss company; it may be difficult to enforce judgments against it or its directors and executive officers.
ACE Limited is incorporated pursuant to the laws of Switzerland. In addition, certain of our directors and officers reside outside the U.S. and all or a substantial portion of our assets and the assets of such persons are located in jurisdictions outside the U.S. As such, it may be difficult or impossible to effect service of process within the U.S. upon those persons or to recover

against us or them on judgments of U.S. courts, including judgments predicated upon civil liability provisions of the U.S. federal securities laws.

ACE has been advised by its Swiss counsel that there is doubt as to whether the courts in Switzerland would enforce:

- judgments of U.S. courts based upon the civil liability provisions of the U.S. federal securities laws obtained in actions against it or its directors and officers, who reside outside the U.S.; or
- original actions brought in Switzerland against these persons or ACE predicated solely upon U.S. federal securities laws.

ACE has also been advised by its Swiss counsel that there is no treaty in effect between the U.S. and Switzerland providing for this enforcement and there are grounds upon which Swiss courts may not enforce judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, would not be allowed in Swiss courts as contrary to that nation's public policy.

As a result of the increase in par value of our shares that occurred in connection with our redomestication from the Cayman Islands to Switzerland in July 2008, we have less flexibility with respect to certain aspects of capital management than previously.

As of December 31, 2013, the par value of our Common Shares is CHF 27.04 per share. Under Swiss law, we generally may not issue registered shares below their par value. In the event there is a need to raise common equity capital at a time when the trading price of our registered shares is below our par value, we will need to obtain approval of our shareholders to decrease the par value of our registered shares. We cannot assure that we would be able to obtain such shareholder approval. Furthermore, obtaining shareholder approval would require filing a preliminary proxy statement with the SEC and convening a meeting of shareholders which would delay any capital raising plans. Furthermore, any reduction in par value would decrease our ability to pay dividends as a repayment of share capital which is not subject to Swiss withholding tax. See "Taxation — Shareholders may be subject to Swiss withholding taxes on the payment of dividends" for additional information.

Insurance and Reinsurance Markets

Competition in the insurance and reinsurance markets could reduce our margins.
Insurance and reinsurance markets are highly competitive. We compete on an international and regional basis with major U.S., Bermuda, European, and other international insurers and reinsurers and with underwriting syndicates, some of which have greater financial, marketing, and management resources than we do. We also compete with new companies that continue to be formed to enter the insurance and reinsurance markets. In addition, capital market participants have created alternative products that are intended to compete with reinsurance products. Increased competition could result in fewer submissions, lower premium rates, and less favorable policy terms and conditions, which could reduce our profit margins and adversely impact our net income and book value.

Insurance and reinsurance markets are historically cyclical, and we expect to experience periods with excess underwriting capacity and unfavorable premium rates.
The insurance and reinsurance markets have historically been cyclical, characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. An increase in premium levels is often offset by an increasing supply of insurance and reinsurance capacity, either by capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers, which may cause prices to decrease. Any of these factors could lead to a significant reduction in premium rates, less favorable policy terms, and fewer submissions for our underwriting services. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance and reinsurance markets significantly, as could periods of economic weakness (such as recession).

Charter Documents and Applicable Law

There are provisions in our charter documents that may reduce the voting rights and diminish the value of our Common Shares.
Our Articles of Association generally provide that shareholders have one vote for each Common Share held by them and are entitled to vote at all meetings of shareholders. However, the voting rights exercisable by a shareholder may be limited so that certain persons or groups are not deemed to hold 10 percent or more of the voting power conferred by our Common Shares. Moreover, these provisions could have the effect of reducing the voting power of some shareholders who would not otherwise be

subject to the limitation by virtue of their direct share ownership. Our Board of Directors may refuse to register holders of shares as shareholders with voting rights based on certain grounds, including if the holder would, directly or indirectly, formally, constructively or beneficially own (as described in Articles 8 and 14 of our Articles of Association) or otherwise control voting rights with respect to 10 percent or more of the registered share capital recorded in the commercial register. In addition, the Board of Directors shall reject entry of holders of registered shares as shareholders with voting rights in the share register or shall decide on their deregistration when the acquirer or shareholder upon request does not expressly state that she/he has acquired or holds the shares in her/his own name and for her/his account.

Applicable laws may make it difficult to effect a change of control of our company.
Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the domestic insurer is domiciled. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider such factors as the financial strength of the applicant, the integrity and management of the applicant's Board of Directors and executive officers, the acquirer's plans for the future operations of the domestic insurer, and any anti-competitive results that may arise from the consummation of the acquisition of control. Generally, state statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10 percent or more of the voting securities of the domestic insurer. Because a person acquiring 10 percent or more of our Common Shares would indirectly control the same percentage of the stock of our U.S. insurance subsidiaries, the insurance change of control laws of various U.S. jurisdictions would likely apply to such a transaction. Laws of other jurisdictions in which one or more of our existing subsidiaries are, or a future subsidiary may be, organized or domiciled may contain similar restrictions on the acquisition of control of ACE.

While our Articles of Association limit the voting power of any shareholder to less than 10 percent, we cannot assure that the applicable regulatory body would agree that a shareholder who owned 10 percent or more of our Common Shares did not, because of the limitation on the voting power of such shares, control the applicable insurance subsidiary.

These laws may discourage potential acquisition proposals and may delay, deter, or prevent a change of control of ACE, including transactions that some or all of our shareholders might consider to be desirable.

Shareholder voting requirements under Swiss law may limit ACE's flexibility with respect to certain aspects of capital management.
Swiss law allows our shareholders to authorize share capital which can be issued by the Board of Directors without shareholder approval but this authorization must be renewed by the shareholders every two years. Swiss law also does not provide as much flexibility in the various terms that can attach to different classes of stock as permitted in other jurisdictions. Swiss law also reserves for approval by shareholders many corporate actions over which the Board of Directors previously had authority. For example, dividends must be approved by shareholders. While we do not believe that Swiss law requirements relating to our capital management will have an adverse effect on ACE, we cannot assure that situations will not arise where such flexibility would have provided substantial benefits to our shareholders.

Taxation

We may be subject to U.S. tax and Bermuda tax which may have an adverse effect on our results of operations and shareholder investment.
ACE Limited and our non-U.S. subsidiaries operate in a manner so that none of these companies should be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income), because none of these companies should be treated as engaged in a trade or business within the U.S. However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the U.S., we cannot be certain that the Internal Revenue Service (IRS) will not contend successfully that ACE Limited or its non-U.S. subsidiaries are engaged in a trade or business in the U.S. If ACE Limited or any of its non-U.S. subsidiaries were considered to be engaged in a trade or business in the U.S., such entity could be subject to U.S. corporate income and branch profits taxes on the portion of its earnings effectively connected to such U.S. business, in which case our results of operations and our shareholders' investments could be adversely affected.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, has given ACE Limited and its Bermuda insurance subsidiaries a written assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain, or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax would not be applicable to those companies or any of their respective operations, shares, debentures, or other obligations until March 31, 2035, except insofar as such tax would apply to persons ordinarily resident in Bermuda or is payable by us in respect of real property owned or leased by us in Bermuda. We cannot be certain that we will not be subject to any Bermuda tax after March 31, 2035.

Shareholders may be subject to Swiss withholding taxes on the payment of dividends.
Our dividends are generally subject to a Swiss withholding tax at a rate of 35 percent; however, payment of a dividend in the form of a par value reduction or qualifying capital contribution reserves reduction is not subject to Swiss withholding tax. We have previously obtained shareholder approval for dividends to be paid in such form. We currently intend to recommend to shareholders that they annually approve the payment of dividends in such form but we cannot assure that our shareholders will continue to approve a reduction in such form each year or that we will be able to meet the other legal requirements for a reduction in par value, or that Swiss withholding tax rules will not be changed in the future. We estimate we would be able to pay dividends in such form, and thus exempt from Swiss withholding tax until 2023-2028. This range may vary depending upon changes in annual dividends, special dividends, fluctuations in U.S. dollar/Swiss franc exchange rates, changes in par value or qualifying capital contribution reserves or changes or new interpretations to Swiss tax law or regulations.

Under certain circumstances, U. S. shareholders may be subject to adverse U.S. federal income tax consequences.
Under certain circumstances, a U.S. person who owns 10 percent or more of the voting power of a foreign corporation that is a “controlled foreign corporation” (CFC) (a foreign corporation in which 10 percent U.S. shareholders own more than 50 percent of the voting power or value of the stock of a foreign corporation or more than 25 percent of certain foreign insurance corporations) for an uninterrupted period of 30 days or more during a taxable year must include in gross income for U.S. federal income tax purposes such "10 percent U.S. Shareholder's" pro rata share of the CFC's "subpart F income". We believe that because of the dispersion of our share ownership, provisions in our organizational documents that limit voting power, and other factors, no U.S. person or U.S. partnership who acquires shares of ACE Limited directly or indirectly through one or more foreign entities should be required to include our subpart F income in income under the CFC rules of U.S. tax law. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge, in which case the investment could be adversely affected if 10 percent or more of ACE Limited's stock is owned.

Separately, any U.S. persons who hold shares may be subject to U.S. federal income taxation at ordinary income tax rates on their proportionate share of our Related Person Insurance Income (RPII). If the RPII of any of our non-U.S. insurance subsidiaries (each a "Non-U.S. Insurance Subsidiary") were to equal or exceed 20 percent of that company's gross insurance income in any taxable year and direct or indirect insureds (and persons related to those insureds) own directly or indirectly through foreign entities 20 percent or more of the voting power or value of ACE Limited, then a U.S. person who owns any shares of ACE Limited (directly or indirectly through foreign entities) on the last day of the taxable year would be required to include in his or her income for U.S. federal income tax purposes such person's pro rata share of such company's RPII for the entire taxable year. In addition, any RPII that is includible in the income of a U.S. tax-exempt organization may be treated as unrelated business taxable income. We believe that the gross RPII of each Non-U.S. Insurance Subsidiary did not in prior years of operation and is not expected in the foreseeable future to equal or exceed 20 percent of each such company's gross insurance income. Likewise, we do not expect the direct or indirect insureds of each Non-U.S. Insurance Subsidiary (and persons related to such insureds) to directly or indirectly own 20 percent or more of either the voting power or value of our shares. However, we cannot be certain that this will be the case because some of the factors which determine the extent of RPII may be beyond our control. If these thresholds are met or exceeded by an affected U.S. person, their investment could be adversely affected.

A U.S. tax-exempt organization may recognize unrelated business taxable income if a portion of our insurance income is allocated to the organization. This generally would be the case if either we are a CFC and the tax-exempt shareholder is a 10 percent U.S. shareholder or there is RPII, certain exceptions do not apply, and the tax-exempt organization, directly or indirectly through foreign entities, owns any shares of ACE Limited. Although we do not believe that any U.S. tax-exempt organization should be allocated such insurance income, we cannot be certain that this will be the case. Potential U.S. tax-exempt investors are advised to consult their tax advisors.

U.S. persons who hold shares will be subject to adverse tax consequences if we are considered to be a Passive Foreign Investment Company (PFIC) for U.S. federal income tax purposes.
If ACE Limited is considered a PFIC for U.S. federal income tax purposes, a U.S. person who holds ACE Limited shares will be subject to adverse U.S. federal income tax consequences in which case their investment could be adversely affected. In addition, if ACE Limited were considered a PFIC, upon the death of any U.S. individual owning shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of the shares which might otherwise be available under U.S. federal income tax laws. We believe that we are not, have not been, and currently do not expect to become, a PFIC for U.S. federal income tax purposes. We cannot assure, however, that we will not be deemed a PFIC by the IRS. While there are currently no

regulations regarding the application of the PFIC provisions to an insurance company, new regulations or pronouncements interpreting or clarifying these rules may be forthcoming. We cannot predict what impact, if any, such guidance would have on an investor that is subject to U.S. federal income taxation.

The Organization for Economic Cooperation and Development (OECD) and the European Union (EU) are considering measures that might encourage countries to increase our taxes.
The OECD has published an action plan to address base erosion and profit shifting (BEPS) impacting its member countries and other jurisdictions. It is possible that jurisdictions in which we do business could react to the BEPS initiative or their own concerns by enacting tax legislation that could adversely affect us or our shareholders.

A number of multilateral organizations, including the EU and the OECD have, in recent years, expressed concern about some countries not participating in adequate tax information exchange arrangements and have threatened those that do not agree to cooperate with punitive sanctions by member countries. It is as yet unclear what all of these sanctions might be, which countries might adopt them, and when or if they might be imposed. We cannot assure, however, that the Tax Information Exchange Agreements (TIEAs) that have been or will be entered into by Switzerland and Bermuda will be sufficient to preclude all of the sanctions described above, which, if ultimately adopted, could adversely affect us or our shareholders.

Changes in tax law could adversely affect an investment in our shares.
Legislation is periodically introduced in the U.S. Congress intended to eliminate some perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the U.S. but have certain U.S. connections. It is possible that such legislation or other legislation could be enacted in the future that could have an adverse impact on us or our shareholders.

Similarly, jurisdictions outside the U.S. in which we do business could enact tax legislation in the future that could have an adverse impact on us or our shareholders.

ITEM 1B. Unresolved Staff Comments

There are currently no unresolved SEC staff comments regarding our periodic or current reports.

ITEM 2. Properties

We maintain office facilities around the world including in North America, Europe (including our principal executive offices in Switzerland), Bermuda, Latin America, Asia Pacific, and the Far East. Most of our office facilities are leased, although we own major facilities in Hamilton, Bermuda and Philadelphia, U.S. Management considers its office facilities suitable and adequate for the current level of operations.

ITEM 3. Legal Proceedings

The information required with respect to Item 3 is included in Note 10 e) to the Consolidated Financial Statements, which is hereby incorporated herein by reference.

ITEM 4. Mine Safety Disclosures

Item not applicable.

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities

Our Common Shares, with a current par value of CHF 27.04 per share, have been listed on the New York Stock Exchange since March 25, 1993.

Quarterly Stock Information
The following table sets forth the high and low closing sales prices of our Common Shares per fiscal quarter, as reported on the New York Stock Exchange Composite Tape, and cash dividends on Common Shares:

	2013				2012			
			Dividends				Dividends	
Quarter Ending	High	Low	USD	CHF	High	Low	USD	CHF
March 31	$ 89.06	$ 79.99	$ 0.49	0.46	$ 74.21	$ 68.98	$ 0.59 [2]	0.53
June 30	$ 92.67	$ 85.79	$ 0.51	0.48	$ 77.00	$ 70.00	$ 0.49	0.48
September 30	$ 95.58	$ 87.72	$ 0.51	0.46	$ 77.04	$ 69.17	$ 0.49	0.45
December 31	$103.53	$ 91.01	$ 0.51 [1]	0.45	$ 81.70	$ 76.10	$ 0.49	0.45

[1] On January 10, 2014, our shareholders approved an increase to our dividend from $0.51 per share to $0.63 per share for the final two quarterly installments that had been earlier approved at our 2013 annual general meeting. The $0.12 per share increase was to be distributed from capital contribution reserves while the $0.51 per share was to be distributed by way of a par value reduction in accordance with the May 2013 resolution. The above $0.51 per share and the $0.12 per share increase applicable to that installment were paid on January 31, 2014.

[2] On January 9, 2012, ACE's shareholders approved a dividend resolution that increased the quarterly dividend installments from $0.35 to $0.47 per share for the quarters ended December 31, 2011 and March 31, 2012. Due to the timing of the approval, the $0.12 per share increase related to the quarter ended December 31, 2011 installment is included in the quarter ended March 31, 2012 dividend amount.

We have paid dividends each quarter since we became a public company in 1993. Following ACE's redomestication to Switzerland our dividends have been distributed primarily by way of a par value reduction. During 2011 and 2012, certain dividends were distributed from capital contribution reserves (Additional paid-in capital) through the transfer of dividends from Additional paid-in capital to Retained earnings, which method was also used to pay the dividend increase approved by shareholders on January 10, 2014.

ACE Limited is a holding company whose principal sources of income are investment income and dividends from its operating subsidiaries. The ability of the operating subsidiaries to pay dividends to us and our ability to pay dividends to our shareholders are each subject to legal and regulatory restrictions. The recommendation and payment of future dividends will be based on the determination of the Board of Directors and will be dependent upon shareholder approval, profits and financial requirements of ACE and other factors, including legal restrictions on the payment of dividends and such other factors as the Board of Directors deems relevant. Refer to Item 1A and Item 7 for additional information.

The last reported sale price of the Common Shares on the New York Stock Exchange Composite Tape on February 14, 2014 was $96.97.

The number of record holders of Common Shares as of February 14, 2014 was 4,245. This is not the actual number of beneficial owners of ACE's Common Shares since most of our shareholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name.

Refer to Item 12 for information relating to compensation plans under which equity securities are authorized for issuance.

Issuer's Repurchases of Equity Securities

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan[2]	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan[3]
October 1 through October 31	1,179	$96.50	—	$ 228 million
November 1 through November 30	3,832	$92.13	—	$2,000 million
December 1 through December 31	598,095	$99.93	564,911	$1,943 million
Total	603,106			

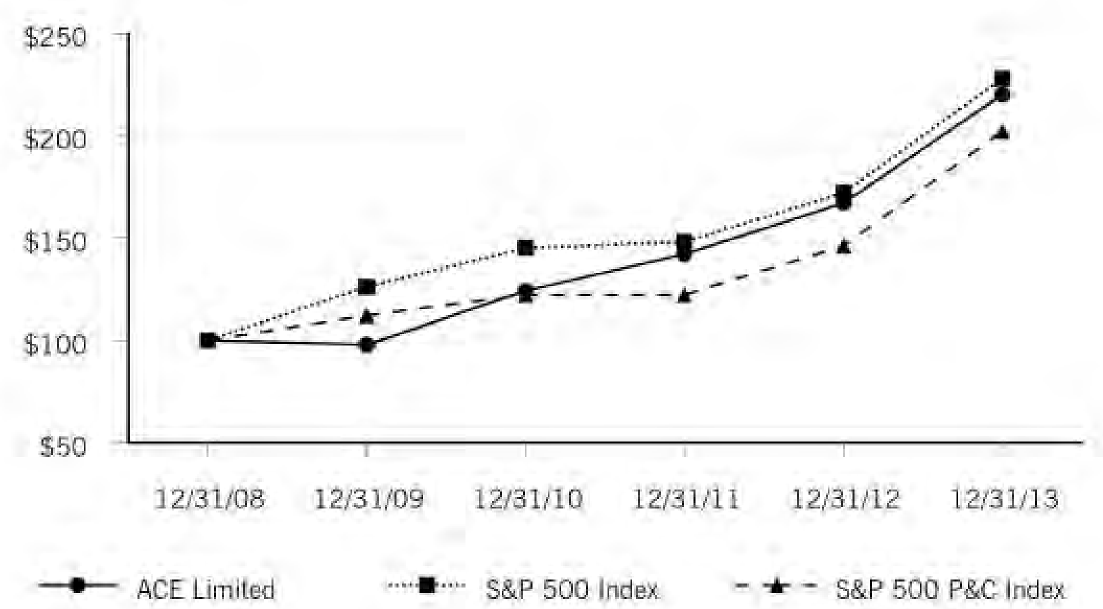
(1) This column primarily represents open market share repurchases. Other activity during the three months ended December 31, 2013 is related to the surrender to ACE of Common Shares to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees and the exercising of options by employees.

(2) The aggregate value of shares purchased in the three months ended December 31, 2013 as part of the publicly announced plan was $57 million.

(3) Refer to Note 11 to the consolidated financial statements for more information on the ACE Limited securities repurchase authorization. In November 2013, our Board of Directors (Board) authorized the repurchase of up to $2 billion of ACE's Common Shares through December 31, 2014. This authorization replaced the previous authorizations made by the Board that expired on December 31, 2013. The $1.94 billion of remaining authorizations at December 31, 2013 expire on December 31, 2014. For the period January 1, 2014 through February 27, 2014, we repurchased 3,437,082 Common Shares for a total of $326 million in a series of open market transactions. As of February 27, 2014, $1.62 billion in share repurchase authorizations remained through December 31, 2014.

Performance Graph

Set forth below is a line graph comparing the dollar change in the cumulative total shareholder return on ACE's Common Shares from December 31, 2008, through December 31, 2013, as compared to the cumulative total return of the Standard & Poor's 500 Stock Index and the cumulative total return of the Standard & Poor's Property-Casualty Insurance Index. The cumulative total shareholder return is a concept used to compare the performance of a company's stock over time and is the ratio of the stock price change plus the cumulative amount of dividends over the specified time period (assuming dividend reinvestment), to the stock price at the beginning of the time period. The chart depicts the value on December 31, 2009, 2010, 2011, 2012, and 2013, of a $100 investment made on December 31, 2008, with all dividends reinvested.



	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
ACE Limited	$100	$ 98	$124	$142	$167	$220
S&P 500 index	$100	$126	$145	$148	$172	$228
S&P 500 P&C index	$100	$112	$122	$122	$146	$202

ITEM 6. Selected Financial Data

(in millions, except per share data and percentages)	2013	2012	2011	2010	2009
Operations data:					
Net premiums earned – excluding Life segment	$ 14,708	$ 13,761	$ 13,528	$ 11,875	$ 11,710
Net premiums earned – Life segment	1,905	1,916	1,859	1,629	1,530
Total net premiums earned	16,613	15,677	15,387	13,504	13,240
Net investment income	2,144	2,181	2,242	2,070	2,031
Losses and loss expenses	9,348	9,653	9,520	7,579	7,422
Policy benefits	515	521	401	357	325
Policy acquisition costs and administrative expenses	4,870	4,542	4,540	4,218	3,966
Net income	3,758	2,706	1,540	3,085	2,523
Weighted-average shares outstanding – diluted	344	343	341	341	338
Diluted earnings per share	$ 10.92	$ 7.89	$ 4.52	$ 9.04	$ 7.47
Balance sheet data (at end of period):					
Total investments	$ 60,928	$ 60,264	$ 55,676	$ 51,407	$ 46,515
Total assets	94,510	92,545	87,321	83,216	77,864
Net unpaid losses and loss expenses	26,831	26,547	25,875	25,242	25,038
Net future policy benefits	4,397	4,229	4,025	2,825	2,710
Long-term debt	3,807	3,360	3,360	3,358	3,158
Trust preferred securities	309	309	309	309	309
Total liabilities	65,685	65,014	62,989	60,381	58,313
Shareholders' equity	28,825	27,531	24,332	22,835	19,551
Book value per share	$ 84.83	$ 80.90	$ 72.22	$ 68.17	$ 58.10
Selected data:					
Loss and loss expense ratio (1)	59.6%	65.7%	66.0%	59.4%	58.9%
Underwriting and administrative expense ratio (2)	28.4%	28.2%	28.7%	30.9%	29.4%
Combined ratio (3)	88.0%	93.9%	94.7%	90.3%	88.3%
Net loss reserves to capital and surplus ratio (4)	108.3%	111.8%	122.9%	122.9%	141.9%
Cash dividends per share (5)	$ 2.02	$ 2.06	$ 1.38	$ 1.30	$ 1.19

(1) The loss and loss expense ratio is calculated by dividing Losses and loss expenses, excluding the Life segment, by Net premiums earned – excluding Life segment. Losses and loss expenses for the Life segment were $582 million, $611 million, $593 million, $528 million, and $532 million for the years ended December 31, 2013, 2012, 2011, 2010, and 2009, respectively.

(2) The underwriting and administrative expense ratio is calculated by dividing the Policy acquisition costs and administrative expenses, excluding the Life segment, by Net premiums earned – excluding Life segment. Policy acquisition costs and administrative expenses for the Life segment were $701 million, $662 million, $656 million, $552 million, and $525 million for the years ended December 31, 2013, 2012, 2011, 2010, and 2009, respectively.

(3) The combined ratio is the sum of loss and loss expense ratio and the underwriting and administrative expense ratio.

(4) The net loss reserves to capital and surplus ratio is calculated by dividing the sum of the Net unpaid losses and loss expenses and Net future policy benefits by Shareholders' equity.

(5) Cash dividends per share in 2012 includes a $0.12 per share increase related to the fourth quarter 2011 dividend installment approved by shareholders on January 9, 2012.

ITEM 7. 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 year ended December 31, 2013. This discussion should be read in conjunction with the consolidated financial statements and related Notes, under Item 8 of this Form 10-K.

All comparisons in this discussion are to the corresponding prior year unless otherwise indicated.

Effective January 1, 2013, the former Insurance – North American segment is presented in two distinct reportable segments: Insurance – North American P&C and Insurance – North American Agriculture. Prior year amounts contained in this report have been adjusted to conform to the new segment presentation.

Forward-Looking Statements

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

- developments in global financial markets, including changes in interest rates, stock markets, and other financial markets, increased government involvement or intervention in the financial services industry, the cost and availability of financing, and foreign currency exchange rate fluctuations (which we refer to in this report as foreign exchange and foreign currency exchange), which could affect our statement of operations, investment portfolio, financial condition, and financing plans;
- general economic and business conditions resulting from volatility in the stock and credit markets and the depth and duration of potential recession;
- losses arising out of natural or man-made catastrophes such as hurricanes, typhoons, earthquakes, floods, climate change (including effects on weather patterns; greenhouse gases; sea; land and air temperatures; sea levels; and rain and snow), nuclear accidents, or terrorism which could be affected by:
    - the number of insureds and ceding companies affected;
    - the amount and timing of losses actually incurred and reported by insureds;
    - the impact of these losses on our reinsurers and the amount and timing of reinsurance recoverable actually received;
    - the cost of building materials and labor to reconstruct properties or to perform environmental remediation following a catastrophic event; and
    - complex coverage and regulatory issues such as whether losses occurred from storm surge or flooding and related lawsuits;
- actions that rating agencies may take from time to time, such as financial strength or credit ratings downgrades or placing these ratings on credit watch negative or the equivalent;
- global political conditions, the occurrence of any terrorist attacks, including any nuclear, radiological, biological, or chemical events, or the outbreak and effects of war, and possible business disruption or economic contraction that may result from such events;
- the ability to collect reinsurance recoverable, credit developments of reinsurers, and any delays with respect thereto and changes in the cost, quality, or availability of reinsurance;
- actual loss experience from insured or reinsured events and the timing of claim payments;
- the uncertainties of the loss-reserving and claims-settlement processes, including the difficulties associated with assessing environmental damage and asbestos-related latent injuries, the impact of aggregate-policy-coverage limits, the impact of bankruptcy protection sought by various asbestos producers and other related businesses, and the timing of loss payments;
- changes to our assessment as to whether it is more likely than not that we will be required to sell, or have the intent to sell, available for sale fixed maturity investments before their anticipated recovery;
- infection rates and severity of pandemics and their effects on our business operations and claims activity;
- judicial decisions and rulings, new theories of liability, legal tactics, and settlement terms;
- 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 (D&O) and errors and omissions (E&O) insurance; and
    - claims and litigation arising out of such disclosures or practices by other companies;

- uncertainties relating to governmental, legislative and regulatory policies, developments, actions, investigations, and treaties, which, among other things, could subject us to insurance regulation or taxation in additional jurisdictions or affect our current operations;
- the actual amount of new and renewal business, market acceptance of our products, and risks associated with the introduction of new products and services and entering new markets, including regulatory constraints on exit strategies;
- the competitive environment in which we operate, including trends in pricing or in policy terms and conditions, which may differ from our projections and changes in market conditions that could render our business strategies ineffective or obsolete;
- acquisitions made by us performing differently than expected, our failure to realize anticipated expense-related efficiencies or growth from acquisitions, the impact of acquisitions on our pre-existing organization, or announced acquisitions not closing;
- risks associated with being a Swiss corporation, including reduced flexibility with respect to certain aspects of capital management and the potential for additional regulatory burdens;
- the potential impact from government-mandated insurance coverage for acts of terrorism;
- the availability of borrowings and letters of credit under our credit facilities;
- the adequacy of collateral supporting funded high deductible programs;
- changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers;
- material differences between actual and expected assessments for guaranty funds and mandatory pooling arrangements;
- the effects of investigations into market practices in the property and casualty (P&C) industry;
- changing rates of inflation and other economic conditions, for example, recession;
- 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 our technology resources, including information systems and security, to perform as anticipated; and
- management's response to these factors and actual events (including, but not limited to, those described above).

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

Overview

We operate through five business segments: Insurance – North American P&C, Insurance – North American Agriculture, Insurance – Overseas General, Global Reinsurance, and Life. For additional information refer to "Segment Information" under Item 1.

We have grown our business through increased premium volume, expansion of product offerings and geographic reach, and acquisition of other companies. Acquisitions in 2013, 2012, and 2011 are as follows:

- *Insurance – Overseas General:*
  - acquired ABA Seguros on May 2, 2013;
  - acquired Fianzas Monterrey on April 1, 2013; and
  - acquired 80 percent of PT Asuransi Jaya Proteksi (JaPro) on September 18, 2012, and our local partner acquired the remaining 20 percent on January 3, 2013.
- *Insurance – North American Agriculture*: acquired Penn Millers Holding Corporation (PMHC) on November 30, 2011.
- *Life*: acquired New York Life's Korea operations on February 1, 2011; and acquired New York Life's Hong Kong operations on April 1, 2011.

The consolidated financial statements include results of acquired businesses from the acquisition dates. Refer to Note 2 to the Consolidated Financial Statements for additional information on our acquisitions.

Our product and geographic diversification differentiates us from the vast majority of our competitors and has been a source of stability during periods of industry volatility. Our long-term business strategy focuses on sustained growth in book value achieved through a combination of underwriting and investment income. By doing so, we provide value to our clients and shareholders through use of our substantial capital base in the insurance and reinsurance markets.

We are organized along a profit center structure by line of business and territory that does not necessarily correspond to corporate legal entities. Profit centers can access various legal entities, subject to licensing and other regulatory rules. Profit centers are expected to generate underwriting income and appropriate risk-adjusted returns. Our corporate structure has facilitated the development of management talent by giving each profit center's senior management team the necessary autonomy within underwriting authorities to make operating decisions and create products and coverages needed by its target customer base. We are focused on delivering underwriting profit and strive to achieve underwriting income by only writing policies which we believe adequately compensate us for the risk we accept.

Our insurance and reinsurance operations generate gross revenues from two principal sources: premiums and investment income. Cash flow is generated from premiums collected and investment income received less paid losses and loss expenses, policy acquisition costs, and administrative expenses. Invested assets are substantially held in liquid, investment grade fixed income securities of relatively short duration. Claims payments in any short-term period are highly unpredictable due to the random nature of loss events and the timing of claims awards or settlements. The value of investments held to pay future claims is subject to market forces such as the level of interest rates, stock market volatility, and credit events such as corporate defaults. The actual cost of claims is also volatile based on loss trends, inflation rates, court awards, and catastrophes. We believe that our cash balance, our highly liquid investments, credit facilities, and reinsurance protection provide sufficient liquidity to meet unforeseen claim demands that might occur in the year ahead. Refer to "Liquidity" and "Capital Resources" for additional information.

Financial Highlights for the Year Ended December 31, 2013

- Net income increased 38.9 percent to a record $3.8 billion.
- Total company net premiums written increased 5.9 percent, or 6.9 percent on a constant-dollar basis.
- P&C combined ratio was 88.0 percent compared with 93.9 percent in 2012.
- The current accident year P&C combined ratio excluding catastrophe losses was 90.0 percent compared with 92.8 percent in 2012.
- Favorable prior period development was $530 million, representing 3.7 percentage points of the combined ratio. This compares to favorable prior period development of $479 million in 2012, representing 3.5 percentage points of the combined ratio.
- Total pre-tax and after-tax catastrophe losses including reinstatement premiums were $227 million and $197 million, respectively, compared with $638 million and $495 million, respectively, in 2012.
- Operating cash flow was $4.0 billion for both 2013 and 2012.
- Net investment income decreased 1.7 percent to $2.1 billion.

We finished the year more diversified in terms of product and geography, increasing our presence in areas such as the U.S., Asia and Latin America that present opportunity for future growth. Net premiums written for personal lines were up in 2013 and we believe our personal lines business is poised to continue its substantial growth globally. Our global reinsurance net premiums written declined slightly in 2013 as we maintained underwriting discipline in an environment of flat-to-declining rates and increasing competition. We do not expect to achieve near-term growth given the soft conditions in the reinsurance market. However, ACE is a substantial buyer of reinsurance and we believe that the softening reinsurance market will benefit ACE in terms of pricing and improved terms that will positively impact our future financial results. While our A&H insurance business grew globally, our Combined Insurance (Combined) business was down for the year. However, for our core Combined business, agent manpower counts in North America and new sales are higher and we expect those factors will translate into net premium growth at Combined in 2014. Looking forward, we expect to have a good year in 2014 as we continue to take advantage of the many growth opportunities we see around the globe including in the U.S.

Recently, our shareholders approved a 24 percent increase in the dividend on our Common Shares which is consistent with our long-term commitment for a strong dividend. We also announced a plan to target the repurchase of up to $1.5 billion of our shares (with $2.0 billion of authority in total) in 2014 as we have built up sufficient capital flexibility for both opportunity and risk such that we can return additional capital surplus we generate in 2014 via share repurchase without impacting our growth capability.

Critical Accounting Estimates

Our consolidated financial statements include amounts that, either by their nature or due to requirements of generally accepted accounting principles 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. We believe the items that require the most subjective and complex estimates are:

- unpaid loss and loss expense reserves, including long-tail asbestos and environmental (A&E) reserves;
- future policy benefits reserves;
- the valuation of value of business acquired (VOBA) and amortization of deferred policy acquisition costs and VOBA;
- the assessment of risk transfer for certain structured insurance and reinsurance contracts;
- reinsurance recoverable, including a provision for uncollectible reinsurance;
- the valuation of our investment portfolio and assessment of other-than-temporary impairments (OTTI);
- the valuation of deferred tax assets;
- the valuation of derivative instruments related to guaranteed living benefits (GLB); and
- the valuation of goodwill.

We believe our accounting policies for these items are of critical importance to our consolidated financial statements. The following discussion provides more information regarding the estimates and assumptions required to arrive at these amounts and should be read in conjunction with the sections entitled: Prior Period Development, Asbestos and Environmental (A&E) and Other Run-off Liabilities, Reinsurance Recoverable on Ceded Reinsurance, Investments, Net Realized and Unrealized Gains (Losses), and Other (Income) and Expense Items.

Unpaid losses and loss expenses

As an insurance and reinsurance company, we are required by applicable laws and regulations and GAAP to establish loss and loss expense reserves for the estimated unpaid portion of the ultimate liability for losses and loss expenses under the terms of our policies and agreements with our insured and reinsured customers. At December 31, 2013, our gross unpaid loss and loss expense reserves were $37.4 billion and our net unpaid loss and loss expense reserves were $26.8 billion. With the exception of certain structured settlements, for which the timing and amount of future claim payments are reliably determinable, and certain reserves for unsettled claims that are discounted in statutory filings, our loss reserves are not discounted for the time value of money. In connection with such structured settlements and certain reserves for unsettled claims, we carried net discounted reserves of $106 million at December 31, 2013 and $105 million at December 31, 2012.

The following table presents a roll-forward of our unpaid losses and loss expenses:

	December 31, 2013			December 31, 2012		
(in millions of U.S. dollars)	**Gross Losses**	**Reinsurance Recoverable**[(1)]	**Net Losses**	Gross Losses	Reinsurance Recoverable[(1)]	Net Losses
Balance, beginning of year	**$ 37,946**	**$ 11,399**	**$ 26,547**	$ 37,477	$ 11,602	$ 25,875
Losses and loss expenses incurred	**12,429**	**3,081**	**9,348**	13,927	4,274	9,653
Losses and loss expenses paid	**(12,785)**	**(3,808)**	**(8,977)**	(13,783)	(4,564)	(9,219)
Other (including foreign exchange translation)	**(246)**	**(73)**	**(173)**	311	87	224
Losses and loss expenses acquired	**99**	**13**	**86**	14	—	14
Balance, end of year	**$ 37,443**	**$ 10,612**	**$ 26,831**	$ 37,946	$ 11,399	$ 26,547

(1) Net of provision for uncollectible reinsurance.

The estimate of the liabilities includes provisions for claims that have been reported but are unpaid at the balance sheet date (case reserves) and for obligations on claims that have been incurred but not reported (IBNR) at the balance sheet date. IBNR may also include provisions to account for the possibility that reported claims may settle for amounts that differ from the established case reserves. Loss reserves also include an estimate of expenses associated with processing and settling unpaid claims (loss expenses).

The following table segregates loss reserves by three broad line of business groupings: property and all other, casualty, and A&H (or personal accident). In the table, loss expenses are defined to include unallocated and allocated loss adjustment expenses.

	December 31, 2013			December 31, 2012		
(in millions of U.S. dollars)	**Gross**	**Ceded**	**Net**	Gross	Ceded	Net
Property and all other						
Case reserves	**$ 2,862**	**$ 998**	**$ 1,864**	$ 3,274	$ 1,551	$ 1,723
Loss expenses	**222**	**59**	**163**	191	39	152
IBNR reserves	**2,098**	**714**	**1,384**	2,511	1,007	1,504
Subtotal	**5,182**	**1,771**	**3,411**	5,976	2,597	3,379
Casualty						
Case reserves	**9,023**	**2,271**	**6,752**	9,017	2,366	6,651
Loss expenses	**3,907**	**1,341**	**2,566**	3,821	1,337	2,484
IBNR reserves	**18,172**	**4,872**	**13,300**	17,973	4,743	13,230
Subtotal	**31,102**	**8,484**	**22,618**	30,811	8,446	22,365
A&H						
Case reserves	**514**	**113**	**401**	471	105	366
Loss expenses	**30**	**8**	**22**	30	8	22
IBNR reserves	**615**	**236**	**379**	658	243	415
Subtotal	**1,159**	**357**	**802**	1,159	356	803
Total						
Case reserves	**12,399**	**3,382**	**9,017**	12,762	4,022	8,740
Loss expenses	**4,159**	**1,408**	**2,751**	4,042	1,384	2,658
IBNR reserves	**20,885**	**5,822**	**15,063**	21,142	5,993	15,149
Total	**$ 37,443**	**$ 10,612**	**$ 26,831**	$ 37,946	$ 11,399	$ 26,547

The process of establishing loss reserves for property and casualty claims can be complex and is subject to considerable uncertainty as it requires the use of informed estimates and judgments based on circumstances underlying the insured loss known at the date of accrual. For example, the reserves established for high excess casualty claims, asbestos and environmental claims, claims from major catastrophic events or for our various product lines each require different assumptions and judgments to be made. Necessary judgments are based on numerous factors and may be revised as additional experience and other data become available and are reviewed, as new or improved methods are developed, or as laws change. Hence, ultimate loss payments may differ from the estimate of the ultimate liabilities made at the balance sheet date. Changes to our previous estimates of prior period loss reserves impact the reported calendar year underwriting results, adversely if our estimates increase and favorably if our estimates decrease. The potential for variation in loss reserves is impacted by numerous factors, which we discuss below. In particular, these considerations differ markedly depending upon whether case or IBNR reserves are being established. Reserves for casualty lines are particularly uncertain given the lengthy reporting patterns and corresponding need for IBNR.

Case reserves for those claims reported by insureds or ceding companies to us prior to the balance sheet date, and where we have sufficient information, are determined by our claims personnel as appropriate based on the circumstances of the claim(s), standard claim handling practices, and professional judgment. Furthermore, for our assumed reinsurance operation, Global Reinsurance, an additional case reserve may be established above the amount notified by the ceding company if the notified case reserve is judged to be insufficient by Global Reinsurance's claims department (refer to the Assumed reinsurance section below).

In respect of IBNR reserves, and those claims that have been incurred but not reported prior to the balance sheet date, there is, by definition, limited actual information to form the case reserve estimate and reliance is placed upon historical loss experience and actuarial methods to project the ultimate loss obligations and the corresponding amount of IBNR. IBNR reserve estimates are generally calculated by first projecting the ultimate amount of losses for a product line and subtracting paid losses and case reserves for reported claims. The judgments involved in projecting the ultimate losses may pertain to the use and interpretation of various standard actuarial reserving methods that place reliance on the extrapolation of actual historical data, loss development patterns, and industry data as appropriate. The estimate of the required IBNR reserve also requires judgment by actuaries and management to reflect the impact of more contemporary and subjective factors, both qualitative and quantitative. Among some of these factors that might be considered are changes in business mix or volume, changes in ceded reinsurance structures, changes in claims handling practices, reported and projected loss trends, inflation, the legal environment, and the terms and conditions of the contracts sold to our insured parties.

Determining management's best estimate

Our recorded reserves represent management's best estimate of the provision for unpaid claims as of the balance sheet date. Management's best estimate is developed after collaboration with actuarial, underwriting, claims, legal, and finance departments and culminates with the input of reserve committees. Each business unit reserve committee includes the participation of the relevant parties from actuarial, finance, claims, and unit senior management and has the responsibility for finalizing and approving the estimate to be used as management's best estimate. Reserves are further reviewed by ACE's Chief Actuary and senior management. The objective of such a process is to determine a single estimate that we believe represents a better estimate than any other. Such an estimate is viewed by management to be the best estimate of ultimate loss settlements.

This estimate is generally based on a combination of exposure and experience based actuarial methods (described below) and other considerations such as claims reviews, reinsurance recovery assumptions and/or input from other subject matter experts such as underwriting. Exposure-based methods are most commonly used on relatively immature origin years while experience-based methods provide a view based on the projection of loss experience that has emerged as of the valuation date. Greater reliance is placed upon experience-based methods as the pool of emerging loss experience grows and where it is deemed sufficiently credible and reliable as the basis for the estimate. In comparing the held reserve for any given origin year to the actuarial projections of loss experience, judgment is required as to the extent of credibility to be assigned to the underlying loss experience and the uncertainties associated with its statistical projection. Examples of factors that impact such judgments include, but are not limited to, the following:

- nature and complexity of underlying coverage provided and net limits of exposure provided;
- segmentation of data to provide sufficient homogeneity and credibility for loss projection methods;
- extent of internal historical loss data, and industry information where required;
- historical variability of actual loss emergence compared with expected loss emergence;
- extent of emerged loss experience relative to the remaining expected period of loss emergence;
- rate monitor information for new and renewal business;
- facts and circumstances of large claims;
- impact of applicable reinsurance recoveries; and
- nature and extent of underlying assumptions.

Management does not build in any specific provision for uncertainty.

We do not calculate ranges of loss reserve estimates for our individual loss reserve studies, given the lack of robust statistical approaches and the limited usefulness for such information in decision making. Determining such ranges is a complex and uncertain process, and such ranges generally do not capture the potential changes in external and internal circumstances between the balance sheet date and the final settlement date that may impact the ultimate value of loss. While we believe that our recorded reserves are reasonable and represent management's best estimate for each product line as of the current valuation date, future changes to our view of the ultimate liabilities are possible. A five percent change in our net loss reserves equates to $1.3 billion and represents five percent of shareholders' equity at December 31, 2013. Historically our reserves, at times, have developed in excess of 10 percent of recorded amounts. Refer to "Analysis of Losses and Loss Expenses Development", under Item 1, for a summary of historical volatility between estimated loss reserves and ultimate loss settlements.

We have actuarial staff within each of our business units who analyze loss reserves and regularly project estimates of ultimate losses and the corresponding indications of the required IBNR reserve. Note that losses include loss expenses for the purposes of this discussion. We perform an actuarial reserve review for each product line at least once a year. At the conclusion of each review, we establish an actuarial central estimate. The process to select the actuarial central estimate, when more than one estimate is available, may differ across product lines. For example, an actuary may base the central estimate on loss projections developed using an incurred loss development approach instead of a paid loss development approach when reported losses are viewed to be a more credible indication of the ultimate loss compared with paid losses. The availability of estimates for different projection techniques will depend upon the product line, the underwriting circumstances, and the maturity of the loss emergence. For a well-established product line with sufficient volume and history and low volatility, the actuarial central estimate may be drawn from a weighting of paid and reported loss development and/or Bornhuetter-Ferguson methods (described below). However, for a new long-tail product line for which we have limited data and experience, a rapidly growing line, or an established line with volatile experience, the emerging loss experience may not have sufficient credibility to allow selection of loss development or Bornhuetter-Ferguson methods and reliance may be placed upon the expected loss ratio method (described below) until the experience matures and becomes credible.

Typically, for each product line, one or more standard actuarial reserving methods may be used to estimate ultimate losses and loss expenses, and from these estimates, a single actuarial central estimate is selected. Exceptions to the use of standard actuarial projection methods occur for individual claims of significance that require complex legal, claims, and actuarial analysis and judgment (for example, A&E account projections or high excess casualty/professional lines accounts in litigation) or for product lines where the nature of the claims experience and/or availability of the data prevent application of such standard methods. In addition, claims arising from certain catastrophic events require evaluations that do not utilize standard actuarial loss projection methods but are based upon our exposure at the time of the event and the circumstances of the catastrophe and its post-event impact.

In addition to the annual loss reserve studies performed for each product line, we review the emergence of actual losses relative to expectations for most product lines each quarter. If warranted from findings in loss emergence tests, we may alter the timing of our product line reserve studies. Finally, loss reserve studies are performed annually by external third-parties and the findings are used to test the reasonableness of our internal findings.

Standard actuarial reserving methods

Standard actuarial reserving methods include, but are not limited to, expected loss ratio, paid and reported loss development, and Bornhuetter-Ferguson methods. A general description of these methods is provided below. In the subsequent discussion on short- and long-tail business, reference is also made, where appropriate, to how consideration in method selection impacted 2013 results. In addition to these standard methods, depending upon the product line characteristics and available data we may use other recognized actuarial methods and approaches. To ensure that the projections of future loss emergence based on historical loss development patterns are representative of the underlying business, historical loss and premium data is required to be of sufficient homogeneity and credibility. For example, to improve data homogeneity, we may subdivide product line data further by similar risk attribute (e.g., geography, coverage such as property versus liability exposure, or elements of program structure such as attachments or limits), project ultimate losses for these homogeneous groups and then combine the results to provide the overall product line estimate. The premium and loss data are aggregated by origin year (e.g., the year in which the losses were incurred - “accident year” or “report year”) and annual or quarterly development periods. Implicit in the standard actuarial methods that we generally utilize is the need for two fundamental assumptions: first, the pattern by which losses are expected to emerge over time for each origin year, and second the expected loss ratio for each origin year.

The expected loss ratio for any particular origin year is selected after consideration of a number of factors, including historical loss ratios adjusted for rate changes, premium and loss trends, industry benchmarks, the results of policy level loss modeling at the time of underwriting, and other more subjective considerations for the product line (e.g., terms and conditions) and external environment as noted above. The expected loss ratio for a given origin year is initially established at the start of the origin year as part of the planning process. This analysis is performed in conjunction with underwriters and management. The expected loss ratio method arrives at an ultimate loss estimate by multiplying the expected ultimate loss ratio by the corresponding premium base. This method is most commonly used as the basis for the actuarial central estimate for immature origin periods on product lines where the actual paid or reported loss experience is not yet deemed sufficiently credible to serve as the principal basis for the selection of ultimate losses. The expected loss ratio for a given origin year may be modified over time if the underlying assumptions such as the assessment of prior year loss ratios, loss trend, rate changes, actual claims, or other information differ from the original assumptions.

Our selected paid and reported development patterns provide a benchmark against which the actual emerging loss experience can be monitored. Where possible, development patterns are selected based on historical loss emergence by origin year with appropriate allowance for changes in business mix, claims handling process, or ceded reinsurance that are likely to lead to a discernible difference between the rate of historical and future loss emergence. For product lines where the historical data is viewed to have low statistical credibility, the selected development patterns also reflect relevant industry benchmarks and/or experience from similar product lines written elsewhere within ACE. This most commonly occurs for relatively new product lines that have limited historical data or for high severity/low frequency portfolios where our historical experience exhibits considerable volatility and/or lacks credibility. The paid and reported loss development methods convert the selected loss emergence pattern to a set of multiplicative factors which are then applied to actual paid or reported losses to arrive at an estimate of ultimate losses for each period. Due to their multiplicative nature, the paid and reported loss development methods will leverage differences between actual and expected loss emergence. These methods tend to be utilized for more mature origin periods and for those portfolios where the loss emergence has been relatively consistent over time.

The Bornhuetter-Ferguson method is essentially a combination of the expected loss ratio method and the loss development method, where the loss development method is given more weight as the origin year matures. This approach allows a logical transition between the expected loss ratio method which is generally utilized at earlier maturities and the loss development methods which are typically utilized at later maturities. We usually apply this method using reported loss data although paid data may be used.

The applicability of actuarial methods will also be impacted by the attachment point of the policy or contract with the insured or ceding company. In the case of low attachment points typical of primary insurance or working layer reinsurance, the experience tends to be more frequency driven. For these product types, standard actuarial methods are generally applicable in determining loss reserve levels given sufficient history and credible loss experience (although still subject to the same limitations and uncertainties described elsewhere in this section, for example, changing inflationary or legal environments). In the case of high attachment points typical of excess insurance or excess of loss reinsurance, the experience tends to be severity driven, as only a loss of significant size will enter the layer. For these product lines, it typically takes longer for loss experience to gain credibility, which adds uncertainty to the estimates derived from standard actuarial methods. For products such as our assumed reinsurance business, we typically supplement the standard actuarial methods with an analysis of each contract's terms, original pricing information, subsequent internal and external analyses of the ongoing contracts, market exposures and history, and qualitative input from claims managers. This approach is also used for structured or unique contracts.

Short-tail and long-tail business

The time period between the date of loss occurrence and the final payment date of the ensuing claim(s) is referred to as the "claim-tail". The following is a discussion of specific reserving considerations for both short-tail and long-tail product lines. In this section, we reference the nature of recent prior period development to give a high-level understanding of how these considerations translate through the reserving process into financial decisions. Refer to Note 7 to the Consolidated Financial Statements for additional information on prior period development.

Short-tail business

Short-tail business generally describes product lines for which losses are typically known and paid shortly after the loss actually occurs. This would include, for example, most property, personal accident, aviation hull, and automobile physical damage policies that we write. There are some exceptions on certain product lines or events (e.g., major hurricanes or earthquakes) where the event has occurred, but the final settlement amount is highly uncertain and not known with certainty for a potentially lengthy period. Due to the short reporting and development pattern for these product lines, the uncertainty associated with our estimate of ultimate losses for any particular accident period diminishes relatively quickly as actual loss experience emerges. We typically assign credibility to methods that incorporate actual loss emergence, such as the paid and reported loss development and Bornhuetter-Ferguson methods, sooner than would be the case for long-tail lines at a similar stage of development for a given origin year. The reserving process for short-tail losses arising from catastrophic events typically involves an assessment by the claims department, in conjunction with underwriters and actuaries, of our exposure and estimated losses immediately following an event and then subsequent revisions of the estimated losses as our insureds provide updated actual loss information.

For the 2013 origin year, loss reserves for short-tail lines were typically established for the non-catastrophe exposures using a combination of the initial expected loss ratio method (see above) and loss development methods that incorporate actual loss emergence. As the year progressed, we also adjusted these reserves for non-catastrophe large loss activity that we considered to be greater or less than the assumptions used to establish the initial expected loss ratio. Catastrophe activity was relatively low in 2013 and accordingly the judgments and uncertainties used to establish reserves for incurred catastrophe events were correspondingly less complex. For our short-tail businesses taken as a whole, overall loss trend assumptions did not differ significantly relative to prior years.

In terms of prior accident years, the bulk of the changes made in the 2013 calendar year arose from origin years 2009 through 2012. Specifically, the Insurance – North American P&C, Insurance – North American Agriculture, Insurance – Overseas

General, and Global Reinsurance segments experienced $106 million, $13 million, $172 million, and $31 million of favorable prior period development, respectively, primarily due to lower than anticipated loss emergence rather than any significant changes to underlying actuarial assumptions such as loss development patterns. In the Insurance – North American P&C, Insurance – Overseas General, and Global Reinsurance segments, these prior period movements were primarily the result of changes to the ultimate loss estimates for origin years 2009 through 2012. In the Insurance – North American Agriculture segment, the prior period movements were primarily the result of changes to the ultimate loss estimates for origin year 2011.

Long-tail business

Long-tail business describes lines of business for which specific losses may not be known/reported for some period and for which claims can take significant time to settle/close. This includes most casualty lines such as general liability, D&O, and workers' compensation. There are various factors contributing to the uncertainty and volatility of long-tail business. Among these are:

- The nature and complexity of underlying coverage provided and net limits of exposure provided;
- Our historical loss data and experience is sometimes too immature and lacking in credibility to rely upon for reserving purposes. Where this is the case, in our reserve analysis we may utilize industry loss ratios or industry benchmark development patterns that we believe reflect the nature and coverage of the underwritten business and its future development, where available. For such product lines, actual loss experience may differ from industry loss statistics as well as loss experience for previous underwriting years;
- The considerable inherent uncertainty around loss trends, claims inflation (e.g., medical and judicial) and underlying economic conditions;
- The inherent uncertainty of the estimated duration of the paid and reported loss development patterns beyond the historical record requires that professional judgment be used in the determination of the length of the patterns based on the historical data and other information;
- The inherent uncertainty of assuming that historical paid and reported loss development patterns for older origin years will be representative of subsequent loss emergence on recent origin years. For example, changes over time in the processes and procedures for establishing case reserves can distort reported loss development patterns or changes in ceded reinsurance structures by origin year can alter the development of paid and reported losses;
- Loss reserve analyses typically require loss or other data be grouped by common characteristics in some manner. If data from two combined lines of business exhibit different characteristics, such as loss payment patterns, the credibility of the reserve estimate could be affected. Additionally, since casualty lines of business can have significant intricacies in the terms and conditions afforded to the insured, there is an inherent risk as to the homogeneity of the underlying data used in performing reserve analyses; and
- The applicability of the price change data used to estimate ultimate loss ratios for most recent origin years.

As can be seen from the above, various factors are considered when determining appropriate data, assumptions, and methods used to establish the loss reserve estimates for long-tail product lines. These factors may also vary by origin year for given product lines. The derivation of loss development patterns from data and the selection of a tail factor to project ultimate losses from actual loss emergence require considerable judgment, particularly with respect to the extent to which historical loss experience is relied upon to support changes in key reserving assumptions. Examples of the relationship between changes in historical loss experience and key reserving assumptions are provided below.

For those long-tail product lines that are less claim frequency and more claim severity oriented, such as professional lines and high excess casualty, we placed more reliance upon expert legal and claims review of the specific circumstances underlying reported cases rather than loss development patterns. Where appropriate, we then supplemented this with loss development and Bornhuetter-Ferguson approaches to provide for claims that have been reported but are too immature to develop individual claims estimates and also to provide for pure IBNR. The assumptions used for these lines of business are updated over time to reflect new claim and legal advice judged to be of significance.

For origin year 2013, loss reserves were typically established through the application of individual product line expected loss ratios, as discussed earlier. Our assumptions on loss trend and development patterns reflect reliance on our historical loss data provided the length and volume of history and homogeneity afford credibility. For those lines where our internal historical experience lacks credibility, we may place reliance upon the latest benchmark patterns (where available) from external industry bodies such as Insurance Services Office (ISO) or the National Council on Compensation Insurance, Inc. (NCCI). In such cases, the assumptions used to project ultimate loss estimates will not fully reflect our own actual loss experience until our data is deemed sufficiently credible. We note that industry patterns are not always available to match the nature of the business being written; this issue is particularly problematic for non-U.S. exposed lines. Given the underlying volatility of the long-tail product lines and the lengthy period required for full paid and reported loss emergence, we typically assign little to no credibility to actual loss emergence that is lower than expected in the early development periods. Accordingly, we generally used the expected loss ratio method for the 2013 and immediately preceding origin years to establish reserves by product line. We monitor actual paid and reported loss emergence relative to expected loss emergence for most individual product lines.

As described earlier, the process to develop origin year 2013 reserves for our long-tail casualty business relies on key assumptions like expected rate change and loss trend. When estimating the ultimate loss levels for these prior origin years for the major long-tail lines in Insurance – North American P&C, Insurance – Overseas General, and Global Reinsurance no changes of significance were made to the loss development patterns, however, we have revised historical loss and exposure trend assumptions on more mature years to reflect emerged frequency and severity trends observed in both our internal data and available industry data. In general, this has resulted in lower historical loss trend assumptions for those years. While we have not assumed that these lower loss trends have continued on more recent years, we have reflected this information in the process to derive expected loss ratio assumptions from historical data adjusted to 2013 origin year levels.

For long-tail portfolios where actual loss emergence in calendar year 2013 was lower than expected for the more recent origin years, the deviation was not typically seen as sufficiently credible, particularly given the volatility and lengthy period for full loss emergence, to fully reflect in our booked ultimate loss selections or the actuarial assumptions underlying the reserve reviews. However, for certain product lines with early loss emergence on more recent origin years that was greater than expected, we did respond since we believe that such adverse emergence is generally significant relative to the loss emergence pattern assumptions (e.g., origin years 2011 and 2012 for casualty and financial lines in Insurance – Overseas General). Such judgments were made with due consideration to the factors impacting reserve uncertainty as discussed above. The reserve actions that we took in 2013 are discussed further below and in Note 7 to the Consolidated Financial Statements.

For more mature origin years, typically 2009 and prior, we gave meaningful weight to indicated ultimates derived from methods that rely on the paid and reported loss development patterns based on our own historical experience where sufficient credibility was deemed to exist. As noted previously, this is consistent with our practice of allowing favorable loss emergence sufficient time to be reliably established before assigning it full credibility.

The prior period development in 2013 for long-tail lines of business comprised several main components. First, we experienced favorable prior period development on a number of product lines where actual loss emergence was lower than expected and/or increased weighting was given to experience-based methods as relevant origin years mature (typically 2009 and prior). In particular, this included retail D&O, medical risk operations, and umbrella and excess casualty product lines in Insurance – North American P&C ($183 million favorable) principally in origin years 2007 and 2008, casualty and financial lines in Insurance – Overseas General for origin years 2009 and prior ($198 million favorable), and origin years 2007 and prior for long-tail product lines in Global Reinsurance ($71 million favorable). Second, we recorded adverse reserve actions in response to development on specific large claims. Third, we experienced adverse development from Insurance – North American P&C inactive product lines including Westchester and Brandywine run-off operations ($193 million). The causes for the Westchester and Brandywine operations are described further below.

Sensitivity to underlying assumptions

While we believe that our reserve for unpaid losses and loss expenses at December 31, 2013, is adequate, new information or emerging trends that differ from our assumptions may lead to future development of losses and loss expenses that is significantly greater or less than the recorded reserve, which could have a material effect on future operating results. As noted previously, our best estimate of required loss reserves for most portfolios is judgmentally selected for each origin year after considering the results from any number of reserving methods and is not a purely mechanical process. Therefore, it is difficult to convey, in a simple and quantitative manner, the impact that a change to a single assumption will have on our best estimate. In the examples below, we attempt to give an indication of the potential impact by isolating a single change for a specific reserving method that would be pertinent in establishing the best estimate for the product line described. We consider each of the following sensitivity analyses to represent a reasonably likely deviation in the underlying assumption.

Insurance – North American P&C

Given the long reporting and paid development patterns for workers' compensation business, the development factors used to project actual current losses to ultimate losses for the company's current exposure requires considerable judgment that could be material to consolidated loss and loss expense reserves. Specifically, adjusting ground up ultimate losses by a one percent change in the tail factor (i.e., 1.04 changed to either 1.05 or 1.03) would cause a change of approximately $397 million, either positive or negative, for the projected net loss and loss expense reserves. This represents an impact of 9.7 percent relative to recorded net loss and loss expense reserves of approximately $4.1 billion.

The reserve portfolio for our ACE Bermuda operations contains exposure to predominantly high excess liability coverage on an occurrence-first-reported basis (typically with attachment points in excess of $325 million and gross limits of up to $150 million) and D&O and other professional liability coverage on a claims-made basis (typically with attachment points in excess of $125 million and gross limits of up to $75 million). Due to the layer of exposure covered, the expected frequency for this book is very low. As a result of the low frequency/high severity nature of the book, a small difference in the actual vs. expected claim frequency, either positive or negative, could result in a material change to the projected ultimate loss if such change in claim frequency was related to a policy where close to maximum limits were deployed.

Insurance – North American Agriculture
Approximately 75 percent of the reserves for this segment are from the crop related lines, which all have short payout patterns, with the majority of the liabilities expected to be resolved in the ensuing twelve months. Reserves for our Multiple Peril Crop Insurance (MPCI) product are set on a case-by-case basis and our aggregate exposure is subject to state level risk sharing formulae. The majority of the development risk arises out of the accuracy of case reserve estimates. We do not view our Agriculture reserves as substantially influenced by the general assumptions and risks underlying more typical P&C reserve estimates.

Insurance – Overseas General
Certain long-tail lines, such as casualty and professional lines, are particularly susceptible to changes in loss trend and claim inflation. Heightened perceptions of tort and settlement awards around the world are increasing the demand for these products as well as contributing to the uncertainty in the reserving estimates. Our reserving methods rely on loss development patterns estimated from historical data and while we attempt to adjust such factors for known changes in the current tort environment, it is possible that such factors may not entirely reflect all recent trends in tort environments. For example, when applying the reported loss development method, the lengthening of our selected loss development patterns by six months would increase reserve estimates on long-tail casualty and professional lines for accident years 2011 and prior by approximately $285 million. This represents an impact of 11.6 percent relative to recorded net loss and loss expense reserves of approximately $2.5 billion.

Global Reinsurance
Typically, there is inherent uncertainty around the length of paid and reported development patterns, especially for certain casualty lines such as excess workers' compensation or general liability, which may take up to 30 years to fully develop. This uncertainty is accentuated by the need to supplement client development patterns with industry development patterns due to the sometimes low credibility of the data. The underlying source and selection of the final development patterns can thus have a significant impact on the selected ultimate net losses and loss expenses. For example, a 20 percent shortening or lengthening of the development patterns used for U.S. long-tail lines would cause the loss reserve estimate derived by the reported Bornhuetter-Ferguson method for these lines to change by approximately $400 million. This represents an impact of 32 percent relative to recorded net loss and loss expense reserves of approximately $1.25 billion.

Assumed reinsurance
At December 31, 2013, net unpaid losses and loss expenses for the Global Reinsurance segment aggregated to $2.2 billion, consisting of $938 million of case reserves and $1.2 billion of IBNR. In comparison, at December 31, 2012, net unpaid losses and loss expenses for the Global Reinsurance segment aggregated to $2.4 billion, consisting of $930 million of case reserves and $1.5 billion of IBNR.

For catastrophe business, we principally estimate unpaid losses and loss expenses on an event basis by considering various sources of information, including specific loss estimates reported by our cedants, ceding company and overall industry loss estimates reported by our brokers, and our internal data regarding reinsured exposures related to the geographical location of the event. Our internal data analysis enables us to establish catastrophe reserves for known events with more certainty at an earlier date than would be the case if we solely relied on reports from third parties to determine carried reserves.

For our casualty reinsurance business, we generally rely on ceding companies to report claims and then use that data as a key input to estimate unpaid losses and loss expenses. Due to the reliance on claims information reported by ceding companies, as well as other factors, the estimation of unpaid losses and loss expenses for assumed reinsurance includes certain risks and uncertainties that are unique relative to our direct insurance business. These include, but are not necessarily limited to, the following:

- The reported claims information could be inaccurate;

- Typically, a lag exists between the reporting of a loss event to a ceding company and its reporting to us as a reinsurance claim. The use of a broker to transmit financial information from a ceding company to us increases the reporting lag. Because most of our reinsurance business is produced by brokers, ceding companies generally first submit claim and other financial information to brokers, who then report the proportionate share of such information to each reinsurer of a particular treaty. The reporting lag generally results in a longer period of time between the date a claim is incurred and the date a claim is reported compared with direct insurance operations. Therefore, the risk of delayed recognition of loss reserve development is higher for assumed reinsurance than for direct insurance lines; and

- The historical claims data for a particular reinsurance contract can be limited relative to our insurance business in that there may be less historical information available. Further, for certain coverages or products, such as excess of loss contracts, there may be relatively few expected claims in a particular year so the actual number of claims may be susceptible to significant variability. In such cases, the actuary often relies on industry data from several recognized sources.

We mitigate the above risks in several ways. In addition to routine analytical reviews of ceding company reports to ensure reported claims information appears reasonable, we perform regular underwriting and claims audits of certain ceding companies to ensure reported claims information is accurate, complete, and timely. As appropriate, audit findings are used to adjust claims in the reserving process. We also use our knowledge of the historical development of losses from individual ceding companies to adjust the level of adequacy we believe exists in the reported ceded losses.

On occasion, there will be differences between our carried loss reserves and unearned premium reserves and the amount of loss reserves and unearned premium reserves reported by the ceding companies. This is due to the fact that we receive consistent and timely information from ceding companies only with respect to case reserves. For IBNR, we use historical experience and other statistical information, depending on the type of business, to estimate the ultimate loss. We estimate our unearned premium reserve by applying estimated earning patterns to net premiums written for each treaty based upon that treaty's coverage basis (i.e., risks attaching or losses occurring). At December 31, 2013, the case reserves reported to us by our ceding companies were $913 million, compared with the $938 million we recorded. Our policy is to post additional case reserves in addition to the amounts reported by our cedants when our evaluation of the ultimate value of a reported claim is different than the evaluation of that claim by our cedant.

Within the Insurance – North American P&C segment, we also have exposure to certain liability reinsurance lines that have been in run-off since 1994. Unpaid losses and loss expenses relating to this run-off reinsurance business resides within the Brandywine Division of our Insurance – North American P&C segment. Most of the remaining unpaid loss and loss expense reserves for the run-off reinsurance business relate to A&E claims. Refer to the “Asbestos and Environmental (A&E) and other run-off liabilities” section for additional information.

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

There are many complex variables that we consider when estimating the reserves for our inventory of asbestos accounts and these variables may directly impact the predicted outcome. We believe the most significant variables relating to our A&E liabilities include the current legal environment; specific settlements that may be used as precedents to settle future claims; assumptions regarding trends with respect to claim severity and the frequency of higher severity claims; assumptions regarding the ability to allocate liability among defendants (including bankruptcy trusts) and other insurers; the ability of a claimant to bring a claim in a state in which they have no residency or exposure; the ability of a policyholder to claim the right to unaggregated coverage; whether high-level excess policies have the potential to be accessed given the policyholder's claim trends and liability situation; payments to unimpaired claimants; and, the potential liability of peripheral defendants. Based on the policies, the facts, the law, and a careful analysis of the impact that these factors will likely have on any given account, we estimate the potential liability for indemnity, policyholder defense costs, and coverage litigation expense.

The results in asbestos cases announced by other carriers or defendants may well have little or no relevance to us because coverage exposures are highly dependent upon the specific facts of individual coverage and resolution status of disputes among carriers, policyholders, and claimants.

For additional information refer to the "Asbestos and Environmental (A&E) and Other Run-off Liabilities" section and to Note 7 to the Consolidated Financial Statements.

Future policy benefits reserves
We issue contracts in our Insurance – Overseas General and Life segments that are classified as long-duration. These contracts generally include accident and supplemental health products, term and whole life products, endowment products, and annuities. In accordance with GAAP, we establish reserves for contracts determined to be long-duration based on approved actuarial methods that include assumptions related to expenses, mortality, morbidity, persistency, and investment yields with a factor for adverse deviation. These assumptions are "locked in" at the inception of the contract, meaning we use our original assumptions throughout the life of the policy and do not subsequently modify them unless we deem the reserves to be inadequate. The future policy benefits reserves balance is regularly evaluated for a premium deficiency. If experience is less favorable than assumptions, additional liabilities may be required, resulting in a charge to policyholder benefits and claims.

Valuation of value of business acquired (VOBA) and amortization of deferred policy acquisition costs and VOBA
As part of the acquisition of businesses that sell long-duration contracts, such as life products, we established an intangible asset related to VOBA, which represented the fair value of the future profits of the in-force contracts. The valuation of VOBA at the time of acquisition is derived from similar assumptions to those used to establish the associated future policy benefits reserves. The most significant input in this calculation is the discount rate used to arrive at the present value of the net cash flows. We amortize deferred policy acquisition costs associated with long-duration contracts and VOBA (collectively policy acquisition costs) over the estimated life of the contracts, generally in proportion to premium revenue recognized. For non-traditional long-duration contracts, we amortize policy acquisition costs over the expected life of the contracts in proportion to estimates of expected gross profits. The estimated life is established at the inception of the contracts or upon acquisition and is based on current persistency assumptions. Policy acquisition costs, which consist of commissions, premium taxes, and certain underwriting costs related directly to the successful acquisition of a new or renewal insurance contract, are reviewed to determine if they are recoverable from future income, including investment income. Unrecoverable costs are expensed in the period identified.

Risk transfer
In the ordinary course of business, we both purchase (or cede) and sell (or assume) reinsurance protection. We discontinued the purchase of all finite risk reinsurance contracts, as a matter of policy, in 2002. For both ceded and assumed reinsurance, risk transfer requirements must be met in order to use reinsurance accounting, principally resulting in the recognition of cash flows under the contract as premiums and losses. If risk transfer requirements are not met, a contract is to be accounted for as a deposit, typically resulting in the recognition of cash flows under the contract through a deposit asset or liability and not as revenue or expense. To meet risk transfer requirements, a reinsurance contract must include both insurance risk, consisting of underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. We also apply similar risk transfer requirements to determine whether certain commercial insurance contracts should be accounted for as insurance or a deposit. Contracts that include fixed premium (i.e., premium not subject to adjustment based on loss experience under the contract) for fixed coverage generally transfer risk and do not require judgment.

Reinsurance and insurance contracts that include both significant risk sharing provisions, such as adjustments to premiums or loss coverage based on loss experience, and relatively low policy limits, as evidenced by a high proportion of maximum premium assessments to loss limits, can require considerable judgment to determine whether or not risk transfer requirements are met. For such contracts, often referred to as finite or structured products, we require that risk transfer be specifically assessed for each contract by developing expected cash flow analyses at contract inception. To support risk transfer, the cash flow analyses must demonstrate that a significant loss is reasonably possible, such as a scenario in which the ratio of the net present value of losses divided by the net present value of premiums equals or exceeds 110 percent. For purposes of cash flow analyses, we generally use a risk-free rate of return consistent with the expected average duration of loss payments. In addition, to support insurance risk, we must prove the reinsurer's risk of loss varies with that of the reinsured and/or support various scenarios under which the assuming entity can recognize a significant loss.

To ensure risk transfer requirements are routinely assessed, qualitative and quantitative risk transfer analyses and memoranda supporting risk transfer are developed by underwriters for all structured products. We have established protocols for structured products that include criteria triggering an accounting review of the contract prior to quoting. If any criterion is triggered, a contract must be reviewed by a committee established by each of our segments with reporting oversight, including peer review, from our global Structured Transaction Review Committee.

With respect to ceded reinsurance, we entered into a few multi-year excess of loss retrospectively-rated contracts, principally in 2002. These contracts primarily provided severity protection for specific product divisions. Because traditional one-year reinsurance coverage had become relatively costly, these contracts were generally entered in order to secure a more cost-effective reinsurance program. All of these contracts transferred risk and were accounted for as reinsurance. In addition, we maintain a few aggregate excess of loss reinsurance contracts that were principally entered into prior to 2003, such as the National Indemnity Company (NICO) contracts referred to in the section entitled, "Asbestos and Environmental (A&E) and Other Run-off Liabilities". We have not purchased any other retroactive ceded reinsurance contracts since 1999.

With respect to assumed reinsurance and insurance contracts, products giving rise to judgments regarding risk transfer were primarily sold by our financial solutions business. Although we have significantly curtailed writing financial solutions business, several contracts remain in-force and principally include multi-year retrospectively-rated contracts and loss portfolio transfers. Because transfer of insurance risk is generally a primary client motivation for purchasing these products, relatively few insurance and reinsurance contracts have historically been written for which we concluded that risk transfer criteria had not been met. For certain insurance contracts that have been reported as deposits, the insured desired to self-insure a risk but was required, legally or otherwise, to purchase insurance so that claimants would be protected by a licensed insurance company in the event of non-payment from the insured.

Reinsurance recoverable

Reinsurance recoverable includes balances due to us from reinsurance companies for paid and unpaid losses and loss expenses and is presented net of a provision for uncollectible reinsurance. The provision for uncollectible reinsurance is determined based upon a review of the financial condition of the reinsurers and other factors. Ceded reinsurance contracts do not relieve our primary obligation to our policyholders. Consequently, an exposure exists with respect to reinsurance recoverable to the extent that any reinsurer is unable or unwilling to meet its obligations or disputes the liabilities assumed under the reinsurance contracts. We determine the reinsurance recoverable on unpaid losses and loss expenses using actuarial estimates as well as a determination of our ability to cede unpaid losses and loss expenses under existing reinsurance contracts.

The recognition of a reinsurance recoverable asset requires two key judgments. The first judgment involves our estimation based on the amount of gross reserves and the percentage of that amount which may be ceded to reinsurers. Ceded IBNR, which is a major component of the reinsurance recoverable on unpaid losses and loss expenses, is generally developed as part of our loss reserving process and, consequently, its estimation is subject to similar risks and uncertainties as the estimation of gross IBNR (refer to "Critical Accounting Estimates – Unpaid losses and loss expenses"). The second judgment involves our estimate of the amount of the reinsurance recoverable balance that we may ultimately be unable to recover from reinsurers due to insolvency, contractual dispute, or for other reasons. Estimated uncollectible amounts are reflected in a provision that reduces the reinsurance recoverable asset and, in turn, shareholders' equity. Changes in the provision for uncollectible reinsurance are reflected in net income.

Although the obligation of individual reinsurers to pay their reinsurance obligations is based on specific contract provisions, the collectability of such amounts requires estimation by management. The majority of the recoverable balance will not be due for collection until sometime in the future, and the duration of our recoverables may be longer than the duration of our direct exposures. Over this period of time, economic conditions and operational performance of a particular reinsurer may impact their ability to meet these obligations and while they may continue to acknowledge their contractual obligation to do so, they may not have the financial resources or willingness to fully meet their obligation to us.

To estimate the provision for uncollectible reinsurance, the reinsurance recoverable must first be determined for each reinsurer. This determination is based on a process rather than an estimate, although an element of judgment must be applied. As part of the process, ceded IBNR is allocated to reinsurance contracts because ceded IBNR is not generally calculated on a contract by contract basis. The allocations are generally based on premiums ceded under reinsurance contracts, adjusted for actual loss experience and historical relationships between gross and ceded losses. If actual premium and loss experience vary materially from historical experience, the allocation of reinsurance recoverable by reinsurer will be reviewed and may change. While such change is unlikely to result in a large percentage change in the provision for uncollectible reinsurance, it could, nevertheless, have a material effect on our net income in the period recorded.

Generally, we use a default analysis to estimate uncollectible reinsurance. The primary components of the default analysis are reinsurance recoverable balances by reinsurer, net of collateral, and default factors used to estimate the probability that the reinsurer may be unable to meet its future obligations in full. The definition of collateral for this purpose requires some judgment and is generally limited to assets held in an ACE-only beneficiary trust, letters of credit, and liabilities held by us with the same legal entity for which we believe there is a right of offset. We do not currently include multi-beneficiary trusts. However, we have several reinsurers that have established multi-beneficiary trusts for which certain of our companies are beneficiaries. The determination of the default factor is principally based on the financial strength rating of the reinsurer and a corresponding default factor applicable to the financial strength rating. Default factors require considerable judgment and are determined using the current financial strength rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions. Significant considerations and assumptions include, but are not necessarily limited to, the following:

- For reinsurers that maintain a financial strength rating from a major rating agency, and for which recoverable balances are considered representative of the larger population (i.e., default probabilities are consistent with similarly rated reinsurers and payment durations conform to averages), the judgment exercised by management to determine the provision for uncollectible reinsurance of each reinsurer is typically limited because the financial rating is based on a published source and the default factor we apply is based on a historical default factor of a major rating agency applicable to the particular rating class. Default factors applied for financial ratings of AAA, AA, A, BBB, BB, B, and CCC, are 0.8 percent, 1.2 percent, 1.7 percent, 4.9 percent, 19.6 percent, 34.0 percent, and 62.2 percent, respectively. Because our model is predicated on the historical default factors of a major rating agency, we do not generally consider alternative factors. However, when a recoverable is expected to be paid in a brief period of time by a highly-rated reinsurer, such as certain property catastrophe claims, a default factor may not be applied;
- For balances recoverable from reinsurers that are both unrated by a major rating agency and for which management is unable to determine a credible rating equivalent based on a parent or affiliated company, we may determine a rating equivalent based on our analysis of the reinsurer that considers an assessment of the creditworthiness of the particular entity, industry benchmarks, or other factors as considered appropriate. We then apply the applicable default factor for that rating class. For balances recoverable from unrated reinsurers for which our ceded reserve is below a certain threshold, we generally apply a default factor of 34.0 percent;
- For balances recoverable from reinsurers that are either insolvent or under regulatory supervision, we establish a default factor and resulting provision for uncollectible reinsurance based on specific facts and circumstances surrounding each company. Upon initial notification of an insolvency, we generally recognize expense for a substantial portion of all balances outstanding, net of collateral, through a combination of write-offs of recoverable balances and increases to the provision for uncollectible reinsurance. When regulatory action is taken on a reinsurer, we generally recognize a default factor by estimating an expected recovery on all balances outstanding, net of collateral. When sufficient credible information becomes available, we adjust the provision for uncollectible reinsurance by establishing a default factor pursuant to information received; and
- For captives and other recoverables, management determines the provision for uncollectible reinsurance based on the specific facts and circumstances.

The following table summarizes reinsurance recoverables and the provision for uncollectible reinsurance for each type of recoverable balance at December 31, 2013:

(in millions of U.S. dollars)	Gross Reinsurance Recoverables on Losses and Loss Expenses	Recoverables (net of Usable Collateral)	Provision for Uncollectible Reinsurance
Type			
Reinsurers with credit ratings	$ 8,572	$ 7,806	$ 206
Reinsurers not rated	245	214	60
Reinsurers under supervision and insolvent reinsurers	110	108	65
Captives	1,762	223	14
Other - structured settlements and pools	928	927	45
Total	$ 11,617	$ 9,278	$ 390

At December 31, 2013, the use of different assumptions within our approach could have a material effect on the provision for uncollectible reinsurance. To the extent the creditworthiness of our reinsurers were to deteriorate due to an adverse event affecting the reinsurance industry, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than our provision for uncollectible reinsurance. Such an event could have a material adverse effect on our financial condition, results of operations, and our liquidity. Given the various considerations used to estimate our uncollectible provision, we cannot precisely quantify the effect a specific industry event may have on the provision for uncollectible reinsurance. However, based on the composition (particularly the average credit quality) of the reinsurance recoverable balance at December 31, 2013, we estimate that a ratings downgrade of one notch for all rated reinsurers (i.e., from A to A- or A- to BBB+) could increase our provision for uncollectible reinsurance by approximately $72 million or approximately 0.6 percent of the gross reinsurance recoverable balance, assuming no other changes relevant to the calculation. While a ratings downgrade would result in an increase in our provision for uncollectible reinsurance and a charge to earnings in that period, a downgrade in and of itself does not imply that we will be unable to collect all of the ceded reinsurance recoverable from the reinsurers in question. Refer to Note 5 to the Consolidated Financial Statements for additional information.

Other-than-temporary impairments (OTTI)

Each quarter, we review securities in an unrealized loss position (impaired securities), including fixed maturities, securities lending collateral, equity securities, and other investments, to identify impaired securities to be specifically evaluated for a potential OTTI. Because our investment portfolio is the largest component of consolidated assets and a multiple of shareholders' equity, OTTI could be material to our financial condition and results of operations. Refer to Note 3 c) to the Consolidated Financial Statements for a description of the OTTI process.

Deferred tax assets

Many of our insurance businesses operate in income tax-paying jurisdictions. Our deferred tax assets and liabilities primarily result from temporary differences between the amounts recorded in our consolidated financial statements and the tax basis of our assets and liabilities. We determine deferred tax assets and liabilities separately for each tax-paying component (an individual entity or group of entities that is consolidated for tax purposes) in each tax jurisdiction. The realization of deferred tax assets depends upon the existence of sufficient taxable income within the carryback or carryforward periods under the tax law in the applicable tax jurisdiction.

At December 31, 2013, our net deferred tax asset was $616 million. Refer to Note 8 to the Consolidated Financial Statements for additional information. At each balance sheet date, management assesses the need to establish a valuation allowance that reduces deferred tax assets when it is more likely than not that all, or some portion, of the deferred tax assets will not be realized. The valuation allowance is based on all available information including projections of future taxable income from each tax-paying component in each tax jurisdiction, principally derived from business plans and available tax planning strategies. Projections of future taxable income incorporate several assumptions of future business and operations that are apt to differ from actual experience. The valuation allowance is also based on maintaining our ability and intent to hold our U.S. available for sale fixed maturities to recovery. If our assumptions and estimates that resulted in our forecast of future taxable income for each tax-paying component prove to be incorrect, or future market events occur that prevent our ability to hold our U.S. fixed maturities to recovery, an additional valuation allowance could become necessary, which could have a material adverse effect on our financial condition, results of operations, and liquidity. At December 31, 2013, the valuation allowance of $64 million (including $24 million with respect to foreign tax credits) reflects management's assessment 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 and the inability of ACE Group Holdings and its subsidiaries to use foreign tax credits.

Fair value measurements
Accounting guidance defines fair value as the price to sell an asset or transfer a liability (an exit price) in an orderly transaction between market participants and establishes a three-level valuation hierarchy based on the reliability of the inputs.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1 inputs) and the lowest priority to unobservable data (Level 3 inputs):

- Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets.

- Level 2 includes inputs other than quoted prices included within Level 1 that are observable for assets or liabilities either directly or indirectly. Level 2 inputs include, among other items, quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves.

- Level 3 inputs are unobservable and reflect our judgments about assumptions that market participants would use in pricing an asset or liability.

We categorize financial instruments within the valuation hierarchy at the balance sheet date based upon the lowest level of inputs that are significant to the fair value measurement. Accordingly, transfers between levels within the valuation hierarchy occur when there are significant changes to the inputs, such as increases or decreases in market activity, changes to the availability of current prices, changes to the transparency to underlying inputs, and whether there are significant variances in quoted prices. Transfers in and/or out of any level are assumed to occur at the end of the period.

While we obtain values for the majority of our investment securities from pricing services, it is ultimately our responsibility to determine whether the values recorded in the financial statements are representative of fair value. We periodically update our understanding of the methodologies used by our pricing services in order to validate that the prices obtained from those services are consistent with the GAAP definition of fair value as an exit price. Based on our understanding of the methodologies, our pricing services only produce an estimate of fair value if there is observable market information that would allow them to make a fair value estimate. Based on our understanding of the market inputs used by our pricing services, all applicable investments have been valued in accordance with GAAP valuation principles. We have controls to review significant price changes and stale pricing, and to ensure that prices received from pricing services have been accurately reflected in the consolidated financial statements. We do not adjust prices obtained from pricing services.

Additionally, fixed maturities valuation is more subjective when markets are less liquid due to the lack of market based inputs (i.e., stale pricing), which may increase the potential that an investment's estimated fair value is not reflective of the price at which an actual transaction would occur. For a small number of fixed maturities, we obtain a quote from a broker (typically a market maker). Due to the disclaimers on the quotes that indicate that the price is indicative only, we include these fair value estimates in Level 3.

Level 3 assets represented five percent and four percent of assets measured at fair value at December 31, 2013 and 2012, respectively, and three percent of total assets at both December 31, 2013 and 2012. Level 3 liabilities represented 74 percent and 100 percent of liabilities measured at fair value at December 31, 2013 and 2012, respectively, and less than one percent and two percent of our total liabilities at December 31, 2013 and 2012, respectively. During 2013, 2012 and 2011, we transferred assets of $99 million, $164 million and $55 million, respectively, into Level 3 assets from other levels of the valuation hierarchy. During 2013, 2012 and 2011, we transferred assets of $88 million, $110 million and $70 million, respectively, out of Level 3 assets to other levels of the valuation hierarchy. Refer to Note 4 to the Consolidated Financial Statements for a description of the valuation techniques and inputs used to determine fair values of financial instruments measured or disclosed at fair value by valuation hierarchy (Levels 1, 2, and 3) as well as a roll-forward of Level 3 financial instruments measured at fair value for the years ended December 31, 2013, 2012, and 2011.

Guaranteed living benefits (GLB) derivatives

Under life reinsurance programs covering living benefit guarantees, we assumed the risk of GLBs associated with variable annuity (VA) contracts. We ceased writing this business in 2007. Our GLB reinsurance product meets the definition of a derivative for accounting purposes and is therefore carried at fair value. We believe that the most meaningful presentation of these derivatives is to reflect cash inflows or revenue as net premiums earned, and to record estimates of the average modeled value of future cash outflows as incurred losses. Accordingly, we recognize benefit reserves consistent with the accounting guidance related to accounting and reporting by insurance enterprises for certain non-traditional long-duration contracts and for separate accounts. Changes in the benefit reserves are reflected as Policy benefits expense, which is included in life underwriting income. The incremental difference between fair value and benefit reserves is reflected in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets and related changes in fair value are reflected in Net realized gains (losses) in the consolidated statement of operations. We intend to hold these derivative contracts to maturity (i.e., the expiration of the underlying liabilities through lapse, annuitization, death, or expiration of the reinsurance contract). To partially offset the risk in the VA guarantee reinsurance portfolio, we invest in derivative hedge instruments. At maturity, the cumulative gains and losses will net to zero (excluding cumulative hedge gains or losses) because, over time, the insurance liability will be increased or decreased to equal our obligation. For a sensitivity discussion of the effect of changes in interest rates, equity indices, and other assumptions on the fair value of GLBs, and the resulting impact on our net income, refer to Item 7A. For further description of this product and related accounting treatment, refer to Note 1 j) to the Consolidated Financial Statements.

The fair value of GLB reinsurance is estimated using an internal valuation model, which includes current market information and estimates of policyholder behavior from the perspective of a theoretical market participant that would assume these liabilities. All of our treaties contain claim limits, which are factored into the valuation model. The fair value depends on a number of factors, including interest rates, current account value, market volatility, expected annuitization rates and other policyholder behavior, and changes in policyholder mortality. The model and related assumptions are continuously re-evaluated by management and enhanced, as appropriate, based upon additional experience obtained related to policyholder behavior and availability of more timely market information, such as market conditions and demographics of in-force annuities. Due to the inherent uncertainties of the assumptions used in the valuation models to determine the fair value of these derivative products, actual experience may differ from the estimates reflected in our consolidated financial statements, and the differences may be material. For further information on the estimates and assumptions used in determining the fair value of GLB reinsurance, refer to Note 4 to the Consolidated Financial Statements.

ACE Tempest Life Re employs a strategy to manage the financial market and policyholder behavior risks embedded in the reinsurance of VA guarantees. Risk management begins with underwriting a prospective client and guarantee design, with particular focus on protecting our position from policyholder options that, because of anti-selective behavior, could adversely impact our obligation.

A second layer of risk management is the structure of the reinsurance contracts. All VA guarantee reinsurance contracts include some form of annual or aggregate claim limit(s). The different categories of claim limits are described below:

- Reinsurance programs covering guaranteed minimum death benefits (GMDB) with an annual claim limit of two percent of account value. This category accounts for approximately 60 percent of the total reinsured GMDB guaranteed value. Approximately two percent of the guaranteed value in this category has additional reinsurance coverage for GLB.
- Reinsurance programs covering GMDB with claim limit(s) that are a function of the underlying guaranteed value. This category accounts for approximately 25 percent of the total reinsured GMDB guaranteed value. The annual claim limit expressed as a percentage of guaranteed value ranges from 0.4 percent to 2 percent. Approximately 65 percent of guaranteed value in this category is also subject to annual claim deductibles that range from 0.1 percent to 0.2 percent of guaranteed value (i.e., our reinsurance coverage would only pay total annual claims in excess of 0.1 percent to 0.2 percent of the total guaranteed value). Approximately 45 percent of guaranteed value in this category is also subject to an aggregate claim limit which was approximately $383 million as of December 31, 2013. Approximately 75 percent of guaranteed value in this category has additional reinsurance coverage for GLB.
- Reinsurance programs covering GMDB and guaranteed minimum accumulation benefits (GMAB). This category accounts for approximately 15 percent of the total reinsured GLB guaranteed value and 15 percent of the total reinsured GMDB guaranteed value. These reinsurance programs are quota-share agreements with the quota-share decreasing as the ratio of account value to guaranteed value decreases. The quota-share is 100 percent for ratios between 100 percent and 75 percent, 60 percent for additional losses on ratios between 75 percent and 45 percent, and 30 percent for further losses on ratios below 45 percent. Approximately 35 percent of guaranteed value in this category is also subject to a claim

deductible of 8.8 percent of guaranteed value (i.e., our reinsurance coverage would only pay when the ratio of account value to guaranteed value is below 91.2 percent).

- Reinsurance programs covering GMIB with an annual claim limit. This category accounts for approximately 55 percent of the total reinsured GLB guaranteed value. The annual claim limit is 10 percent of guaranteed value on over 95 percent of the guaranteed value in this category. Additionally, reinsurance programs in this category have an annual annuitization limit that ranges between 17.5 percent and 30 percent with approximately 45 percent of guaranteed value subject to an annuitization limit of 20 percent or under, and the remaining 55 percent subject to an annuitization limit of 30 percent. Approximately 41 percent of guaranteed value in this category is also subject to minimum annuity conversion factors that limit the exposure to low interest rates. Approximately 45 percent of guaranteed value in this category has additional reinsurance coverage for GMDB.
- Reinsurance programs covering GMIB with aggregate claim limit. This category accounts for approximately 30 percent of the total reinsured GLB guaranteed value. The aggregate claim limit for reinsurance programs in this category is approximately $1.9 billion. Additionally, reinsurance programs in this category have an annual annuitization limit of 20 percent and approximately 60 percent of guaranteed value in this category is also subject to minimum annuity conversion factors that limit the exposure to low interest rates. Approximately 40 percent of guaranteed value in this category has additional reinsurance coverage for GMDB.

A third layer of risk management is the hedging strategy which looks to mitigate both long-term economic loss over time as well as dampen income statement volatility. ACE Tempest Life Re owned financial market instruments as part of the hedging strategy with a fair value (liability) asset of $(54) million and $24 million at December 31, 2013 and 2012, respectively. The instruments are substantially collateralized by our counterparties, on a daily basis.

We also limit the aggregate amount of variable annuity reinsurance guarantee risk we are willing to assume. The last substantive U.S. transaction was quoted in mid-2007 and the last transaction in Japan was quoted in late 2007. The aggregate number of policyholders is currently decreasing through policyholder withdrawals, annuitizations, and deaths at a rate of 7 percent to 15 percent per annum.

Note that GLB claims cannot occur for any reinsured policy until it has reached the end of its "waiting period". The majority of policies we reinsure reach the end of their "waiting periods" in 2014 or later, as shown in the table below.

Year of first payment eligibility	Percent of living benefit account values
2013 and prior	29%
2014	19%
2015	6%
2016	6%
2017	19%
2018	14%
2019	5%
2020 and after	2%
Total	100%

The following table presents the historical cash flows under these policies for the periods indicated. The amounts represent accrued past premium received and claims paid, split by benefit type.

(in millions of U.S. dollars)		2013		2012
Death Benefits (GMDB)				
Premium	$	77	$	84
Less paid claims		63		99
Net	$	14	$	(15)
Living Benefits (Includes GMIB and GMAB)				
Premium	$	149	$	160
Less paid claims		23		11
Net	$	126	$	149
Total VA Guaranteed Benefits				
Premium	$	226	$	244
Less paid claims		86		110
Net	$	140	$	134

Death Benefits (GMDB)
For premiums and claims from VA contracts reinsuring GMDBs, at current market levels, we expect approximately $39 million of claims and $69 million of premium on death benefits over the next 12 months.

GLB (includes GMIB and GMAB)
Our GLBs predominantly include premiums and claims from VA contracts reinsuring GMIB and GMAB. More than 70 percent of our living benefit reinsurance clients' policyholders, measured by account value, are currently ineligible to trigger a claim payment. At current market levels, we expect approximately $4 million of claims and $136 million of premium on living benefits over the next 12 months.

Collateral
ACE Tempest Life Re holds collateral on behalf of most of its clients in the form of qualified assets in trust or letters of credit, typically in an amount sufficient for the client to obtain statutory reserve credit for the reinsurance. The timing of the calculation and amount of the collateral varies by client according to the particulars of the reinsurance treaty and the statutory reserve guidelines of the client's domicile.

Goodwill impairment
Goodwill, which represents the excess of acquisition cost over the estimated fair value of net assets acquired, was $4.6 billion and $4.3 billion at December 31, 2013 and 2012, respectively. During 2013, our goodwill balance increased by approximately 7 percent, primarily due to acquisitions. Goodwill is not amortized but is subject to a periodic evaluation for impairment at least annually, or earlier if there are any indications of possible impairment. Impairment is tested at the reporting unit level. Goodwill is assigned to applicable reporting units of acquired entities at acquisition. The most significant reporting units are:

- New York Life's Korea operations and Hong Kong operations acquired in 2011;
- Rain and Hail Insurance Service, Inc. (Rain and Hail) acquired in 2010;
- North American division of Combined Insurance acquired in 2008;
- Domestic and International divisions of ACE INA acquired in 1999, including subsequent international acquisitions; and
- ACE Tempest Re's businesses acquired in 1996 and 1998.

The impairment evaluation first uses a qualitative assessment to determine whether it is more likely than not (i.e., more than a 50 percent probability) that the fair value of a reporting unit is greater than its carrying amount. If a reporting unit fails this qualitative assessment, a quantitative analysis is then used. The quantitative analysis is a two-step process in which an initial assessment for potential impairment is performed and, if a potential impairment is present, the amount of impairment is measured and recorded.

Other reporting units from smaller acquisitions are also assessed annually. Based on our impairment testing for 2013, we determined no impairment was required and none of our reporting units were at risk for impairment.

In assessing the fair value of a reporting unit, we make assumptions and estimates about the profitability attributable to our reporting units, including:

- short-term and long-term growth rates; and
- estimated cost of equity and changes in long-term risk-free interest rates.

If our assumptions and estimates made in assessing the fair value of acquired entities change, we could be required to write-down the carrying value of goodwill which could be material to our results of operations in the period the charge is taken.

Consolidated Operating Results – Years Ended December 31, 2013, 2012, and 2011

(in millions of U.S. dollars, except for percentages)	**2013**	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Net premiums written	**$ 17,025**	$ 16,075	$ 15,372	5.9 %	4.6 %
Net premiums earned	**16,613**	15,677	15,387	6.0 %	1.9 %
Net investment income	**2,144**	2,181	2,242	(1.7)%	(2.8)%
Net realized gains (losses)	**504**	78	(795)	NM	NM
Total revenues	**19,261**	17,936	16,834	7.4 %	6.5 %
Losses and loss expenses	**9,348**	9,653	9,520	(3.2)%	1.4 %
Policy benefits	**515**	521	401	(1.2)%	29.9 %
Policy acquisition costs	**2,659**	2,446	2,472	8.7 %	(1.1)%
Administrative expenses	**2,211**	2,096	2,068	5.5 %	1.4 %
Interest expense	**275**	250	250	10.0 %	—
Other (income) expense	**15**	(6)	81	NM	NM
Total expenses	**15,023**	14,960	14,792	0.4 %	1.1 %
Income before income tax	**4,238**	2,976	2,042	42.4 %	45.7 %
Income tax expense	**480**	270	502	77.8 %	(46.2)%
Net income	**$ 3,758**	$ 2,706	$ 1,540	38.9 %	75.6 %

NM – not meaningful

The following table presents the approximate effect of changes in foreign currency exchange rates on the growth of net premiums written and earned:

	2013	2012	2011
Net premiums written:			
Growth in original currency	**6.9 %**	6.0 %	10.0%
Foreign exchange effect	**(1.0)%**	(1.4)%	2.1%
Growth as reported in U.S. dollars	**5.9 %**	4.6 %	12.1%
Net premiums earned:			
Growth in original currency	**6.9 %**	3.4 %	11.4%
Foreign exchange effect	**(0.9)%**	(1.5)%	2.5%
Growth as reported in U.S. dollars	**6.0 %**	1.9 %	13.9%

The following table presents a line of business breakdown of consolidated net premiums written:

(in millions of U.S. dollars, except for percentages)	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Retail P&C	**$ 6,277**	$ 5,735	$ 5,257	9.5 %	9.1 %
Wholesale	**1,610**	1,502	1,437	7.2 %	4.5 %
Personal lines	**1,593**	1,196	1,067	33.2 %	12.1 %
Small commercial	**316**	258	278	22.5 %	(7.2)%
Reinsurance	**991**	1,025	979	(3.3)%	4.7 %
Property, casualty and all other	**10,787**	9,716	9,018	11.0 %	7.7 %
Agriculture	**1,627**	1,859	1,951	(12.5)%	(4.7)%
Personal accident (A&H)	**3,655**	3,532	3,486	3.5 %	1.3 %
Life	**956**	968	917	(1.2)%	5.6 %
Total consolidated	**$ 17,025**	$ 16,075	$ 15,372	5.9 %	4.6 %

Net premiums written reflect the premiums we retain after purchasing reinsurance protection. Net premiums written increased in 2013 due to higher net premiums written in our Insurance – Overseas General segment driven by strong performance in our retail operations in all product lines – P&C, A&H, and personal lines. The acquisitions of ABA Seguros in May 2013 and Fianzas Monterrey in April 2013 (Mexican Acquisitions), and Jaya Proteksi in September 2012 also added to premium growth. Growth in net premiums written was adversely impacted by foreign exchange. Our Insurance – North American P&C segment also reported increases in net premiums written in our retail division from growth across a broad range of our product portfolio including our risk management business, specialty casualty, professional, property, and A&H lines of business reflecting rate increases, exposure changes, strong renewal retention, and new business. This increase was partially offset by lower net written premiums in our Insurance – North American Agriculture segment due to lower premium retention in our MPCI program. Retention for the current year was lower due to the purchase of proportional reinsurance on the MPCI business for the 2013 crop year, which is in addition to the excess of loss reinsurance coverage historically purchased. Our Global Reinsurance segment also reported a decrease in net premiums written due to a non-recurring LPT treaty written in the prior year and increased property catastrophe cessions.

Net premiums written increased in 2012 in our Insurance – North American P&C segment retail division reflecting rate increases in most lines, strong renewal retention, and new business. In addition, there was good growth in many lines of business which include our risk management and personal lines businesses. This growth was partially offset by lower premiums in certain casualty and program business from adherence to our underwriting standards; in particular, we continued our planned reduction in our U.S. general market workers' compensation business. Net premiums written in our wholesale and specialty division increased primarily from growth in many excess and surplus property, casualty, and professional lines where we benefited from rate increases, strong renewal retention, and new business. Net premiums written increased in our Insurance – Overseas General segment driven by growth in our retail operations in all major product lines – P&C, A&H and personal lines. Growth in our P&C and A&H lines was primarily driven by strong results in both Latin America and Asia. In addition, P&C growth benefited from the impact of reinstatement premiums expensed in 2011. New business opportunities in Latin America, Asia, and Europe drove the growth in personal lines. Growth in net premiums written for 2012 was adversely impacted by foreign exchange. Net premiums written increased in our Life segment primarily due to growth in our Asian markets. Net premiums written increased in our Global Reinsurance segment primarily due to treaty business written in the year, improved pricing conditions in our property catastrophe business, and growth in our U.S. automobile business. This growth was partially offset by lower production in the first quarter of 2012 from competitive market conditions, adherence to underwriting standards, and an LPT treaty written in 2011. The increase in net premiums written in 2012 was partially offset by lower net premiums written in our Insurance – North American Agriculture segment from lower MPCI production.

Net premiums earned for short-duration contracts, typically P&C contracts, generally reflect the portion of net premiums written that were recorded as revenues for the period as the exposure periods expire. Net premiums earned for long-duration contracts, typically traditional life contracts, generally are recognized as earned when due from policyholders. Net premiums earned increased in 2013 in our Insurance – Overseas General segment driven by the acquisitions and strong performance in all product lines as described above. Our Insurance – North American P&C segment also reported increases in net premiums earned from higher net premiums written as described above. This increase was partially offset by lower net premiums earned in our Insurance – North American Agriculture and Global Reinsurance segments from lower net premiums written as described above.

Net premiums earned increased in 2012 in our Insurance – Overseas General segment via strong performances in our retail operations in Latin America and Asia, as well as the favorable impact of reinstatement premiums expensed in 2011. This result was partially offset by the unfavorable impact of foreign exchange. Our Insurance – North American P&C segment also reported increases in net premiums earned from higher net premiums written as described above. Net premiums earned increased in our Life segment primarily due to growth in our Asian markets. Net premiums earned were flat in our Global Reinsurance segment and decreased in our Insurance – North American Agriculture segment from lower net premiums written as described above.

Net investment income was $2.1 billion for 2013 and $2.2 billion for both 2012 and 2011. Refer to "Net Investment Income" and "Investments" for additional information.

In evaluating our segments excluding Life, we use the combined ratio, the loss and loss expense ratio, the policy acquisition cost ratio, and the administrative expense ratio. We calculate these ratios by dividing the respective expense amounts by net premiums earned. We do not calculate these ratios for the Life segment as we do not use these measures to monitor or manage that segment. 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 loss.

The following table presents our calendar year consolidated loss and loss expense ratio, policy acquisition cost ratio, administrative expense ratio, and combined ratio:

	2013	2012	2011
Loss and loss expense ratio	**59.6%**	65.7%	66.0%
Policy acquisition cost ratio	**15.7%**	15.3%	15.8%
Administrative expense ratio	**12.7%**	12.9%	12.9%
Combined ratio	**88.0%**	93.9%	94.7%

The following table presents the impact of catastrophe losses and related reinstatement premiums and the impact of prior period reserve development on our consolidated loss and loss expense ratio:

	2013	2012	2011
Loss and loss expense ratio, as reported	**59.6 %**	65.7 %	66.0 %
Catastrophe losses and related reinstatement premiums	**(1.5)%**	(4.6)%	(6.5)%
Prior period development	**3.7 %**	3.5 %	4.1 %
Loss and loss expense ratio, adjusted	**61.8 %**	64.6 %	63.6 %

Total net pre-tax catastrophe losses, excluding reinstatement premiums, were $230 million in 2013, compared with $633 million in 2012 and $859 million in 2011. Catastrophe losses in 2013 were primarily from flooding in Canada and Australia and severe weather-related events in the U.S. Catastrophe losses in 2012 were primarily from Superstorm Sandy, Hurricane Isaac, other severe weather-related events in the U.S. and Canada, and flooding in the U.K. Catastrophe losses in 2011 were primarily from earthquakes in Japan and New Zealand, flooding in Thailand, storms in Australia, and other severe weather-related events in the U.S. including Hurricane Irene. The adjusted loss and loss expense ratio decreased in 2013 primarily due to U.S. drought conditions in the prior year which unfavorably impacted the 2012 ratio.

Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves first reported in previous calendar years and excludes the effect of losses from the development of earned premium from previous accident years. We experienced $530 million of net favorable prior period development in 2013, which includes an asbestos and environmental (A&E) and other run-off charge of $166 million, compared with net favorable prior period development of $479 million in 2012, which includes an A&E and other run-off charge of $140 million, and $556 million in 2011. Refer to "Prior Period Development" for additional information.

Policy acquisition costs consist of commissions, premium taxes, and certain underwriting costs related directly to the successful acquisition of a new or renewal insurance contract. Administrative expenses include all other operating costs. Our policy acquisition cost ratio increased in 2013 primarily due to a decrease in net premiums earned and higher agent commissions in our Insurance – North American Agriculture segment's MPCI business. The prior year ratio was favorably impacted by higher premium retention and lower agent commissions in the MPCI business caused by the drought conditions in the U.S. This increase was partially offset by a lower policy acquisition cost ratio in our Insurance – Overseas General segment primarily due to the Mexican Acquisitions. Our policy acquisition cost ratio decreased in 2012 primarily due to lower profit sharing commission expenses in our Insurance – North American Agriculture segment reflecting high losses in the crop insurance business and from a favorable change in the mix of business in our Insurance – Overseas General segment. This favorable impact was offset by growth in certain businesses, including personal lines and A&H that carry a higher acquisition rate than our other businesses.

Our administrative expense ratio decreased in 2013 primarily due to the favorable impact of a $29 million legal settlement in the current year and growth in net premiums earned that outpaced the growth in administrative expenses in our Insurance – North American P&C segment. This favorable impact was offset by a decrease in our Insurance – North American Agriculture segment's net premiums earned as well as the impact of lower Administrative and Operating expense (A&O) reimbursements in our MPCI business. Our administrative expense ratio was flat in 2012 as the increase in spending to support growth, primarily in our Insurance – North American P&C segment and our Latin America and Asia regions within our Insurance – Overseas General segment, was offset by lower regulatory costs for Combined in the U.K. and Ireland.

Our effective income tax rate, which we calculate as income tax expense divided by income before income tax, is dependent upon the mix of earnings from different jurisdictions with various tax rates. A change in the geographic mix of earnings would change the effective income tax rate. Our effective income tax rate was 11.3 percent in 2013, compared with 9.1 percent and 24.6 percent in 2012 and 2011, respectively. The effective income tax rate in 2013 is higher compared to 2012 due to a favorable resolution in 2012 of various tax matters and the closing of statutes of limitations of $124 million which lowered the 2012 effective tax rate. Partially offsetting the increase in the 2013 effective tax rate was the impact of both net realized gains on derivatives and a higher percentage of earnings being generated in lower tax paying jurisdictions during the current year. The decrease in our effective income tax rate in 2012 compared to 2011 was due to the favorable resolution of various prior years' tax matters and the closing of statutes of limitations and a higher percentage of earnings generated in lower tax-paying jurisdictions, and a decrease in the amount of net realized losses on derivatives generated in lower tax-paying jurisdictions.

Prior Period Development

Years Ended December 31 (in millions of U.S. dollars, except for percentages)	Long-tail	Short-tail	Total	% of net unpaid reserves [1]
2013				
Insurance – North American P&C – active	**$ (221)**	**$ (106)**	**$ (327)**	**2.1%**
Insurance – North American P&C – run-off[2]	**193**	**—**	**193**	**1.2%**
Insurance – North American Agriculture	**—**	**(13)**	**(13)**	**4.0%**
Insurance – Overseas General	**(127)**	**(172)**	**(299)**	**3.8%**
Global Reinsurance	**(53)**	**(31)**	**(84)**	**3.6%**
Total	**$ (208)**	**$ (322)**	**$ (530)**	**2.0%**
2012				
Insurance – North American P&C – active	$ (245)	$ (103)	$ (348)	2.2%
Insurance – North American P&C – run-off[2]	168	—	168	1.1%
Insurance – North American Agriculture	—	(12)	(12)	2.6%
Insurance – Overseas General	(121)	(105)	(226)	3.1%
Global Reinsurance	(32)	(29)	(61)	2.7%
Total	$ (230)	$ (249)	$ (479)	1.9%
2011				
Insurance – North American P&C – active	$ (186)	$ (103)	$ (289)	1.8%
Insurance – North American P&C – run-off[2]	102	—	102	0.6%
Insurance – North American Agriculture	—	(8)	(8)	5.2%
Insurance – Overseas General	(154)	(136)	(290)	4.2%
Global Reinsurance	(58)	(13)	(71)	3.1%
Total	$ (296)	$ (260)	$ (556)	2.2%

(1) Calculated based on the segment's total beginning of period net unpaid loss and loss expenses reserves.

(2) Brandywine Holdings and Westchester Specialty operations in respect of 1996 and prior years.

For a discussion of significant prior period movements by segment, refer to Note 7 to the Consolidated Financial Statements.

Segment Operating Results – Years Ended December 31, 2013, 2012, and 2011

We operate through five business segments: Insurance – North American P&C, Insurance – North American Agriculture, Insurance – Overseas General, Global Reinsurance, and Life. For additional information refer to "Segment Information" under Item 1. The discussions that follow include tables that show our segment operating results for the years ended December 31, 2013, 2012, and 2011.

Insurance – North American

Insurance – North American P&C

The Insurance – North American P&C segment comprises our operations in the U.S., Canada, and Bermuda. This segment includes our retail divisions: ACE USA (including ACE Canada), ACE Commercial Risk Services, and ACE Private Risk Services; our wholesale and specialty divisions of ACE Westchester and ACE Bermuda; and various run-off operations, including Brandywine Holdings Corporation (Brandywine).

				% Change	
(in millions of U.S. dollars, except for percentages)	**2013**	2012	2011	2013 vs. 2012	2012 vs. 2011
Net premiums written	**$ 5,915**	$ 5,349	$ 4,900	10.6 %	9.2 %
Net premiums earned	**5,721**	5,147	4,969	11.1 %	3.6 %
Losses and loss expenses	**3,776**	3,715	3,577	1.6 %	3.9 %
Policy acquisition costs	**597**	558	532	7.0 %	4.9 %
Administrative expenses	**601**	608	598	(1.2)%	1.7 %
Underwriting income	**747**	266	262	180.8 %	1.5 %
Net investment income	**1,021**	1,066	1,148	(4.2)%	(7.1)%
Net realized gains (losses)	**72**	41	28	75.6 %	46.4 %
Interest expense	**5**	12	13	(58.3)%	(7.7)%
Other (income) expense	**(58)**	(41)	(13)	41.5%	215.4%
Income tax expense	**347**	229	344	51.5 %	(33.4)%
Net income	**$ 1,546**	$ 1,173	$ 1,094	31.8 %	7.2 %
Loss and loss expense ratio	**66.0%**	72.2%	72.0%		
Policy acquisition cost ratio	**10.4%**	10.8%	10.7%		
Administrative expense ratio	**10.5%**	11.8%	12.0%		
Combined ratio	**86.9%**	94.8%	94.7%		

Net premiums written increased in 2013 in our retail division from growth across a broad range of our product portfolio including our risk management business, specialty casualty, professional, property, and A&H lines of business reflecting rate increases, exposure changes, strong renewal retention, and new business. In addition, we grew net premiums written in our Commercial Risk Services division, primarily professional lines and programs, and our personal lines division, primarily in the homeowners, automobile, and umbrella business offered through ACE Private Risk Services. Our wholesale and specialty division contributed to the increase in net premiums written due to higher production from our property, casualty, and professional lines of business.

Net premiums written increased in 2012 in our retail division reflecting rate increases in most lines, strong renewal retention, and new business. Growth in our retail division was due to higher production from a broad array of products including our primary casualty and risk management businesses, property, A&H, a range of specialty casualty products, and professional risk lines of business. In addition, we continued to generate higher personal lines production including higher premiums in the homeowners and automobile business offered through ACE Private Risk Services. Growth in our retail division was partially offset by lower premiums in certain casualty and program business from adherence to our underwriting standards; in particular, we continued our planned reduction in our U.S. general market workers' compensation business. Our wholesale and specialty division contributed to the increase from growth in many excess and surplus property, casualty, and professional lines where we benefited from rate increases, strong renewal retention, and new business.

Net premiums earned increased in 2013 and 2012 primarily due to the increase in net premiums written as described above. In both years, growth in net premiums earned for the retail division was partially offset by lower earned premiums from our program business.

The following tables present a line of business breakdown of Insurance – North American P&C net premiums earned:

(in millions of U.S. dollars, except for percentages)	**2013**	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Property and all other	**$ 1,489**	$ 1,370	$ 1,232	8.7%	11.2%
Casualty	**3,847**	3,406	3,380	12.9%	0.8%
Personal accident (A&H)	**385**	371	357	3.8%	3.9%
Net premiums earned	**$ 5,721**	$ 5,147	$ 4,969	11.1%	3.6%

	2013 % of Total	2012 % of Total	2011 % of Total
Property and all other	**26%**	27%	25%
Casualty	**67%**	66%	68%
Personal accident (A&H)	**7%**	7%	7%
Net premiums earned	**100%**	100%	100%

The following table presents the impact of catastrophe losses and related reinstatement premiums and prior period reserve development on our loss and loss expense ratio:

	2013	2012	2011
Loss and loss expense ratio, as reported	**66.0 %**	72.2 %	72.0 %
Catastrophe losses and related reinstatement premiums	**(1.7)%**	(8.5)%	(6.4)%
Prior period development	**2.5 %**	3.7 %	3.8 %
Loss and loss expense ratio, adjusted	**66.8 %**	67.4 %	69.4 %

Net pre-tax catastrophe losses, excluding reinstatement premiums, were $94 million in 2013, compared with $430 million in 2012 and $314 million in 2011. Catastrophe losses in 2013 were primarily from flooding in Canada and severe weather-related events in the U.S. Catastrophe losses in 2012 were primarily from Superstorm Sandy, Hurricane Isaac, and other severe weather-related events in the U.S. and Canada. Catastrophe losses in 2011 were from severe weather-related events in the U.S., including Hurricane Irene and flooding, as well as exposure from the Japan earthquake and the flooding in Thailand. Net favorable prior period development was $134 million in 2013, compared with $180 million in 2012 and $187 million in 2011. Refer to the "Prior Period Development" section for additional information. In 2013, the adjusted loss and loss expense ratio benefited from lower loss ratios in several of our lines where execution of detailed portfolio management plans has resulted in improved current accident year loss ratio performance. Partially offsetting the improvement in current accident year loss ratio performance is higher premiums from assumed loss portfolio programs, which is written at a higher loss ratio than other lines of business. The adjusted loss and loss expense ratio decreased in 2012 primarily due to a reduction in the current accident year loss ratio for several of our lines where execution of detailed portfolio management plans has resulted in improved loss ratio performance.

The policy acquisition cost ratio decreased in 2013 primarily due to growth in certain businesses which incur lower acquisition expenses. The policy acquisition cost increased slightly in 2012 due to growth in certain businesses, including personal lines and A&H that carry a higher acquisition rate than our other businesses, and increased spending for strategic initiatives to support future growth opportunities.

The administrative expense ratio decreased in 2013 primarily due to the favorable impact of a $29 million legal settlement in the current year and growth in net premiums earned that outpaced the growth in administrative expenses. The administrative expense ratio decreased in 2012 as the growth in net premiums earned outpaced the growth in administrative expenses. In both 2013 and 2012, we increased spending to support growth, primarily in our retail businesses, including ACE Private Risk Services and our wholesale and specialty business.

Insurance – North American Agriculture

The Insurance – North American Agriculture segment comprises our North American based businesses that provide a variety of coverages in the U.S. and Canada including crop insurance, primarily MPCI and crop-hail through Rain and Hail as well as farm and ranch and specialty P&C commercial insurance products and services through our ACE Agribusiness unit.

(in millions of U.S. dollars, except for percentages)	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Net premiums written	$ 1,627	$ 1,859	$ 1,951	(12.5)%	(4.7)%
Net premiums earned	1,678	1,872	1,942	(10.4)%	(3.6)%
Losses and loss expenses [1]	1,525	1,911	1,699	(20.2)%	12.5 %
Policy acquisition costs	53	28	80	89.3 %	(65.0)%
Administrative expenses	11	(7)	(6)	NM	16.7%
Underwriting income (loss)	89	(60)	169	NM	NM
Net investment income	26	25	22	4.0 %	13.6 %
Net realized gains (losses) [1]	2	1	6	100.0 %	(83.3)%
Interest expense	1	—	2	NM	NM
Other (income) expense	32	32	18	—	77.8 %
Income tax expense (benefit)	20	(29)	51	NM	NM
Net income (loss)	$ 64	$ (37)	$ 126	NM	NM
Loss and loss expense ratio	90.9%	102.1 %	87.5 %		
Policy acquisition cost ratio	3.2%	1.5 %	4.1 %		
Administrative expense ratio	0.6%	(0.4)%	(0.3)%		
Combined ratio	94.7%	103.2 %	91.3 %		

[1] Losses from fair value changes on crop derivatives are reclassified from Net realized gains (losses) to Losses and loss expenses for purposes of presenting Insurance - North American Agriculture underwriting income. Refer to Note 10 to the consolidated financial statements for more information on these derivatives.

Net premiums written decreased in 2013 primarily due to lower premium retention in our MPCI program. Retention for the current year was lower due to the purchase of proportional reinsurance on the MPCI business for the 2013 crop year, which is in addition to the excess of loss reinsurance coverage historically purchased.

Net premiums written decreased in 2012 due to lower MPCI production reflecting lower commodity prices, most notably for major spring crops including corn and soybeans, and related volatility in these prices; as well as lower premiums from true-up adjustments for prior years estimated premiums. This decrease was partially offset by higher net premiums written due to increased premium retention primarily reflecting lower premium cessions to the federal government, and growth in our Agribusiness products reflecting the November 2011 acquisition of Penn Millers.

Net premiums earned decreased in 2013 and 2012 primarily due to lower net premiums written as described above.

The following table presents the impact of catastrophe losses and related reinstatement premiums and prior period reserve development on our loss and loss expense ratio:

	2013	2012	2011
Loss and loss expense ratio, as reported	90.9 %	102.1 %	87.5 %
Catastrophe losses and related reinstatement premiums	(0.4)%	(0.6)%	(1.7)%
Prior period development	0.8 %	0.7 %	0.4 %
Loss and loss expense ratio, adjusted	91.3 %	102.2 %	86.2 %

Net pre-tax catastrophe losses, excluding reinstatement premiums, were $7 million in 2013, compared with $11 million in 2012 and $33 million in 2011. Net favorable prior period development was $13 million in 2013, compared with $12 million in 2012 and $8 million in 2011. Refer to the "Prior Period Development" section for additional information. The adjusted loss and loss expense ratio for 2013 reflects higher losses resulting from lower commodity prices at the time of harvest as compared to the original base price used at the time the insurance contract is sold. Despite this increase, the adjusted loss and loss expense ratio for 2013 declined over the prior year because last year was adversely impacted by the U.S. drought. The adjusted loss and loss expense ratio increased in 2012 reflecting the impact of the U.S. drought on our MPCI business.

The policy acquisition cost ratio increased in 2013 primarily due to lower agent commission accruals in 2012, partially offset by the cede commission benefit from the proportional reinsurance purchase on the 2013 crop year. The U.S. drought significantly impacted the profitability of the MPCI business in 2012, and in years when the MPCI program is in an unprofitable position as defined in the SRA agent profit share commissions are not paid. The increase for 2013 also reflects a $14 million benefit in 2012 reflecting a revision in estimated agent profit share commissions for the prior year's MPCI business. The policy acquisition cost ratio decreased in 2012 from the impacts of the U.S. drought and the $14 million benefit as discussed above.

The administrative expense ratio increased in 2013 primarily due to higher Administrative and Operating expense (A&O) reimbursements on the MPCI business in the prior year mainly due to additional reimbursements earned for high loss ratio states and underserved states. Under the SRA with the federal government, ACE receives additional expense reimbursements when losses in individual states exceed a specified threshold. For 2012 and 2011, a portion of the A&O reimbursement included reimbursement of certain costs for claims handling, which are reported in Losses and loss expenses. In 2012, the administrative expenses also included a $6 million benefit for a revision in the prior year's estimate of staff related costs. The administrative expense ratio was relatively flat in 2012 as an increase in the A&O expense reimbursements from the federal government were offset by a decrease in net premiums earned.

Insurance – Overseas General

The Insurance – Overseas General segment comprises ACE International and ACE Global Markets (AGM). ACE International comprises our retail commercial P&C, A&H, and personal lines businesses serving territories outside the U.S., Bermuda, and Canada, and the international supplemental A&H business of Combined Insurance. AGM comprises the segment's London-based wholesale insurance business for excess and surplus lines; this includes Lloyd's of London Syndicate 2488. The reinsurance operations of AGM are included in the Global Reinsurance segment.

				% Change	
(in millions of U.S dollars, except for percentages)	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Net premiums written	$ 6,520	$ 5,863	$ 5,629	11.2 %	4.2 %
Net premiums earned	6,333	5,740	5,614	10.3 %	2.2 %
Losses and loss expenses	3,062	2,862	3,029	7.0 %	(5.5)%
Policy acquisition costs	1,453	1,353	1,335	7.4 %	1.3 %
Administrative expenses	1,008	935	939	7.8 %	(0.4)%
Underwriting income	810	590	311	37.3 %	89.7 %
Net investment income	539	521	546	3.5 %	(4.6)%
Net realized gains (losses)	18	103	33	(82.5)%	212.1 %
Interest expense	5	5	5	—	—
Other (income) expense	39	3	—	NM	NM
Income tax expense	222	133	164	66.9 %	(18.9)%
Net income	$ 1,101	$ 1,073	$ 721	2.6 %	48.8 %
Loss and loss expense ratio	48.4%	49.8%	54.0%		
Policy acquisition cost ratio	22.9%	23.6%	23.8%		
Administrative expense ratio	15.9%	16.3%	16.7%		
Combined ratio	87.2%	89.7%	94.5%		

Insurance – Overseas General conducts business internationally and in most major foreign currencies. The following table presents by major product line the approximate effect of changes in foreign currency exchange rates on the growth of net premiums written and earned:

	2013			2012	2011
	P&C	**A&H**	**Total**	Total	Total
Net premiums written:					
Growth in original currency	**18.1 %**	**6.2 %**	**13.7 %**	7.7 %	4.1%
Foreign exchange effect	**(3.1)%**	**(1.6)%**	**(2.5)%**	(3.5)%	4.4%
Growth as reported in U.S. dollars	**15.0 %**	**4.6 %**	**11.2 %**	4.2 %	8.5%
Net premiums earned:					
Growth in original currency	**17.7 %**	**4.2 %**	**12.7 %**	6.0 %	3.9%
Foreign exchange effect	**(2.9)%**	**(1.5)%**	**(2.4)%**	(3.8)%	5.1%
Growth as reported in U.S. dollars	**14.8 %**	**2.7 %**	**10.3 %**	2.2 %	9.0%

Net premiums written increased in 2013 driven by strong performance in our retail operations and from acquisitions. Growth was reported in our retail operations in all product lines – P&C, A&H, and personal lines. P&C growth was reported across all regions of our retail operations, driven by strong renewal retention and improved new business writings. A&H growth was primarily driven by strong results in Asia and Latin America. Personal lines growth reflected new business opportunities in Europe, Latin America, and Asia. In addition, the acquisitions of ABA Seguros in May 2013, Fianzas Monterrey in April 2013, and Jaya Proteksi in September 2012, added $407 million of growth to premiums. The unfavorable impact of foreign exchange partially offset this growth.

Net premiums written increased in 2012 driven by growth in our retail operations in all major product lines – P&C, A&H, and personal lines. Growth in our P&C and A&H lines was primarily driven by strong results in both Latin America and Asia. A&H growth was partially offset by declines in Combined Insurance's European business. In addition, P&C growth benefited from the impact of reinstatement premiums expensed in 2011. New business opportunities in Latin America, Asia, and Europe drove the growth in personal lines. Growth in net premiums written for 2012 was adversely impacted by foreign exchange.

Net premiums earned increased in 2013 driven by the acquisitions described above, which generated $389 million of net premiums earned, and strong performance in all regions and product lines. This growth was partially offset by the unfavorable impact of foreign exchange. Net premiums earned increased in 2012 via strong performances in our retail operations in Latin America and Asia, as well as the favorable impact of reinstatement premiums expensed in 2011. This result was partially offset by the unfavorable impact of foreign exchange.

The following two tables present a line of business and regional breakdown of Insurance – Overseas General net premiums earned:

(in millions of U.S. dollars, except for percentages)	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Line of Business					
Property and all other	$ 2,672	$ 2,236	$ 2,080	19.5 %	7.5 %
Casualty	1,479	1,379	1,415	7.3 %	(2.5)%
Personal accident (A&H)	2,182	2,125	2,119	2.7 %	0.3 %
Net premiums earned	$ 6,333	$ 5,740	$ 5,614	10.3 %	2.2 %
Region					
Europe	$ 2,385	$ 2,253	$ 2,293	5.9 %	(1.7)%
Asia Pacific	1,383	1,244	1,115	11.2 %	11.6 %
Far East	458	525	519	(12.8)%	1.2 %
Latin America	1,434	1,054	972	36.1 %	8.4 %
	5,660	5,076	4,899	11.5 %	3.6 %
ACE Global Markets	673	664	715	1.4 %	(7.1)%
Net premiums earned	$ 6,333	$ 5,740	$ 5,614	10.3 %	2.2 %

	2013 % of Total	2012 % of Total	2011 % of Total
Line of Business			
Property and all other	42%	39%	37%
Casualty	23%	24%	25%
Personal accident (A&H)	35%	37%	38%
Net premiums earned	100%	100%	100%
Region			
Europe	38%	39%	41%
Asia Pacific	22%	22%	20%
Far East	7%	9%	9%
Latin America	23%	18%	17%
	90%	88%	87%
ACE Global Markets	10%	12%	13%
Net premiums earned	100%	100%	100%

The following table presents the impact of catastrophe losses and related reinstatement premiums and prior period reserve development on our loss and loss expense ratio:

	2013	2012	2011
Loss and loss expense ratio, as reported	48.4 %	49.8 %	54.0 %
Catastrophe losses and related reinstatement premiums	(1.4)%	(1.4)%	(6.3)%
Prior period development	4.7 %	4.0 %	5.2 %
Loss and loss expense ratio, adjusted	51.7 %	52.4 %	52.9 %

Net pre-tax catastrophe losses, excluding reinstatement premiums, were $88 million in 2013, compared with $76 million in 2012 and $329 million in 2011. Catastrophe losses in 2013 were primarily related to flooding in Australia, Europe, and Canada, as well as hurricanes in Latin America, and the earthquake in New Zealand. Catastrophe losses in 2012 were primarily from Superstorm Sandy, Hurricane Isaac, and flooding in the U.K. Catastrophe losses in 2011 included flooding in Thailand, earthquakes in New Zealand and Japan, and storms in the U.S. and Australia. Net favorable prior period development was $299 million in 2013, compared with $226 million in 2012 and $290 million in 2011. Refer to the "Prior Period Development" section for additional information. The adjusted loss ratio decreased in 2013 due primarily to large property losses in the prior year which unfavorably impacted the prior year ratio. The adjusted loss ratio decreased in 2012 primarily due to the reduction of current accident year losses in our retail operations.

The policy acquisition ratio decreased in 2013 primarily due to the Mexican Acquisitions. As a result of purchase accounting requirements, the unearned premiums at the date of purchase related to the Mexican Acquisitions are recognized over the remaining coverage period with no expense for the associated historical acquisition costs that were incurred to underwrite those policies. The policy acquisition cost ratio decreased in 2012 due to lower A&H costs, a favorable change in the mix of business, and the favorable impact of reinstatement premiums expensed in 2011.

The administrative expense ratio decreased in 2013 due to the favorable impact of foreign exchange, the acquisitions described above, which generate lower administrative expenses than our other businesses, as well as growth in net premiums earned that outpaced the growth in administrative expenses and lower A&H regulatory fees paid in Europe. The administrative expense ratio decreased in 2012 primarily due to lower A&H regulatory fees paid in Europe and the favorable impact of reinstatement premiums expensed in 2011.

Global Reinsurance

The Global Reinsurance segment represents our reinsurance operations comprising ACE Tempest Re Bermuda, ACE Tempest Re USA, ACE Tempest Re International, and ACE Tempest Re Canada. Global Reinsurance markets its reinsurance products worldwide under the ACE Tempest Re brand name and provides a broad range of coverage to a diverse array of primary P&C companies.

				% Change	
(in millions of U.S. dollars, except for percentages)	**2013**	2012	2011	2013 vs. 2012	2012 vs. 2011
Net premiums written	**$ 991**	$ 1,025	$ 979	(3.3)%	4.7 %
Net premiums earned	**976**	1,002	1,003	(2.6)%	—
Losses and loss expenses	**396**	553	621	(28.4)%	(11.0)%
Policy acquisition costs	**197**	172	185	14.5 %	(7.0)%
Administrative expenses	**50**	51	52	(2.0)%	(1.9)%
Underwriting income	**333**	226	145	47.3 %	55.9 %
Net investment income	**280**	290	287	(3.4)%	1.0 %
Net realized gains (losses)	**53**	6	(50)	NM	NM
Interest expense	**5**	4	2	25.0 %	100.0%
Other (income) expense	**(19)**	(15)	(1)	26.7%	NM
Income tax expense	**36**	15	30	140.0 %	(50.0)%
Net income	**$ 644**	$ 518	$ 351	24.3 %	47.6 %
Loss and loss expense ratio	**40.5%**	55.2%	62.0%		
Policy acquisition cost ratio	**20.3%**	17.1%	18.4%		
Administrative expense ratio	**5.1%**	5.2%	5.2%		
Combined ratio	**65.9%**	77.5%	85.6%		

Net premiums written decreased in 2013 due to a non-recurring LPT treaty written in the prior year, increased property catastrophe cessions to a sidecar, Altair Re, and lower catastrophe reinstatement premiums. This decrease was substantially offset by strong renewal retention and new business written, primarily in our U.S. property and U.S. automobile lines of business. Net premiums written increased in 2012 due to U.S. property treaties written in the year, improved pricing conditions in our property catastrophe business, and growth in our U.S. automobile lines of business, partially offset by lower production in the first quarter of 2012 from competitive market conditions, adherence to underwriting standards, and an LPT treaty written in 2011.

Net premiums earned decreased in 2013 due to a non-recurring LPT treaty written in the prior year, which was fully earned when written and, to a lesser extent, the higher property catastrophe cessions noted above. This decrease was partially offset by higher net premiums earned in our U.S. property lines due to higher premiums written in the current and prior years. Net premiums earned were flat in 2012 as a result of competitive market conditions.

The following tables present a line of business breakdown of Global Reinsurance net premiums earned:

				% Change	
(in millions of U.S. dollars, except for percentages)	**2013**	2012	2011	2013 vs. 2012	2012 vs. 2011
Property and all other	**$ 253**	$ 194	$ 177	30.4 %	9.6 %
Casualty	**433**	507	545	(14.6)%	(7.0)%
Property catastrophe	**290**	301	281	(3.7)%	7.1 %
Net premiums earned	**$ 976**	$ 1,002	$ 1,003	(2.6)%	—

	2013 % of Total	2012 % of Total	2011 % of Total
Property and all other	**26%**	19%	18%
Casualty	**44%**	51%	54%
Property catastrophe	**30%**	30%	28%
Net premiums earned	**100%**	100%	100%

The following table presents the impact of catastrophe losses and related reinstatement premiums and prior period reserve development on our loss and loss expense ratio:

	2013	2012	2011
Loss and loss expense ratio, as reported	**40.5 %**	55.2 %	62.0 %
Catastrophe losses and related reinstatement premiums	**(4.0)%**	(11.1)%	(18.0)%
Prior period development	**9.1 %**	6.3 %	7.7 %
Loss and loss expense ratio, adjusted	**45.6 %**	50.4 %	51.7 %

Net pre-tax catastrophe losses, excluding reinstatement premiums, were $41 million in 2013, compared with $116 million in 2012 and $183 million in 2011. Catastrophe losses in 2013 were primarily from flooding in Canada and Europe. Catastrophe losses in 2012 were primarily from Superstorm Sandy, Hurricane Isaac, and other North American weather-related events. Catastrophe losses in 2011 were primarily from earthquakes in Japan and New Zealand, and weather-related events in the U.S. Net favorable prior period development was $84 million in 2013, compared with $61 million in 2012 and $71 million in 2011 (2013, 2012 and 2011 are net of $8 million, $4 million, and $13 million, respectively, of unfavorable premium adjustments to loss sensitive treaties). Refer to the "Prior Period Development" section for additional information. The adjusted loss and loss expense ratio decreased in 2013 primarily due to the LPT treaty written in 2012, which unfavorably impacted the 2012 ratio. In addition, the adjusted loss and loss expense ratio decreased due to favorable current accident year loss experience and a change in the mix of business towards lower loss ratio products. The adjusted loss and loss expense ratio decreased in 2012 due to an increase in lower loss ratio property catastrophe business and from the favorable impact of an LPT treaty written in 2011, which unfavorably impacted the 2011 ratio. This decrease was partially offset by the unfavorable impact of the LPT treaty written in 2012 and unfavorable current accident year loss experience.

The policy acquisition cost ratio increased in 2013 due to a change in the mix of business towards products that have a higher acquisition cost ratio as well as the LPT treaty written in the prior year, which did not generate acquisition costs. The policy acquisition cost ratio decreased in 2012 from the impact of an LPT treaty, which did not generate acquisition costs, favorable profit commission accruals on the catastrophe retrocession contract, and net favorable adjustments on loss sensitive contract provisions.

The administrative expense ratio remained relatively flat in 2013 as lower administrative expenses were offset by a decrease in net premiums earned. The administrative expense ratio was flat in 2012.

Life

The Life segment includes our international life operations (ACE Life), ACE Tempest Life Re (ACE Life Re), and the North American supplemental A&H and life business of Combined Insurance. We assess the performance of our life business based on Life underwriting income, which includes Net investment income and (Gains) losses from fair value changes in separate account assets that do not qualify for separate account reporting under GAAP.

(in millions of U.S. dollars, except for percentages)	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Net premiums written	**$ 1,972**	$ 1,979	$ 1,913	(0.4)%	3.4 %
Net premiums earned	**1,905**	1,916	1,859	(0.6)%	3.1 %
Losses and loss expenses	**582**	611	593	(4.7)%	3.0 %
Policy benefits	**515**	521	401	(1.2)%	29.9 %
(Gains) losses from fair value changes in separate account assets[1]	**(16)**	(29)	36	(44.8)%	NM
Policy acquisition costs	**358**	334	339	7.2 %	(1.5)%
Administrative expenses	**343**	328	317	4.6 %	3.5 %
Net investment income	**251**	251	226	—	11.1 %
Life underwriting income	**374**	402	399	(7.0)%	0.8 %
Net realized gains (losses)	**360**	(72)	(806)	NM	(91.1)%
Interest expense	**15**	12	11	25.0 %	9.1 %
Other (income) expense[1]	**13**	25	26	(48.0)%	(3.8)%
Income tax expense	**34**	58	50	(41.4)%	16.0 %
Net income (loss)	**$ 672**	$ 235	$ (494)	186.0 %	NM

[1] (Gains) losses from fair value changes in separate account assets that do not qualify for separate account reporting under GAAP are reclassified from Other (income) expense for purposes of presenting Life underwriting income.

The following table presents a line of business breakdown of Life net premiums written and deposits collected on universal life and investment contracts:

(in millions of U.S. dollars, except for percentages)	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
A&H	**$ 1,016**	$ 1,011	$ 996	0.5 %	1.5 %
Life insurance	**672**	654	573	2.8 %	14.1 %
Life reinsurance	**284**	314	344	(9.6)%	(8.7)%
Net premiums written (excludes deposits below)	**$ 1,972**	$ 1,979	$ 1,913	(0.4)%	3.4 %
Deposits collected on universal life and investment contracts	**$ 821**	$ 611	$ 503	34.4 %	21.5 %

A&H net premiums written increased slightly in 2013 as growth in certain program business and improved new business production was substantially offset by the non-renewal of several large accounts. A&H net premiums written increased in 2012 due to a catch-up in premium registrations and growth in certain program business, partially offset by decreases in net premiums written due to the continuing effects on the economy resulting in lower new business and renewals. Life insurance net premiums written increased in 2013 and 2012 primarily due to growth in our Asian markets. Life reinsurance net premiums written decreased in 2013 and 2012 because there is no new life reinsurance business currently being written.

Deposits collected on universal life and investment contracts (life deposits) are not reflected as revenues in our consolidated statements of operations in accordance with GAAP. New life deposits are an important component of production and key to our efforts to grow our business. Although life deposits do not significantly affect current period income from operations, they are an important indicator of future profitability. The increase in life deposits collected in 2013 and 2012 is primarily due to growth in our Asian markets.

Net realized gains (losses), which are excluded from Life underwriting income, relate primarily to the change in the net fair value of reported GLB reinsurance liabilities and changes in the fair value of derivatives used to partially offset the risk in the variable annuity guarantee portfolio. During 2013, realized gains of $929 million were associated with a net decrease in the value of GLB liabilities; this decrease was primarily due to rising equity levels, higher interest rates, a $92 million realized gain related to an out-of-period adjustment for an error in a market valuation model, and a weakening yen, partially offset by an increased value of GLB liabilities due to the net unfavorable impact of changes in lapse and annuitization assumptions and also discounting future claims for one less year. We evaluated the quantitative and qualitative aspects of the out-of-period adjustment and concluded that the impact of recognizing this adjustment is not material to the consolidated financial statements and all prior period consolidated financial statements.

During the fourth quarter of 2013, we completed an in-depth review of actual policyholder lapse and annuitization behavior by treaty for our variable annuity reinsurance business. As a greater percentage of our clients' policyholders have reached the ultimate lapse rate period and have become eligible to annuitize in the past year, we determined that experience was credible enough to warrant a more robust evaluation of our assumptions compared to actual experience. As a result of our review, we made several adjustments to our lapse assumption, the most significant of which was a reduction in lapses for most large, in-the-money, GMIB policies. The change in lapse assumption increased the fair value of GLB liabilities and generated a realized loss of $104 million. We also made several adjustments to our annuitization assumption, which generally lowered the utilization rate for most clients, while raising it for one client. The change in annuitization assumption decreased the fair value of GLB liabilities and generated a realized gain of $64 million. We will continue to monitor actual policyholder behavior against our assumptions and make adjustments as appropriate.

During 2012, realized gains of $203 million were associated with a net decrease in the value of GLB liabilities; this decrease was primarily due to rising equity levels and a weakening yen, partially offset by an increased value of GLB liabilities due to falling interest rates and the unfavorable impact of discounting future claims for one less year. During 2011, realized losses of $812 million were associated with a net increase in the value of GLB liabilities due to falling interest rates, falling international equity markets, and the unfavorable impact of discounting future claims for one less year. In addition, we experienced realized losses of $579 million, $297 million, and $4 million in 2013, 2012, and 2011, respectively, due to a decrease in the value of derivative instruments, which decrease in value when the S&P 500 index increases.

Net Investment Income

	Years Ended December 31		
(in millions of U.S. dollars)	**2013**	2012	2011
Fixed maturities	**$ 2,093**	$ 2,134	$ 2,196
Short-term investments	**29**	28	43
Equity securities	**37**	34	36
Other	**105**	104	62
Gross investment income	**2,264**	2,300	2,337
Investment expenses	**(120)**	(119)	(95)
Net investment income	**$ 2,144**	$ 2,181	$ 2,242

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 decreased 1.7 percent in 2013 compared with 2012 primarily due to lower reinvestment rates in our fixed income portfolio, offset by a higher overall invested asset base. Net investment income decreased 2.8 percent in 2012 compared with 2011 primarily due to lower reinvestment rates, higher investment expenses, and the negative impact of foreign exchange, partially offset by positive operating cash flows, higher private equity fund distributions, and the income benefit of an insurance contract classified as a deposit.

The investment portfolio's average market yield on fixed maturities was 3.0 percent, 2.3 percent, and 3.1 percent at December 31, 2013, 2012, and 2011, respectively. Average market yield on fixed maturities represents the weighted average yield to maturity of our fixed income portfolio based on the market prices of the holdings at that date.

The 1.3 percent yield on short-term investments reflects the global nature of our insurance operations. For example, yields on short-term investments in Malaysia, China, Indonesia, and Ecuador range from 3.0 percent to 7.5 percent.

The 4.6 percent yield on our equity securities portfolio is high relative to the yield on the S&P 500 Index because of dividends on preferred equity securities and because we classify our strategic emerging debt portfolio, which is a mutual fund, as equity. Year to date, the preferred equity securities and strategic emerging debt portfolio represent 76 percent of the gross equity securities investment income.

The following table shows the return on average invested assets:

	Years Ended December 31		
(in millions of U.S. dollars, except for percentages)	**2013**	2012	2011
Average invested assets	**$ 58,574**	$ 55,665	$ 52,093
Net investment income	**$ 2,144**	$ 2,181	$ 2,242
Return on average invested assets	**3.7%**	3.9%	4.3%

Net Realized and Unrealized Gains (Losses)

We take a long-term view with our investment strategy, and our investment managers manage our investment portfolio to maximize total return within certain specific guidelines designed to minimize risk. The majority of our investment portfolio is available for sale and reported at fair value. Our held to maturity investment portfolio is reported at amortized cost.

The effect of market movements on our available for sale investment portfolio impacts Net income (through Net realized gains (losses)) when securities are sold or when we record an Other-than-temporary impairment (OTTI) charge in Net income. For a discussion related to how we assess OTTI for all of our investments, including credit-related OTTI, and the related impact on Net income, refer to Note 3 c) to the Consolidated Financial Statements. Additionally, Net income is impacted through the reporting of changes in the fair value of derivatives, including financial futures, options, swaps, and GLB reinsurance. Changes in unrealized appreciation and depreciation on available for sale securities, which result from the revaluation of securities held, are reported as a separate component of Accumulated other comprehensive income in Shareholders' equity in the consolidated balance sheets.

The following table presents our pre-tax net realized and unrealized gains (losses) on investments:

	Year Ended December 31, 2013			Year Ended December 31, 2012		
(in millions of U.S. dollars)	**Net Realized Gains (Losses)[(1)]**	**Net Unrealized Gains (Losses)**	**Net Impact**	Net Realized Gains (Losses)[(1)]	Net Unrealized Gains (Losses)	Net Impact
Fixed maturities	**$ 90**	**$ (1,880)**	**$ (1,790)**	$ 230	$ 1,005	$ 1,235
Fixed income derivatives	**78**	**—**	**78**	(6)	—	(6)
Total fixed maturities	**168**	**(1,880)**	**(1,712)**	224	1,005	1,229
Public equity	**15**	**(41)**	**(26)**	4	61	65
Private equity	**(2)**	**51**	**49**	(7)	49	42
Other	**(3)**	**3**	**—**	3	5	8
Subtotal	**178**	**(1,867)**	**(1,689)**	224	1,120	1,344
Derivatives						
Fair value adjustment on insurance derivatives	**878**	**—**	**878**	171	—	171
S&P put option and futures	**(579)**	**—**	**(579)**	(297)	—	(297)
Fair value adjustment on other derivatives	**(2)**	**—**	**(2)**	(4)	—	(4)
Subtotal derivatives	**297**	**—**	**297**	(130)	—	(130)
Foreign exchange gains (losses)	**29**	**—**	**29**	(16)	—	(16)
Total gains (losses)	**$ 504**	**$ (1,867)**	**$ (1,363)**	$ 78	$ 1,120	$ 1,198

(1) For the year ended December 31, 2013, other-than-temporary impairments include $18 million for fixed maturities, $2 million for private equity, and $2 million for public equity. For the year ended December 31, 2012, other-than-temporary impairments include $25 million for fixed maturities, $7 million for private equity, and $5 million for public equity.

At December 31, 2013, our investment portfolios held by U.S. legal entities included approximately $253 million of gross unrealized losses on fixed income investments. Our tax planning strategy related to these losses is based on our view that we will hold these fixed income investments until they recover their cost. As such, we have recognized a deferred tax asset of approximately $89 million related to these fixed income investments. This strategy allows us to recognize the associated deferred tax asset related to these fixed income investments as we do not believe these losses will ever be realized.

We engage in a securities lending program which involves lending investments from time to time to other institutions for short periods. ACE invests the collateral received in securities of high credit quality and liquidity, with the objective of maintaining a stable principal balance. Certain investments purchased with the securities lending collateral declined in value resulting in an unrealized loss of $1 million at December 31, 2013. The unrealized loss is attributable to fluctuations in market values of the underlying performing debt instruments held by the respective mutual funds, rather than default of a debt issuer. It is our view that the decline in value is temporary.

Other Income and Expense Items

Other (income) expense was $15 million in 2013 compared with $(6) million and $81 million in 2012 and 2011, respectively. Refer to Note 14 to the Consolidated Financial Statements for the components of Other (income) expense.

Investments

Our investment portfolio is invested primarily in publicly traded, investment grade, fixed income securities with an average credit quality of A/Aa as rated by the independent investment rating services Standard and Poor's (S&P)/ Moody's Investors Service (Moody's). The portfolio is externally managed by independent, professional investment managers and is broadly diversified across geographies, sectors, and issuers. Other investments principally comprise direct investments, investment funds, and limited partnerships. We hold no collateralized debt obligations or collateralized loan obligations in our investment portfolio, and we provide no credit default protection. We have long-standing global credit limits for our entire portfolio across the organization. Exposures are aggregated, monitored, and actively managed by our Global Credit Committee, comprising senior executives, including our Chief Financial Officer, our Chief Risk Officer, our Chief Investment Officer, and our Treasurer. We also have well-established, strict contractual investment rules requiring managers to maintain highly diversified exposures to individual issuers and closely monitor investment manager compliance with portfolio guidelines.

The average duration of our fixed income securities, including the effect of options and swaps, was 4.0 years and 3.9 years at December 31, 2013 and 2012, respectively. We estimate that a 100 basis point (bps) increase in interest rates would reduce the valuation of our fixed income portfolio by approximately $2.3 billion at December 31, 2013.

The following table shows the fair value and cost/amortized cost of our invested assets:

	December 31, 2013		December 31, 2012	
(in millions of U.S. dollars)	**Fair Value**	**Cost/ Amortized Cost**	Fair Value	Cost/ Amortized Cost
Fixed maturities available for sale	**$ 49,254**	**$ 48,406**	$ 47,306	$ 44,666
Fixed maturities held to maturity	**6,263**	**6,098**	7,633	7,270
Short-term investments	**1,763**	**1,763**	2,228	2,228
	57,280	**56,267**	57,167	54,164
Equity securities	**837**	**841**	744	707
Other investments	**2,976**	**2,671**	2,716	2,465
Total investments	**$ 61,093**	**$ 59,779**	$ 60,627	$ 57,336

The fair value of our total investments increased $466 million during the year ended December 31, 2013, primarily due to the investing of operating cash flows, partially offset by the negative impact of rising interest rates on the valuation of our portfolio and unfavorable foreign exchange.

The following tables present the market value of our fixed maturities and short-term investments at December 31, 2013 and 2012. The first table lists investments according to type and the second according to S&P credit rating:

	December 31, 2013		December 31, 2012	
(in millions of U.S. dollars, except for percentages)	**Market Value**	**% of Total**	Market Value	% of Total
Treasury	**$ 2,327**	**4%**	$ 2,794	5%
Agency	**1,454**	**3%**	2,024	4%
Corporate and asset-backed securities	**19,475**	**34%**	18,983	33%
Mortgage-backed securities	**12,273**	**21%**	12,589	22%
Municipal	**4,500**	**8%**	3,872	7%
Non-U.S.	**15,488**	**27%**	14,677	25%
Short-term investments	**1,763**	**3%**	2,228	4%
Total	**$ 57,280**	**100%**	$ 57,167	100%
AAA	**$ 8,677**	**15%**	$ 9,285	16%
AA	**21,520**	**38%**	22,014	39%
A	**11,168**	**19%**	10,760	19%
BBB	**7,193**	**12%**	6,591	12%
BB	**4,418**	**8%**	4,146	7%
B	**3,940**	**7%**	3,846	6%
Other	**364**	**1%**	525	1%
Total	**$ 57,280**	**100%**	$ 57,167	100%

Corporate and asset-backed securities

The following table presents our 10 largest global exposures to corporate bonds by market value at December 31, 2013:

(in millions of U.S. dollars)	**Market Value**
JP Morgan Chase & Co	**$ 504**
Goldman Sachs Group Inc	**444**
General Electric Co	**414**
Wells Fargo & Co	**283**
Citigroup Inc	**278**
Morgan Stanley	**274**
Verizon Communications Inc	**263**
Bank of America Corp	**258**
HSBC Holdings Plc	**224**
AT&T INC	**198**

Mortgage-backed securities

December 31, 2013 (in millions of U.S. dollars)	S&P Credit Rating AAA	AA	A	BBB	BB and below	Market Value Total	Amortized Cost Total
Agency residential mortgage-backed (RMBS)	$ —	$ 10,141	$ —	$ —	$ —	$10,141	$ 10,155
Non-agency RMBS	56	8	26	15	186	291	295
Commercial mortgage-backed	1,811	13	10	7	—	1,841	1,828
Total mortgage-backed securities	$ 1,867	$ 10,162	$ 36	$ 22	$ 186	$12,273	$ 12,278

Municipal

As part of our overall investment strategy, we may invest in states, municipalities, and other political subdivisions fixed maturity securities (Municipal). We apply the same investment selection process described previously to our Municipal investments. The portfolio is highly diversified primarily in state general obligation bonds and essential service revenue bonds including education and utilities (water, power, and sewers).

Non-U.S.

Our exposure to the Euro results primarily from ACE European Group which is headquartered in London and offers a broad range of coverages throughout the European Union, Central, and Eastern Europe. ACE primarily invests in Euro denominated investments to support its local currency insurance obligations and required capital levels. ACE's local currency investment portfolios have strict contractual investment guidelines requiring managers to maintain a high quality and diversified portfolio to both sector and individual issuers. Investment portfolios are monitored daily to ensure investment manager compliance with portfolio guidelines.

Our non-U.S. investment grade fixed income portfolios are currency-matched with the insurance liabilities of our non-U.S. operations. The average credit quality of our non-U.S. fixed income securities is A and 53 percent of our holdings are rated AAA or guaranteed by governments or quasi-government agencies. Within the context of these investment portfolios, our government and corporate bond holdings are highly diversified across industries and geographies. Issuer limits are based on credit rating (AA—two percent, A—one percent, BBB—0.5 percent of the total portfolio) and are monitored daily via an internal compliance system. Because of this investment approach we do not have a direct exposure to troubled sovereign borrowers in Europe. We manage our indirect exposure using the same credit rating based investment approach. Accordingly, we do not believe our indirect exposure is material.

The following table summarizes the market value and amortized cost of our non-U.S. fixed income portfolio by country/sovereign for non-U.S. government securities at December 31, 2013:

(in millions of U.S. dollars)	**Market Value**	**Amortized Cost**
United Kingdom	$ 1,225	$ 1,242
Republic of Korea	677	655
Canada	566	561
United Mexican States	472	474
Germany	356	357
Province of Ontario	337	332
Japan	289	289
Federative Republic of Brazil	259	260
Kingdom of Thailand	252	253
Province of Quebec	252	249
Other Non-U.S. Government Securities (1)	2,570	2,551
Total	$ 7,255	$ 7,223

(1) There are no investments in Portugal, Ireland, Italy, Greece or Spain.

The following table summarizes the market value and amortized cost of our non-U.S. fixed income portfolio by country/sovereign for non-U.S. corporate securities at December 31, 2013:

(in millions of U.S. dollars)	Market Value	Amortized Cost
United Kingdom	$ 1,474	$ 1,409
Canada	1,123	1,078
Australia	671	654
United States	593	571
France	533	516
Netherlands	488	473
Germany	484	467
Euro Supranational	237	232
Switzerland	230	219
Sweden	218	212
Other Non-U.S. Corporate Securities	2,182	2,146
Total	$ 8,233	$ 7,977

The countries that are listed in the non-U.S. corporate fixed income portfolio above represent the ultimate parent company's country of risk. Non-U.S. corporate securities could be issued by foreign subsidiaries of U.S. corporations.

Below-investment grade corporate 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 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. At December 31, 2013, our corporate fixed income investment portfolio included below-investment grade and non-rated securities which, in total, comprised approximately 14 percent of our fixed income portfolio. Our below-investment grade and non-rated portfolio includes over 1,100 issuers, with the greatest single exposure being $101 million.

We manage high-yield bonds as a distinct and separate asset class from investment grade bonds. The allocation to high-yield bonds is explicitly set by internal management and is targeted to securities in the upper tier of credit quality (BB/B). Our minimum rating for initial purchase is BB/B. Six external investment managers are responsible for high-yield security selection and portfolio construction. Our high-yield managers have a conservative approach to credit selection and very low historical default experience. Holdings are highly diversified across industries and subject to a 1.5 percent issuer limit as a percentage of high-yield allocation. We monitor position limits daily through an internal compliance system. Derivative and structured securities (e.g., credit default swaps and collateralized loan obligations) are not permitted in the high-yield portfolio.

Reinsurance Recoverable on Ceded Reinsurance

(in millions of U.S. dollars)	December 31 2013	December 31 2012
Reinsurance recoverable on unpaid losses and loss expenses [1]	$ 10,612	$ 11,399
Reinsurance recoverable on paid losses and loss expenses [1]	615	679
Net reinsurance recoverable on losses and loss expenses	$ 11,227	$ 12,078
Reinsurance recoverable on policy benefits	$ 218	$ 241

[1] Net of a provision for uncollectible reinsurance.

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 uncollectible reinsurance is required principally due to the potential failure of reinsurers to indemnify us, primarily because of disputes under reinsurance contracts and insolvencies. The provision for uncollectible reinsurance is based on a default analysis applied to gross reinsurance recoverables, net of approximately $2.3 billion and $2.5 billion of collateral at December 31, 2013 and 2012, respectively. The decrease in net reinsurance recoverable on losses and loss expenses was primarily due to lower MPCI losses, favorable PPD, collections relating to run-off operations, and lower natural catastrophe losses.

Asbestos and Environmental (A&E) and Other Run-off Liabilities

Included in ACE's liabilities for losses and loss expenses are amounts for A&E liabilities. The A&E liabilities principally relate to claims arising from bodily-injury claims related to asbestos products and remediation costs associated with hazardous waste sites. The estimation of ACE's A&E liabilities is particularly sensitive to future changes in the legal, social, and economic environment. ACE has not assumed any such future changes in setting the value of our A&E reserves, which include provisions for both reported and IBNR claims. Refer to Note 7 to the Consolidated Financial Statements for additional information.

Reserving considerations

For asbestos, ACE faces claims relating to policies issued to manufacturers, distributors, installers, and other parties in the chain of commerce for asbestos and products containing asbestos. Claims can be filed by individual claimants or groups of claimants with the potential for hundreds of individual claimants at one time. Claimants will generally allege damages across an extended time period which may coincide with multiple policies covering a wide range of time periods for a single insured.

Environmental claims present exposure for remediation and defense costs associated with the contamination of property as a result of pollution. It is common, especially for larger defendants, to be named as a potentially responsible party at multiple sites.

The following table presents count information by account for asbestos and environmental claims, for direct policies only:

	2013	2012
Asbestos (by causative agent)		
Open at beginning of year	1,058	1,196
Newly reported	69	65
Closed or otherwise disposed	20	203
Open at end of year	1,107	1,058
Environmental (by site)		
Open at beginning of year	3,390	3,733
Newly reported	138	131
Closed or otherwise disposed	189	474
Open at end of year	3,339	3,390

Closed or otherwise disposed claims were significantly higher in 2012 due to a review of pending cases completed in 2012 prior to transferring claim handling responsibilities from a NICO subsidiary back to Century Indemnity Company. Refer to Note 7 to the Consolidated Financial Statements for additional information.

The following table presents our gross and net survival ratios for our A&E loss reserves and allocated loss adjustment expense (ALAE) reserves at December 31, 2013 and 2012:

	2013 Survival Ratios				2012 Survival Ratios [(1)]			
	3 Year		**1 Year**		3 Year		1 Year	
	Gross	**Net**	**Gross**	**Net**	Gross	Net	Gross	Net
Asbestos	**4.4**	**4.2**	**4.5**	**6.0**	5.2	4.5	4.2	3.1
Environmental	**2.0**	**1.6**	**1.7**	**1.4**	2.3	2.0	2.5	1.9
Total	**3.9**	**3.4**	**3.8**	**4.2**	4.7	3.9	4.0	2.9

(1) 2012 Survival Ratios have been adjusted to present claims in a manner consistent with balances disclosed at December 31, 2013.

The net ratios reflect third-party reinsurance other than the aggregate excess reinsurance provided under the NICO contracts, which was exhausted on a paid basis in 2013. These survival ratios are calculated by dividing the asbestos or environmental loss and ALAE reserves by the average asbestos or environmental loss and ALAE payments for the three most recent calendar years (3 year survival ratio), and by asbestos or environmental loss and ALAE payments in the current year (1 year survival ratio). The survival ratios provide only a very rough depiction of reserves and are significantly impacted by a number of factors such as aggressive settlement practices, variations in gross to ceded relationships within the asbestos or environmental claims, and levels of coverage provided. We, therefore, urge caution in using these very simplistic ratios to gauge reserve adequacy and note that the 1 year survival ratios, particularly, are likely to move considerably from year to year for the reasons just described.

The 1 year asbestos net survival ratio increase in 2013 was primarily due to an increase in ceded billing transactions related to prior years gross paid loss activities. The 1 year and 3 year environmental net survival ratios decreased in 2013 primarily due to several large 2013 settlement payments.

Catastrophe Management

We actively monitor our catastrophe risk accumulation around the world. The table below presents our modeled annual aggregate pre-tax probable maximum loss (PML), net of reinsurance, for 100-year and 250-year return periods for U.S. hurricanes and California earthquakes at December 31, 2013 and 2012. The table also presents ACE's corresponding share of pre-tax industry losses for each of the return periods for U.S. hurricanes and California earthquakes at December 31, 2013 and 2012. For example, according to the model, for the 1-in-100 return period scenario, there is a one percent chance that our losses incurred in any year from U.S. hurricanes could be in excess of $2,235 million (or 7.8 percent of our total shareholders' equity at December 31, 2013). We estimate that at such hypothetical loss levels, ACE's share of aggregate industry losses would be approximately 1.3 percent.

	U.S. Hurricanes				California Earthquakes			
	December 31 2013			December 31 2012	**December 31 2013**			December 31 2012
Modeled Annual Aggregate Net PML	**ACE**	**% of Total Shareholders' Equity**	**% of Industry**	ACE	**ACE**	**% of Total Shareholders' Equity**	**% of Industry**	ACE
(in millions of U.S. dollars, except for percentages)								
1-in-100	**$ 2,235**	**7.8%**	**1.3%**	$ 1,726	**$ 722**	**2.5%**	**1.8%**	$ 818
1-in-250	**$ 2,959**	**10.3%**	**1.2%**	$ 2,293	**$ 931**	**3.2%**	**1.6%**	$ 1,055

The above modeled loss information reflects our in-force portfolio at October 1, 2013 and reinsurance program at January 1, 2014.

The North American catastrophe reinsurance program was renewed on January 1, 2014 excluding Named Storm coverage in North America. Named Storm is defined as a storm or storm system that has been declared by the National Hurricane Center (NHC) to be a tropical cyclone, tropical storm or a hurricane and includes wind, gusts, hail, rain, tornadoes or cyclones related to such storm. As a result, we will maintain a gap in coverage from the official start of hurricane season on June 1, 2014 through June 30, 2014. However, we intend to purchase Named Storm coverage effective no later than July 1, 2014.

We use our in-force portfolio at October 1, 2013 as a proxy for modeling our PMLs under our 2014 reinsurance program. Since we excluded Named Storm coverage from our reinsurance program on January 1, 2014, our modeled PML for U.S. Hurricanes is higher on January 1, 2014 compared to January 1, 2013. The expected July 1, 2014 program is expected to result in a lower net PML for U.S. hurricane losses of $1,699 million and $2,284 million for 1-in-100 and 1-in-250 years, respectively.

The net PML for California earthquakes is lower in 2013 compared to 2012 due to an increase of $100 million in earthquake catastrophe coverage.

The modeling estimates of both ACE and industry loss levels are inherently uncertain owing to key assumptions. First, while the use of third-party catastrophe modeling packages to simulate potential hurricane and earthquake losses is prevalent within the insurance industry, the models are reliant upon significant meteorology, seismology, and engineering assumptions to estimate hurricane and earthquake losses. In particular, modeled hurricane and earthquake events are not always a representation of actual events and ensuing additional loss potential. Second, there is no universal standard in the preparation of insured data for use in the models and the running of the modeling software. Third, we are reliant upon third-party estimates of industry insured exposures and there is significant variation possible around the relationship between our loss and that of the industry following an event. Fourth, we assume that our reinsurance recoveries following an event are fully collectible. These loss estimates do not represent our potential maximum exposures and it is highly likely that our actual incurred losses would vary materially from the modeled estimates.

Natural Catastrophe Property Reinsurance Program

ACE's core property catastrophe reinsurance program provides protection against natural catastrophes impacting its primary property operations (i.e., excluding our Global Reinsurance and Life segments) and consists of two separate towers.

We regularly review our reinsurance protection and corresponding property catastrophe exposures. This may or may not lead to the purchase of additional reinsurance prior to a program's renewal date. In addition, prior to each renewal date, we consider how much, if any, coverage we intend to buy and we may make material changes to the current structure in light of various factors, including modeled PML assessment at various return periods, reinsurance pricing, our risk tolerance and exposures, and various other structuring considerations.

The following table presents ACE's coverage under its General Catastrophe Treaty for both the North American and International towers, effective for the coverage periods indicated (all dollar amounts are approximate). With respect to Tower 1 – North American, our Core Program renewed on January 1, 2014, for a period of one year. We renewed our program at a consistent limit level as the expiring program adding $100 million of earthquake coverage and excluding Named Storm in North America. We intend to purchase Named Storm coverage effective no later than July 1, 2014 at a level of coverage that we expect will be consistent with 2013. With respect to Tower 2 – International, we renewed the layers of reinsurance protection in excess of $150 million on our Core Program on July 1, 2013, for a period of one year. We expanded our all perils coverage from $250 million to $350 million (by expanding perils covered in what was historically the $300 million to $450 million layer) and eliminated the $500 million to $550 million layer of coverage. There is an additional $75 million global top layer that continues to sit above the International Property Catastrophe Program and the North American Core Program and now attaches at $500 million on our International Program. There were no other significant changes in coverage from the expiring program.

Loss Location	Coverage Period	Layer of Loss	Percentage Placed with Reinsurers	Comments	Notes
Tower 1 – North American					
Core Program					
North America	100% retained	$0 million - $500 million	Not Applicable	Losses retained by ACE	(a)
North America	January 2014 - December 2014	$500 million - $1.0 billion	100%	All perils, excluding Named Storm	
Global	January 2014 - December 2014	$1.0 billion - $1.275 billion	27%	All perils, excluding Named Storm; No reinstatement	(b)
North America	January 2014 - December 2014	$1.0 billion - $1.275 billion	73%	All perils, excluding Named Storm; One reinstatement	

[a] Ultimate retention will depend upon the nature of the loss and the interplay between the underlying per risk programs and certain other catastrophe programs purchased by individual business units. These other catastrophe programs have the potential to reduce our effective retention below $500 million.

[b] This layer covers both U.S. and International risks. As such, it may be exhausted in one region and not available in the other.

Loss Location	Coverage Period	Layer of Loss	Percentage Placed with Reinsurers	Comments	Notes
Tower 2 – International					
July 1, 2013 – June 30, 2014 Program (unless otherwise noted)					
Core Program					
International	100% retained	$0 million - $150 million	Not Applicable	Losses retained by ACE	(c)
International (including Alaska and Hawaii)	July 2013 - June 2014	$150 million - $450 million	100%	One reinstatement	
International (including Alaska and Hawaii)	July 2013 - June 2014	$450 million - $500 million	100%	One reinstatement	
Global	January 2014 - December 2014	$500 million - $575 million	100%	No reinstatement	(d)

[c] Ultimate retention will depend upon the nature of the loss and the interplay between the underlying per risk programs, certain other catastrophe programs purchased by individual business units, and territories and regions around the world.

[d] This layer covers both U.S. and International risks. As such, it may be exhausted in one region and not available in the other.

Political Risk, Trade Credit, and Structured Trade Credit

Political risk insurance is a specialized coverage that provides clients with protection against unexpected, catastrophic political or macroeconomic events, primarily in developing markets. We participate in this market through our wholly owned subsidiary Sovereign Risk Insurance Ltd. (Sovereign), and through a unit of our London-based AGM operation. Sovereign is one of the world's leading underwriters of political risk insurance and has a global portfolio spread across more than 100 countries. Its clients include financial institutions, national export credit agencies, leading multilateral agencies, and multinational corporations. AGM writes political risk, trade credit, and structured trade credit business out of underwriting offices in London, England; Hamburg, Germany; Sao Paulo, Brazil; Singapore; and New York, New York, Los Angeles, California, and Washington, D.C., in the U.S.

Our political risk insurance provides protection to commercial lenders against defaults on cross border loans, insulates investors against equity losses, and protects exporters against defaults on contracts. Commercial lenders, our largest client segment, are covered for missed scheduled loan repayments due to acts of confiscation, expropriation or nationalization by the host government, currency inconvertibility or exchange transfer restrictions, or war or other acts of political violence. In addition, in the case of loans to government-owned entities or loans that have a government guarantee, political risk policies cover scheduled payments against risks of non-payment or non-honoring of government guarantees. Equity investors and corporations receive similar coverage to that of lenders, except they are protected against financial losses, inability to repatriate dividends, and physical damage to their operations caused by covered events. Our export contracts protection provides coverage for both exporters and their financing banks against the risk of contract frustration due to government actions, including non-payment by government entities.

AGM's trade credit and structured trade credit businesses cover losses due to insolvency, protracted default, and political risk perils including export and license cancellation. It provides trade credit coverage to larger companies that have sophisticated credit risk management systems, with exposure to multiple customers and that have the ability to self-insure losses up to a certain level through excess of loss coverage. Its structured trade credit business provides coverage to trade finance banks, exporters, and trading companies, with exposure to trade-related financing instruments.

We have implemented structural features in our policies in order to control potential losses within the political risk, trade credit, and structured credit businesses. These include basic loss sharing features that include co-insurance and deductibles, and in the case of trade credit, the use of non-qualifying losses that drop smaller exposures deemed too difficult to assess. Ultimate loss severity is also limited by using waiting periods to enable the insurer and insured to agree on recovery strategies, and the subrogation of the rights of the lender/exporter to the insurer following a claim. We have the option to pay claims over the original loan payment schedule, rather than in a lump sum in order to provide insureds and the insurer additional time to remedy problems and work towards full recoveries. It is important to note that political risk, trade credit, and structured trade credit policies are named peril conditional contracts, not financial guarantees, and claims are only paid after conditions and warranties are fulfilled. Political risk, trade credit, and structured trade credit insurance do not cover currency devaluations, bond defaults, any form of derivatives, movements in overseas equity markets, transactions deemed illegal, or situations where corruption or misrepresentation has occurred, or debt that is not legally enforceable. In addition to assessing and mitigating potential exposure on a policy-by-policy basis, we also have specific risk management measures in place to manage overall exposure and risk. These measures include placing country and individual transaction limits based on country risk and credit ratings, combined single loss limits on multi-country policies, the use of reinsurance protection, and regular modeling and stress-testing of the portfolio.

Crop Insurance

We are, and have been since the 1980s, one of the leading writers of crop insurance in the U.S. and have conducted that business through a managing general agent subsidiary of Rain and Hail. We provide protection throughout the U.S. on a variety of crops and are therefore geographically diversified, which reduces the risk of exposure to a single event or a heavy accumulation of losses in any one region. Our crop insurance business comprises two components – Multiple Peril Crop Insurance (MPCI) and crop-hail insurance.

The MPCI program is offered in conjunction with the U.S. Department of Agriculture (USDA). The policies cover revenue shortfalls or production losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. Generally, policies have deductibles ranging from 10 percent to 50 percent of the insured's risk. The USDA's Risk Management

Agency (RMA) sets the policy terms and conditions, rates and forms, and is also responsible for setting compliance standards. As a participating company, we report all details of policies underwritten to the RMA and are party to a Standard Reinsurance Agreement (SRA). The SRA sets out the relationship between private insurance companies and the Federal Crop Insurance Corporation (FCIC) concerning the terms and conditions regarding the risks each will bear including the pro-rata and state stop-loss provisions which allows companies to limit the exposure of any one state or group of states on their underwriting results. In addition to the pro-rata and excess of loss reinsurance protections inherent in the SRA, we also purchase third-party proportional and stop-loss reinsurance for our MPCI business to reduce our exposure.

Each year the RMA issues a final SRA for the subsequent reinsurance year. In June 2013, the RMA released the 2014 SRA which establishes the terms and conditions for the 2014 reinsurance year (i.e., July 1, 2013 through June 30, 2014) that replaced the 2013 SRA. There were no significant changes in the terms and conditions.

On the MPCI business, we recognize net premiums written as soon as estimable, which is generally when we receive acreage reports from the policyholders on the various crops throughout the U.S. This allows us to best determine the premium associated with the liability that is being planted. The MPCI program has specific timeframes as to when producers must report acreage to us and in certain cases, the reporting occurs after the close of the respective reinsurance year. Once the net premium written has been recorded, the premium is then earned over the growing season for the crops. A majority of the crops that are covered in the program are typically subject to the SRA in effect at the beginning of the year. Given the major crops covered in the program, we typically see a substantial written and earned premium impact in the second and third quarters.

The pricing of MPCI premium is determined using a number of factors including commodity prices and related volatility. For instance, in most states the pricing for the MPCI Revenue Product for corn includes a factor that is based on the average price in February of the Chicago Board of Trade December corn futures. To the extent that the corn commodity prices are higher in February than they were in the previous February, and all other factors are the same, the increase in corn prices will increase the corn premium year over year.

Our crop-hail program is a private offering. Premium is earned on the crop-hail program over the coverage period of the policy. Given the very short nature of the growing season, most crop-hail business is typically written in the second and third quarters with the earned premium also more heavily occurring during this time frame. We use industry data to develop our own rates and forms for the coverage offered. The policy primarily protects farmers against yield reduction caused by hail and/or fire, and related costs such as transit to storage. We offer various deductibles to allow the grower to partially self-insure for a reduced premium cost. We limit our crop-hail exposures through the use of township liability limits and third-party proportional and stop-loss reinsurance on our net retained hail business.

Liquidity

Liquidity is a measure of a company's ability to generate cash flows sufficient to meet short-term and long-term cash requirements. As a holding company, ACE Limited possesses assets that consist primarily of the stock of its subsidiaries and other investments. In addition to net investment income, ACE Limited's cash flows depend primarily on dividends or other statutorily permissible payments. Historically, these dividends and other payments have come from ACE's Bermuda-based operating subsidiaries, which we refer to as our Bermuda subsidiaries. Our consolidated sources of funds consist primarily of net premiums written, fees, net investment income, and proceeds from sales and maturities of investments. Funds are used at our various companies primarily to pay claims, operating expenses, and dividends and to service debt and purchase investments.

We anticipate that positive cash flows from operations (underwriting activities and investment income) should be sufficient to cover cash outflows under most loss scenarios for the near term. Should the need arise, we generally have access to capital markets and available credit facilities. Refer to “Credit Facilities” below for additional information. Our access to funds under existing credit facilities is dependent on the ability of the banks that are parties to the facilities to meet their funding commitments. Our existing credit facilities have remaining terms expiring between 2014 and 2017 and require that we maintain certain financial covenants, all of which we met at December 31, 2013. Should any of our existing credit providers experience financial difficulty, we may be required to replace credit sources, possibly in a difficult market. If we cannot obtain adequate capital or sources of credit on favorable terms, on a timely basis, or at all, our business, operating results, and financial condition could be adversely affected. To date, we have not experienced difficulty accessing any of our credit facilities.

To further ensure the sufficiency of funds to settle unforeseen claims, we hold certain invested assets in cash and short-term investments. In addition, for certain insurance, reinsurance, or deposit contracts that tend to have relatively large and reasonably predictable cash outflows, we attempt to establish dedicated portfolios of assets that are duration-matched with the related liabilities. With respect to the duration of our overall investment portfolio, we manage asset durations to both maximize return given current market conditions and provide sufficient liquidity to cover future loss payments. All things being equal, in a low interest rate environment, the overall duration of our fixed maturities tends to be shorter and in a high interest rate environment, such duration tends to be longer. At December 31, 2013, the average duration of our fixed maturities (4.0 years) is less than the average expected duration of our insurance liabilities (4.5 years). The decrease in duration of our insurance liabilities (4.5 years in 2013 and 5.0 years in 2012) is principally due to increases in interest rates in 2013.

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

The payment 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. During 2013, we were able to meet all of our obligations, including the payments of dividends on our Common Shares, with our net cash flows.

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. ACE Limited received dividends of $825 million and $450 million from its Bermuda subsidiaries in 2013 and 2012, respectively.

The payment of any dividends from AGM or its subsidiaries is subject to applicable U.K. insurance laws and regulations. In addition, the release of funds by Syndicate 2488 to subsidiaries of AGM is subject to regulations promulgated by the Society of Lloyd's. ACE Limited received no dividends from AGM in 2013 and 2012.

The U.S. insurance subsidiaries of ACE INA Holdings Inc. (ACE INA) may pay dividends, without prior regulatory approval, subject to restrictions set out in state law of the subsidiary's domicile (or, if applicable, commercial domicile). ACE INA's international subsidiaries are also subject to insurance laws and regulations particular to the countries in which the subsidiaries operate. These laws and regulations sometimes include restrictions that limit the amount of dividends payable without prior approval of regulatory insurance authorities. ACE Limited received no dividends from ACE INA in 2013 and 2012. Debt issued by ACE INA is serviced by statutorily permissible distributions by ACE INA's insurance subsidiaries to ACE INA as well as other group resources. ACE INA received no dividends from its subsidiaries in 2013 and $300 million in 2012. As of December 31, 2013, the amount of dividends available to be paid to ACE INA in 2014 from its subsidiaries without prior approval of insurance regulatory authorities totals $1.1 billion.

Cash Flows

Our insurance and reinsurance operations provide liquidity in that premiums are received in advance, sometimes substantially in advance, of the time claims are paid. Generally, cash flows are affected by claim payments that, due to the nature of our operations, may comprise large loss payments on a limited number of claims and which can fluctuate significantly from period to period. The irregular timing of these loss payments can create significant variations in cash flows from operations between periods. Refer to “Contractual Obligations and Commitments” for our estimate of future claim payments by period. Sources of liquidity include cash from operations, routine sales of investments, and financing arrangements. The following is a discussion of our cash flows for 2013, 2012, and 2011.

Operating cash flows reflect Net income for each period, adjusted for non-cash items and changes in working capital.

Cash flows from operations were $4.0 billion in both 2013 and 2012, compared with $3.5 billion in 2011. Cash flows from operations in 2013 were comparable to 2012, as higher net premiums collected of $276 million and lower income taxes paid of $220 million were offset by higher net losses paid of $287 million and higher expenses paid of $136 million. Cash flows from operations increased in 2012 compared with 2011, primarily due to higher net premiums collected of $752 million.

Cash used for investing was $4.4 billion in 2013, compared with $3.4 billion and $3.0 billion in 2012 and 2011, respectively, primarily related to net purchases of fixed maturities. Cash used for investing in 2013 was higher than the other periods primarily due to the acquisitions of ABA Seguros and Fianzas Monterrey of $977 million, compared to acquisitions in 2012 of $98 million, and in 2011 of $606 million.

Cash flows from financing were $391 million in 2013, compared with cash flows used for financing of $550 million and $565 million in 2012 and 2011, respectively. Financing cash flows in 2013 included $947 million of proceeds from the issuance of long-term debt, dividends paid on Common Shares of $517 million, and repurchases of Common Shares of $287 million. This compares to cash flows used for financing activities in 2012 and 2011 that primarily related to payments of dividends of $815 million and $459 million, respectively. Dividends paid on Common Shares of $517 million were lower in 2013 compared to $815 million in 2012 due to the accelerated payment of the fourth quarter 2012 dividend in December 2012, which would normally have been paid in the first quarter 2013.

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.

In the current low interest rate environment, we use repurchase agreements as a low-cost alternative for short-term funding needs and to address short-term cash timing differences without disrupting our investment portfolio holdings. At December 31, 2013, there were $1.4 billion in repurchase agreements outstanding.

In addition to cash from operations, routine sales of investments, and financing arrangements, we have agreements with a third-party bank provider which implemented two international multi-currency notional cash pooling programs to enhance cash management efficiency during periods of short-term timing mismatches between expected inflows and outflows of cash by currency. The programs allow us to optimize investment income by avoiding portfolio disruption. In each program, participating ACE entities establish deposit accounts in different currencies with the bank provider. Each day the credit or debit balances in every account are notionally translated into a single currency (U.S. dollars) and then notionally pooled. The bank extends overdraft credit to all participating ACE entities as needed, provided that the overall notionally pooled balance of all accounts in each pool at the end of each day is at least zero. Actual cash balances are not physically converted and are not commingled between legal entities. ACE entities may incur overdraft balances as a means to address short-term liquidity needs. Any overdraft balances incurred under this program by an ACE entity would be guaranteed by ACE Limited (up to $300 million in the aggregate). Our syndicated letter of credit facility allows for same day drawings to fund a net pool overdraft should participating ACE entities withdraw contributed funds from the pool.

Capital Resources

Capital resources consist of funds deployed or available to be deployed to support our business operations.

(in millions of U.S. dollars, except for percentages)	December 31 2013	December 31 2012
Short-term debt	$ 1,901	$ 1,401
Long-term debt	3,807	3,360
Total debt	5,708	4,761
Trust preferred securities	309	309
Total shareholders' equity	28,825	27,531
Total capitalization	$ 34,842	$ 32,601
Ratio of debt to total capitalization	16.4%	14.6%
Ratio of debt plus trust preferred securities to total capitalization	17.3%	15.6%

In June 2013, we reclassified $500 million of 5.875 percent senior notes, due to mature on June 15, 2014, from Long-term debt to Short-term debt in the consolidated balance sheet. During 2013, we issued $950 million of senior notes. Our ratios of debt to total capitalization and debt plus trust preferred securities to total capitalization are higher in 2013 primarily due to the increase in long-term debt. For discussion of our debt outstanding, refer to Note 9 to the Consolidated Financial Statements.

We believe our financial strength provides us with the flexibility and capacity to obtain available 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. We generally maintain the ability to issue certain classes of debt and equity securities via an unlimited SEC shelf registration which is renewed every three years. This allows us capital market access for refinancing as well as for unforeseen or opportunistic capital needs. Our current shelf registration on file with the SEC expires in December 2014.

The following table presents the significant movements in our shareholders' equity:

(in millions of U.S. dollars)	December 31 2013
Balance at beginning of year	$ 27,531
Net income	3,758
Net unrealized appreciation (depreciation) on investments, net of tax	(1,459)
Dividends on Common Shares	(692)
Repurchase of shares	(290)
Change in cumulative translation, net of tax	(276)
Share-based compensation expense	177
Exercise of stock options	79
Other movements, net of tax	(3)
Balance at end of year	$ 28,825

As part of our capital management program, in November 2013, our Board of Directors authorized the repurchase of up to $2.0 billion of ACE's Common Shares through December 31, 2014, replacing the $228 million balance remaining under previous share repurchase program approvals. We repurchased $290 million, $7 million, and $132 million of Common Shares in a series of open market transactions in 2013, 2012, and 2011, respectively. As of December 31, 2013, there were 3,038,477 Common Shares in treasury with a weighted average cost of $84.04 per share. For the period January 1, 2014 through February 27, 2014, we repurchased 3,437,082 Common Shares for a total of $326 million in a series of open market transactions. At February 27, 2014, $1.62 billion in share repurchase authorization remained through December 31, 2014.

Common Shares
Our Common Shares had a par value of CHF 27.04 each at December 31, 2013.

Under Swiss law, dividends must be stated in Swiss francs though dividend payments are made by ACE in U.S. dollars. Following ACE's redomestication to Switzerland in July 2008 through March 2011, dividends have generally been distributed by way of a par value reduction.

Our annual dividend is payable in four quarterly installments. At the January 10, 2014 Extraordinary General Meeting, our shareholders approved a resolution to increase our quarterly dividend 24 percent from $0.51 per share to $0.63 per share for the payment made on January 31, 2014 and the payment to be made by the end of April 2014, with the $0.12 per share increase for each installment to be distributed from capital contribution reserves (and the $0.51 per share to be distributed by way of par value reduction).

Dividend distributions on Common Shares amounted to CHF 1.85 ($2.02) per share for the year ended December 31, 2013, paid through par value reductions.

Contractual Obligations and Commitments

The following table presents our future payments due by period under contractual obligations at December 31, 2013:

	Payments Due By Period				
(in millions of U.S. dollars)	Total	2014	2015 and 2016	2017 and 2018	Thereafter
Payment amounts determinable from the respective contracts					
Deposit liabilities[1]	$ 830	$ 58	$ 67	$ 54	$ 651
Purchase obligations[2]	373	121	197	55	—
Limited partnerships – funding commitments[3]	1,159	522	539	98	—
Operating leases	534	106	185	119	124
Short-term debt	1,901	1,901	—	—	—
Long-term debt	3,812	—	1,152	802	1,858
Trust preferred securities	309	—	—	—	309
Interest on debt obligations	2,224	225	365	283	1,351
Total obligations in which payment amounts are determinable from the respective contracts	11,142	2,933	2,505	1,411	4,293
Payment amounts not determinable from the respective contracts					
Estimated gross loss payments under insurance and reinsurance contracts	37,507	8,797	9,679	5,576	13,455
Estimated payments for future life and annuity policy benefits	11,767	329	748	690	10,000
Total contractual obligations and commitments	$ 60,416	$ 12,059	$ 12,932	$ 7,677	$ 27,748

(1) Refer to Note 1 k) to the Consolidated Financial Statements.

(2) Primarily comprise audit fees and agreements with vendors to purchase system software administration and maintenance services.

(3) The timing of the payments of these commitments is uncertain and will differ from the estimated timing in the table.

The above table excludes the following items:

- Pension obligations: Minimum funding requirements for our pension obligations are immaterial. Subsequent funding commitments are apt to vary due to many factors and are difficult to estimate at this time. Refer to Note 13 to the Consolidated Financial Statements for additional information.

- Liabilities for unrecognized tax benefits: The liability for unrecognized tax benefits, excluding interest, was $27 million at December 31, 2013. We recognize accruals for interest and penalties, if any, related to unrecognized tax benefits in Income tax expense in the consolidated statements of operations. At December 31, 2013, we had $11 million in liabilities for income tax-related interest and penalties in our consolidated balance sheets. We are unable to make a reasonably reliable estimate for the timing of cash settlement with respect to these liabilities. Refer to Note 8 to the Consolidated Financial Statements for additional information.

We have no other significant contractual obligations or commitments not reflected in the table above. We do not have any off-balance sheet arrangements that are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Estimated gross loss payments under insurance and reinsurance contracts

We are obligated to pay claims under insurance and reinsurance contracts for specified loss events covered under those contracts. Such loss payments represent our most significant future payment obligation as a P&C insurance and reinsurance company. In contrast to other contractual obligations, cash payments are not determinable from the terms specified within the contract. For example, we do not ultimately make a payment to our counterparty for many insurance and reinsurance contracts (i.e., when a loss event has not occurred) and if a payment is to be made, the amount and timing cannot be determined from the contract. In the table above, we estimate payments by period relating to our gross liability for unpaid losses and loss expenses included in the consolidated balance sheet at December 31, 2013, and do not take into account reinsurance recoverable. These estimated loss payments are inherently uncertain and the amount and timing of actual loss payments are likely to differ from these estimates and the differences could be material. Given the numerous factors and assumptions involved in both estimates of loss and loss expense reserves and related estimates as to the timing of future loss and loss expense payments in the table above, differences between actual and estimated loss payments will not necessarily indicate a commensurate change in ultimate loss estimates. The liability for unpaid losses and loss expenses presented in our balance sheet is discounted for certain structured settlements for which the timing and amount of future claim payments are reliably determinable and certain reserves for unsettled claims that are discounted in statutory filings. Accordingly, the estimated amounts in the table exceed the liability for Unpaid losses and loss expenses presented in our balance sheet. Refer to Note 1 h) to the Consolidated Financial Statements for additional information.

Estimated payments for future life and annuity policy benefits

We establish reserves for future policy benefits for life and annuity contracts. The amounts in the table are gross of fees or premiums due from the underlying contracts. The liability for future policy benefits for life and annuity contracts presented in our balance sheet is discounted and reflected net of fees or premiums due from the underlying contracts. Accordingly, the estimated amounts in the table exceed the liability for future policy benefits for life and annuity contracts presented in our balance sheet. Payment amounts related to these reserves must be estimated and are not determinable from the contract. Due to the uncertainty with respect to the timing and amount of these payments, actual results could materially differ from the estimates in the table.

Credit Facilities

As our Bermuda subsidiaries are non-admitted insurers and reinsurers in the U.S., the terms of certain U.S. insurance and reinsurance contracts require them to provide collateral, which can be in the form of letters of credit (LOCs). In addition, AGM is required to satisfy certain U.S. regulatory trust fund requirements which can be met by the issuance of LOCs. LOCs may also be used for general corporate purposes and to provide underwriting capacity as funds at Lloyd's.

The following table presents our main credit facilities by credit line, usage, and expiry date at December 31, 2013:

(in millions of U.S. dollars)	Credit Line	Usage	Expiry Date
Syndicated Letter of Credit Facility[1]	$ 1,000	$ 376	Nov. 2017
Bilateral Letter of Credit Facility	500	500	June 2014
Funds at Lloyd's Capital Facilities[2]	425	352	Dec. 2017
Total	$ 1,925	$ 1,228	

(1) Guaranteed by ACE Limited. Provides up to $1 billion of availability (adjustable to $1.5 billion upon consent of the issuers) for LOCs, of which up to $300 million may be used for revolving loans.
(2) Supports AGM underwriting capacity for Lloyd's Syndicate 2488.

It is anticipated that our commercial facilities will be renewed on expiry but such renewals are subject to the availability of credit from banks utilized by ACE. In the event that such credit support is insufficient, we could be required to provide alternative security to clients. This could take the form of additional insurance trusts supported by our investment portfolio or funds withheld using our cash resources. The value of LOCs required is driven by, among other things, statutory liabilities reported by variable annuity guarantee reinsurance clients, loss development of existing reserves, the payment pattern of such reserves, the expansion of business, and loss experience of such business.

The facilities in the table above require that we maintain certain covenants, all of which have been met at December 31, 2013. These covenants include:

(i) Maintenance of a minimum consolidated net worth in an amount not less than the “Minimum Amount”. For the purpose of this calculation, the Minimum Amount is an amount equal to the sum of the base amount (currently $19.3 billion) plus 25 percent of consolidated net income for each fiscal quarter, ending after the date on which the current base amount became effective, plus 50 percent of any increase in consolidated net worth during the same period, attributable to the issuance of Common and Preferred Shares. The Minimum Amount is subject to an annual reset provision.

(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 December 31, 2013, (a) the minimum consolidated net worth requirement under the covenant described in (i) above was $20.2 billion and our actual consolidated net worth as calculated under that covenant was $27.7 billion and (b) our ratio of debt to total capitalization was 0.164 to 1, which is below the maximum debt to total capitalization ratio of 0.35 to 1 as described in (ii) above.

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 LOCs under such facility. Our failure to repay material financial obligations, as well as our failure with respect to certain other events expressly identified, would result in an event of default under one or more of the facilities.

Ratings

ACE Limited and its subsidiaries are assigned credit and financial strength (insurance) ratings from internationally recognized rating agencies, including S&P, A.M. Best, Moody's, and Fitch. The ratings issued on our companies by these agencies are announced publicly and are available directly from the agencies. Our Internet site (www.acegroup.com, under Investor Information) also contains some information about our ratings, but such information on our website is not incorporated by reference into this report.

Financial strength ratings reflect the rating agencies' opinions of a company's claims paying ability. 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.

Credit ratings assess a company's ability to make timely payments of principal and interest on its debt.

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. For example, the AGM capital facility requires that collateral be posted if the S&P public debt rating of ACE falls below BBB+. Also, we have insurance and reinsurance contracts which contain rating triggers. In the event the S&P or A.M. Best financial strength ratings of ACE fall, we may be faced with the cancellation of premium or be required to post collateral on our underlying obligation associated with this premium. We estimate that at December 31, 2013, a one-notch downgrade of our S&P or A.M. Best financial strength ratings would result in an immaterial loss of premium or requirement for collateral to be posted.

ITEM 7A. 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 losses from various market risks including changes in interest rates, equity prices, and foreign currency exchange rates. Further, through writing the GLB and GMDB products, we are exposed to volatility in the equity and credit markets, as well as interest rates. Our investment portfolio consists primarily of fixed income securities, denominated in both U.S. dollars and foreign currencies, which are sensitive to changes in interest rates and foreign currency exchange rates. The majority of our fixed income portfolio is classified as available for sale. The effect of market movements on our available for sale investment portfolio impacts Net income (through Net realized gains (losses)) when securities are sold or when we record an OTTI charge in Net income. Changes in interest rates and foreign currency exchange rates will have an immediate effect on Shareholders' equity and Comprehensive income and in certain instances, Net income. From time to time, we also use derivative instruments such as futures, options, swaps, and foreign currency forward contracts to manage the duration of our investment portfolio and foreign currency exposures and also to obtain exposure to a particular financial market. At December 31, 2013 and 2012, our notional exposure to derivative instruments was $8.2 billion and $7.1 billion, respectively. These instruments are recognized as assets or liabilities in our consolidated financial statements and are sensitive to changes in interest rates, foreign currency exchange rates, and equity security prices. As part of our investing activities, we from time to time purchase to be announced mortgage backed securities (TBAs). Changes in the fair value of TBAs are included in Net realized gains (losses) and therefore, have an immediate effect on both our Net income and Shareholders' equity.

We seek to mitigate market risk using a number of techniques, including maintaining and managing the assets and liabilities of our international operations consistent with the foreign currencies of the underlying insurance and reinsurance businesses, thereby limiting exchange rate risk to net assets denominated in foreign currencies.

The following is a discussion of our primary market risk exposures at December 31, 2013. Our policies to address these risks in 2013 were not materially different from 2012. We do not currently anticipate significant changes in our primary market risk exposures or in how those exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

Interest rate risk – fixed income portfolio and debt obligations
Our fixed income portfolio and debt obligations have exposure to interest rate risk. Changes in investment values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of our insurance reserves and debt obligations. We monitor this exposure through periodic reviews of our asset and liability positions.

The following table presents the impact at December 31, 2013 and 2012, on the fair value of our fixed income portfolio of a hypothetical increase in interest rates of 100 bps applied instantly across the U.S. yield curve (an immediate time horizon was used as this presents the worst case scenario):

(in billions of U.S. dollars, except for percentages)	**2013**	2012
Fair value of fixed income portfolio	**$ 57.3**	$ 57.2
Pre-tax impact of 100 bps increase in interest rates:		
In dollars	**$ 2.3**	$ 2.2
As a percentage of total fixed income portfolio at fair value	**4.0%**	3.9%

Changes in interest rates will have an immediate effect on Comprehensive income and Shareholders' equity but will not ordinarily have an immediate effect on Net income. Variations in market interest rates could produce significant changes in the timing of prepayments due to available prepayment options. For these reasons, actual results could differ from those reflected in the tables.

Although our debt and trust preferred securities (collectively referred to as debt obligations) are reported at amortized cost and not adjusted for fair value changes, changes in interest rates could have a material impact on their fair value, albeit there is no immediate impact on our consolidated financial statements.

The following table presents the impact at December 31, 2013 and 2012, on the fair value of our debt obligations of a hypothetical decrease in interest rates of 100 bps applied instantly across the U.S. yield curve (an immediate time horizon was used as this presents the worst case scenario):

(in millions of U.S. dollars, except for percentages)	**2013**	2012
Fair value of debt obligations	**$ 6,439**	$ 5,763
Impact of 100 bps decrease in interest rates:		
In dollars	**$ 282**	$ 199
As a percentage of total debt obligations at fair value	**4.4%**	3.5%

Foreign currency exchange rate risk
Many of our non-U.S. companies maintain both assets and liabilities in local currencies. Therefore, foreign currency exchange rate risk is generally limited to net assets denominated in those foreign currencies. Foreign currency exchange rate risk is reviewed as part of our risk management process. Locally required capital levels are invested in home currencies in order to satisfy regulatory requirements and to support local insurance operations regardless of currency fluctuations. The principal currencies creating foreign currency exchange rate risk for us are the British pound sterling, the euro, the yen, the Mexican peso, the Canadian dollar, and the Australian dollar.

The following table presents more information on our exposure to foreign exchange rate risk at December 31, 2013 and 2012:

(in millions of U.S. dollars, except for percentages)	**2013**	2012
Fair value of net assets denominated in foreign currencies	**$ 6,943**	$ 5,212
As a percentage of total net assets	**24.1%**	18.9%
Pre-tax impact on shareholders' equity of a hypothetical 10 percent strengthening of the U.S. dollar	**$ 628**	$ 470

Reinsurance of GMDB and GLB guarantees

Net income is directly impacted by changes in benefit reserves calculated in connection with reinsurance of variable annuity guarantees, primarily GMDB and GLB. Benefit reserves are calculated in accordance with guidance related to accounting and reporting by insurance enterprises for certain non-traditional long-duration contracts and for separate accounts. Changes in benefit reserves are reflected as policy benefits expense, which is included in life underwriting income. In addition, net income is directly impacted by the change in the fair value of the GLB liability (FVL), which is classified as a derivative for accounting purposes. The FVL established for a GLB reinsurance contract represents the difference between the fair value of the contract and the benefit reserves. Changes in the FVL, net of associated changes in the calculated benefit reserves, are reflected as realized gains or losses.

ACE views its variable annuity reinsurance business as having a similar risk profile to that of catastrophe reinsurance with the probability of long-term economic loss relatively small, at the time of pricing. Adverse changes in market factors and policyholder behavior will have an impact on both life underwriting income and net income. When evaluating these risks, we expect to be compensated for taking both the risk of a cumulative long-term economic net loss, as well as the short-term accounting variations caused by these market movements. Therefore, we evaluate this business in terms of its long-term economic risk and reward.

At December 31, 2013, management established benefit reserves based on the benefit ratio calculated using assumptions reflecting management's best estimate of the future performance of the variable annuity line of business. Management exercises judgment in determining the extent to which short-term market movements impact the benefit reserves. The benefit reserves are based on the calculation of a long-term benefit ratio (or loss ratio) for the variable annuity guarantee reinsurance. Despite the long-term nature of the risk, the benefit ratio calculation is impacted by short-term market movements that may be judged by management to be temporary or transient. Management's best estimate reflected a judgment that the equity markets will exhibit growth somewhat lower than historical average levels. Management regularly examines both quantitative and qualitative analysis and for the year ended December 31, 2013, determined that no change to the benefit ratio was warranted.

The guidance requires us to "regularly evaluate estimates used and adjust the liability balance... if actual experience or other evidence suggests that earlier assumptions should be revised." ACE evaluates its estimates regularly and management uses judgment to determine the extent to which assumptions underlying the benefit ratio calculation used to establish benefit reserves should be adjusted. The benefit ratio is calculated based on management's expectation for the short-term and long-term performance of the variable annuity guarantee liability. Management's quantitative analysis includes a review of the differential between the benefit ratio used at the most recent valuation date and the benefit ratio calculated on subsequent dates.

Benefit reserves and FVL calculations are directly affected by market factors, including equity levels, interest rate levels, credit risk, and implied volatilities, as well as policyholder behaviors, such as annuitization and lapse rates. The tables below assume no changes to the benefit ratio used to establish benefit reserves at December 31, 2013 and show the sensitivity, at December 31, 2013, of the FVL associated with the variable annuity guarantee reinsurance portfolio. In addition, the tables below present the sensitivity of the fair value of specific derivative instruments held (hedge value) to partially offset the risk in the variable annuity guarantee reinsurance portfolio. The tables below are estimates of the sensitivities to instantaneous changes in economic inputs or actuarial assumptions.

The tables below do not reflect the expected quarterly run rate of net income generated by the variable annuity guarantee reinsurance portfolio if markets remain unchanged during the period. All else equal, if markets remain unchanged during the period, the Gross FVL will increase, resulting in a realized loss. The realized loss occurs primarily because, during the period, we will collect premium while paying little or no claims on our GLB reinsurance (since most policies are not eligible to annuitize until 2014 or later). This increases the Gross FVL because future premiums are lower by the amount collected in the quarter, and also because future claims are discounted for a shorter period. We refer to this increase in Gross FVL as "timing effect". The unfavorable impact of timing effect on our Gross FVL in a quarter is not reflected in the sensitivity tables below. For this reason, when using the tables below to estimate the sensitivity of Gross FVL in the first quarter 2014 to various changes, it is necessary to assume an additional $15 million to $45 million increase in Gross FVL and realized losses. However, the impact to Net income is substantially mitigated because the majority of this realized loss is offset by the positive quarterly run rate of life underwriting income generated by the variable annuity guarantee reinsurance portfolio if markets remain unchanged during the period. Note that both the timing effect and the quarterly run rate of life underwriting income change over time as the book ages.

Interest Rate Shock (in millions of U.S. dollars)		Worldwide Equity Shock +10%	Flat	-10%	-20%	-30%	-40%
+100 bps	(Increase)/decrease in Gross FVL	$ 244	$ 141	$ 12	$ (212)	$ (534)	$ (955)
	Increase/(decrease) in hedge value	(143)	6	156	308	466	629
	Increase/(decrease) in net income	$ 101	$ 147	$ 168	$ 96	$ (68)	$ (326)
Flat	(Increase)/decrease in Gross FVL	$ 146	$ —	$ (228)	$ (540)	$ (944)	$ (1,436)
	Increase/(decrease) in hedge value	(142)	6	157	310	468	632
	Increase/(decrease) in net income	$ 4	$ 6	$ (71)	$ (230)	$ (476)	$ (804)
-100 bps	(Increase)/decrease in Gross FVL	$ (49)	$ (289)	$ (595)	$ (990)	$ (1,472)	$ (2,035)
	Increase/(decrease) in hedge value	(142)	7	158	312	470	635
	Increase/(decrease) in net income	$ (191)	$ (282)	$ (437)	$ (678)	$ (1,002)	$ (1,400)

Sensitivities to Other Economic Variables	AA-rated Credit Spreads		Interest Rate Volatility		Equity Volatility	
(in millions of U.S. dollars)	+100	-100	+2%	-2%	+2%	-2%
(Increase)/decrease in Gross FVL	$ 39	$ (41)	$ (1)	$ —	$ (13)	$ 12
Increase/(decrease) in hedge value	—	—	—	—	8	5
Increase/(decrease) in net income	$ 39	$ (41)	$ (1)	$ —	$ (5)	$ 17

Sensitivities to Actuarial Assumptions	Mortality			
(in millions of U.S. dollars)	+20%	+10%	-10%	-20%
(Increase)/decrease in Gross FVL	$ 15	$ 8	$ (8)	$ (16)
Increase/(decrease) in hedge value	—	—	—	—
Increase/(decrease) in net income	$ 15	$ 8	$ (8)	$ (16)

	Lapses			
(in millions of U.S. dollars)	+50%	+25%	-25%	-50%
(Increase)/decrease in Gross FVL	$ 129	$ 76	$ (92)	$ (198)
Increase/(decrease) in hedge value	—	—	—	—
Increase/(decrease) in net income	$ 129	$ 76	$ (92)	$ (198)

	Annuitization			
(in millions of U.S. dollars)	+50%	+25%	-25%	-50%
(Increase)/decrease in Gross FVL	$ (192)	$ (99)	$ 86	$ 172
Increase/(decrease) in hedge value	—	—	—	—
Increase/(decrease) in net income	$ (192)	$ (99)	$ 86	$ 172

The above tables assume equity shocks impact all global equity markets equally and that the interest rate shock is a parallel shift in the U.S. yield curve. Our liabilities are sensitive to global equity markets in the following proportions: 70 percent—80 percent U.S. equity, 10 percent—20 percent international equity ex-Japan, 5 percent—15 percent Japan equity. Our current hedge portfolio is sensitive to global equity markets in the following proportions: 100 percent U.S. equity. We would suggest using the S&P 500 index as a proxy for U.S. equity, the MSCI EAFE index as a proxy for international equity, and the TOPIX as a proxy for Japan equity.

Our liabilities are also sensitive to global interest rates at various points on the yield curve, mainly the U.S. Treasury curve in the following proportions: 5 percent—15 percent short-term rates (maturing in less than 5 years), 20 percent—30 percent medium-term rates (maturing between 5 years and 10 years, inclusive), and 60 percent—70 percent long-term rates (maturing beyond 10 years). A change in AA-rated credit spreads (AA-rated credit spreads are a proxy for both our own credit spreads and the credit spreads of the ceding insurers) impacts the rate used to discount cash flows in the fair value model. The hedge sensitivity is from December 31, 2013 market levels and includes the impact of adjustments to the hedge portfolio made subsequent to that date.

The above sensitivities are not directly additive because changes in one factor will affect the sensitivity to changes in other factors. Also, the sensitivities do not scale linearly and may be proportionally greater for larger movements in the market factors. Sensitivities may also vary due to foreign exchange rate fluctuations. The calculation of the FVL is based on internal models that include assumptions regarding future policyholder behavior, including lapse, annuitization, and asset allocation. These assumptions impact both the absolute level of the FVL as well as the sensitivities to changes in market factors shown above. Additionally, actual sensitivity of our net income may differ from those disclosed in the tables above due to differences between short-term market movements and management judgment regarding the long-term assumptions implicit in our benefit ratios. Furthermore, the sensitivities above could vary by multiples of the sensitivities in the tables above.

Variable annuity net amount at risk

The tables below present the net amount at risk at December 31, 2013 following an immediate change in equity market levels, assuming all global equity markets are impacted equally. For further information on the net amount at risk, refer to Note 5 to the Consolidated Financial Statements.

a) Reinsurance covering the GMDB risk only

	Equity Shock					
(in millions of U.S. dollars, except percentages)	+20%	Flat	-20%	-40%	-60%	-80%
GMDB net amount at risk	$ 396	$ 586	$ 1,066	$ 1,778	$ 1,846	$ 1,584
Claims at 100% immediate mortality	815	668	399	298	267	240

The treaty claim limits function as a ceiling on the net amount at risk as equity markets fall. In addition, the claims payable if all of the policyholders were to die immediately declines as equity markets fall due to the specific nature of these claim limits, many of which are annual claim limits calculated as a percentage of the reinsured account value. There is also some impact due to a small portion of the GMDB reinsurance under which claims are positively correlated to equity markets (claims decrease as equity markets fall).

b) Reinsurance covering the GLB risk only

	Equity Shock					
(in millions of U.S. dollars, except percentages)	+20%	Flat	-20%	-40%	-60%	-80%
GLB net amount at risk	$ 51	$ 136	$ 589	$ 1,523	$ 2,439	$ 2,775

The treaty claim limits cause the net amount at risk to increase at a declining rate as equity markets fall.

c) Reinsurance covering both the GMDB and GLB risks on the same underlying policyholders

	Equity Shock					
(in millions of U.S. dollars, except percentages)	+20%	Flat	-20%	-40%	-60%	-80%
GMDB net amount at risk	$ 46	$ 73	$ 113	$ 154	$ 190	$ 220
GLB net amount at risk	48	141	493	1,114	1,771	2,292
Claims at 100% immediate mortality	21	84	401	655	864	1,059

The treaty limits control the increase in the GMDB net amount at risk as equity markets fall. The GMDB net amount at risk continues to grow as equity markets fall because most of these reinsurance treaties do not have annual claim limits calculated as a percentage of the underlying account value.

The treaty limits cause the GLB net amount at risk to increase at a declining rate as equity markets fall.

ITEM 8. Financial Statements and Supplementary Data

The financial statements and supplementary data are included in this Form 10-K commencing on page F-1.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

ITEM 9A. Controls and Procedures

ACE's management, with the participation of ACE's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of ACE's disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 as of December 31, 2013. Based upon that evaluation, ACE's Chief Executive Officer and Chief Financial Officer concluded that ACE'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, and that such information is accumulated and communicated to ACE's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in ACE's internal controls over financial reporting during the three months ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, ACE's internal controls over financial reporting. ACE's management report on internal control over financial reporting is included on page F-3 and PricewaterhouseCoopers LLP's audit report is included on page F-4.

ITEM 9B. Other Information

Item not applicable.

ITEM 10. Directors, Executive Officers and Corporate Governance

Information pertaining to this item is incorporated by reference to the sections entitled “Election of Directors”, “Corporate Governance - Director Independence and Other Information,” “Corporate Governance - Did Our Officers and Directors Comply with Section 16(a) Beneficial Ownership Reporting in 2013?”, “Corporate Governance - How Are Directors Nominated?”, and “Corporate Governance - The Committees of the Board - The Audit Committee” of the definitive proxy statement for the 2014 Annual General Meeting of Shareholders which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A. Also incorporated herein by reference is the text under the caption “Executive Officers of the Registrant” appearing at the end of Part I Item 1. of the Annual Report on Form 10-K.

Code of Ethics

ACE has adopted a Code of Conduct, which sets forth standards by which all ACE employees, officers, and directors must abide as they work for ACE. ACE has posted this Code of Conduct on its Internet site (www.acegroup.com, under Investor Information / Corporate Governance / ACE Ethics Helpline / Integrity First: The ACE Code of Conduct). ACE intends to disclose on its Internet site any amendments to, or waivers from, its Code of Conduct that are required to be publicly disclosed pursuant to the rules of the SEC or the New York Stock Exchange.

ITEM 11. Executive Compensation

This item is incorporated by reference to the section entitled “Executive Compensation” of the definitive proxy statement for the 2014 Annual General Meeting of Shareholders which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders[1]	9,496,856	$ 61.84	12,545,009

[1] These totals include securities available for future issuance under the following plans:

(i) *ACE Limited 2004 Long-Term Incentive Plan (the 2004 LTIP).* A total of 38,600,000 Common Shares of ACE are authorized to be issued pursuant to awards made as options, stock appreciation rights, performance shares, performance units, restricted stock, and restricted stock units. The maximum number of shares that may be delivered to participants and their beneficiaries under the 2004 LTIP shall be equal to the sum of: (i) 38,600,000 shares; and (ii) any shares that are represented by awards granted under the ACE Limited 1995 Long-Term Incentive Plan, the ACE Limited 1995 Outside Directors Plan, the ACE Limited 1998 Long-Term Incentive Plan, and the ACE Limited 1999 Replacement Long-Term Incentive Plan (the Prior Plans) that are forfeited, expired, or are canceled after the effective date of the 2004 LTIP of February 25, 2004, without delivery of shares or which result in the forfeiture of the shares back to ACE to the extent that such shares would have been added back to the reserve under the terms of the applicable Prior Plan. As of December 31, 2013, a total of 9,382,932 option awards are outstanding and 11,231,423 shares remain available for future issuance under this plan.

(ii) *ACE Limited 1998 Long-Term Incentive Plan.* This plan only remains in effect with respect to 113,924 option awards outstanding made pursuant to this plan. Future awards will be made pursuant to the 2004 LTIP.

(iii) *Employee Stock Purchase Plan.* A total of 4,500,000 shares are authorized for purchase at a discount. As of December 31, 2013, 1,313,586 shares remain available for future issuance under this plan.

Additional information is incorporated by reference to the section entitled “Information About our Share Ownership” of the definitive proxy statement for the 2014 Annual General Meeting of Shareholders which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 13. Certain Relationships and Related Transactions and Director Independence

This item is incorporated by reference to the sections entitled “Corporate Governance - What Is Our Related Party Transactions Approval Policy and What Procedures Do We Use to Implement It?”, “Corporate Governance - What Related Person Transactions Do We Have?”, and “Corporate Governance - Director Independence and Other Information” of the definitive proxy statement for the 2014 Annual General Meeting of Shareholders which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 14. Principal Accounting Fees and Services

This item is incorporated by reference to the section entitled “Election of Auditors - Ratification of appointment of PricewaterhouseCoopers LLP (United States) as independent registered public accounting firm for purposes of United States securities law reporting for the year ending December 31, 2014” of the definitive proxy statement for the 2014 Annual General Meeting of Shareholders which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 15. Exhibits, Financial Statement Schedules

(a) Financial Statements, Schedules, and Exhibits

Other schedules have been omitted as they are not applicable to ACE, or the required information has been included in the Consolidated Financial Statements and related notes.

3. Exhibits

		Incorporated by Reference			
Exhibit Number	Exhibit Description	Form	Original Number	Date Filed	Filed Herewith
3.1	Articles of Association of the Company, as amended and restated	8-K	3	December 13, 2013	
3.2	Organizational Regulations of the Company, as amended and restated	8-K	3	August 16, 2013	
4.1	Articles of Association of the Company, as amended and restated	8-K	4	December 13, 2013	
4.2	Organizational Regulations of the Company, as amended and restated	8-K	4	August 16, 2013	
4.3	Specimen share certificate representing Common Shares	8-K	4.3	July 18, 2008	
4.4	Form of 2.6 percent Senior Notes due 2015	8-K	4.1	November 23, 2010	
4.5	Indenture, dated March 15, 2002, between ACE Limited and Bank One Trust Company, N.A.	8-K	4.1	March 22, 2002	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Original Number	Date Filed	Filed Herewith
4.6	Senior Indenture, dated August 1, 1999, among ACE INA Holdings, Inc., ACE Limited and Bank One, N.A. (formerly The First National Bank of Chicago), as trustee	S-3/A	4.5	August 12, 1999	
4.7	Indenture, dated November 30, 1999, among ACE INA Holdings, Inc. and Bank One Trust Company, N.A., as trustee	10-K	10.38	March 29, 2000	
4.8	Indenture, dated December 1, 1999, among ACE INA Holdings, Inc., ACE Limited and Bank One Trust Company, National Association, as trustee	10-K	10.41	March 29, 2000	
4.9	Amended and Restated Trust Agreement, dated March 31, 2000, among ACE INA Holdings, Inc., Bank One Trust Company, National Association, as property trustee, Bank One Delaware Inc., as Delaware trustee and the administrative trustees named therein	10-K	4.17	March 16, 2006	
4.10	Common Securities Guarantee Agreement, dated March 31, 2000	10-K	4.18	March 16, 2006	
4.11	Capital Securities Guarantee Agreement, dated March 31, 2000	10-K	4.19	March 16, 2006	
4.12	Form of 2.70 percent Senior Notes due 2023	8-K	4.1	March 13, 2013	
4.13	Form of 4.15 percent Senior Notes due 2043	8-K	4.2	March 13, 2013	
4.14	First Supplemental Indenture dated as of March 13, 2013 to the Indenture dated as of August 1, 1999 among ACE INA Holdings, Inc., as Issuer, ACE Limited, as Guarantor, and The Bank of New York Mellon Trust Company, N.A., as Successor Trustee	8-K	4.3	March 13, 2013	
10.1*	Form of Indemnification Agreement between the Company and individuals who became directors of the Company after the Company's redomestication to Switzerland	10-Q	10.1	August 6, 2010	
10.2*	Second Amended and Restated Indemnification Agreement in the form executed between the Company and directors (except for Olivier Steimer) and/or officers	10-Q	10.1	August 7, 2007	
10.3*	Indemnification agreement between the Company and Olivier Steimer, dated November 20, 2008	10-K	10.2	February 27, 2009	
10.4	First Amendment dated as of November 21, 2012, to the Letter of credit facility agreements dated November 18, 2010, between ACE Limited and Lloyd's TSB Bank PLC	10-K	10.5	February 28, 2013	

		Incorporated by Reference			
Exhibit Number	Exhibit Description	Form	Original Number	Date Filed	Filed Herewith
10.5	Letter of credit facility agreements dated November 18, 2010, between ACE Limited and Lloyd's TSB Bank PLC	10-K	10.5	February 25, 2011	
10.6	First Amendment dated as of November 21, 2012, to the Letter of credit facility agreements dated November 18, 2010, between ACE Limited and ING Bank N.V., London Branch	10-K	10.7	February 28, 2013	
10.7	Letter of credit facility agreements dated November 18, 2010, between ACE Limited and ING Bank N.V., London Branch	10-K	10.6	February 25, 2011	
10.8	First Amendment dated as of November 21, 2012, to the Letter of credit facility agreements dated November 18, 2010, between ACE Limited and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch	10-K	10.9	February 28, 2013	
10.9	Letter of credit facility agreements dated November 18, 2010, between ACE Limited and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch	10-K	10.7	February 25, 2011	
10.10	First Amendment dated as of November 21, 2012, to the Letter of credit facility agreements dated November 18, 2010, between ACE Limited and The Royal Bank of Scotland PLC	10-K	10.11	February 28, 2013	
10.11	Letter of credit facility agreements dated November 18, 2010, between ACE Limited and The Royal Bank of Scotland PLC	10-K	10.8	February 25, 2011	
10.12	Credit Agreement for $1,000,000,000 Senior Unsecured Letter of Credit Facility, dated as of November 6, 2012, among ACE Limited, and certain subsidiaries and Wells Fargo Bank, National Association as Administrative Agent, the Swingline Bank and an Issuing Bank	10-K	10.13	February 28, 2013	
10.13*	Employment Terms dated October 29, 2001, between ACE Limited and Evan Greenberg	10-K	10.64	March 27, 2003	
10.14*	Employment Terms dated November 2, 2001, between ACE Limited and Philip V. Bancroft	10-K	10.65	March 27, 2003	
10.15*	Executive Severance Agreement between ACE Limited and Philip Bancroft, effective January 2, 2002	10-Q	10.1	May 10, 2004	
10.16*	Letter Regarding Executive Severance between ACE Limited and Philip V. Bancroft	10-K	10.17	February 25, 2011	
10.17*	Employment Terms dated April 10, 2006, between ACE and John Keogh	10-K	10.29	February 29, 2008	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Original Number	Date Filed	Filed Herewith
10.18*	Executive Severance Agreement between ACE and John Keogh	10-K	10.30	February 29, 2008	
10.19*	ACE Limited Executive Severance Plan as amended effective May 18, 2011	10-K	10.21	February 24, 2012	
10.20*	Form of employment agreement between the Company (or subsidiaries of the Company) and executive officers of the Company to allocate a percentage of aggregate salary to the Company (or subsidiaries of the Company)	8-K	10.1	July 16, 2008	
10.21*	Description of Executive Officer Cash Compensation for 2011	10-Q	10.1	November 3, 2011	
10.22*	Description of Directors Compensation	10-Q	10.2	November 3, 2011	
10.23*	Description of Directors Compensation	10-Q	10.1	October 30, 2013	
10.24*	ACE Limited Annual Performance Incentive Plan	S-1	10.13	January 21, 1993	
10.25*	ACE Limited Elective Deferred Compensation Plan (as amended and restated effective January 1, 2005)	10-K	10.24	March 16, 2006	
10.26*	ACE USA Officer Deferred Compensation Plan (as amended through January 1, 2001)	10-K	10.25	March 16, 2006	
10.27*	ACE USA Officer Deferred Compensation Plan (as amended and restated effective January 1, 2011)	10-Q	10.7	October 30, 2013	
10.28*	ACE USA Officer Deferred Compensation Plan (as amended and restated effective January 1, 2009)	10-K	10.36	February 27, 2009	
10.29*	First Amendment to the Amended and Restated ACE USA Officers Deferred Compensation Plan	10-K	10.28	February 25, 2010	
10.30*	Form of Swiss Mandatory Retirement Benefit Agreement (for Swiss-employed named executive officers)	10-Q	10.2	May 7, 2010	
10.31*	ACE Limited Supplemental Retirement Plan (as amended and restated effective July 1, 2001)	10-Q	10.1	November 14, 2001	
10.32*	ACE Limited Supplemental Retirement Plan (as amended and restated effective January 1, 2011)	10-Q	10.6	October 30, 2013	
10.33*	Amendments to the ACE Limited Supplemental Retirement Plan and the ACE Limited Elective Deferred Compensation Plan	10-K	10.38	February 29, 2008	

		Incorporated by Reference			
Exhibit Number	Exhibit Description	Form	Original Number	Date Filed	Filed Herewith
10.34*	ACE Limited Elective Deferred Compensation Plan (as amended and restated effective January 1, 2009)	10-K	10.39	February 27, 2009	
10.35*	ACE Limited Elective Deferred Compensation Plan (as amended and restated effective January 1, 2011)	10-Q	10.5	October 30, 2013	
10.36*	Deferred Compensation Plan amendments, effective January 1, 2009	10-K	10.40	February 27, 2009	
10.37*	Amendment to the ACE Limited Supplemental Retirement Plan	10-K	10.39	February 29, 2008	
10.38*	Amendment and restated ACE Limited Supplemental Retirement Plan, effective January 1, 2009	10-K	10.42	February 27, 2009	
10.39*	ACE USA Supplemental Employee Retirement Savings Plan	10-Q	10.6	May 15, 2000	
10.40*	ACE USA Supplemental Employee Retirement Savings Plan (as amended through the Second Amendment)	10-K	10.30	March 1, 2007	
10.41*	ACE USA Supplemental Employee Retirement Savings Plan (as amended through the Third Amendment)	10-K	10.31	March 1, 2007	
10.42*	ACE USA Supplemental Employee Retirement Savings Plan (as amended and restated)	10-K	10.46	February 27, 2009	
10.43*	First Amendment to the Amended and Restated ACE USA Supplemental Employee Retirement Savings Plan	10-K	10.39	February 25, 2010	
10.44*	The ACE Limited 1995 Outside Directors Plan (as amended through the Seventh Amendment)	10-Q	10.1	August 14, 2003	
10.45*	ACE Limited 1998 Long-Term Incentive Plan (as amended through the Fourth Amendment)	10-K	10.34	March 1, 2007	
10.46*	ACE Limited 2004 Long-Term Incentive Plan (as amended through the Fifth Amendment)	8-K	10	May 21, 2010	
10.47*	ACE Limited 2004 Long-Term Incentive Plan (as amended through the Sixth Amendment)	8-K	10.1	May 20, 2013	
10.48*	ACE Limited Rules of the Approved U.K. Stock Option Program	10-Q	10.2	February 13, 1998	
10.49*	Form of Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-K	10.54	February 27, 2009	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Original Number	Date Filed	Filed Herewith
10.50*	Form of Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-K	10.55	February 27, 2009	
10.51*	Director Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.1	November 9, 2009	
10.52*	Form of Restricted Stock Unit Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.1	May 8, 2008	
10.53*	Form of Restricted Stock Unit Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.2	May 8, 2008	
10.54*	Form of Restricted Stock Unit Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-K	10.60	February 27, 2009	
10.55*	Form of Restricted Stock Unit Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.2	October 30, 2013	
10.56*	Form of Restricted Stock Unit Award Terms under the ACE Limited 2004 Long-Term Incentive Plan for Chief Executive Officer, Chief Financial Officer and the General Counsel				X
10.57*	Form of Incentive Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	8-K	10.4	September 13, 2004	
10.58*	Form of Incentive Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.4	May 8, 2008	
10.59*	Form of Incentive Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-K	10.63	February 27, 2009	
10.60*	Form of Incentive Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.3	October 30, 2013	
10.61*	Form of Non-Qualified Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	8-K	10.5	September 13, 2004	
10.62*	Form of Non-Qualified Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.3	May 8, 2008	
10.63*	Form of Non-Qualified Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.4	October 30, 2013	
10.64*	Form of Performance Based Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan, as updated through May 4, 2006	10-Q	10.3	May 5, 2006	
10.65*	Revised Form of Performance Based Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.2	November 8, 2006	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Original Number	Date Filed	Filed Herewith
10.66*	Revised Form of Performance Based Restricted Stock Award Terms under The ACE Limited 2004 Long-Term Incentive Plan	10-K	10.65	February 25, 2011	
10.67*	Form of Performance Based Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan				X
10.68*	Form of Performance Based Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan for Chief Executive Officer, Chief Financial Officer and the General Counsel				X
10.69*	Form of Restricted Stock Unit Award Terms (for outside directors) under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.2	November 7, 2007	
10.70*	Form of Restricted Stock Unit Award Terms (for outside directors) under the ACE Limited 2004 Long-Term Incentive Plan	10-Q	10.2	August 7, 2009	
10.71*	Form of Incentive Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan for Messrs. Greenberg and Cusumano	10-Q	10.1	August 4, 2011	
10.72*	Form of Non-Qualified Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan for Messrs. Greenberg and Cusumano	10-Q	10.2	August 4, 2011	
10.73*	Form of Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan for Messrs. Greenberg and Cusumano	10-Q	10.3	August 4, 2011	
10.74*	ACE Limited Employee Stock Purchase Plan, as amended	8-K	10.1	May 22, 2012	
10.75*	Form of Performance Based Restricted Stock Award Terms under the ACE Limited 2004 Long-Term Incentive Plan for Messrs. Greenberg and Cusumano	10-K	10.72	February 24, 2012	
10.76*	Separation and Release Agreement between the Company and Robert Cusumano, dated July 24, 2013	10-Q	10.8	October 30, 2013	
10.77	Second Amended and Restated Credit Agreement for $500,000,000 dated as of November 8, 2007, among ACE Limited, certain subsidiaries, various lenders and J.P. Morgan Securities Inc. and Barclays Capital as joint lead arrangers and joint bookrunners	8-K	10.2	November 14, 2007	

		Incorporated by Reference			
Exhibit Number	Exhibit Description	Form	Original Number	Date Filed	Filed Herewith
10.78	First Amendment and Waiver dated July 10, 2008, to the Second Amended and Restated Credit Agreement for $500,000,000 dated as of November 8, 2007, among ACE Limited, certain subsidiaries, various lenders and J.P. Morgan Securities Inc. and Barclays Capital as joint lead arrangers and joint bookrunners	8-K	10.6	July 16, 2008	
10.79	Letter of Credit Agreement for $500,000,000, dated June 16, 2009, among ACE Limited, and Deutsche Bank, New York Branch	10-Q	10.1	August 7, 2009	
12.1	Ratio of earnings to fixed charges				X
21.1	Subsidiaries of the Company				X
23.1	Consent of Independent Registered Public Accounting Firm				X
31.1	Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002				X
31.2	Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002				X
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002				X
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002				X
101	The following financial information from ACE Limited's Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL: (i) Consolidated Balance Sheets at December 31, 2013 and 2012; (ii) Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2013, 2012, and 2011; (iii) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2013, 2012, and 2011; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012, and 2011; and (v) Notes to the Consolidated Financial Statements				X

* Management Contract or Compensation Plan

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACE LIMITED

By: /s/ Philip V. Bancroft

Philip V. Bancroft
Chief Financial Officer

February 28, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Evan G. Greenberg **Evan G. Greenberg**	President, Chairman, Chief Executive Officer; Director	February 28, 2014
/s/ Philip V. Bancroft **Philip V. Bancroft**	Chief Financial Officer (Principal Financial Officer)	February 28, 2014
/s/ Paul B. Medini **Paul B. Medini**	Chief Accounting Officer (Principal Accounting Officer)	February 28, 2014
/s/ Michael G. Atieh **Michael G. Atieh**	Director	February 28, 2014
/s/ Mary A. Cirillo **Mary A. Cirillo**	Director	February 28, 2014
/s/ Michael P. Connors **Michael P. Connors**	Director	February 28, 2014
/s/ Robert M. Hernandez **Robert M. Hernandez**	Director	February 28, 2014
/s/ Peter Menikoff **Peter Menikoff**	Director	February 28, 2014

Signature	Title	Date
/s/ Leo F. Mullin **Leo F. Mullin**	Director	February 28, 2014
/s/ Thomas J. Neff **Thomas J. Neff**	Director	February 28, 2014
/s/ Robert Ripp **Robert Ripp**	Director	February 28, 2014
/s/ Eugene B. Shanks, Jr. **Eugene B. Shanks, Jr.**	Director	February 28, 2014
/s/ Theodore E. Shasta **Theodore E. Shasta**	Director	February 28, 2014
/s/ Olivier Steimer **Olivier Steimer**	Director	February 28, 2014

Audited Consolidated Financial Statements of ACE Limited for the fiscal year ended December 31, 2013 have been included as part of Exhibit 7.

SCHEDULE VI

ACE Limited and Subsidiaries

SUPPLEMENTARY INFORMATION CONCERNING PROPERTY AND CASUALTY OPERATIONS

As of and for the years ended December 31, 2013, 2012, and 2011
(in millions of U.S. dollars)

	Deferred Policy Acquisition Costs	Net Reserves for Unpaid Losses and Loss Expenses	Unearned Premiums	Net Premiums Earned	Net Investment Income	Net Losses and Loss Expenses Incurred Related to		Amortization of Deferred Policy Acquisition Costs	Net Paid Losses and Loss Expenses	Net Premiums Written
						Current Year	Prior Year			
2013	**$ 1,865**	**$ 26,831**	**$ 7,539**	**$ 15,708**	**$ 1,977**	**$ 9,878**	**$ (530)**	**$ 2,447**	**$ 8,977**	**$ 16,069**
2012	$ 1,757	$ 26,547	$ 6,864	$ 14,764	$ 2,018	$ 10,132	$ (479)	$ 2,254	$ 9,219	$ 15,107
2011	$ 1,512	$ 25,875	$ 6,334	$ 14,523	$ 2,107	$ 10,076	$ (556)	$ 2,291	$ 8,866	$ 14,455

Other selected information as required by Swiss Law

The following disclosures are required by Swiss Law and are included below as ACE Limited is a Swiss domesticated company.

(i) Expenses
Total personnel expenses amounted to $1.8 billion, $1.7 billion, and $1.6 billion for the years ended December 31, 2013, 2012, and 2011, respectively. Amortization expense related to tangible property amounted to $128 million, $117 million, and $120 million for the years ended December 31, 2013, 2012, and 2011, respectively.

(ii) Fire insurance values of property and equipment
Total fire insurance values of property and equipment amounted to $693 million and $811 million at December 31, 2013 and 2012, respectively.

(iii) Remuneration of the Board of Directors and Group Executives and Common Share ownership of the Board of Directors and Group Executives
Refer to the disclosures in the notes to the Swiss Statutory Financial Statements on pages S-8 to S-12 of this annual report.

(iv) Risk assessment and management
The management of ACE is responsible for assessing risks related to the financial reporting process and establishing and maintaining adequate internal controls over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chairman of the Board of Directors/Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of ACE's consolidated financial statements for external purposes in accordance with GAAP. In addition, under Swiss Law, the Board of Directors of ACE has the ultimate responsibility for establishing an internal control system on the financial statements.

The Board, operating through its Audit Committee comprised entirely of directors who are not officers or employees of ACE, is ultimately responsible for oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use, or disposition. The Audit Committee meets with management, the independent registered public accountants and the internal auditor; approves the overall scope of audit work and related fee arrangements; and reviews audit reports and findings. In addition, the independent registered public accountants and the internal auditor meet separately with the Audit Committee, without management representatives present, to discuss the results of their audits; the adequacy of ACE's internal control; the quality of our financial reporting; and the safeguarding of assets against unauthorized acquisition, use, or disposition.

ACE's management is responsible for assessing operational risks facing us and sets policies designed to address such risks. Examples of key areas addressed by ACE's risk management processes follow.

a) Underwriting
Our underwriting strategy is to manage risk by employing consistent, disciplined pricing and risk selection. Global product boards ensure consistency of approach and the establishment of best practices throughout the world. Our priority is to help ensure adherence to criteria for risk selection by maintaining high levels of experience and expertise in our underwriting staff. In addition, we employ a business review structure that helps ensure control of risk quality and conservative use of policy limits and terms and conditions.

Qualified actuaries in each region work closely with the underwriting teams to provide additional expertise in the underwriting process. We use sophisticated catastrophe loss and risk modeling techniques designed to ensure appropriate spread of risk and to analyze correlation of risk across different product lines and territories.

b) Reinsurance protection
As part of our risk management strategy, we purchase reinsurance protection to mitigate our exposure to losses, including catastrophes, to an acceptable level. Although reinsurance agreements contractually obligate our reinsurers to reimburse us for an agreed-upon portion of our gross paid losses, this reinsurance does not discharge our primary liability to our insureds and, thus, we ultimately remain liable for the gross direct losses. In certain countries, reinsurer selection is limited by local laws or regulations. In most countries there is more freedom of choice, and the counterparty is selected based upon its financial strength, claims settlement record, management, line of business expertise, and its price for assuming the risk transferred. In support of this process, we maintain an ACE authorized reinsurer list that stratifies these authorized reinsurers by classes of business and acceptable limits. This list is maintained by our Reinsurance Security Committee (RSC), a committee comprising senior management personnel and a dedicated reinsurer security team. Changes to the list are authorized by the RSC and

recommended to the Chair of the Enterprise Risk Management Board. The reinsurers on the authorized list and potential new markets are regularly reviewed and the list may be modified following these reviews. In addition to the authorized list, there is a formal exception process that allows authorized reinsurance buyers to use reinsurers already on the authorized list for higher limits or different lines of business, for example, or other reinsurers not on the authorized list if their use is supported by compelling business reasons for a particular reinsurance program.

c) Investments
Our objective is to maximize investment income and total return while ensuring an appropriate level of liquidity, investment quality and diversification. As such, ACE's investment portfolio is invested primarily in investment-grade fixed-income securities as measured by the major rating agencies. We do not allow leverage or complex credit structures in our investment portfolio.

The critical aspects of the investment process are controlled by ACE Asset Management, an indirect wholly-owned subsidiary of ACE. These aspects include asset allocation, portfolio and guideline design, risk management and oversight of external asset managers. In this regard, ACE Asset Management:

- conducts formal asset allocation modeling for each of the ACE subsidiaries, providing formal recommendations for the portfolio's structure;
- establishes recommended investment guidelines that are appropriate to the prescribed asset allocation targets;
- provides the analysis, evaluation, and selection of our external investment advisors;
- establishes and develops investment-related analytics to enhance portfolio engineering and risk control;
- monitors and aggregates the correlated risk of the overall investment portfolio; and
- provides governance over the investment process for each of our operating companies to ensure consistency of approach and adherence to investment guidelines.

Under our guidance and direction, external asset managers conduct security and sector selection and transaction execution. This use of multiple managers benefits ACE in several ways – it provides us with operational and cost efficiencies, diversity of styles and approaches, innovations in investment research and credit and risk management, all of which enhance the risk adjusted returns of our portfolios.

ACE Asset Management determines the investment portfolio's allowable, targeted asset allocation and ranges for each of the segments. These asset allocation targets are derived from sophisticated asset and liability modeling that measures correlated histories of returns and volatility of returns. Allowable investment classes are further refined through analysis of our operating environment, including expected volatility of cash flows, potential impact on our capital position, as well as regulatory and rating agency considerations.

The Board has established a Risk & Finance Committee which helps execute the Board's supervisory responsibilities pertaining to enterprise risk management including investment risk. Under the overall supervision of the Risk & Finance Committee, ACE's governance over investment management is rigorous and ongoing. Among its responsibilities, the Risk & Finance Committee of the Board:

- reviews and approves asset allocation targets and investment policy to ensure that it is consistent with our overall goals, strategies, and objectives;
- reviews and approves investment guidelines to ensure that appropriate levels of portfolio liquidity, credit quality, diversification, and volatility are maintained; and
- systematically reviews the portfolio's exposures including any potential violations of investment guidelines.

We have long-standing global credit limits for our entire portfolio across the organization and for individual obligors. Exposures are aggregated, monitored, and actively managed by our Global Credit Committee, comprising senior executives, including our Chief Financial Officer, our Chief Risk Officer, our Chief Investment Officer, and our Treasurer.

Within the guidelines and asset allocation parameters established by the Risk & Finance Committee, individual investment committees of the segments determine tactical asset allocation. Additionally, these committees review all investment-related activity that affects their operating company, including the selection of outside investment advisors, proposed asset allocations changes, and the systematic review of investment guidelines.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF ACE LIMITED, ZURICH ON THE (US GAAP) FINANCIAL STATEMENTS

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of ACE Limited, which comprise the balance sheet, statement of operations and comprehensive income, statement of shareholders' equity, statement of cash flows and notes (pages F-5 to F-80 and F-89 to F-90) for the year ended December 31, 2013.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2013 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

/s/ Ray Kunz	/s/ Philip Kirkpatrick
Ray Kunz	Philip Kirkpatrick
Audit expert Auditor in charge	Audit expert

Zurich, February 28, 2014

[This Page Intentionally Left Blank]

ACE LIMITED

SWISS STATUTORY FINANCIAL STATEMENTS

December 31, 2013

SWISS STATUTORY BALANCE SHEETS (Unconsolidated)

ACE Limited

(in millions of Swiss francs)	December 31 2013	December 31 2012
Assets		
Cash and cash equivalents	**1**	94
Treasury shares	**47**	27
Accounts receivable and prepaid assets	**1**	8
Receivable from subsidiaries	**47**	415
Total current assets	**96**	544
Investments in subsidiaries	**18,671**	18,548
Loans to subsidiaries	**788**	571
Other assets	**4**	6
Total non-current assets	**19,463**	19,125
Total assets	**19,559**	19,669
Liabilities		
Accounts payable	**192**	32
Payable to subsidiaries	**214**	918
Capital distribution payable	**156**	4
Deferred unrealized exchange gain	**2**	3
Total liabilities	**564**	957
Shareholders' equity		
Share capital	**9,270**	9,905
Legal reserves:		
Capital contribution reserves	**6,012**	6,012
Reserve for treasury shares	**237**	148
Free reserves:		
Retained earnings	**2,564**	2,147
Net income	**912**	500
Total shareholders' equity	**18,995**	18,712
Total liabilities and shareholders' equity	**19,559**	19,669

The accompanying notes form an integral part of these statutory financial statements

SWISS STATUTORY STATEMENTS OF INCOME (Unconsolidated)

ACE Limited

For the years ended December 31, 2013 and 2012 (in millions of Swiss francs)	**2013**	2012
Revenues		
Royalty income	**196**	122
Interest income	**32**	33
Net realized gains (losses)	**(4)**	(5)
Dividend income	**748**	411
Debt guarantee fee income	**12**	10
Total revenues	**984**	571
Expenses		
Administrative and other expenses	**58**	63
Tax expense	**14**	8
Total expenses	**72**	71
Net income	**912**	500

The accompanying notes form an integral part of these statutory financial statements

1. Basis of presentation

ACE Limited (ACE) is the holding company of ACE Group (Group) with a listing on the New York Stock Exchange (NYSE). ACE's principal activity is the holding of subsidiaries. Revenues consist mainly of royalty, dividend, and interest income. The accompanying financial statements comply with Swiss Law. The financial statements present the financial position of the holding company on a standalone basis and do not represent the consolidated financial position of the holding company and its subsidiaries.

These financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the Swiss Code of Obligations effective until December 31, 2012. Pursuant to the transitional provisions of the new accounting law, which would otherwise be effective in 2013, ACE will adopt the new accounting law in 2014.

All amounts in the notes are shown in millions of Swiss francs unless otherwise stated.

2. Significant accounting policies

a) Cash and cash equivalents
Cash and cash equivalents includes cash on hand and deposits with an original maturity of three months or less at time of purchase.

ACE and certain of its subsidiaries (participating entities) have agreements with a third party bank provider which implemented two international multi-currency notional cash pooling programs. In each program, participating entities establish deposit accounts in different currencies with the bank provider and each day the credit or debit balances in every account are notionally translated into a single currency (U.S. dollars) and then notionally pooled. The bank extends overdraft credit to any participating entity as needed, provided that the overall notionally-pooled balance of all accounts in each pool at the end of each day is at least zero. Actual cash balances are not physically converted and are not commingled between legal entities. Any overdraft balances incurred under this program by a participating entity would be guaranteed by ACE (up to $300 million in the aggregate). Our syndicated letter of credit facility allows for same day drawings to fund a net pool overdraft should participating entities withdraw contributed funds from the pool.

b) Investments in subsidiaries
Investments in subsidiaries are equity interests, which are held on a long-term basis for the purpose of the holding company's business activities. They are carried at a value no higher than their cost less adjustments for impairment.

c) Translation of foreign currencies
The financial statements are translated into Swiss francs using the following exchange rates:
- Investments in subsidiaries at historical exchange rates;
- Other assets and liabilities at year end exchange rates;
- Treasury shares and shareholders' equity at historical exchange rates; and
- Revenues and expenses at average exchange rates.

Exchange losses are recorded in the statement of income and unrealized exchange gains are deferred until realized.

d) Royalty income
ACE collects royalty income from various subsidiaries earned in connection with subsidiary use of certain ACE trademarks in connection with products, services, advertising, and promotions.

e) Debt guarantee fee income
ACE collects an annual fee for ACE's guarantee of the debt issued by one of its subsidiaries.

3. Commitments, contingencies, and guarantees

a) Letters of credit (LOC)
ACE has a $1 billion (CHF 889 million) unsecured operational LOC facility (adjustable to $1.5 billion (CHF 1.3 billion) upon consent of the issuers) expiring in November 2017. ACE is allowed to use up to $300 million (CHF 267 million) of this LOC facility as an unsecured revolving credit facility. At December 31, 2013, outstanding LOCs issued under this facility were $376

million (CHF 334 million). ACE also has a $500 million (CHF 445 million) unsecured operational LOC facility expiring in June 2014. At December 31, 2013, this facility was fully used.

To satisfy funding requirements of ACE's Lloyd's Syndicate 2488 through 2014, ACE has a series of four bilateral uncollateralized LOC facilities totaling $425 million (CHF 378 million). LOCs issued under these facilities will expire no earlier than December 2017. Usage of this facility at December 31, 2013 was $352 million (CHF 313 million).

These facilities require that ACE and/or certain of its subsidiaries continue to maintain certain covenants, including a minimum consolidated net worth and a maximum leverage ratio, all of which have been met at December 31, 2013.

b) Lease commitments
ACE leases property under an operating lease which expires in 2018. The following table presents expected future minimum lease payments as of December 31, 2013:

Year ending December 31 (in millions of Swiss francs)	
2014	1.76
2015	1.76
2016	1.76
2017	1.76
2018	1.31
Thereafter	—
Total minimum future lease commitments	8.35

At December 31, 2012, the total minimum future lease commitments were CHF 10.11 million.

c) Guarantee of debt
ACE fully and unconditionally guarantees certain subsidiary debt totaling $4.6 billion (CHF 4.1 billion) and $3.7 billion (CHF 3.4 billion) at December 31, 2013 and 2012, respectively.

4. Significant investments

The following table presents information related to significant investments. Share capital amounts are expressed in whole U.S. dollars or Swiss francs.

	Country	% of Possession	Currency	Share Capital	Purpose
ACE Group Holdings, Inc.	U.S.A.	100%	USD	11	Holding company
ACE Insurance (Switzerland) Limited	Switzerland	100%	CHF	250,000,000	Insurance company
ACE Group Management and Holdings Ltd.	Bermuda	100%	USD	100	Holding company

5. Shareholders' equity

The following table presents issued, authorized, and conditional share capital, at December 31, 2013 and 2012. Treasury shares held by ACE which are issued, but not outstanding and discussed in Note 5 d) below totaled 589,323 shares and 404,129 shares at December 31, 2013 and 2012, respectively. In addition to the treasury shares held by ACE, at December 31, 2013 and 2012, subsidiaries of ACE held 2,449,154 treasury shares at a cost of $207 million (CHF 190 million) and 2,106,749 treasury shares at a cost of $132 million (CHF 121 million).

	2013	2012
Issued share capital	**342,832,412**	342,832,412
Authorized share capital for general purposes	**140,000,000**	140,000,000
Conditional share capital for bonds and similar debt instruments	**33,000,000**	33,000,000
Conditional share capital for employee benefit plans	**25,410,929**	25,410,929

a) Shares authorized and issued
All Common Shares are authorized under Swiss Corporate law. At both December 31, 2013 and 2012, ACE's share capital consisted of 342,832,412 Common Shares, with a par value of CHF 27.04 per share and CHF 28.89 per share, respectively. The Board of Directors (the Board) is currently authorized to increase the share capital from time to time through the issue of up to 140,000,000 fully paid up shares with a par value equal to the par value of ACE's shares as set forth in the Articles of Association at the time of such issuance.

b) Conditional share capital
(i) Conditional share capital for bonds and similar debt instruments
At both December 31, 2013 and 2012, the share capital of ACE was authorized to be increased through the issuance of a maximum of 33,000,000 fully paid up shares each with a par value of CHF 27.04 per share and CHF 28.89 per share, respectively, through the exercise of conversion and/or option or warrant rights granted in connection with bonds, notes, or similar instruments, issued or to be issued by ACE or a subsidiary of ACE, including convertible debt instruments.

(ii) Conditional share capital for employee benefit plans
At both December 31, 2013 and 2012, the share capital of ACE was authorized to be increased through the issuance of a maximum of 25,410,929 fully paid up shares each with a par value of CHF 27.04 per share and CHF 28.89 per share, respectively, in connection with the exercise of option rights granted to any employee of ACE or a subsidiary, and any consultant, director, or other person providing services to ACE or a subsidiary.

c) Capital contribution reserves
On January 1, 2011, a new Swiss tax regulation became effective allowing for payments to shareholders out of a capital contribution reserve free of Swiss withholding tax, consisting of additional paid in capital since January 1, 1997. These amounts represent the contribution of capital in excess of the par value by shareholders when they purchase shares and upon the exercise of stock options.

At our May 2012 and 2013 Annual General Meetings, our shareholders approved a dividend for the following years, respectively, payable in four quarterly installments after the annual general meetings in the form of a distribution by way of a par value reduction. Dividend distributions on Common Shares amounted to CHF 1.85 per share ($2.02 per share) paid through par value reductions and had the effect of reducing par value per Common Share to CHF 27.04 at December 31, 2013.

For the year ended December 31, 2012, dividends per Common Share amounted to CHF 1.91 ($2.06), including par value distributions of CHF 1.38 ($1.47) per Common Share.

At the January 10, 2014 Extraordinary General Meeting, our shareholders approved a resolution to increase our quarterly dividend from $0.51 per share to $0.63 per share for the payment made on January 31, 2014 (CHF 0.55) and the payment to be made by the end of April 2014 (CHF to be determined based on the USD/CHF currency exchange ratio as published in The Wall Street Journal on March 21, 2014) as recommended by our Board in November 2013. The effect of this dividend increase was a decrease to Capital contribution reserves and an increase to Capital distribution payable of CHF 67 million ($82 million) as of January 10, 2014.

d) Reserve for Treasury shares

Treasury shares held by ACE are carried at the lower of cost or market. The following table presents a roll-forward of treasury shares held by ACE for the years ended December 31, 2013 and 2012:

	2013		2012	
(cost in millions of Swiss francs)	**Number of Shares**	**Cost**	Number of Shares	Cost
Balance – beginning of year	**404,129**	**27**	47,129	4
Additions related to share-based compensation plans	**843,070**	**67**	998,484	65
Redeemed under share-based compensation plans	**(657,876)**	**(47)**	(641,484)	(42)
Balance – end of year	**589,323**	**47**	404,129	27

Treasury shares held by ACE subsidiaries are carried at the lower of cost or market. The following table presents a roll-forward of treasury shares held by ACE subsidiaries for the years ended December 31, 2013 and 2012:

	2013		2012	
(cost in millions of Swiss francs)	**Number of Shares**	**Cost**	Number of Shares	Cost
Balance – beginning of year	**2,106,749**	**121**	5,858,007	301
Repurchase of shares	**3,266,531**	**268**	100,000	7
Additions related to share-based compensation plans	**79,137**	**6**	1,939	—
Redeemed under share-based compensation plans	**(3,003,263)**	**(205)**	(3,853,197)	(187)
Balance – end of year	**2,449,154**	**190**	2,106,749	121

Decreases in treasury shares held by ACE and its subsidiaries are principally due to issuances of shares upon the exercise of employee stock options, grants of restricted stock, and purchases under the Employee Stock Purchase Plan (ESPP). Increases in treasury shares are due to open market repurchases of shares and the surrender of shares to satisfy tax withholding obligations in connection with the vesting of restricted stock and the forfeiture of unvested restricted stock.

e) Movements in Retained earnings

(in millions of Swiss francs)	**2013**	2012
Balance – beginning of year	**2,647**	1,985
Par value reduction on treasury shares	**6**	5
Attribution to reserve for treasury shares	**(89)**	157
Net income	**912**	500
Balance – end of year	**3,476**	2,647

f) ACE securities repurchase authorization

On November 21, 2013, the Board announced authorization of a share repurchase program of up to $2 billion (CHF 1.8 billion) of ACE's Common Shares through December 31, 2014. This $2 billion (CHF 1.8 billion) authorization replaces the previous authorizations which had a remaining balance of $228 million (CHF 203 million) and expired on December 31, 2013. Such repurchases may be made in the open market, in privately negotiated transactions, block trades, accelerated repurchases and/or through option or other forward transactions. At December 31, 2013, $1.94 billion (CHF 1.73 billion) in share repurchase authorization remained through December 31, 2014 pursuant to the Board authorization. For the period January 1, 2014 through February 27, 2014, a subsidiary of ACE repurchased 3,437,082 Common Shares for a total of $326 million (CHF 290 million) in a series of open market transactions. At February 27, 2014, $1.62 billion (CHF 1.44 billion) in share repurchase authorization remained through December 31, 2014.

g) General restrictions
Holders of Common Shares are entitled to receive dividends as proposed by the Board and approved by the shareholders. Holders of Common Shares are allowed one vote per share provided that, if the controlled shares of any shareholder constitute ten percent or more of the outstanding Common Shares of ACE, only a fraction of the vote will be allowed so as not to exceed ten percent. Entry of acquirers of Common Shares as shareholders with voting rights in the share register may be refused if it would confer voting rights with respect to ten percent or more of the registered share capital recorded in the commercial register.

6. Remuneration of the Board of Directors and the Group Executives

a) Basis of presentation
The following information sets forth the compensation for the years ended December 31, 2013 and 2012, of the members of the Board and Group Executives for all of the functions that they have performed for ACE. Compensation of the Board is paid by ACE. Compensation of the Group Executives is paid by ACE and the group entities where they are employed. Compensation is paid as a combination of both U.S. dollars and Swiss francs though the following discussions and tables present all remuneration details in whole Swiss francs with totals in both whole Swiss francs and whole U.S. dollars.

b) Remuneration of the Board of Directors
Some of the remuneration under current Board compensation policy changed from 2012. Where presented, 2013 and 2012 Swiss franc remuneration figures are disclosed at 2013 and 2012 average exchange rates, respectively. Non-management directors received $260,000 (CHF 241,014) per year in 2013 and $230,000 (CHF 215,721) per year in 2012 for their service as directors. ACE paid $140,000 (CHF 124,511 for 2013 and CHF 131,309 for 2012) of this fee in the form of restricted stock awards (RSA), based on the fair value of ACE's Common Shares at the date of award, with the remaining portion of the annual fee paid to directors in cash quarterly. As the increase in 2013 compensation from $230,000 to $260,000 was not approved until after the initial RSA grant date in May 2013, the additional $30,000 (CHF 27,809) of compensation was distributed in cash at the November 2013 and February 2014 meetings. Committee chairmen receive committee chair retainers as follows:
- Audit Committee—$25,000 (CHF 23,174 for 2013 and CHF 23,448 for 2012);
- Compensation Committee—$20,000 (CHF 18,540 for 2013 and CHF 18,758 for 2012);
- Risk & Finance Committee—$15,000 (CHF 13,905 for 2013 and CHF 14,069 for 2012); and
- Nominating & Governance Committee—$12,000 (CHF 11,124 for 2013 and CHF 11,255 for 2012).

The Lead Director received a retainer of $50,000 (CHF 46,349 for 2013 and CHF 46,896 for 2012), which is in addition to any retainer received as a committee chairman. Directors are not paid fees for attending regular Board or committee meetings but, at the discretion of the Chairman of the Board and the Lead Director, ACE may pay an additional $2,000 (CHF 1,854 for 2013 and CHF 1,876 for 2012) fee for each special meeting attended by telephone and $3,000 (CHF 2,781 for 2013 and CHF 2,814 for 2012) for each special meeting attended in person. ACE pays the retainers and premiums for committee service and special Board meeting fees quarterly in cash.

Directors may elect to receive all of their compensation, other than compensation for special meetings, in the form of RSAs. RSAs vest at the following year's annual general meeting.

In addition to the above described compensation, ACE has a matching contribution program for non-management directors pursuant to which ACE will match director charitable contributions to registered charities, churches, and other places of worship or schools up to a maximum of $10,000 (CHF 9,270 for 2013 and CHF 9,379 for 2012) per year.

ACE's Corporate Governance Guidelines specify director equity ownership requirements. ACE awards independent directors' RSAs. ACE mandates minimum equity ownership of $400,000 (CHF 355,746) for outside directors (based on the stock price on the date of award). Each Director has until the fifth anniversary of his or her initial election to the Board to achieve this minimum. The previously granted RSAs (whether or not vested) shall be counted toward achieving this minimum. Stock options shall not be counted toward achieving this minimum.

Once a Director has achieved the minimum equity ownership, such requirement shall remain satisfied going forward as long as he or she retains the number of shares valued at the minimum amount based on the NYSE closing price for ACE's Common Shares as of the date such minimum threshold is initially met. Any vested shares held by a Director in excess of the minimum share equivalent specified above may be sold at the Director's discretion after consultation with ACE's General Counsel.

No compensation was paid to former directors nor did any former director receive any benefits in kind or waivers of claims during the years ended December 31, 2013 and 2012.

During the years ended December 31, 2013 and 2012, no current directors received benefits in kind or waivers of claims and no compensation had been paid to any related party of current or former directors nor did any related party of current or former directors receive any benefits in kind or waivers of claims. At December 31, 2013 and 2012, no current or former directors or any related party of current or former directors had outstanding loans or credits from ACE.

The following table presents information concerning director compensation paid or, in the case of RSAs, earned in the years ended December 31, 2013 and 2012. As of the end of the 2012 Annual General Meeting John A. Krol and Bruce L. Crockett retired from the Board of Directors. Although Evan G. Greenberg is Chairman of the Board, Mr. Greenberg received no compensation in respect of these duties. Details of Mr. Greenberg's compensation in his capacity as a Group Executive are included in Note 6 c) below.

Name	Year	Board Function	Fees Earned or Paid	Stock Awards [1]	All Other [2]	Total in CHF	Total in USD
Michael G. Atieh	**2013**	**Member**	**122,789**	**172,505**	**9,270**	**304,564**	**328,557**
	2012	Member	103,412	198,665	9,379	311,456	332,072
Mary A. Cirillo	**2013**	**Member**	**17,653**	**230,995**	**9,270**	**257,918**	**278,236**
	2012	Member	8,832	242,009	9,379	260,220	277,444
Michael P. Connors	**2013**	**Member**	**17,979**	**231,744**	**9,270**	**258,993**	**279,396**
	2012	Member	9,199	213,963	3,752	226,914	241,934
Robert M. Hernandez	**2013**	**Lead Director**	**145,963**	**160,999**	**9,270**	**316,232**	**341,144**
	2012	Lead Director	135,653	180,527	9,477	325,657	347,213
Peter Menikoff	**2013**	**Member**	**17,653**	**281,794**	**9,270**	**308,717**	**333,037**
	2012	Member	7,137	323,844	9,379	340,360	362,889
Leo F. Mullin	**2013**	**Member**	**99,614**	**136,750**	**9,270**	**245,634**	**264,985**
	2012	Member	88,757	142,301	9,379	240,437	256,352
Thomas J. Neff	**2013**	**Member**	**17,848**	**280,899**	**9,270**	**308,017**	**332,282**
	2012	Member	9,179	314,395	9,379	332,953	354,992
Robert Ripp	**2013**	**Member**	**99,614**	**165,623**	**9,270**	**274,507**	**296,132**
	2012	Member	97,550	187,816	9,379	294,745	314,255
Eugene B. Shanks, Jr.	**2013**	**Member**	**99,614**	**129,777**	**9,270**	**238,661**	**257,462**
	2012	Member	88,757	131,309	9,379	229,445	244,632
Theodore E. Shasta	**2013**	**Member**	**99,614**	**129,777**	**9,270**	**238,661**	**257,462**
	2012	Member	88,757	131,309	9,379	229,445	244,632
Olivier Steimer	**2013**	**Member**	**113,519**	**134,087**	**9,270**	**256,876**	**277,112**
	2012	Member	102,825	138,103	9,379	250,307	266,875
Total	**2013**		**851,860**	**2,054,950**	**101,970**	**3,008,780**	**3,245,805**
	2012		740,058	2,204,241	97,640	3,041,939	3,243,290

(1) This column reflects RSAs earned during 2013 and 2012. These stock awards were granted in May 2013 and May 2012, respectively, at the annual general meetings and vest at the subsequent year's annual general meeting.

(2) Other annual compensation includes ACE's matching contribution program for non-management directors pursuant to which ACE matches director charitable contributions to registered charities, churches, and other places of worship or schools. Other annual compensation also includes personal use of corporate aircraft. For 2012, personal use of corporate aircraft totaled $105 (CHF 98).

c) Remuneration of Group Executives

During the years ended December 31, 2013 and 2012, no compensation was paid to former Group Executives or to any related party of current or former Group Executives nor had any such persons received benefits in kind or waivers of claims. Brian E. Dowd retired from his role as Vice Chairman; Chairman, Insurance—North America during 2011. Mr. Dowd continues to serve ACE in the capacity as a member of the Office of the Chairman. At December 31, 2013 and 2012, no current or former Group Executives or any related party of current or former Group Executives had outstanding loans or credits from ACE. Robert Cusumano, former General Counsel and Secretary, ACE Limited, separated from the company during 2013.

The following table presents information concerning the Group Executives' 2013 and 2012 compensation. During these years, no Group Executive received waivers of claims other than as described in the footnotes to this table or benefits in kind.

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (2)	All Other Compensation (3)	Total in CHF	Total in USD
Evan G. Greenberg Chairman, President and Chief Executive Officer, ACE Limited	**2013**	**1,112,370**	**5,793,594**	**9,619,516**	**2,142,713**	**834,997**	**19,503,190**	**21,039,607**
(highest paid executive)	2012	1,125,502	4,783,382	10,600,518	1,926,559	913,475	19,349,436	20,630,200
Philip V. Bancroft Chief Financial Officer,	**2013**	**672,057**	**1,038,212**	**1,791,337**	**272,264**	**537,079**	**4,310,949**	**4,650,556**
ACE Limited	2012	656,543	937,918	2,069,230	255,669	530,695	4,450,055	4,744,610
John W. Keogh Vice Chairman and Chief Operating Officer, ACE Limited; Chairman, ACE	**2013**	**797,199**	**1,916,057**	**2,872,087**	**464,059**	**323,067**	**6,372,469**	**6,874,479**
Overseas General	2012	773,782	1,641,357	2,888,080	404,324	287,272	5,994,815	6,391,620
John J. Lupica Vice Chairman, ACE Limited; Chairman,	**2013**	**681,327**	**1,390,463**	**1,160,155**	**266,448**	**284,945**	**3,783,338**	**4,081,379**
Insurance—North America	2012	656,543	1,186,466	968,986	204,474	249,008	3,265,477	3,481,623
Sean Ringsted Chief Risk Officer and Chief Actuary, ACE Limited	**2013**	**504,043**	**648,883**	**851,626**	**188,135**	**1,383,136**	**3,575,823**	**3,857,517**
Total	**2013**	**3,766,996**	**10,787,209**	**16,294,721**	**3,333,619**	**3,363,224**	**37,545,769**	**40,503,538**
	2012	3,212,370	8,549,123	16,526,814	2,791,026	1,980,450	33,059,783	35,248,053

(1) This column discloses the expense recognized in 2013 and 2012 for RSAs in 2013 and 2012 and prior years. This column includes time-based and performance-based RSAs.
(2) This column discloses the expense recognized in 2013 and 2012 for stock options awarded in 2013 and 2012 and prior years.
(3) This column includes:

- Perquisites and other personal benefits, consisting of the following:
  - Perquisites including personal use of the corporate aircraft and corporate apartment, and miscellaneous other benefits, including club memberships, private drivers, financial planning, executive medical cover, home leave, car allowance or car lease and car maintenance allowance.
  - Other personal benefits including housing allowances and cost of living allowance.
  - In 2013 and 2012, housing allowances were provided to Messrs. Bancroft and Ringsted because ACE requires them to maintain a second residence in Bermuda in addition to maintaining their own personal residence.
  - Included in this table are amounts for personal use of corporate aircraft by all Group Executives who make personal use of the corporate aircraft, although the Board has required Mr. Greenberg to use corporate aircraft for all travel whenever practicable for security reasons. For all other Group Executives, personal use of the corporate aircraft was limited to space available on normally scheduled management business flights.
- ACE does not provide any tax reimbursements or gross-ups to U.S. Group Executives. Mr. Ringsted is not a U.S. Group Executive.
- Contributions to retirement plans for 2013 and 2012 totaled CHF 1.54 million ($1.66 million) and CHF 1.45 million ($1.54 million), respectively.
  - These consist of matching and non-discretionary employer contributions.

7. Common Share ownership of the Board of Directors and Group Executives

a) Board of Directors

The following table presents information, at December 31, 2013 and 2012, with respect to the beneficial ownership of Common Shares by each of our directors. Although Evan G. Greenberg is Chairman of the Board, details of Mr. Greenberg's Common share ownership are included in Note 7 b) below. Unless otherwise indicated, the named individual has sole voting and investment power over the Common Shares listed in the Common Shares Beneficially Owned column.

Name of Beneficial Owner	Year	Common Shares Beneficially Owned (1)	Restricted Stock Units (2)	Restricted Common Stock (3)
Michael G. Atieh (4)	**2013**	**20,176**	**30,853**	**1,520**
	2012	19,327	30,359	1,860
Mary A. Cirillo	**2013**	**11,290**	**12,847**	**2,497**
	2012	8,998	12,641	3,056
Michael P. Connors	**2013**	**4,924**	**—**	**2,714**
	2012	2,433	—	3,322
Robert M. Hernandez	**2013**	**66,844**	**22,545**	**1,520**
	2012	65,292	22,183	1,860
Peter Menikoff (5)(6)	**2013**	**30,288**	**49,527**	**2,497**
	2012	30,066	48,734	3,056
Leo F. Mullin	**2013**	**8,839**	**5,035**	**1,520**
	2012	7,444	4,955	1,860
Thomas J. Neff	**2013**	**28,561**	**40,848**	**2,627**
	2012	25,851	40,194	3,215
Robert Ripp	**2013**	**33,321**	**25,884**	**1,520**
	2012	31,715	25,469	1,860
Eugene B. Shanks, Jr.	**2013**	**2,909**	**—**	**1,520**
	2012	1,514	—	1,860
Theodore E. Shasta	**2013**	**4,896**	**—**	**1,520**
	2012	3,501	—	1,860
Olivier Steimer	**2013**	**8,737**	**3,112**	**1,520**
	2012	7,003	3,062	1,860
Total	**2013**	**220,785**	**190,651**	**20,975**
	2012	203,144	187,597	25,669

(1) Represents Common Shares that have vested and been issued to the director and Common Shares that will be issued to the director immediately upon his or her termination from the Board. These Common Shares that will be issued relate to stock units granted as director's compensation and associated dividend reinvestment accruals.

(2) Represents Common Shares that will be issued to the director immediately upon his or her termination from the Board and Common Shares that will be issued to the director no earlier than six months following his or her termination from the Board. These Common Shares relate to stock units granted as director's compensation and associated dividend reinvestment accruals.

(3) Represents Common Shares with respect to which the individual has the power to vote (but not to dispose of).

(4) Mr. Atieh shares with other persons the power to vote and/or dispose of 341 of the Common Shares listed at December 31, 2013 and 2012.

(5) Mr. Menikoff shares with other persons the power to vote and/or dispose of 3,985 and 4,185 of the Common Shares listed at December 31, 2013 and 2012, respectively.

(6) Mr. Menikoff has pledged 3,985 and 4,185 Common Shares in connection with a margin account at December 31, 2013 and 2012, respectively.

b) Group Executives

The following table presents information, at December 31, 2013 and 2012, with respect to the beneficial ownership of Common Shares by each of the following Group Executives. Unless otherwise indicated, the named individual has sole voting and investment power over the Common Shares listed in the Common Shares Beneficially Owned column.

Name of Beneficial Owner	Year	Common Shares Beneficially Owned	Common Shares Subject to Options (1)	Weighted Average Option Exercise Price in CHF	Option Exercise Years	Restricted Common Stock (2)
Evan G. Greenberg (3) (4)	**2013**	**830,820**	**1,102,191**	**50.90**	**4.77**	**224,550**
	2012	694,119	1,150,703	47.61	4.67	252,358
Philip V. Bancroft (5)	**2013**	**184,358**	**151,822**	**50.50**	**4.69**	**47,042**
	2012	157,193	164,822	47.36	4.51	63,092
John W. Keogh	**2013**	**70,254**	**130,899**	**53.12**	**5.85**	**85,652**
	2012	48,159	104,885	52.44	6.38	93,408
John J. Lupica (6)	**2013**	**72,067**	**80,128**	**53.51**	**5.55**	**44,977**
	2012	68,194	100,805	47.71	4.66	44,490
Sean Ringsted	**2013**	**91,266**	**74,763**	**52.47**	**5.53**	**31,601**
Total	**2013**	**1,248,765**	**1,539,803**	**51.98**	**5.07**	**433,822**
	2012	967,665	1,521,215	47.93	4.77	453,348

(1) Represents Common Shares that the individual has the right to acquire within 60 days of December 31, 2013 and 2012, respectively, through option exercises, both vested and unvested.

(2) Represents Common Shares with respect to which the individual has the power to vote (but not to dispose of).

(3) Mr. Greenberg shares with other persons the power to vote and/or dispose of 72,664 and 50,684 of the Common Shares listed at December 31, 2013 and 2012, respectively.

(4) Mr. Greenberg pledged 80,000 Common Shares in connection with a margin account at December 31, 2013 and 2012.

(5) Mr. Bancroft pledged 41,000 Common Shares in connection with a margin account at December 31, 2013 and 2012.

(6) Mr. Lupica shares with other persons the power to vote and/or dispose of 35,700 Common Shares listed at December 31, 2013 and 2012.

8. Significant shareholders

The following table presents information regarding each person, including corporate groups, known to ACE to own beneficially or of record more than five percent of ACE's outstanding Common Shares at December 31, 2013 and 2012.

	2013		2012	
Name of Beneficial Owner	**Number of Shares Beneficially Owned**	**Percent of Class**	Number of Shares Beneficially Owned	Percent of Class
BlackRock, Inc.	**27,287,925**	**8.00%**	25,693,352	7.56%
Capital World Investors	**25,604,900**	**7.50%**	25,477,900	7.50%
Wellington Management Company, LLP	**25,294,492**	**7.43%**	23,750,703	6.99%
FMR LLC	**19,078,852**	**5.61%**	18,541,281	5.46%
Vanguard Group, Inc.	**17,654,634**	**5.18%**	*	*

* Represented less than five percent

9. Risk assessment and management

The management of ACE is responsible for assessing risks related to the financial reporting process and establishing and maintaining adequate internal controls over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of the Chairman of the Board of Directors/Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of ACE's consolidated financial statements for external purposes in accordance with GAAP. In addition, under Swiss Law, the Board of Directors of ACE has the ultimate responsibility for establishing an internal control system on the financial statements.

The Board, operating through its Audit Committee comprised entirely of directors who are not officers or employees of ACE, is ultimately responsible for oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use, or disposition. The Board usually meets four times per year in regularly scheduled meetings, but will meet more often if necessary. The Board met six times during 2013, including two telephonic meetings. The Audit Committee participated in: eight regularly scheduled meetings (four of which were telephonic); one telephonic discussion regarding Company matters; four telephonic earnings discussions; one joint session with the Risk and Finance Committee relating to ERM and review of reserves; and one in-depth review session of important accounting topics relevant to ongoing Committee activities. The Audit Committee meets with management, the independent registered public accountants and the internal auditor; approves the overall scope of audit work and related fee arrangements; and reviews audit reports and findings. In addition, the independent registered public accountants and the internal auditor meet separately with the Audit Committee, without management representatives present, to discuss the results of their audits; the adequacy of ACE's internal control; the quality of its financial reporting; and the safeguarding of assets against unauthorized acquisition, use, or disposition.

10. Other disclosures required by Swiss law

a) Expenses

Total personnel expenses amounted to CHF 8.2 million and CHF 8.0 million for the years ended December 31, 2013 and 2012, respectively.

Total amortization expense related to tangible property amounted to CHF 0.6 million and CHF 0.7 million for the years ended December 31, 2013 and 2012, respectively.

b) Fire insurance values of property and equipment

Total fire insurance values of property and equipment amounted to CHF 8.0 million and CHF 7.5 million at December 31, 2013 and 2012, respectively.

Proposed appropriation of available earnings

Our Board of Directors proposes that the Company's disposable profit as shown below be carried forward without distribution of a dividend. At December 31, 2013, 342,832,412 of the Company's Common Shares were eligible for dividends. The following table shows the appropriation of available earnings as proposed by the Board of Directors for the year ended December 31, 2013.

(in millions of Swiss francs)	**2013**	2012
Net income	**912**	500
Balance brought forward	**2,647**	1,985
Par value reduction on treasury shares	**6**	5
Attribution reserve for treasury shares	**(89)**	157
Balance carried forward	**3,476**	2,647

The Board of Directors proposes to the Annual General Meeting to appropriate the net income to the free reserve in accordance with the table above.

Our Board of Directors proposes distributions to shareholders through par value reductions, the same method approved at our annual general meeting in 2013. We have used this method because payment of a dividend in the form of a par value reduction is appropriate for us under current Swiss law and is not subject to the Swiss withholding tax, which has a rate of 35 percent. We are thus requesting shareholder approval for an annual par value reduction amount, to be paid to shareholders pursuant to a formula in four equal installments.

The par value reduction in an aggregate CHF amount equal to $2.60 per share, using the USD/CHF currency exchange ratio as published in The Wall Street Journal on the fourth New York business day (or, if not published that day, then as reported on The Wall Street Journal's website as of the close of business on the previous New York business day) prior to the date of the 2014 Annual General Meeting, which we refer to as the Base Annual Dividend. The Base Annual Dividend will be payable in four installments; provided that each of the CHF installments will be adjusted pursuant to the formula so that the actual CHF par value reduction amount for each installment will equal $0.65, subject to an aggregate upward adjustment for the four installments of 50% of the Base Annual Dividend (the Base Annual Dividend plus the aggregate upward adjustment for the four installments together referred to as the Dividend Cap). Application of the formula will mean that the CHF amount of each installment will be determined at the approximate time of distribution, while the U.S. dollar value of the installment will remain $0.65 unless and until the Dividend Cap is reached. A par value reduction that would otherwise exceed the Dividend Cap will be reduced to equal the CHF amount remaining available under the Dividend Cap, and the U.S. dollar amount distributed will be the then-applicable U.S. dollar equivalent of that CHF amount.

In November 2013, the Board recommended that our shareholders approve a resolution to increase our quarterly dividend from $0.51 per share to $0.63 per share for the payment made on January 31, 2014 (CHF 0.55 per share) and the payment to be made by the end of April 2014 (CHF to be determined based on the USD / CHF currency exchange ratio as published in the Wall Street Journal on March 21, 2014). This proposed increase was approved by our shareholders at the January 10, 2014 Extraordinary General Meeting. The $0.12 per share increase for each installment will be distributed from Capital contribution reserves while the $0.51 per share will be distributed by way of a par value reduction as approved by our shareholders at the 2013 annual general meeting.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF ACE LIMITED, ZURICH ON THE (SWISS STATUTORY) FINANCIAL STATEMENTS

Report of the statutory auditor on the financial statements
As statutory auditor, we have audited the financial statements of ACE Limited, which comprise the balance sheet, statement of income and notes (pages S-2 to S-13), for the year ended December 31, 2013.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2013 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

/s/ Ray Kunz
Ray Kunz
Audit expert
Auditor in charge

/s/ Philip Kirkpatrick
Philip Kirkpatrick
Audit expert

Zurich, March 3, 2014

ACE Group Corporate Greenhouse Gas Inventory Program

As an insurance company, ACE's "environmental footprint" is relatively modest, but through its Corporate Greenhouse Gas Inventory Program, the company works to reduce it even further. One of the primary objectives of ACE's environmental strategy is to measure, record and reduce the company's global GHG emissions.

In 2007, ACE joined the voluntary U.S. Environmental Protection Agency (EPA)-sponsored Climate Leaders program, through which the company was able to develop long-term, comprehensive climate-change strategies, inventory its emissions and set a six-year GHG reduction goal of 8% per employee. While the program was discontinued in September 2011, ACE's Corporate GHG Inventory Program remains active using its methodology, which is based on the World Resources Institute and the World Business Council for Sustainable Development (WRI/WBCSD) GHG Protocol for data collection and analysis. In 2012, ACE successfully met its first generation GHG reduction goal with a 27% reduction in emissions per employee since 2006. In order to continue ACE's global commitment to reducing its environmental footprint, a new GHG reduction target is being assessed for future years.

ACE Group 2013 GHG Inventory Data – Normalized Emissions Goal Tracking

	2006 (base)	2013	**change**
Total Emissions (CO_2-eq. (metric tons))	72,441	66,867	**(7.7)%**
Normalization Factor (FTE employees)	13,648	16,060	**17.7 %**
Normalized Emissions (CO_2-eq./NF Units)	5.31	4.16	**(21.7)%**

NOTE: In 2011, ACE updated its data collection methods and a recalculation of previously reported inventories (2006-2010) was performed. Normalization accounts for part-time employees and acquisitions.

The data above represent 13,747 metric tons of CO_2-eq. of Scope 1 emissions from fossil fuel combustion and refrigerants, 40,702 metric tons of CO_2-eq. of Scope 2 emissions from purchased electricity, and 12,418 metric tons of CO_2-eq. of Scope 3 emissions from United States/Bermuda employee business travel. ACE's GHG emissions data are reviewed by a third party on an annual basis. The company's GHG inventory for 2013 was reviewed by ERM Certification and Verification Services and the verification statement can be found on the following page.

In addition to tracking GHG emissions against its goals, ACE reports its GHG emissions data to the Carbon Disclosure Project (CDP), an organization that scores carbon emissions information from thousands of corporations on behalf of the global investment community. In 2013, ACE was the only insurer named to both of the organization's leadership indices for climate performance: the Global 500 Carbon Performance Leadership Index (CPLI) and the S&P 500 CPLI. ACE's CDP submission resulted in a disclosure score of 93 and a performance score of A.

ACE's Global GHG Management Plan concentrates primarily on reducing energy consumption at the facility level, specifically in owned buildings and larger, long-term leased spaces. Projects have been implemented at many of the company's major facilities including Philadelphia, PA; Wilmington, DE; Hamilton, Bermuda; Sydney, Australia; and the ACE Conference Center and Club in Pennsylvania. The projects include installation of new HVAC equipment, lighting upgrades and installation of a central building automation system (BAS) in order to improve operations within the building and reduce energy consumption. Energy efficiency projects implemented in 2013 produced an estimated savings of 600 mtons of CO_2e per year.

In ACE's North American headquarters in Philadelphia, the company has reduced energy consumption by over 20% since 2006 through the installation of new boilers and LED lighting, the use of variable speed drive HVAC equipment and installation of an exhaust energy recovery ventilator. Through these steps, ACE earned LEED Silver certification in 2009 and was also awarded Energy Star Certification by the U.S. EPA in 2010 and 2012.

In July 2011, the company's Bermuda office building was awarded LEED Gold certification – the first building in Bermuda to receive the designation – due in part to initiatives such as re-lamping of office lights, applying a floating temperature set point and installing motion sensors and timers on office equipment. These actions reduced electrical needs by approximately 500,000 kWh (358 mtons CO_2e) per year.

Information about ACE's full range of environmental efforts, including insurance solutions to help customers manage their environmental and climate change risks, corporate initiatives to control the company's ecological impact and philanthropic actions in support of environmental causes, can be found in the company's annual Environmental Report, which is available at www.acegroup.com.

Independent Assurance Statement to ACE Group

ERM Certification and Verification Services (ERM CVS) was engaged by ACE Group (ACE) to provide assurance in relation to the GHG information set out below and presented in the Environmental Statement on page E-1 of ACE's 2013 Annual Report.

Engagement Summary	
Scope:	Whether the data (January 2013 to December 2013) for the following indicators are, in all material respects, appropriately presented: • Scope 1 Direct GHG emissions from natural gas combustion, liquid fossil fuels, refrigerant gases and emissions from company-owned and leased vehicles (tonnes CO_2e) • Scope 2 Indirect GHG emissions from purchased electricity(tonnes CO_2e) • Scope 3 Other Indirect GHG emissions from global air travel (excluding private jets), rented vehicles, and rail travel (tonnes CO_2e) for ACE's operations in USA and Bermuda 'Appropriately presented' means we have assessed the selected data for reliability which includes: completeness (whether all significant contributions were captured); comparability (across locations and over time); and accuracy of calculations (including the use of appropriate formulae, conversion factors, estimates and assumptions).
Reporting Criteria used:	ACE's internal GHG calculation methodology, which is based on the World Resources Institute and the World Business Council for Sustainable Development (WRI/WBCSD) GHG Protocol (2004)
Assurance Standard used:	ERM's GHG Performance Data Assurance Methodology (approved by CDP, see https://www.cdproject.net/en-US/Respond/Pages/verification-standards.aspx).
Assurance level:	Limited assurance
Respective responsibilities:	ACE is responsible for preparing the Environmental Statement and for the collection and presentation of the information within it. ERM CVS's responsibility is to provide conclusions on the agreed scope based on the assurance activities performed and exercising our professional judgement.

Our conclusions

Based on our activities, nothing has come to our attention to indicate that the 2013 GHG inventory data for the indicators listed under 'Scope' above and presented in the Environmental Statement on page E-1 of ACE's 2013 Annual Report, are not appropriately presented according to the reporting criteria.

This includes:

- Scope 1 Emissions: 13,747 tonnes CO_2e
- Scope 2 Emissions: 40,702 tonnes CO_2e
- Scope 3 Emissions: 12,418 tonnes CO_2e

Our assurance activities

We planned and performed our work to obtain all the information and explanations that we believe were necessary to provide a basis for our assurance conclusions. ERM CVS performed the following activities:

- A review of the internal indicator definitions and conversion factors;
- A review of the emission factors;
- Corporate level assurance activities to review data management systems and processes and selected investigation of the source and consolidated data;
- Detailed review of source data from five ACE locations, including one located outside the United States, accounting for approximately 5% of ACE's total GHG emissions. The locations were selected by ERM CVS based on quantitative and qualitative criteria;
- Evaluation of GHG data and reporting processes to establish conformance of ACE's GHG inventory data and associated systems and controls GHG Protocol;
- Comparison of ACE's 2013 GHG emissions' data set to previous year's data (2006-2012) to test completeness and consistency as well as to check for discrepancies among similar sites across reporting years;
- Reviewing the presentation of information relevant to the scope of our work in the Report to ensure consistency with our findings.

The limitations of our engagement

The reliability of the assured data is subject to inherent uncertainties, given the available methods for determining, calculating or estimating the underlying information. It is important to understand our assurance conclusions in this context.

The data relating to headcount and normalisation of the data are excluded from this assurance.

Our Observations

We have provided ACE with a separate detailed management report. Without affecting the conclusions presented above, we have the following key observations:

- A significant proportion of un-metered data is estimated based on prior year data or extrapolation from other premises in the same region. There is a need for greater transparency as to whether data are measured or estimated.
- The goal tracking is based on total data reported, which include a combination of Scope 1, Scope 2 and selected Scope 3 GHG emissions. Reporting performance for these scopes separately in the future will present a more transparent picture of ACE's global emissions and the effectiveness of GHG reduction initiatives.

Melanie Eddis
Head of Climate Change
18 March 2014

ERM Certification and Verification Services, London
www.ermcvs.com
Email: post@ermcvs.com

ERM CVS is a member of the ERM Group. The work that ERM CVS conducts for clients is solely related to independent assurance activities and auditor training. Our processes are designed and implemented to ensure that the work we undertake with clients is free from bias and conflict of interest. ERM CVS and the staff that have undertaken work on this assurance exercise provide no consultancy related services to ACE in any respect.

This report is printed on paper containing 55% recycled and 30% post-consumer fibers. These papers are certified to the international standards of the Forest Stewardship Council (FSC), which promotes responsible management of the world's forests. It was printed by Allied Printing, an FSC-certified printer.

Design: Rob Frankle for Leo Burnett Business

ACE Limited
Bärengasse 32
CH-8001 Zurich
Switzerland

www.acegroup.com

®

002CSN38D1