ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

ACE Limited
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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Financial Statements

The consolidated financial statements of ACE Limited (ACE) were prepared by management, which is responsible for their reliability and objectivity. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management. Financial information elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Board of Directors (Board), operating through its Audit Committee, which is composed entirely of directors who are not officers or employees of ACE, provides oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use or disposition. The Audit Committee annually recommends the appointment of an independent registered public accounting firm and submits its recommendation to the Board for approval.

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.

The consolidated financial statements have been audited by an independent registered public accounting firm, PricewaterhouseCoopers LLP, which has been given unrestricted access to all financial records and related data, including minutes of all meetings of the Board and committees of the Board. ACE believes that all representations made to our independent registered public accountants during their audits were valid and appropriate.

Internal Control over Financial Reporting

The management of ACE is responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2014, management has evaluated the effectiveness of ACE's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in “Internal Control - Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this evaluation, we have concluded that ACE's internal control over financial reporting was effective as of December 31, 2014.

In conducting our evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014, we have excluded the acquisition of the large corporate account P&C business of Itaú Seguros, S.A. (Itaú Seguros) as permitted by the guidance issued by the Office of the Chief Accountant of the Securities and Exchange Commission (not to extend one year beyond the date of acquisition or one annual reporting period). The acquisition was completed on October 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. See Note 2 for further discussion of this acquisition and its impact on ACE’s consolidated financial statements.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the consolidated financial statements of ACE included in this Annual Report, has issued a report on the effectiveness of ACE's internal controls over financial reporting as of December 31, 2014. The report, which expresses an unqualified opinion on the effectiveness of ACE's internal control over financial reporting as of December 31, 2014, is included in this Item under “Report of Independent Registered Public Accounting Firm” and follows this statement.

/s/ Evan G. Greenberg	/s/ Philip V. Bancroft
Evan G. Greenberg	Philip V. Bancroft
Chairman, President and Chief Executive Officer	Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of ACE Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of ACE Limited and its subsidiaries (the "Company") at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15 (2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Internal Control Over Financial Reporting, appearing in Management's Responsibility for Financial Statements and Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded the large corporate account P&C business of Itaú Seguros, S.A. (Itaú Seguros) from its assessment of internal control over financial reporting as of December 31, 2014 because Itaú Seguros was acquired by the Company on October 31, 2014. We have also excluded Itaú Seguros from our audit of internal control over financial reporting. Itaú Seguros is a wholly-owned subsidiary whose total assets, revenues, and net income were excluded from management's assessment and our audit and represented approximately three percent, less than one percent, and less than one percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2014.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

February 27, 2015

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CONSOLIDATED BALANCE SHEETS
ACE Limited and Subsidiaries

(in millions of U.S. dollars, except share and per share data)		December 31 2014		December 31 2013
Assets				
Investments				
Fixed maturities available for sale, at fair value (amortized cost - $47,826 and $48,406)	$	49,395	$	49,254
(includes hybrid financial instruments of $274 and $302)				
Fixed maturities held to maturity, at amortized cost (fair value - $7,589 and $6,263)		7,331		6,098
Equity securities, at fair value (cost - $440 and $841)		510		837
Short-term investments, at fair value and amortized cost		2,322		1,763
Other investments (cost - $2,999 and $2,671)		3,346		2,976
Total investments		62,904		60,928
Cash		655		579
Securities lending collateral		1,330		1,632
Accrued investment income		552		556
Insurance and reinsurance balances receivable		5,426		5,026
Reinsurance recoverable on losses and loss expenses		11,992		11,227
Reinsurance recoverable on policy benefits		217		218
Deferred policy acquisition costs		2,601		2,313
Value of business acquired		466		536
Goodwill and other intangible assets		5,724		5,404
Prepaid reinsurance premiums		2,026		1,675
Deferred tax assets		295		616
Investments in partially-owned insurance companies		504		470
Other assets		3,556		3,330
Total assets	$	98,248	$	94,510
Liabilities				
Unpaid losses and loss expenses	$	38,315	$	37,443
Unearned premiums		8,222		7,539
Future policy benefits		4,754		4,615
Insurance and reinsurance balances payable		4,095		3,628
Securities lending payable		1,331		1,633
Accounts payable, accrued expenses, and other liabilities		5,726		4,810
Short-term debt		2,552		1,901
Long-term debt		3,357		3,807
Trust preferred securities		309		309
Total liabilities		68,661		65,685
Commitments and contingencies				
Shareholders' equity				
Common Shares (CHF 24.77 and CHF 27.04 par value; 342,832,412 shares issued; 328,659,686 and 339,793,935 shares outstanding)		8,055		8,899
Common Shares in treasury (14,172,726 and 3,038,477 shares)		(1,448)		(255)
Additional paid-in capital		5,145		5,238
Retained earnings		16,644		13,791
Accumulated other comprehensive income (AOCI)		1,191		1,152
Total shareholders' equity		29,587		28,825
Total liabilities and shareholders' equity	$	98,248	$	94,510

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

ACE Limited and Subsidiaries

For the years ended December 31, 2014, 2013 and 2012 (in millions of U.S. dollars, except per share data)	2014	2013	2012
Revenues			
Net premiums written	$ 17,799	$ 17,025	$ 16,075
Increase in unearned premiums	(373)	(412)	(398)
Net premiums earned	17,426	16,613	15,677
Net investment income	2,252	2,144	2,181
Net realized gains (losses):			
Other-than-temporary impairment (OTTI) losses gross	(75)	(22)	(38)
Portion of OTTI losses recognized in other comprehensive income (OCI)	7	-	1
Net OTTI losses recognized in income	(68)	(22)	(37)
Net realized gains (losses) excluding OTTI losses	(439)	526	115
Total net realized gains (losses) (includes $(24) and $105 reclassified from AOCI in 2014 and 2013)	(507)	504	78
Total revenues	19,171	19,261	17,936
Expenses			
Losses and loss expenses	9,649	9,348	9,653
Policy benefits	517	515	521
Policy acquisition costs	3,075	2,659	2,446
Administrative expenses	2,245	2,211	2,096
Interest expense	280	275	250
Other (income) expense	(82)	15	(6)
Total expenses	15,684	15,023	14,960
Income before income tax	3,487	4,238	2,976
Income tax expense (includes $9 and $17 on reclassified unrealized gains and losses in 2014 and 2013)	634	480	270
Net income	$ 2,853	$ 3,758	$ 2,706
Other comprehensive income (loss)			
Unrealized appreciation (depreciation)	$ 820	$ (1,762)	$ 1,350
Reclassification adjustment for net realized (gains) losses included in net income	24	(105)	(234)
	844	(1,867)	1,116
Change in:			
Cumulative translation adjustment	(632)	(339)	116
Pension liability	2	-	(35)
Other comprehensive income (loss), before income tax	214	(2,206)	1,197
Income tax benefit (expense) related to OCI items	(175)	471	(221)
Other comprehensive income (loss)	39	(1,735)	976
Comprehensive income	$ 2,892	$ 2,023	$ 3,682
Earnings per share			
Basic earnings per share	$ 8.50	$ 11.02	$ 7.96
Diluted earnings per share	$ 8.42	$ 10.92	$ 7.89

See accompanying notes to the consolidated financial statements

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

ACE Limited and Subsidiaries

For the years ended December 31, 2014, 2013 and 2012 (in millions of U.S. dollars)	2014	2013	2012
Common Shares			
Balance - beginning of year	$ 8,899	$ 9,591	$ 10,095
Dividends declared on Common Shares - par value reduction	(844)	(692)	(504)
Balance - end of year	8,055	8,899	9,591
Common Shares in treasury			
Balance - beginning of year	(255)	(159)	(327)
Common Shares repurchased	(1,449)	(290)	(7)
Net shares redeemed under employee share-based compensation plans	256	194	175
Balance - end of year	(1,448)	(255)	(159)
Additional paid-in capital			
Balance - beginning of year	5,238	5,179	5,326
Net shares redeemed under employee share-based compensation plans	(167)	(126)	(93)
Exercise of stock options	(58)	(42)	(7)
Share-based compensation expense and other	185	191	135
Funding of dividends declared to Retained earnings	(81)	-	(200)
Tax benefit on share-based compensation expense	28	36	18
Balance - end of year	5,145	5,238	5,179
Retained earnings			
Balance - beginning of year	13,791	10,033	7,327
Net income	2,853	3,758	2,706
Funding of dividends declared from Additional paid-in capital	81	-	200
Dividends declared on Common Shares	(81)	-	(200)
Balance - end of year	16,644	13,791	10,033
Accumulated other comprehensive income			
Net unrealized appreciation on investments			
Balance - beginning of year	1,174	2,633	1,715
Change in year, before reclassification from AOCI, net of income tax benefit (expense) of $(176) and $391	644	(1,371)	
Amounts reclassified from AOCI, net of income tax benefit of $9 and $17	33	(88)	
Change in year, net of income tax benefit (expense) of $(167), $408, and $(198)	677	(1,459)	918
Balance - end of year	1,851	1,174	2,633
Cumulative translation adjustment			
Balance - beginning of year	63	339	258
Change in year, net of income tax benefit (expense) of $(12), $63, and $(35)	(644)	(276)	81
Balance - end of year	(581)	63	339
Pension liability adjustment			
Balance - beginning of year	(85)	(85)	(62)
Change in year, net of income tax benefit of $4, nil, and $12	6	-	(23)
Balance - end of year	(79)	(85)	(85)
Accumulated other comprehensive income	1,191	1,152	2,887
Total shareholders' equity	$ 29,587	$ 28,825	$ 27,531

See accompanying notes to the consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

ACE Limited and Subsidiaries

For the years ended December 31, 2014, 2013, and 2012 (in millions of U.S. dollars)	2014	2013	2012
Cash flows from operating activities			
Net income	**$ 2,853**	$ 3,758	$ 2,706
Adjustments to reconcile net income to net cash flows from operating activities			
Net realized (gains) losses	**507**	(504)	(78)
Amortization of premiums/discounts on fixed maturities	**188**	268	220
Deferred income taxes	**145**	240	(7)
Unpaid losses and loss expenses	**317**	(365)	203
Unearned premiums	**441**	402	522
Future policy benefits	**236**	191	158
Insurance and reinsurance balances payable	**376**	176	(151)
Accounts payable, accrued expenses, and other liabilities	**13**	37	(42)
Income taxes payable	**103**	(45)	(167)
Insurance and reinsurance balances receivable	**(469)**	(624)	335
Reinsurance recoverable on losses and loss expenses	**119**	787	372
Reinsurance recoverable on policy benefits	**4**	23	52
Deferred policy acquisition costs	**(397)**	(503)	(340)
Prepaid reinsurance premiums	**(89)**	(31)	(123)
Other	**149**	212	335
Net cash flows from operating activities	**4,496**	4,022	3,995
Cash flows from investing activities			
Purchases of fixed maturities available for sale	**(15,553)**	(21,340)	(23,572)
Purchases of to be announced mortgage-backed securities	**-**	(58)	(389)
Purchases of fixed maturities held to maturity	**(267)**	(447)	(388)
Purchases of equity securities	**(251)**	(264)	(135)
Sales of fixed maturities available for sale	**7,482**	10,355	14,321
Sales of to be announced mortgage-backed securities	**-**	58	448
Sales of equity securities	**670**	142	119
Maturities and redemptions of fixed maturities available for sale	**6,413**	6,941	5,523
Maturities and redemptions of fixed maturities held to maturity	**875**	1,488	1,451
Net change in short-term investments	**(603)**	524	117
Net derivative instruments settlements	**(230)**	(471)	(281)
Acquisition of subsidiaries (net of cash acquired of $20, $38, and $8)	**(766)**	(977)	(98)
Other	**(274)**	(393)	(555)
Net cash flows used for investing activities	**(2,504)**	(4,442)	(3,439)
Cash flows from financing activities			
Dividends paid on Common Shares	**(862)**	(517)	(815)
Common Shares repurchased	**(1,429)**	(287)	(11)
Proceeds from issuance of long-term debt	**699**	947	-
Proceeds from issuance of short-term debt	**1,978**	2,572	2,933
Repayment of long-term debt	**(501)**	-	-
Repayment of short-term debt	**(1,977)**	(2,572)	(2,783)
Proceeds from share-based compensation plans, including windfall tax benefits	**127**	135	126
Other	**188**	113	-
Net cash flows (used for) from financing activities	**(1,777)**	391	(550)
Effect of foreign currency rate changes on cash and cash equivalents	**(139)**	(7)	(5)
Net increase (decrease) in cash	**76**	(36)	1
Cash - beginning of year	**579**	615	614
Cash - end of year	**$ 655**	$ 579	$ 615
Supplemental cash flow information			
Taxes paid	**$ 349**	$ 218	$ 438
Interest paid	**$ 264**	$ 253	$ 240

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
ACE Limited and Subsidiaries

1. Summary of significant accounting policies

a) Basis of presentation
ACE Limited is a holding company incorporated in Zurich, Switzerland. ACE Limited, through its subsidiaries, provides a broad range of insurance and reinsurance products to insureds worldwide. ACE operates through five business segments: Insurance - North American P&C, Insurance - North American Agriculture, Insurance - Overseas General, Global Reinsurance, and Life. Refer to Note 15 **for additional information.**

The accompanying consolidated financial statements, which include the accounts of ACE Limited and its subsidiaries (collectively, ACE, we, us, or our), have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and, in the opinion of management, reflect all adjustments (consisting of normally recurring accruals) necessary for a fair statement of the results and financial position for such periods. All significant intercompany accounts and transactions, including internal reinsurance transactions, have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Amounts included in the consolidated financial statements reflect our best estimates and assumptions; actual amounts could differ materially from these estimates. ACE's principal estimates include:

- 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;
- reinsurance recoverable, including a provision for uncollectible reinsurance;
- the assessment of risk transfer for certain structured insurance and reinsurance contracts;
- the valuation of the investment portfolio and assessment of OTTI;
- the valuation of deferred tax assets;
- the valuation of derivative instruments related to guaranteed living benefits (GLB); and
- the valuation of goodwill.

b) Premiums
Premiums are generally recorded as written upon inception of the policy. For multi-year policies for which premiums written are payable in annual installments, only the current annual premium is included as written at policy inception due to the ability of the insured/reinsured to commute or cancel coverage within the policy term. The remaining annual premiums are recorded as written at each successive anniversary date within the multi-year term.

For property and casualty (P&C) insurance and reinsurance products, premiums written are primarily earned on a pro-rata basis over the policy terms to which they relate. Unearned premiums represent the portion of premiums written applicable to the unexpired portion of the policies in force. For retrospectively-rated policies, written premiums are adjusted to reflect expected ultimate premiums consistent with changes to incurred losses, or other measures of exposure as stated in the policy, and earned over the policy coverage period. For retrospectively-rated multi-year policies, premiums recognized in the current period are computed, using a with-and-without method, as the difference between the ceding enterprise's total contract costs before and after the experience under the contract at the reporting date. Accordingly, for retrospectively-rated multi-year policies, additional premiums are generally written and earned when losses are incurred.

Mandatory reinstatement premiums assessed on reinsurance policies are earned in the period of the loss event that gave rise to the reinstatement premiums. All remaining unearned premiums are recognized over the remaining coverage period.

Premiums from long-duration contracts such as certain traditional term life, whole life, endowment, and long-duration personal accident and health (A&H) policies are generally recognized as revenue when due from policyholders. Traditional life policies include those contracts with fixed and guaranteed premiums and benefits. Benefits and expenses are matched with income to result in the recognition of profit over the life of the contracts.

Retroactive loss portfolio transfer (LPT) contracts in which the insured loss events occurred prior to contract inception are evaluated to determine whether they meet criteria for reinsurance accounting. If reinsurance accounting is appropriate, written premiums are fully earned and corresponding losses and loss expenses recognized at contract inception. These contracts can cause significant variances in gross premiums written, net premiums written, net premiums earned, and net incurred losses in the years in which they are written. Reinsurance contracts sold not meeting criteria for reinsurance accounting are recorded using the deposit method as described below in Note 1 k**).**

Reinsurance premiums assumed are based on information provided by ceding companies supplemented by our own estimates of premium when we have not received ceding company reports. Estimates are reviewed and adjustments are recorded in the period in which they are determined. Premiums are earned over the coverage terms of the related reinsurance contracts and range from one to three years.

c) Deferred policy acquisition costs and value of business acquired
Policy acquisition costs consist of commissions (direct and ceded), premium taxes, and certain underwriting costs related directly to the successful acquisition of new or renewal insurance contracts. A VOBA intangible asset is established upon the acquisition of blocks of long-duration contracts in a business combination and represents the present value of estimated net cash flows for the contracts in force at the acquisition date. Acquisition costs and VOBA, collectively policy acquisition costs, are deferred and amortized. Amortization is recorded in Policy acquisition costs in the consolidated statements of operations. Policy acquisition costs on P&C contracts are generally amortized ratably over the period in which premiums are earned. Policy acquisition costs on traditional long-duration contracts are amortized 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 expected gross profits. The effect of changes in estimates of expected gross profits is reflected in the period the estimates are revised. Policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. Unrecoverable policy acquisition costs are expensed in the period identified.

Advertising costs are expensed as incurred except for direct-response campaigns that qualify for cost deferral, principally related to long-duration A&H business produced by the Insurance - Overseas General segment, which are deferred and recognized as a component of policy acquisition costs. For individual direct-response marketing campaigns that we can demonstrate have specifically resulted in incremental sales to customers and such sales have probable future economic benefits, incremental costs directly related to the marketing campaigns are capitalized as deferred policy acquisition costs. Deferred policy acquisition costs, including deferred marketing costs, are reviewed regularly for recoverability from future income, including investment income, and amortized in proportion to premium revenue recognized, primarily over a ten-year period, the expected economic future benefit period based upon the same assumptions used in estimating the liability for future policy benefits. The expected future benefit period is evaluated periodically based on historical results and adjusted prospectively. The amount of deferred marketing costs reported in Deferred policy acquisition costs in the consolidated balance sheets was $288 million and $307 million at December 31, 2014 and 2013, respectively. Amortization expense for deferred marketing costs was $99 million, $128 million, and $119 million for the years ended December 31, 2014, 2013, and 2012, respectively.

d) Reinsurance
ACE assumes and cedes reinsurance with other insurance companies to provide greater diversification of business and minimize the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve ACE of its primary obligation to policyholders.

For both ceded and assumed reinsurance, risk transfer requirements must be met in order to account for a contract as reinsurance, principally resulting in the recognition of cash flows under the contract as premiums and losses. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. To assess risk transfer for certain contracts, ACE generally develops expected discounted cash flow analyses at contract inception. Deposit accounting is used for contracts that do not meet risk transfer requirements. Deposit accounting requires that consideration received or paid be recorded in the balance sheet as opposed to recording premiums written or losses incurred in the statement of operations. Non-refundable fees on deposit contracts are earned based on the terms of the contract described below in Note 1 k**).**

Reinsurance recoverable includes balances due from reinsurance companies for paid and unpaid losses and loss expenses and policy benefits that will be recovered from reinsurers, based on contracts in force. The method for determining the reinsurance recoverable on unpaid losses and loss expenses incurred but not reported (IBNR) involves actuarial estimates consistent with

those used to establish the associated liability for unpaid losses and loss expenses as well as a determination of ACE's ability to cede unpaid losses and loss expenses under the terms of the reinsurance agreement.

Reinsurance recoverable is presented net of a provision for uncollectible reinsurance determined based upon a review of the financial condition of reinsurers and other factors. The provision for uncollectible reinsurance is based on an estimate of the reinsurance recoverable balance that will ultimately be unrecoverable due to reinsurer insolvency, a contractual dispute, or any other reason. The valuation of this provision includes several judgments including certain aspects of the allocation of reinsurance recoverable on IBNR claims by reinsurer and 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 determine the portion of a reinsurer's balance deemed uncollectible. 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 with the same legal entity for which ACE believes there is a contractual right of offset. The determination of the default factor is principally based on the financial strength rating of the reinsurer. 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. The more significant considerations 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 financial rating is based on a published source and the default factor is based on published default statistics of a major rating agency applicable to the reinsurer's particular rating class. 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, affiliate, or peer company, we determine a rating equivalent based on an 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 the ceded reserve is below a certain threshold, we generally apply a default factor of 34 percent, consistent with published statistics of a major rating agency;
- 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 reinsurer-specific facts and circumstances. Upon initial notification of an insolvency, we generally recognize an 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 other recoverables, management determines the provision for uncollectible reinsurance based on the specific facts and circumstances.

The methods used to determine the reinsurance recoverable balance and related provision for uncollectible reinsurance are regularly reviewed and updated, and any resulting adjustments are reflected in earnings in the period identified.

Prepaid reinsurance premiums represent the portion of premiums ceded to reinsurers applicable to the unexpired coverage terms of the reinsurance contracts in force.

The value of reinsurance business assumed of $26 million and $27 million at December 31, 2014 and 2013, respectively, included in Other assets in the accompanying consolidated balance sheets, represents the excess of estimated ultimate value of the liabilities assumed under retroactive reinsurance contracts over consideration received. The value of reinsurance business assumed is amortized and recorded to losses and loss expenses based on the payment pattern of the losses assumed and ranges between 9 and 40 years. The unamortized value is reviewed regularly to determine if it is recoverable based upon the terms of the contract, estimated losses and loss expenses, and anticipated investment income. Unrecoverable amounts are expensed in the period identified.

e) Investments
Fixed maturities are classified as either available for sale or held to maturity. The available for sale portfolio is reported at fair value. The held to maturity portfolio includes securities for which we have the ability and intent to hold to maturity or redemption and is reported at amortized cost. Equity securities are classified as available for sale and are recorded at fair value.

Short-term investments comprise securities due to mature within one year of the date of purchase and are recorded at fair value which typically approximates cost. Short-term investments include certain cash and cash equivalents, which are part of investment portfolios under the management of external investment managers.

Other investments principally comprise life insurance policies, policy loans, trading securities, other direct equity investments, investment funds, and limited partnerships.

- Life insurance policies are carried at policy cash surrender value.
- Policy loans are carried at outstanding balance.
- Trading securities are recorded on a trade date basis and carried at fair value. Unrealized gains and losses on trading securities are reflected in Net income.
- Other investments over which ACE can exercise significant influence are accounted for using the equity method.
- All other investments over which ACE cannot exercise significant influence are carried at fair value with changes in fair value recognized through OCI. For these investments, investment income and realized gains are recognized as related distributions are received.
- Partially-owned investment companies comprise entities in which we hold an ownership interest in excess of three percent. These investments as well as ACE's investments in investment funds where our ownership interest is in excess of three percent are accounted for under the equity method because ACE exerts significant influence. These investments apply investment company accounting to determine operating results, and ACE retains the investment company accounting in applying the equity method. This means that investment income, realized gains or losses, and unrealized gains or losses are included in the portion of equity earnings reflected in Other (income) expense.

Investments in partially-owned insurance companies primarily represent direct investments in which ACE has significant influence and, as such, meet the requirements for equity accounting. We report our share of the net income or loss of the partially-owned insurance companies in Other (income) expense.

Realized gains or losses on sales of investments are determined on a first-in, first-out basis. Unrealized appreciation (depreciation) on investments is included as a separate component of AOCI in Shareholders' equity. We regularly review our investments for OTTI. Refer to Note 3 **for additional information.**

With respect to securities where the decline in value is determined to be temporary and the security's value is not written down, a subsequent decision may be made to sell that security and realize a loss. Subsequent decisions on security sales are the result of changing or unforeseen facts and circumstances (i.e., arising from a large insured loss such as a catastrophe), deterioration of the creditworthiness of the issuer or its industry, or changes in regulatory requirements. We believe that subsequent decisions to sell such securities are consistent with the classification of the majority of the portfolio as available for sale.

We use derivative instruments including futures, options, swaps, and foreign currency forward contracts for the purpose of managing certain investment portfolio risks and exposures. Refer to Note 10 **for additional information. Derivatives are reported at fair value and are recorded in the accompanying consolidated balance sheets in either Accounts payable, accrued expenses, and other liabilities or Other assets with changes in fair value included in Net realized gains (losses) in the consolidated statements of operations. Collateral held by brokers equal to a percentage of the total value of open futures contracts is included in the investment portfolio.**

Net investment income includes interest and dividend income and amortization of fixed maturity market premiums and discounts and is net of investment management and custody fees. For mortgage-backed securities, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognized prospectively. Prepayment fees or call premiums that are only payable when a security is called prior to its maturity are earned when received and reflected in Net investment income.

ACE participates in a securities lending program operated by a third-party banking institution whereby certain assets are loaned to qualified borrowers and from which we earn an incremental return. Borrowers provide collateral, in the form of either cash or approved securities, of 102 percent of the fair value of the loaned securities. Each security loan is deemed to be an overnight transaction. Cash collateral is invested in a collateral pool which is managed by the banking institution. The collateral pool is

subject to written investment guidelines with key objectives which include the safeguard of principal and adequate liquidity to meet anticipated redemptions. The fair value of the loaned securities is monitored on a daily basis, with additional collateral obtained or refunded as the fair value of the loaned securities changes. The collateral is held by the third-party banking institution, and the collateral can only be accessed in the event that the institution borrowing the securities is in default under the lending agreement. As a result of these restrictions, we consider our securities lending activities to be non-cash investing and financing activities. An indemnification agreement with the lending agent protects us in the event a borrower becomes insolvent or fails to return any of the securities on loan. The fair value of the securities on loan is included in fixed maturities and equity securities. The securities lending collateral is reported as a separate line in total assets with a related liability reflecting our obligation to return the collateral plus interest.

Similar to securities lending arrangements, securities sold under repurchase agreements, whereby ACE sells securities and repurchases them at a future date for a predetermined price, are accounted for as collateralized investments and borrowings and are recorded at the contractual repurchase amounts plus accrued interest. Assets to be repurchased are the same, or substantially the same, as the assets transferred and the transferor, through right of substitution, maintains the right and ability to redeem the collateral on short notice. The fair value of the underlying securities is included in fixed maturities and equity securities. In contrast to securities lending programs, the use of cash received is not restricted. We report the obligation to return the cash as Short-term debt in the consolidated balance sheets.

Refer to Note 4 for a discussion on the determination of fair value for ACE's various investment securities.

f) Cash
Cash includes cash on hand and deposits with an original maturity of three months or less at time of purchase. Cash held by external money managers is included in Short-term investments.

We have agreements with a third-party bank provider which implemented two international multi-currency notional cash pooling programs. In each program, participating ACE 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 ACE 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 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 overdraw contributed funds from the pool.

g) Goodwill and other intangible assets
Goodwill represents the excess of the cost of acquisitions over the fair value of net assets acquired and is not amortized. Goodwill is assigned at acquisition to the applicable reporting unit of the acquired entities giving rise to the goodwill. Goodwill impairment tests are performed annually or more frequently if circumstances indicate a possible impairment. For goodwill impairment testing, we use 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 our assessment indicates less than a 50 percent probability that fair value exceeds carrying value, we quantitatively estimate a reporting unit's fair value. Goodwill recorded in connection with investments in partially-owned insurance companies is recorded in Investments in partially-owned insurance companies and is also measured for impairment annually.

During the third quarter of 2014, we changed our annual goodwill impairment testing date from December 31 to September 30 of each year. We believe this change is preferable as it more closely aligns the goodwill impairment testing date with the timing of our strategic business planning process. This change does not result in any delay, acceleration or avoidance of impairment. Based on our impairment testing for 2014, we determined no impairment was required and none of our reporting units were at risk for impairment.

Indefinite lived intangible assets are not subject to amortization. Finite lived intangible assets are amortized over their useful lives, generally ranging from 1 to 20 years. The amortization of finite lived intangible assets is reported in Other (income) expense in the consolidated statements of operations. Intangible assets are regularly reviewed for indicators of impairment. Impairment is recognized if the carrying amount is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value.

h) Unpaid losses and loss expenses
A liability is established for the estimated unpaid losses and loss expenses under the terms of, and with respect to, ACE's policies and agreements. Similar to premiums that are recognized as revenues over the coverage period of the policy, a liability for unpaid losses and loss expenses is recognized as expense when insured events occur over the coverage period of the policy. This liability includes a provision for both reported claims (case reserves) and incurred but not reported claims (IBNR reserves). IBNR reserve estimates are generally calculated by first projecting the ultimate cost of all losses that have occurred (expected losses), and then subtracting paid losses, case reserves, and loss expenses. The methods of determining such estimates and establishing the resulting liability are reviewed regularly and any adjustments are reflected in operations in the period in which they become known. Future developments may result in losses and loss expenses materially greater or less than recorded amounts.

Except for net loss and loss expense reserves of $49 million net of discount, held at December 31, 2014, representing certain structured settlements for which the timing and amount of future claim payments are reliably determinable and $62 million, net of discount, of certain reserves for unsettled claims that are discounted in statutory filings, ACE does not discount its P&C loss reserves. This compares with reserves of $54 million for certain structured settlements and $52 million of certain reserves for unsettled claims at December 31, 2013. Structured settlements represent contracts purchased from life insurance companies primarily to settle workers' compensation claims, where payments to the claimant by the life insurance company are expected to be made in the form of an annuity. ACE retains the liability to the claimant in the event that the life insurance company fails to pay. At December 31, 2014, the gross liability due to claimants was $606 million, net of discount, and reinsurance recoverables due from the life insurance companies was $557 million, net of discount. For structured settlement contracts where payments are guaranteed regardless of claimant life expectancy, the amounts recoverable from the life insurance companies at December 31, 2014 are included in Other assets in the consolidated balance sheets, as they do not meet the requirements for reinsurance accounting.

Included in unpaid losses and loss expenses are liabilities for asbestos and environmental (A&E) claims and expenses. These unpaid losses and loss expenses are principally related to claims arising from remediation costs associated with hazardous waste sites and bodily-injury claims related to asbestos products and environmental hazards. The estimation of these liabilities is particularly sensitive to changes in the legal environment including specific settlements that may be used as precedents to settle future claims. However, ACE does not anticipate future changes in laws and regulations in setting its A&E reserve levels.

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 premiums from previous accident years.

For purposes of analysis and disclosure, management views prior period development to be changes in the nominal value of loss estimates from period to period, net of premium and profit commission adjustments on loss sensitive contracts. Prior period development generally excludes changes in loss estimates that do not arise from the emergence of claims, such as those related to uncollectible reinsurance, interest, unallocated loss adjustment expenses, or foreign currency. Accordingly, specific items excluded from prior period development include the following: gains/losses related to foreign currency remeasurement; losses recognized from the early termination or commutation of reinsurance agreements that principally relate to the time value of money; changes in the value of reinsurance business assumed reflected in losses incurred but principally related to the time value of money; and losses that arise from changes in estimates of earned premiums from prior accident years. Except for foreign currency remeasurement, which is included in Net realized gains (losses), these items are included in current year losses.

i) Future policy benefits
The valuation of long-duration contract reserves requires management to make estimates and assumptions regarding expenses, mortality, persistency, and investment yields. Estimates are primarily based on historical experience and information provided by ceding companies and include a margin for adverse deviation. Interest rates used in calculating reserves range from less than 1.0 percent to 6.5 percent at both December 31, 2014 and 2013. Actual results could differ materially from these estimates. Management monitors actual experience and where circumstances warrant, will revise assumptions and the related reserve estimates. Revisions are recorded in the period they are determined.

Certain of our long-duration contracts are supported by assets that do not qualify for separate account reporting under GAAP. These assets are classified as trading securities and reported in Other investments and the offsetting liabilities are reported in Future policy benefits in the consolidated balance sheets. Changes in the fair value of separate account assets that do not

qualify for separate account reporting under GAAP are reported in Other income (expense) and the offsetting movements in the liabilities are included in Policy benefits in the consolidated statements of operations.

j) 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 generally receive a monthly premium during the accumulation phase of the covered annuities (in-force) based on a percentage of either the underlying accumulated account values or the underlying accumulated guaranteed values. Depending on an annuitant's age, the accumulation phase can last many years. To limit our exposure under these programs, all reinsurance treaties include annual or aggregate claim limits and many include an aggregate deductible.

The guarantees which are payable on death, referred to as guaranteed minimum death benefits (GMDB), principally cover shortfalls between accumulated account value at the time of an annuitant's death and either i) an annuitant's total deposits; ii) an annuitant's total deposits plus a minimum annual return; or iii) the highest accumulated account value attained at any policy anniversary date. In addition, a death benefit may be based on a formula specified in the variable annuity contract that uses a percentage of the growth of the underlying contract value. Liabilities for GMDBs are based on cumulative assessments or premiums to date multiplied by a benefit ratio that is determined by estimating the present value of benefit payments and related adjustment expenses divided by the present value of cumulative assessment or expected premiums during the contract period.

Under reinsurance programs covering GLBs, we assume the risk of guaranteed minimum income benefits (GMIB) and guaranteed minimum accumulation benefits (GMAB) associated with variable annuity contracts. The GMIB risk is triggered if, at the time the contract holder elects to convert the accumulated account value to a periodic payment stream (annuitize), the accumulated account value is not sufficient to provide a guaranteed minimum level of monthly income. The GMAB risk is triggered if, at contract maturity, the contract holder's account value is less than a guaranteed minimum value. Our GLB reinsurance product meets the definition of a derivative for accounting purposes and is carried at fair value with changes in fair value recognized in income. Refer to Notes 5 c) and 10 a) for additional information.

k) Deposit assets and liabilities
Deposit assets arise from ceded reinsurance contracts purchased that do not transfer significant underwriting or timing risk. Deposit liabilities include reinsurance deposit liabilities and contract holder deposit funds. The reinsurance deposit liabilities arise from contracts sold for which there is not a significant transfer of risk. Contract holder deposit funds represent a liability for investment contracts sold that do not meet the definition of an insurance contract, and certain of these contracts are sold with a guaranteed rate of return. Under deposit accounting, consideration received or paid is recorded as a deposit asset or liability in the balance sheet as opposed to recording premiums and losses in the statement of operations.

Interest income on deposit assets, representing the consideration received or to be received in excess of cash payments related to the deposit contract, is earned based on an effective yield calculation. The calculation of the effective yield is based on the amount and timing of actual cash flows at the balance sheet date and the estimated amount and timing of future cash flows. The effective yield is recalculated periodically to reflect revised estimates of cash flows. When a change in the actual or estimated cash flows occurs, the resulting change to the carrying amount of the deposit asset is reported as income or expense. Deposit assets of $89 million and $100 million at December 31, 2014 and 2013, respectively, are reflected in Other assets in the consolidated balance sheets and the accretion of deposit assets related to interest pursuant to the effective yield calculation is reflected in Net investment income in the consolidated statements of operations.

Deposit liabilities include reinsurance deposit liabilities of $120 million and $131 million and contract holder deposit funds of $908 million and $699 million at December 31, 2014 and 2013, respectively. Deposit liabilities are reflected in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets. At contract inception, the deposit liability equals net cash received. An accretion rate is established based on actuarial estimates whereby the deposit liability is increased to the estimated amount payable over the contract term. The deposit accretion rate is the rate of return required to fund expected future payment obligations. We periodically reassess the estimated ultimate liability and related expected rate of return. Changes to the deposit liability are generally reflected through Interest expense to reflect the cumulative effect of the period the contract has been in force, and by an adjustment to the future accretion rate of the liability over the remaining estimated contract term.

The liability for contract holder deposit funds equals accumulated policy account values, which consist of the deposit payments plus credited interest less withdrawals and amounts assessed through the end of the period.

l) Foreign currency remeasurement and translation
The functional currency for each of our foreign operations is generally the currency of the local operating environment. Transactions in currencies other than a foreign operation's functional currency are remeasured into the functional currency and the resulting foreign exchange gains and losses are reflected in Net realized gains (losses) in the consolidated statements of operations. Functional currency assets and liabilities are translated into the reporting currency, U.S. dollars, using period end exchange rates and the related translation adjustments are recorded as a separate component of AOCI. Functional statement of operations amounts expressed in functional currencies are translated using average exchange rates.

m) Administrative expenses
Administrative expenses generally include all operating costs other than policy acquisition costs. The Insurance - North American P&C segment manages and uses an in-house third-party claims administrator, ESIS Inc. (ESIS). ESIS performs claims management and risk control services for domestic and international organizations that self-insure P&C exposures as well as internal P&C exposures. The net operating results of ESIS are included within Administrative expenses in the consolidated statements of operations and were $27 million, $25 million, and $23 million for the years ended December 31, 2014, 2013, and 2012, respectively.

n) Income taxes
Income taxes have been recorded related to those operations subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of our assets and liabilities. Refer to Note 8 for additional information. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. The valuation allowance assessment considers tax planning strategies, where applicable.

We recognize uncertain tax positions deemed more likely than not of being sustained upon examination. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

o) Earnings per share
Basic earnings per share is calculated using the weighted-average shares outstanding including participating securities with non-forfeitable rights to dividends such as unvested restricted stock. All potentially dilutive securities including stock options are excluded from the basic earnings per share calculation. In calculating diluted earnings per share, the weighted-average shares outstanding is increased to include all potentially dilutive securities. Basic and diluted earnings per share are calculated by dividing Net income by the applicable weighted-average number of shares outstanding during the year.

p) Cash flow information
Premiums received and losses paid associated with the GLB reinsurance products, which as discussed previously meet the definition of a derivative instrument for accounting purposes, are included within Cash flows from operating activities. Cash flows, such as settlements and collateral requirements, associated with GLB and all other derivative instruments are included on a net basis within Cash flows from investing activities. Purchases, sales, and maturities of short-term investments are recorded on a net basis within Cash flows from investing activities.

q) Derivatives
ACE recognizes all derivatives at fair value in the consolidated balance sheets and participates in derivative instruments in two principal ways:

To sell protection to customers as an insurance or reinsurance contract that meets the definition of a derivative for accounting purposes. For 2014 and 2013, the reinsurance of GLBs was our primary product falling into this category; and

) To mitigate financial risks, principally arising from investment holdings, products sold, or assets and liabilities held in foreign currencies. For these instruments, changes in assets or liabilities measured at fair value are recorded as realized gains or losses in the consolidated statement of operations.

We did not designate any derivatives as accounting hedges during 2014, 2013, or 2012.

r) Share-based compensation
ACE measures and records compensation cost for all share-based payment awards at grant-date fair value. Compensation costs are recognized for share-based payment awards with only service conditions that have graded vesting schedules on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. Refer to Note 12 for additional information.

2. Acquisitions

Large Corporate Account P&C Insurance Business of Itaú Seguros, S.A. (Itaú Seguros)
On October 31, 2014, we expanded our presence in Brazil with the acquisition of the large corporate account property and casualty (P&C) insurance business of Itaú Seguros, Brazil's leading carrier for that business, for approximately $610 million in cash, subject to a working capital adjustment under the purchase agreement expected to be finalized in March 2015. This acquisition generated $449 million of goodwill, attributable to expected growth and profitability, none of which is currently deductible for income tax purposes. Goodwill may become deductible for income tax purposes under Brazilian tax law if this acquired entity is merged with certain ACE legal entities. Other intangible assets of $60 million were also generated based on ACE's preliminary purchase price allocation. The other intangible assets primarily relate to renewal rights.

The Siam Commercial Samaggi Insurance PCL (Samaggi)
We and our local partner acquired 60.86 percent of Samaggi, a general insurance company in Thailand, from Siam Commercial Bank on April 28, 2014, and subsequently acquired an additional 32.17 percent ownership, through a mandatory tender offer, which expired on June 17, 2014. The purchase price for 93.03 percent of the company was $176 million in cash. This acquisition expands our presence in Thailand and Southeast Asia.

The acquisition generated $46 million of goodwill, attributable to expected growth and profitability, none of which is expected to be deductible for income tax purposes, and other intangible assets of $80 million based on ACE's preliminary purchase price allocation. The other intangible assets primarily relate to a bancassurance agreement.

Prior year acquisitions

ABA Seguros
On May 2, 2013, we acquired ABA Seguros, a property and casualty insurer in Mexico that provides automobile, homeowners, and small business coverages, for approximately $690 million in cash.

The acquisition generated $285 million of goodwill, attributable to expected growth and profitability, none of which is expected to be deductible for income tax purposes, and other intangible assets of $140 million based on ACE's purchase price allocation. The other intangible assets primarily relate to distribution channels.

Fianzas Monterrey
On April 1, 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, for approximately $293 million in cash. This acquisition expands our global franchise in the surety business and enhances our existing commercial lines and personal accident insurance business in Mexico.

The acquisition generated $137 million of goodwill, attributable to expected growth and profitability, none of which is expected to be deductible for income tax purposes, and other intangible assets of $73 million, based on ACE's purchase price allocation. The other intangible assets primarily relate to customer lists.

PT Asuransi Jaya Proteksi
We 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. JaPro is one of Indonesia's leading general insurers offering personal lines and commercial coverages. This acquisition diversifies our existing business in Indonesia. The total purchase price for 100 percent of the company was approximately $107 million in cash.

Goodwill and other intangible assets arising from the acquisitions described above are included in our Insurance - Overseas General segment. The consolidated financial statements include results of acquired businesses from the acquisition dates.

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To be acquired after 2014
On December 18, 2014, we announced that we have signed a definitive agreement to acquire the Fireman's Fund high net worth personal lines insurance business in the U.S. from Allianz for approximately $365 million. The acquisition is expected to expand ACE's position as one of the largest high net worth personal lines insurers in the U.S. The transaction, which is subject to customary closing conditions, including insurance regulatory approval, is expected to be completed in the second quarter of 2015.

3. Investments

a) Transfers of securities
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 net unrealized appreciation at the date of the transfer continues to be reported in the carrying value of the transferred investments and is being amortized through OCI over the remaining life of the securities using the effective interest method in a manner consistent with the amortization of any premium or discount. This transfer represents a non-cash transaction and does not impact the Consolidated Statements of Cash Flows.

b) Fixed maturities

December 31, 2014 (in millions of U.S. dollars)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	OTTI Recognized in AOCI
Available for sale					
U.S. Treasury and agency	$ 2,741	$ 87	$ (8)	$ 2,820	$ -
Foreign	14,703	629	(90)	15,242	-
Corporate securities	16,897	704	(170)	17,431	(7)
Mortgage-backed securities	10,011	304	(29)	10,286	(1)
States, municipalities, and political subdivisions	3,474	147	(5)	3,616	-
	$ 47,826	$ 1,871	$ (302)	$ 49,395	$ (8)
Held to maturity					
U.S. Treasury and agency	$ 832	$ 20	$ (2)	$ 850	$ -
Foreign	916	47	-	963	-
Corporate securities	2,323	102	(2)	2,423	-
Mortgage-backed securities	1,983	57	(1)	2,039	-
States, municipalities, and political subdivisions	1,277	40	(3)	1,314	-
	$ 7,331	$ 266	$ (8)	$ 7,589	$ -

December 31, 2013 (in millions of U.S. dollars)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	OTTI Recognized in AOCI
Available for sale					
U.S. Treasury and agency	$ 2,946	$ 62	$ (59)	$ 2,949	$ -
Foreign	14,336	377	(122)	14,591	-
Corporate securities	16,825	777	(132)	17,470	(6)
Mortgage-backed securities	10,937	184	(227)	10,894	(34)
States, municipalities, and political subdivisions	3,362	65	(77)	3,350	-
	$ 48,406	$ 1,465	$ (617)	$ 49,254	$ (40)
Held to maturity					
U.S. Treasury and agency	$ 820	$ 16	$ (4)	$ 832	$ -
Foreign	864	33	-	897	-
Corporate securities	1,922	83	-	2,005	-
Mortgage-backed securities	1,341	39	(1)	1,379	-
States, municipalities, and political subdivisions	1,151	16	(17)	1,150	-
	$ 6,098	$ 187	$ (22)	$ 6,263	$ -

As discussed in Note 3 d), if a credit loss is incurred on an impaired fixed maturity, an OTTI is considered to have occurred and the portion of the impairment not related to credit losses (non-credit OTTI) is recognized in OCI. Included in the "OTTI Recognized in AOCI" columns above are the cumulative amounts of non-credit OTTI recognized in OCI adjusted for subsequent sales, maturities, and redemptions. OTTI recognized in AOCI does not include the impact of subsequent changes in fair value of the related securities. In periods subsequent to a recognition of OTTI in OCI, changes in the fair value of the related fixed maturities are reflected in Unrealized appreciation (depreciation) in the consolidated statement of shareholders' equity. For the years ended December 31, 2014 and 2013, $4 million and $25 million of net unrealized appreciation, respectively, related to such securities is included in OCI. At December 31, 2014 and 2013, AOCI included cumulative net unrealized depreciation of $3 million and $4 million, respectively, related to securities remaining in the investment portfolio for which ACE has recognized a non-credit OTTI.

Mortgage-backed securities (MBS) issued by U.S. government agencies are combined with all other to be announced mortgage derivatives held (refer to Note 10 a) (iv)) and are included in the category, "Mortgage-backed securities". Approximately 83 percent of the total mortgage-backed securities at both December 31, 2014 and 2013 are represented by investments in U.S. government agency bonds. The remainder of the mortgage exposure consists of collateralized mortgage obligations and non-government mortgage-backed securities, the majority of which provide a planned structure for principal and interest payments and carry a rating of AAA by the major credit rating agencies.

The following table presents fixed maturities by contractual maturity:

	December 31		December 31	
		2014		2013
(in millions of U.S. dollars)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
Due in 1 year or less	$ 2,187	$ 2,206	$ 2,387	$ 2,411
Due after 1 year through 5 years	15,444	15,857	14,139	14,602
Due after 5 years through 10 years	15,663	16,089	16,200	16,535
Due after 10 years	4,521	4,957	4,743	4,812
	37,815	39,109	37,469	38,360
Mortgage-backed securities	10,011	10,286	10,937	10,894
	$ 47,826	$ 49,395	$ 48,406	$ 49,254
Held to maturity				
Due in 1 year or less	$ 353	$ 355	$ 401	$ 405
Due after 1 year through 5 years	2,603	2,693	2,284	2,363
Due after 5 years through 10 years	1,439	1,489	1,686	1,723
Due after 10 years	953	1,013	386	393
	5,348	5,550	4,757	4,884
Mortgage-backed securities	1,983	2,039	1,341	1,379
	$ 7,331	$ 7,589	$ 6,098	$ 6,263

Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

c) Equity securities

	December 31	December 31
(in millions of U.S. dollars)	2014	2013
Cost	$ 440	$ 841
Gross unrealized appreciation	83	63
Gross unrealized depreciation	(13)	(67)
Fair value	$ 510	$ 837

During the third quarter of 2014, we elected to exchange our interest in a strategic emerging debt portfolio, a mutual fund classified as an equity security investment, for direct ownership of certain of the underlying fixed maturities, and the remainder in cash. This transaction increased realized losses and decreased unrealized losses with no impact to shareholders' equity. The non-cash portion of the transaction was $219 million and does not impact the Consolidated Statements of Cash Flows.

d) Net realized gains (losses)

In accordance with guidance related to the recognition and presentation of OTTI, when an impairment related to a fixed maturity has occurred, OTTI is required to be recorded in Net income if management has the intent to sell the security or it is more likely than not that we will be required to sell the security before the recovery of its amortized cost. Further, in cases where we do not intend to sell the security and it is more likely than not that we will not be required to sell the security, ACE must evaluate the security to determine the portion of the impairment, if any, related to credit losses. If a credit loss is incurred, an OTTI is considered to have occurred and any portion of the OTTI related to credit losses must be reflected in Net income while the portion of OTTI related to all other factors is recognized in OCI. For fixed maturities held to maturity, OTTI recognized in OCI is accreted from AOCI to the amortized cost of the fixed maturity prospectively over the remaining term of the securities.

Each quarter, securities in an unrealized loss position (impaired securities), including fixed maturities, securities lending collateral, equity securities, and other investments, are reviewed to identify impaired securities to be specifically evaluated for a potential OTTI.

For all non-fixed maturities, OTTI is evaluated based on the following:

- the amount of time a security has been in a loss position and the magnitude of the loss position;
- the period in which cost is expected to be recovered, if at all, based on various criteria including economic conditions and other issuer-specific developments; and
- ACE's ability and intent to hold the security to the expected recovery period.

As a general rule, we also consider that equity securities in an unrealized loss position for twelve consecutive months are other than temporarily impaired. For mutual funds included in equity securities in our consolidated balance sheet, we employ analysis similar to fixed maturities, when applicable.

Evaluation of potential credit losses related to fixed maturities
We review each fixed maturity in an unrealized loss position to assess whether the security is a candidate for credit loss. Specifically, we consider credit rating, market price, and issuer-specific financial information, among other factors, to assess the likelihood of collection of all principal and interest as contractually due. Securities for which we determine that credit loss is likely are subjected to further analysis to estimate the credit loss recognized in Net income, if any. In general, credit loss recognized in Net income equals the difference between the security's amortized cost and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security. All significant assumptions used in determining credit losses are subject to change as market conditions evolve.

U.S. Treasury and agency obligations (including agency mortgage-backed securities); foreign government obligations; and states, municipalities, and political subdivisions obligations
U.S. Treasury and agency obligations (including agency mortgage-backed securities); foreign government obligations; and states, municipalities, and political subdivisions obligations represent $60 million of gross unrealized loss at December 31, 2014. These securities were evaluated for credit loss primarily using qualitative assessments of the likelihood of credit loss considering credit rating of the issuers and level of credit enhancement, if any. ACE concluded that the high level of creditworthiness of the issuers coupled with credit enhancement, where applicable, supports recognizing no credit loss in net income.

Corporate securities
Projected cash flows for corporate securities (principally senior unsecured bonds) are driven primarily by assumptions regarding probability of default and also the timing and amount of recoveries associated with defaults. ACE developed projected cash flows for corporate securities using market observable data, issuer-specific information, and credit ratings. We use historical default data by Moody's Investors Service (Moody's) rating category to calculate a 1-in-100 year probability of default, which results in a default assumption in excess of the historical mean default rate. Consistent with management's approach, ACE assumed a 32 percent recovery rate (the par value of a defaulted security that will be recovered) across all rating categories rather than using Moody's historical mean recovery rate of 42 percent. We believe that use of a default assumption in excess of the historical mean is conservative in light of current market conditions.

The following table presents default assumptions by Moody's rating category (historical mean default rate provided for comparison):

Moody's Rating Category	1-in-100 Year Default Rate	Historical Mean Default Rate
Investment Grade:		
Aaa-Baa	0.0-1.3%	0.0-0.3%
Below Investment Grade:		
Ba	4.9%	1.1%
B	12.7%	3.4%
Caa-C	50.5%	13.1%

Application of the methodology and assumptions described above resulted in credit losses recognized in Net income for corporate securities of $27 million, $11 million, and $14 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Mortgage-backed securities
For mortgage-backed securities, credit impairment is assessed using a cash flow model that estimates the cash flows on the underlying mortgages, using the security-specific collateral and transaction structure. The model estimates cash flows from the underlying mortgage loans and distributes those cash flows to various tranches of securities, considering the transaction structure and any subordination and credit enhancements that exist in that structure. The cash flow model incorporates actual cash flows on the mortgage-backed securities through the current period and then projects the remaining cash flows using a number of assumptions, including default rates, prepayment rates, and loss severity rates (the par value of a defaulted security that will not be recovered) on foreclosed properties.

ACE develops specific assumptions using market data, where available, and includes internal estimates as well as estimates published by rating agencies and other third-party sources. ACE projects default rates by mortgage sector considering current underlying mortgage loan performance, generally assuming lower loss severity for Prime sector bonds versus ALT-A and Sub-prime bonds.

These estimates are extrapolated along a default timing curve to estimate the total lifetime pool default rate. Other assumptions used contemplate the actual collateral attributes, including geographic concentrations, rating agency loss projections, rating actions, and current market prices. If cash flow projections indicate that losses will exceed the credit enhancement for a given tranche, then we do not expect to recover our amortized cost basis, and we recognize an estimated credit loss in Net income.

Application of the methodology and assumptions described above resulted in nil, $1 million, and $6 million of credit losses recognized in Net income for mortgage-backed securities for the years ended December 31, 2014, 2013 and 2012, respectively.

The following table presents the Net realized gains (losses) and the losses included in Net realized gains (losses) and OCI as a result of conditions which caused us to conclude the decline in fair value of certain investments was "other-than-temporary" and the change in net unrealized appreciation (depreciation) of investments:

	Years Ended December 31		
(in millions of U.S. dollars)	**2014**	2013	2012
Fixed maturities:			
OTTI on fixed maturities, gross	**$ (64)**	$ (18)	$ (26)
OTTI on fixed maturities recognized in OCI (pre-tax)	**7**	-	1
OTTI on fixed maturities, net	**(57)**	(18)	(25)
Gross realized gains excluding OTTI	**213**	237	388
Gross realized losses excluding OTTI	**(133)**	(129)	(133)
Total fixed maturities	**23**	90	230
Equity securities:			
OTTI on equity securities	**(8)**	(2)	(5)
Gross realized gains excluding OTTI	**22**	21	11
Gross realized losses excluding OTTI	**(61)**	(4)	(2)
Total equity securities	**(47)**	15	4
OTTI on other investments	**(3)**	(2)	(7)
Foreign exchange gains (losses)	**(40)**	29	(16)
Investment and embedded derivative instruments	**(107)**	78	(6)
Fair value adjustments on insurance derivative	**(217)**	878	171
S&P put options and futures	**(168)**	(579)	(297)
Other derivative instruments	**50**	(2)	(4)
Other	**2**	(3)	3
Net realized gains (losses)	**(507)**	504	78
Change in net unrealized appreciation (depreciation) on investments:			
Fixed maturities available for sale	**734**	(1,798)	1,099
Fixed maturities held to maturity	**(2)**	(82)	(94)
Equity securities	**77**	(41)	61
Other	**35**	54	50
Income tax (expense) benefit	**(167)**	408	(198)
Change in net unrealized appreciation (depreciation) on investments	**677**	(1,459)	918
Total net realized gains (losses) and change in net unrealized appreciation (depreciation) on investments	**$ 170**	$ (955)	$ 996

The following table presents a roll-forward of pre-tax credit losses related to fixed maturities for which a portion of OTTI was recognized in OCI:

	Years Ended December 31		
(in millions of U.S. dollars)	**2014**	2013	2012
Balance of credit losses related to securities still held - beginning of year	**$ 37**	$ 43	$ 74
Additions where no OTTI was previously recorded	**22**	9	8
Additions where an OTTI was previously recorded	**5**	3	12
Reductions for securities sold during the period	**(36)**	(18)	(51)
Balance of credit losses related to securities still held - end of year	**$ 28**	$ 37	$ 43

e) Other investments

	December 31 2014		December 31 2013	
(in millions of U.S. dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Investment funds	**$ 378**	**$ 228**	$ 428	$ 278
Limited partnerships	**691**	**497**	576	424
Partially-owned investment companies	**1,492**	**1,492**	1,284	1,284
Life insurance policies	**205**	**205**	180	180
Policy loans	**187**	**187**	179	179
Trading securities	**290**	**287**	276	273
Other	**103**	**103**	53	53
Total	**$ 3,346**	**$ 2,999**	$ 2,976	$ 2,671

Investment funds include one highly diversified fund investment as well as several direct funds that employ a variety of investment styles such as long/short equity and arbitrage/distressed. Included in limited partnerships and partially-owned investment companies are 62 individual limited partnerships covering a broad range of investment strategies including large cap buyouts, specialist buyouts, growth capital, distressed, mezzanine, real estate, and co-investments. The underlying portfolio consists of various public and private debt and equity securities of publicly traded and privately held companies and real estate assets. The underlying investments across various partnerships, geographies, industries, asset types, and investment strategies provide risk diversification within the limited partnership portfolio and the overall investment portfolio. Trading securities comprise $261 million of mutual funds supported by assets that do not qualify for separate account reporting under GAAP at December 31, 2014 compared with $246 million at December 31, 2013. Trading securities also includes assets held in rabbi trusts of $22 million of equity securities and $7 million of fixed maturities at December 31, 2014, compared with $23 million of equity securities and $7 million of fixed maturities at December 31, 2013.

f) Investments in partially-owned insurance companies

(in millions of U.S. dollars, except for percentages)	December 31 2014 Carrying Value	Issued Share Capital	Ownership Percentage	December 31 2013 Carrying Value	Issued Share Capital	Ownership Percentage	Domicile
Huatai Group	$ 397	$ 638	20.0%	$ 365	$ 631	20.0%	China
Huatai Life Insurance Company	86	438	20.0%	84	379	20.0%	China
Freisenbruch-Meyer	9	5	40.0%	9	5	40.0%	Bermuda
ACE Cooperative Insurance Co. - Saudi Arabia	10	27	30.0%	10	27	30.0%	Saudi Arabia
Russian Reinsurance Company	2	4	23.3%	2	4	23.3%	Russia
Total	$ 504	$ 1,112		$ 470	$ 1,046		

Huatai Group and Huatai Life Insurance Company provide a range of P&C, life, and investment products.

g) Gross unrealized loss

At December 31, 2014, there were 5,485 fixed maturities out of a total of 26,258 fixed maturities in an unrealized loss position. The largest single unrealized loss in the fixed maturities was $3 million. There were 93 equity securities out of a total of 282 equity securities in an unrealized loss position. The largest single unrealized loss in the equity securities was $1 million. Fixed maturities in an unrealized loss position at December 31, 2014, comprised both investment grade and below investment grade securities for which fair value declined primarily due to widening credit spreads since the date of purchase.

The following tables present, for all securities in an unrealized loss position (including securities on loan), the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

December 31, 2014 (in millions of U.S. dollars)	0 - 12 Months Fair Value	0 - 12 Months Gross Unrealized Loss	Over 12 Months Fair Value	Over 12 Months Gross Unrealized Loss	Total Fair Value	Total Gross Unrealized Loss
U.S. Treasury and agency	$ 350	$ (1)	$ 666	$ (9)	$ 1,016	$ (10)
Foreign	2,262	(75)	375	(15)	2,637	(90)
Corporate securities	4,684	(150)	738	(22)	5,422	(172)
Mortgage-backed securities	704	(2)	1,663	(28)	2,367	(30)
States, municipalities, and political subdivisions	458	(3)	490	(5)	948	(8)
Total fixed maturities	8,458	(231)	3,932	(79)	12,390	(310)
Equity securities	101	(13)	-	-	101	(13)
Total	$ 8,559	$ (244)	$ 3,932	$ (79)	$ 12,491	$ (323)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

December 31, 2013 (in millions of U.S. dollars)	0 - 12 Months Fair Value	0 - 12 Months Gross Unrealized Loss	Over 12 Months Fair Value	Over 12 Months Gross Unrealized Loss	Total Fair Value	Total Gross Unrealized Loss
U.S. Treasury and agency	$ 1,794	$ (57)	$ 31	$ (6)	$ 1,825	$ (63)
Foreign	4,621	(114)	201	(8)	4,822	(122)
Corporate securities	3,836	(118)	194	(14)	4,030	(132)
Mortgage-backed securities	5,248	(197)	384	(31)	5,632	(228)
States, municipalities, and political subdivisions	2,164	(90)	84	(4)	2,248	(94)
Total fixed maturities	17,663	(576)	894	(63)	18,557	(639)
Equity securities	498	(67)	-	-	498	(67)
Other investments	67	(9)	-	-	67	(9)
Total	$ 18,228	$ (652)	$ 894	$ (63)	$ 19,122	$ (715)

h) 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

i) Restricted assets
ACE is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. The assets on deposit are available to settle insurance and reinsurance liabilities. ACE is also required to restrict assets pledged under repurchase agreements. We also use trust funds in certain large reinsurance transactions where the trust funds are set up for the benefit of the ceding companies and generally take the place of letter of credit (LOC) requirements. We also have investments in segregated portfolios primarily to provide collateral or guarantees for LOC and derivative transactions. Included in restricted assets at December 31, 2014 and 2013, are investments, primarily fixed maturities, totaling $16.3 billion, and cash of $117 million and $162 million, respectively.

The following table presents the components of restricted assets:

(in millions of U.S. dollars)	**December 31 2014**	December 31 2013
Trust funds	**$ 10,838**	$ 11,315
Deposits with non-U.S. regulatory authorities	**2,305**	1,970
Assets pledged under repurchase agreements	**1,431**	1,435
Deposits with U.S. regulatory authorities	**1,345**	1,334
Other pledged assets	**457**	391
	$ 16,376	$ 16,445

4. Fair value measurements

a) Fair value hierarchy

Fair value of financial assets and financial liabilities is estimated based on the framework established in the fair value accounting guidance. The 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 and the lowest priority to unobservable data.

The three levels of the hierarchy are as follows:

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 - Includes, among other items, inputs other than quoted prices that are observable for the asset or liability such as **interest rates and yield curves, quoted prices for similar assets and liabilities in active markets, and quoted prices for identical or similar assets and liabilities in markets that are not active; and**
- Level 3 - Inputs that are unobservable and reflect management's 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.

We use pricing services to obtain fair value measurements for the majority of our investment securities. Based on management's understanding of the methodologies used, these 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 the pricing services, all applicable investments have been valued in accordance with GAAP. We do not adjust prices obtained from pricing services. The following is a description of the valuation techniques and inputs used to determine fair values for financial instruments carried at fair value, as well as the general classification of such financial instruments pursuant to the valuation hierarchy.

Fixed maturities

We use pricing services to estimate fair value measurements for the majority of our fixed maturities. The pricing services use market quotations for fixed maturities that have quoted prices in active markets; such securities are classified within Level 1. For fixed maturities other than U.S. Treasury securities that generally do not trade on a daily basis, the pricing services prepare estimates of fair value measurements using their pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additional valuation factors that can be taken into account are nominal spreads, dollar basis, and liquidity adjustments. The pricing services evaluate each asset class based on relevant market and credit information, perceived market movements, and sector news. The market inputs used in the pricing evaluation, listed in the approximate order of priority include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each input is dependent on the asset class and the market conditions. Given the asset class, the priority of the use of inputs may change or some market inputs may not be relevant. 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. The overwhelming majority of fixed maturities are classified within Level 2 because the most significant inputs used in the pricing techniques are observable. For a small number of fixed maturities, we obtain a single broker quote (typically from 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.

Equity securities

Equity securities with active markets are classified within Level 1 as fair values are based on quoted market prices. For equity securities in markets which are less active, fair values are based on market valuations and are classified within Level 2. Equity securities for which pricing is unobservable are classified within Level 3.

Short-term investments
Short-term investments, which comprise securities due to mature within one year of the date of purchase that are traded in active markets, are classified within Level 1 as fair values are based on quoted market prices. Securities such as commercial paper and discount notes are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates fair value. Short-term investments for which pricing is unobservable are classified within Level 3.

Other investments
Fair values for the majority of Other investments including investments in partially-owned investment companies, investment funds, and limited partnerships are based on their respective net asset values or equivalent (NAV). The majority of these investments, for which NAV was used as a practical expedient to measure fair value, are classified within Level 3 because either ACE will never have the contractual option to redeem the investments or will not have the contractual option to redeem the investments in the near term. The remainder of such investments is classified within Level 2. Certain of our long-duration contracts are supported by assets that do not qualify for separate account reporting under GAAP. These assets comprise mutual funds classified within Level 1 in the valuation hierarchy on the same basis as other equity securities traded in active markets. Other investments also includes equity securities and fixed maturities held in rabbi trusts maintained by ACE for deferred compensation plans, which are classified within the valuation hierarchy on the same basis as other equity securities and fixed maturities.

Securities lending collateral
The underlying assets included in Securities lending collateral in the consolidated balance sheets are fixed maturities which are classified in the valuation hierarchy on the same basis as other fixed maturities. Excluded from the valuation hierarchy is the corresponding liability related to ACE's obligation to return the collateral plus interest as it is reported at contract value and not fair value in the consolidated balance sheets.

Investment derivative instruments
Actively traded investment derivative instruments, including futures, options, and forward contracts are classified within Level 1 as fair values are based on quoted market prices. The fair value of cross-currency swaps are based on market valuations and are classified within Level 2. Investment derivative instruments are recorded in either Other assets or Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets.

Other derivative instruments
We maintain positions in other derivative instruments including exchange-traded equity futures contracts and option contracts designed to limit exposure to a severe equity market decline, which would cause an increase in expected claims and, therefore, an increase in reserves for our guaranteed minimum death benefits (GMDB) and guaranteed living benefits (GLB) reinsurance business. Our position in exchange-traded equity futures contracts is classified within Level 1. The fair value of the majority of the remaining positions in other derivative instruments is based on significant observable inputs including equity security and interest rate indices. Accordingly, these are classified within Level 2. Other derivative instruments based on unobservable inputs are classified within Level 3. Other derivative instruments are recorded in either Other assets or Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets.

Separate account assets
Separate account assets represent segregated funds where investment risks are borne by the customers, except to the extent of certain guarantees made by ACE. Separate account assets comprise mutual funds classified within Level 1 in the valuation hierarchy on the same basis as other equity securities traded in active markets. Separate account assets also include fixed maturities classified within Level 2 because the most significant inputs used in the pricing techniques are observable. Excluded from the valuation hierarchy are the corresponding liabilities as they are reported at contract value and not fair value in the consolidated balance sheets. Separate account assets are recorded in Other assets in the consolidated balance sheets.

Guaranteed living benefits
The GLB arises from life reinsurance programs covering living benefit guarantees whereby we assume the risk of guaranteed minimum income benefits (GMIB) and guaranteed minimum accumulation benefits (GMAB) associated with variable annuity contracts. GLB's are recorded in Accounts payable, accrued expenses, and other liabilities and Future policy benefits in the consolidated balance sheets. For GLB reinsurance, ACE estimates fair value using an internal valuation model which includes current market information and estimates of policyholder behavior. All of the 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 most significant policyholder behavior assumptions include lapse rates and the GMIB annuitization rates. Assumptions regarding lapse rates and GMIB annuitization rates differ by treaty, but the underlying methodologies to determine rates applied to each treaty are comparable.

A lapse rate is the percentage of in-force policies surrendered in a given calendar year. All else equal, as lapse rates increase, ultimate claim payments will decrease. In general, the base lapse function assumes low lapse rates (ranging from about 1 percent to 6 percent per annum) during the surrender charge period of the GMIB contract, followed by a "spike" lapse rate (ranging from about 10 percent to 30 percent per annum) in the year immediately following the surrender charge period, and then reverting to an ultimate lapse rate (generally around 10 percent per annum), typically over a 2-year period. This base rate is adjusted downward for policies with more valuable guarantees (policies with guaranteed values far in excess of their account values) by multiplying the base lapse rate by a factor ranging from 10 percent to 75 percent. Additional lapses due to partial withdrawals and older policyholders with tax-qualified contracts (due to required minimum distributions) are also included.

GMIB annuitization rate is the percentage of policies for which the policyholder will elect to annuitize using the guaranteed benefit provided under the GMIB. All else equal, as GMIB annuitization rates increase, ultimate claim payments will increase, subject to treaty claim limits. All GMIB reinsurance treaties include claim limits to protect ACE in the event that actual annuitization behavior is significantly higher than expected. In general, ACE assumes that GMIB annuitization rates will be higher for policies with more valuable guarantees (policies with guaranteed values far in excess of their account values). In addition, we also assume that GMIB annuitization rates are higher in the first year immediately following the waiting period (the first year the policies are eligible to annuitize using the GMIB) in comparison to all subsequent years. We do not yet have fully credible annuitization experience for all clients.

The level of annuitization assumptions at December 31, 2014 are as follows:

% of total GMIB guaranteed value	Year of GMIB eligibility	Maximum annuitization rates (per year)	Maximum annuitization rates based on
38%	First year	7% - 12%	Actual Experience
	Subsequent years	6% - 10%	
35%	First year	14% - 55%	Actual Experience
	Subsequent years	6%, 11%, 31%	Weighted average[1]
27%	First year	7%, 15%, 55%	Weighted average[1]
	Subsequent years	6%, 11%, 31%	

[1] Weighted average of three different annuitization rates (with heavier weighting on credible experience from other clients when own experience is less credible)

The effect of changes in key market factors on assumed lapse and annuitization rates reflect emerging trends using data available from cedants. For treaties with limited experience, rates are established in line with data received from other ceding companies adjusted, as appropriate, with industry estimates. 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 updated information such as market conditions, market participant assumptions, and demographics of in-force annuities. Because of the significant use of unobservable inputs including policyholder behavior, GLB reinsurance is classified within Level 3.

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

assumption, the most significant of which was an increase in lapses for most large, in-the-money, GMIB policies beyond the surrender charge period. The change in lapse assumption decreased the fair value of GLB liabilities and generated a realized gain of $31 million. Because of a greater degree of credibility related to behavior in years subsequent to the first year of annuitization eligibility, we also made several adjustments to our annuitization assumption, which generally lowered the annuitization rate for most clients, while raising it for two clients. The change in annuitization assumption 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.

For the years ended December 31, 2014, 2013, and 2012, we made minor technical refinements to the internal valuation model with a favorable net income impact of approximately $2 million, $9 million, and $49 million, respectively.

Financial instruments measured at fair value on a recurring basis, by valuation hierarchy

December 31, 2014 (in millions of U.S. dollars)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities available for sale				
U.S. Treasury and agency	$ 1,680	$ 1,140	$ -	$ 2,820
Foreign	-	15,220	22	15,242
Corporate securities	-	17,244	187	17,431
Mortgage-backed securities	-	10,271	15	10,286
States, municipalities, and political subdivisions	-	3,616	-	3,616
	1,680	47,491	224	49,395
Equity securities	492	16	2	510
Short-term investments	1,183	1,139	-	2,322
Other investments	370	257	2,719	3,346
Securities lending collateral	-	1,330	-	1,330
Investment derivative instruments	18	-	-	18
Other derivative instruments	-	2	-	2
Separate account assets	1,400	90	-	1,490
Total assets measured at fair value	$ 5,143	$ 50,325	$ 2,945	$ 58,413
Liabilities:				
Investment derivative instruments	$ 36	$ -	$ -	$ 36
Other derivative instruments	21	-	4	25
GLB[1]	-	-	406	406
Total liabilities measured at fair value	$ 57	$ -	$ 410	$ 467

(1) Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. Refer to Note 5 c) for additional information.

December 31, 2013 (in millions of U.S. dollars)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities available for sale				
U.S. Treasury and agency	$ 1,626	$ 1,323	$ -	$ 2,949
Foreign	223	14,324	44	14,591
Corporate securities	-	17,304	166	17,470
Mortgage-backed securities	-	10,886	8	10,894
States, municipalities, and political subdivisions	-	3,350	-	3,350
	1,849	47,187	218	49,254
Equity securities	373	460	4	837
Short-term investments	953	803	7	1,763
Other investments	305	231	2,440	2,976
Securities lending collateral	-	1,632	-	1,632
Investment derivative instruments	19	-	-	19
Other derivative instruments	-	6	-	6
Separate account assets	1,145	81	-	1,226
Total assets measured at fair value	$ 4,644	$ 50,400	$ 2,669	$ 57,713
Liabilities:				
Investment derivative instruments	$ 6	$ -	$ -	$ 6
Other derivative instruments	60	2	-	62
GLB[1]	-	-	193	193
Total liabilities measured at fair value	$ 66	$ 2	$ 193	$ 261

(1) Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. Refer to Note 5 c) for additional information.

The following table presents transfers of financial instruments between Level 1 and Level 2:

	Year Ended December 31		
(in millions of U.S. dollars)	**2014**	2013	2012
Transfers from Level 1 to Level 2	**$ 189**	$ 19	$ 40
Transfers from Level 2 to Level 1	**$ -**	$ -	$ 15

The $189 million transfer from Level 1 to Level 2 for the year ended December 31, 2014 primarily related to a change in pricing methodology for Brazilian government bonds.

Fair value of alternative investments
Included in Other investments in the fair value hierarchy at December 31, 2014 and 2013 are investment funds, limited partnerships, and partially-owned investment companies measured at fair value using NAV as a practical expedient. At December 31, 2014, there were no probable or pending sales related to any of the investments measured at fair value using NAV.

The following table presents, by investment category, the expected liquidation period, fair value, and maximum future funding commitments of alternative investments:

	December 31 2014			December 31 2013	
(in millions of U.S. dollars)	Expected Liquidation Period of Underlying Assets	Fair Value	Maximum Future Funding Commitments	Fair Value	Maximum Future Funding Commitments
Financial	5 to 9 Years	$ 282	$ 145	$ 256	$ 129
Real estate	3 to 7 Years	289	40	322	92
Distressed	5 to 9 Years	281	225	180	230
Mezzanine	3 to 7 Years	301	191	276	252
Traditional	3 to 9 Years	1,021	409	813	456
Vintage	1 to 2 Years	9	-	13	-
Investment funds	Not Applicable	378	-	428	-
		$ 2,561	$ 1,010	$ 2,288	$ 1,159

Included in all categories in the above table except for Investment funds are investments for which ACE will never have the contractual option to redeem but receives distributions based on the liquidation of the underlying assets. Further, for all categories except for Investment funds, ACE does not have the ability to sell or transfer the investments without the consent from the general partner of individual funds.

Investment Category	Consists of investments in private equity funds:
Financial	targeting financial services companies such as financial institutions and insurance services worldwide
Real estate	targeting global distressed opportunities, value added U.S. properties, and global mezzanine debt securities in the commercial real estate market
Distressed	targeting distressed debt/credit and equity opportunities in the U.S.
Mezzanine	targeting private mezzanine debt of large-cap and mid-cap companies in the U.S. and worldwide
Traditional	employing traditional private equity investment strategies such as buyout and growth equity globally
Vintage	made before 2002 and where the funds' commitment periods had already expired

Investment funds
ACE's investment funds employ various investment strategies such as long/short equity and arbitrage/distressed. Included in this category are investments for which ACE has the option to redeem at agreed upon value as described in each investment fund's subscription agreement. Depending on the terms of the various subscription agreements, investment fund investments may be redeemed monthly, quarterly, semi-annually, or annually. If ACE wishes to redeem an investment fund investment, it must first determine if the investment fund is still in a lock-up period (a time when ACE cannot redeem its investment so that the investment fund manager has time to build the portfolio). If the investment fund is no longer in its lock-up period, ACE must then notify the investment fund manager of its intention to redeem by the notification date prescribed by the subscription agreement. Subsequent to notification, the investment fund can redeem ACE's investment within several months of the notification. Notice periods for redemption of the investment funds range between 5 and 120 days. ACE can redeem its investment funds without consent from the investment fund managers.

Level 3 financial instruments
The fair values of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) consist of various inputs and assumptions that management makes when determining fair value. Management analyzes changes in fair value measurements classified within Level 3 by comparing pricing and returns of our investments to benchmarks, including month-over-month movements, investment credit spreads, interest rate movements, and credit quality of securities.

The following table presents the significant unobservable inputs used in the Level 3 liability valuations. Excluded from the table below are inputs used to determine the fair value of Level 3 assets which are based on single broker quotes or net asset value and contain no quantitative unobservable inputs developed by management.

(in millions of U.S. dollars, except for percentages)		Fair Value at December 31, 2014	Valuation Technique	Significant Unobservable Inputs	Ranges
GLB[1]	$	406	Actuarial model	Lapse rate	1% - 30%
				Annuitization rate	0% - 55%

[1] Discussion of the most significant inputs used in the fair value measurement of GLB and the sensitivity of those assumptions is included within Note 4 a) Guaranteed living benefits.

The following tables present a reconciliation of the beginning and ending balances of financial instruments measured at fair value using significant unobservable inputs (Level 3):

Year Ended December 31, 2014 (in millions of U.S. dollars)	Assets						Liabilities	
	Available-for-Sale Debt Securities							
	Foreign	Corporate securities	MBS	Equity securities	Short-term investments	Other investments	Other derivative instruments	GLB[1]
Balance, beginning of year	$ 44	$ 166	$ 8	$ 4	$ 7	$ 2,440	$ -	$ 193
Transfers into Level 3	10	37	-	-	-	-	2	-
Transfers out of Level 3	(34)	(23)	-	(2)	(7)	-	-	-
Change in Net Unrealized Gains (Losses) included in OCI	(1)	(1)	-	-	-	39	-	-
Net Realized Gains/Losses	(3)	(5)	-	-	-	(3)	2	213
Purchases	15	73	8	2	-	719	-	-
Sales	(4)	(38)	-	(2)	-	(8)	-	-
Settlements	(5)	(22)	(1)	-	-	(468)	-	-
Balance, end of year	$ 22	$ 187	$ 15	$ 2	$ -	$ 2,719	$ 4	$ 406
Net Realized Gains/Losses Attributable to Changes in Fair Value at the Balance Sheet Date	$ (4)	$ (5)	$ -	$ -	$ -	$ (3)	$ 2	$ 213

[1] Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. Refer to Note 5 c) for additional information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Year Ended December 31, 2013 (in millions of U.S. dollars)	Assets						Liabilities
	Available-for-Sale Debt Securities						
	Foreign	Corporate securities	MBS	Equity securities	Short-term investments	Other investments	GLB[1]
Balance, beginning of year	$ 60	$ 102	$ 13	$ 3	$ -	$ 2,252	$ 1,119
Transfers into Level 3	36	47	-	8	8	-	-
Transfers out of Level 3	(54)	(31)	-	(1)	(2)	-	-
Change in Net Unrealized Gains (Losses) included in OCI	-	-	-	(6)	-	45	-
Net Realized Gains/Losses	1	(2)	-	4	-	(2)	(926)
Purchases	24	75	-	2	3	551	-
Sales	(21)	(7)	(3)	(6)	(1)	(10)	-
Settlements	(2)	(18)	(2)	-	(1)	(396)	-
Balance, end of year	$ 44	$ 166	$ 8	$ 4	$ 7	$ 2,440	$ 193
Net Realized Gains/Losses Attributable to Changes in Fair Value at the Balance Sheet Date	$ -	$ (2)	$ -	$ -	$ -	$ (2)	$ (926)

[1] Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. The liability for GLB reinsurance was $427 million at December 31, 2013 and $1.4 billion at December 31, 2012, which includes a fair value derivative adjustment of $193 million and $1.1 billion, respectively.

Year Ended December 31, 2012 (in millions of U.S. dollars)	Assets								Liabilities
	Available-for-Sale Debt Securities								
	U.S. Treasury and Agency	Foreign	Corporate securities	MBS	States, municipalities, and political subdivisions	Equity securities	Other investments	Other derivative instruments	GLB[1]
Balance, beginning of year	$ 5	$ 33	$ 134	$ 28	$ 1	$ 13	$ 1,877	$ 3	$ 1,319
Transfers into Level 3	-	49	37	22	1	2	53	-	-
Transfers out of Level 3	(4)	(13)	(46)	(35)	(1)	(11)	-	-	-
Change in Net Unrealized Gains (Losses) included in OCI	-	(1)	6	-	-	-	55	-	-
Net Realized Gains/Losses	-	-	(1)	-	-	-	(7)	(4)	(200)
Purchases	-	46	24	9	-	4	520	3	-
Sales	-	(53)	(19)	(7)	-	(5)	(9)	-	-
Settlements	(1)	(1)	(33)	(4)	(1)	-	(237)	(2)	-
Balance, end of year	$ -	$ 60	$ 102	$ 13	$ -	$ 3	$ 2,252	$ -	$ 1,119
Net Realized Gains/Losses Attributable to Changes in Fair Value at the Balance Sheet Date	$ -	$ -	$ -	$ -	$ -	$ -	$ (7)	$ -	$ (200)

[1] Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. The liability for GLB reinsurance was $1.4 billion at December 31, 2012 and $1.5 billion at December 31, 2011, which includes a fair value derivative adjustment of $1.1 billion and $1.3 billion, respectively.

b) Financial instruments disclosed, but not measured, at fair value
ACE uses various financial instruments in the normal course of its business. Our insurance contracts are excluded from fair value of financial instruments accounting guidance, and therefore, are not included in the amounts discussed below.

The carrying values of cash, other assets, other liabilities, and other financial instruments not included below approximated their fair values.

Investments in partially-owned insurance companies
Fair values for investments in partially-owned insurance companies are based on ACE's share of the net assets based on the financial statements provided by those companies.

Short- and long-term debt and trust preferred securities
Where practical, fair values for short-term debt, long-term debt, and trust preferred securities are estimated using discounted cash flow calculations based principally on observable inputs including incremental borrowing rates, which reflect ACE's credit rating, for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

The following tables present fair value, by valuation hierarchy, and carrying value of the financial instruments not measured at fair value:

December 31, 2014				Fair Value	Carrying
(in millions of U.S. dollars)	Level 1	Level 2	Level 3	Total	Value
Assets:					
Fixed maturities held to maturity					
U.S. Treasury and agency	$ 659	$ 191	$ -	$ 850	$ 832
Foreign	-	963	-	963	916
Corporate securities	-	2,408	15	2,423	2,323
Mortgage-backed securities	-	2,039	-	2,039	1,983
States, municipalities, and political subdivisions	-	1,314	-	1,314	1,277
	659	6,915	15	7,589	7,331
Partially-owned insurance companies	-	-	504	504	504
Total assets	$ 659	$ 6,915	$ 519	$ 8,093	$ 7,835
Liabilities:					
Short-term debt	$ -	$ 2,571	$ -	$ 2,571	$ 2,552
Long-term debt	-	3,690	-	3,690	3,357
Trust preferred securities	-	462	-	462	309
Total liabilities	$ -	$ 6,723	$ -	$ 6,723	$ 6,218

December 31, 2013								Fair Value	Carrying
(in millions of U.S. dollars)		Level 1		Level 2		Level 3		Total	Value
Assets:									
Fixed maturities held to maturity									
U.S. Treasury and agency	$	596	$	236	$	-	$	832	$ 820
Foreign		-		897		-		897	864
Corporate securities		-		1,990		15		2,005	1,922
Mortgage-backed securities		-		1,379		-		1,379	1,341
States, municipalities, and political subdivisions		-		1,150		-		1,150	1,151
		596		5,652		15		6,263	6,098
Partially-owned insurance companies		-		-		470		470	470
Total assets	$	596	$	5,652	$	485	$	6,733	$ 6,568
Liabilities:									
Short-term debt	$	-	$	1,913	$	-	$	1,913	$ 1,901
Long-term debt		-		4,088		-		4,088	3,807
Trust preferred securities		-		438		-		438	309
Total liabilities	$	-	$	6,439	$	-	$	6,439	$ 6,017

5. Reinsurance

a) Consolidated reinsurance

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

						Years Ended December 31
(in millions of U.S. dollars)		**2014**		2013		2012
Premiums written						
Direct	$	**20,069**	$	19,212	$	18,144
Assumed		**3,321**		3,616		3,449
Ceded		**(5,591)**		(5,803)		(5,518)
Net	$	**17,799**	$	17,025	$	16,075
Premiums earned						
Direct	$	**19,555**	$	18,856	$	17,802
Assumed		**3,336**		3,479		3,302
Ceded		**(5,465)**		(5,722)		(5,427)
Net	$	**17,426**	$	16,613	$	15,677

For both years ended December 31, 2014 and 2013, reinsurance recoveries on losses and loss expenses incurred were $3.1 billion compared with $4.3 billion for the year ended December 31, 2012.

b) 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

(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 ACE, primarily because of disputes under reinsurance contracts and insolvencies. We have established provisions for amounts estimated to be uncollectible. At December 31, 2014 and 2013, we recorded a provision for uncollectible reinsurance of $357 million and $390 million, respectively.

The following tables present a listing, at December 31, 2014, of the categories of ACE's reinsurers. The first category, largest reinsurers, represents all groups of reinsurers where the gross recoverable exceeds one percent of ACE's total shareholders' equity. The provision for uncollectible reinsurance for the largest reinsurers, other reinsurers rated A- or better, and other reinsurers with ratings lower than A- is principally based on an analysis of the credit quality of the reinsurer and collateral balances. Pools include amounts relating to both ACE's voluntary pool participation, and ACE's mandatory pool participation that is required by law in certain states. Structured settlements include annuities purchased from life insurance companies to settle claims. Since we retain the ultimate liability in the event that the life company fails to pay, we reflect the amount as a liability and a recoverable/receivable for GAAP purposes. Captives include companies established and owned by our insurance clients to assume a significant portion of their direct insurance risk from ACE (they are structured to allow clients to self-insure a portion of their insurance risk). It is generally our policy to obtain collateral equal to expected losses. Where appropriate, exceptions are granted but only with review and approval at a senior officer level. The final category, Other, includes amounts recoverable that are in dispute or are from companies that are in supervision, rehabilitation, or liquidation. We establish the provision for uncollectible reinsurance in this category based on a case-by-case analysis of individual situations including the merits of the underlying matter, credit and collateral analysis, and consideration of our collection experience in similar situations.

(in millions of U.S. dollars, except for percentages)	December 31 2014	Provision	% of Gross
Categories			
Largest reinsurers	$ 6,141	$ 79	1.3%
Other reinsurers balances rated A- or better	2,537	38	1.5%
Other reinsurers balances with ratings lower than A- or not rated	501	94	18.8%
Pools	324	11	3.4%
Structured settlements	557	12	2.2%
Captives	1,986	23	1.2%
Other	303	100	33.0%
Total	$ 12,349	$ 357	2.9%

Largest Reinsurers

Alleghany Corp	IRB Brasil Resseguros S.A. Group	Swiss Re Group
Berkshire Hathaway Insurance Group	Lloyd's of London	XL Capital Group
Everest Re Group	Munich Re Group	
HDI Group (Hanover Re)	Partner Re Group	

c) Assumed life reinsurance programs involving minimum benefit guarantees under variable annuity contracts
The following table presents income and expenses relating to GMDB and GLB reinsurance. GLBs include GMIBs as well as some GMABs originating in Japan.

	Years Ended December 31		
(in millions of U.S. dollars)	**2014**	2013	2012
GMDB			
Net premiums earned	**$ 71**	$ 77	$ 85
Policy benefits and other reserve adjustments	**$ 50**	$ 73	$ 60
GLB			
Net premiums earned	**$ 138**	$ 149	$ 160
Policy benefits and other reserve adjustments	**36**	27	61
Net realized gains (losses)	**(213)**	929	203
Gain (loss) recognized in Net income	**$ (111)**	$ 1,051	$ 302
Net cash received	**$ 125**	$ 126	$ 149
Net (increase) decrease in liability	**$ (236)**	$ 925	$ 153

Net realized gains (losses) in the table above include gains (losses) related to foreign exchange and fair value adjustments on insurance derivatives and exclude gains (losses) on S&P put options and futures held to partially offset the risk in the GLB reinsurance portfolio. Refer to Note 10 for additional information.

At December 31, 2014 and 2013, the reported liability for GMDB reinsurance was $111 million and $100 million, respectively. At December 31, 2014 and 2013, the reported liability for GLB reinsurance was $663 million and $427 million, respectively, which includes a fair value derivative adjustment of $406 million and $193 million, respectively. Reported liabilities for both GMDB and GLB reinsurance are determined using internal valuation models. Such valuations require considerable judgment and are subject to significant uncertainty. The valuation of these products is subject to fluctuations arising from, among other factors, changes in interest rates, changes in equity markets, changes in credit markets, changes in the allocation of the investments underlying annuitants' account values, and assumptions regarding future policyholder behavior. These models and the related assumptions are regularly reviewed by management and enhanced, as appropriate, based upon improvements in modeling assumptions and availability of updated information, such as market conditions and demographics of in-force annuities.

Variable Annuity Net Amount at Risk

The net amount at risk is defined as the present value of future claim payments assuming policy account values and guaranteed values are fixed at the valuation date (December 31, 2014 and 2013, respectively) and reinsurance coverage ends at the earlier of the maturity of the underlying variable annuity policy or the reinsurance treaty. In addition, the following assumptions were used:

(in millions of U.S. dollars, except for percentages)

Reinsurance covering		Net amount at risk 2014	Net amount at risk 2013	2014 Future claims discount rate	Other assumptions	Total claims at 100% mortality at December 31, 2014[1]
GMDB Risk Only		$ 418	$ 586	2.5% - 3.5%	No lapses or withdrawals Mortality according to 100% of the Annuity 2000 mortality table	$ 245
GLB Risk Only		$ 440	$ 136	3.5% - 4.5%	No deaths, lapses or withdrawals Annuitization at a frequency most disadvantageous to ACE [2] Claim calculated using interest rates in line with rates used to calculate reserve	N/A
Both Risks: [3]	GMDB	$ 76	$ 73	3.5% - 4.5%	No lapses or withdrawals Mortality according to 100% of the Annuity 2000 mortality table	$ 19
	GLB	$ 235	$ 141	3.5% - 4.5%	Annuitization at a frequency most disadvantageous to ACE [2] Claim calculated using interest rates in line with rates used to calculate reserve	$ -

(1) Takes into account all applicable reinsurance treaty claim limits.
(2) Annuitization at a level that maximizes claims taking into account the treaty limits.
(3) Covering both the GMDB and GLB risks on the same underlying policyholders.

The average attained age of all policyholders for all risk categories above, weighted by the guaranteed value of each reinsured policy, is approximately 69 years.

6. Intangible assets

Included in Goodwill and other intangible assets in the consolidated balance sheets at December 31, 2014 and 2013, are goodwill of $4.9 billion and $4.6 billion, respectively, and other intangible assets of $820 million and $801 million, respectively.

The following table presents a roll-forward of Goodwill by segment:

(in millions of U.S. dollars)	Insurance - North American P&C	Insurance - North American Agriculture	Insurance - Overseas General	Global Reinsurance	Life	ACE Consolidated
Balance at December 31, 2012	$ 1,219	$ 134	$ 1,764	$ 365	$ 837	$ 4,319
Acquisition of Fianzas Monterrey	-	-	135	-	-	135
Acquisition of ABA Seguros	-	-	283	-	-	283
Foreign exchange revaluation and other	(4)	-	(128)	-	(2)	(134)
Balance at December 31, 2013	$ 1,215	$ 134	$ 2,054	$ 365	$ 835	$ 4,603
Purchase price allocation adjustment	-	-	4	-	-	4
Acquisition of Samaggi	-	-	46	-	-	46
Acquisition of Itaú Seguros	-	-	449	-	-	449
Foreign exchange revaluation and other	(4)	-	(187)	-	(7)	(198)
Balance at December 31, 2014	**$ 1,211**	**$ 134**	**$ 2,366**	**$ 365**	**$ 828**	**$ 4,904**

Included in other intangible assets at December 31, 2014 and 2013, are intangible assets subject to amortization of $717 million and $695 million, respectively, and intangible assets not subject to amortization of $103 million and $106 million, respectively. Intangible assets subject to amortization include agency relationships, software, client lists, renewal rights, and trademarks, primarily attributable to the acquisitions of Rain and Hail, Samaggi, ABA Seguros, Itaú Seguros, and Fianzas Monterrey. The majority of the balance of intangible assets not subject to amortization relates to Lloyd's of London (Lloyd's) Syndicate 2488 (Syndicate 2488) capacity. Amortization expense related to other intangible assets amounted to $108 million, $95 million, and $51 million for the years ended December 31, 2014, 2013, and 2012, respectively.

The following table presents a roll-forward of VOBA:

(in millions of U.S. dollars)	**2014**	2013	2012
Balance, beginning of year	**$ 536**	$ 614	$ 676
Amortization expense	**(51)**	(64)	(82)
Foreign exchange revaluation	**(19)**	(14)	20
Balance, end of year	**$ 466**	$ 536	$ 614

The following table presents estimated amortization expense related to other intangible assets and VOBA for the next five years:

For the Year Ending December 31 (in millions of U.S. dollars)	Other intangible assets	VOBA
2015	$ 97	$ 44
2016	75	41
2017	67	37
2018	61	33
2019	55	30
Total	$ 355	$ 185

7. Unpaid losses and loss expenses

ACE establishes reserves for the estimated unpaid ultimate liability for losses and loss expenses under the terms of its policies and agreements. Reserves include estimates for both claims that have been reported and for IBNR, and include estimates of expenses associated with processing and settling these claims. 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. Our estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed, or as laws change. We continually evaluate our estimate of reserves in light of developing information and in light of discussions and negotiations with our insureds. While we believe that our reserves for unpaid losses and loss expenses at December 31, 2014 are adequate, new information or trends may lead to future developments in ultimate losses and loss expenses significantly greater or less than the reserves provided. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable and would be reflected in our results of operations in the period in which the estimates are changed.

The following table presents a reconciliation of unpaid losses and loss expenses:

	Years Ended December 31		
(in millions of U.S. dollars)	**2014**	2013	2012
Gross unpaid losses and loss expenses, beginning of year	**$ 37,443**	$ 37,946	$ 37,477
Reinsurance recoverable on unpaid losses[1]	**(10,612)**	(11,399)	(11,602)
Net unpaid losses and loss expenses, beginning of year	**26,831**	26,547	25,875
Acquisition of subsidiaries	**320**	86	14
Total	**27,151**	26,633	25,889
Net losses and loss expenses incurred in respect of losses occurring in:			
Current year	**10,176**	9,878	10,132
Prior years	**(527)**	(530)	(479)
Total	**9,649**	9,348	9,653
Net losses and loss expenses paid in respect of losses occurring in:			
Current year	**3,975**	3,942	4,325
Prior years	**5,260**	5,035	4,894
Total	**9,235**	8,977	9,219
Foreign currency revaluation and other	**(557)**	(173)	224
Net unpaid losses and loss expenses, end of year	**27,008**	26,831	26,547
Reinsurance recoverable on unpaid losses[1]	**11,307**	10,612	11,399
Gross unpaid losses and loss expenses, end of year	**$ 38,315**	$ 37,443	$ 37,946

[1] Net of provision for uncollectible reinsurance.

Net losses and loss expenses incurred includes $527 million, $530 million, and $479 million, of net favorable prior period development (PPD) in the years ended December 31, 2014, 2013, and 2012, respectively. Long-tail lines include lines such as workers' compensation, general liability, and professional liability; while short-tail lines include lines such as most property lines, energy, personal accident, aviation, marine (including associated liability-related exposures) and agriculture. Significant prior period movements by segment, principally driven by reserve reviews completed during each respective period, are discussed in more detail below. The remaining net development for long-tail and short-tail business for each segment comprises numerous favorable and adverse movements across a number of lines and accident years, none of which is significant individually or in the aggregate.

Insurance - North American P&C
Insurance - North American P&C's active operations experienced net favorable PPD of $354 million in 2014 which was the net result of several underlying favorable and adverse movements driven by the following principal changes:

- Net favorable development of $298 million in long-tail business, primarily from:
- Favorable development of $104 million in our D&O portfolios, primarily impacting the 2009 and prior accident years. Case incurred loss emergence that was lower than expected combined with an increase in weighting applied to experience-based methods led to a reduction in the estimates of ultimate loss for those years;
- Favorable development of $55 million in our excess casualty and umbrella businesses. Resolution of a disputed matter on an individual claim led to a release of $42 million in the 2003 accident year, and lower than expected reported activity across a number of accident years drove the remaining improvement;
- Favorable development of $48 million on an older claim following recent legal developments, after which it was determined that the reserves were no longer required;
- Favorable development of $40 million in our medical risk operations, primarily impacting the 2009 and 2010 accident years. Paid and case incurred loss emergence that was lower than expected combined with an increase in weighting applied to experience-based methods led to a reduction in the estimate of ultimate loss for those years;
- Favorable development of $35 million in our financial solutions business, primarily in the 2010 and prior accident years. Net favorable development principally resulted from the recognition of lower than expected loss activity on two large excess liability transactions;
- Favorable development of $27 million in our surety business, primarily from favorable claims emergence in the 2012 accident year;
- Net adverse development of $32 million in our workers' compensation lines, with adverse development in the 2013 accident year and mainly favorable development in accident years 2009 and 2010. Adverse development in the 2013 accident year is being driven by one large account which is experiencing higher than expected claims frequency and severity; and
- Net favorable development of $21 million in our auto liability excess lines primarily impacting the 2009 accident year. Reported activity on loss and allocated loss expenses was lower than expected based on estimates from our prior review and original pricing assumptions.
- Favorable development of $56 million in short-tail business, primarily driven by net favorable development of $20 million in our energy and technical risk property business, primarily impacting the 2012 and 2013 accident years. Across most lines, paid and reported loss activity was lower than expected.

Insurance - North American P&C's run-off operations incurred adverse PPD of $247 million in our Westchester and Brandywine run-off operations during 2014, which was a net result of adverse movements impacting accident years 1996 and prior, driven by the following principal changes:

- Adverse development of $215 million related to the completion of reserve reviews during 2014. The development primarily arose from case specific asbestos and environmental claims related to increased payment activity and the costs associated with certain case settlements in 2014. Further, we experienced higher than expected case incurred activity in our assumed reinsurance portfolio; and
- Adverse development of $32 million on unallocated loss adjustment expenses due to run-off operating expenses paid and incurred during 2014.

Insurance - North American P&C's active operations experienced net favorable PPD of $327 million in 2013 which was the net result of several underlying favorable and adverse movements driven by the following principal changes:

- Net favorable development of $221 million in long-tail business, primarily from:
    - Favorable development of $72 million in our retail D&O portfolios, primarily impacting the 2008 and prior accident years. Favorable settlements on several large claims drove the favorable development in 2004 and prior accident years, while favorable action in 2008 is primarily due to an increase in weighting applied to experience-based and simulation methods;
    - Favorable development of $63 million in our medical risk operations, primarily impacting the 2007 to 2009 accident years. Paid and reported loss activity for this business in these accident years continued to be lower than expected and we have increased our weighting applied to experience-based methods;
    - Favorable development of $50 million in our U.S. excess casualty and umbrella businesses primarily affecting the 2007 and prior accident years. Reported activity on loss and allocated loss adjustment expenses was lower than expected based on estimates from our prior review. In addition, increased weighting was applied to experience-based methods in the current review for these accident periods; and
    - Net favorable development of $28 million in our national accounts portfolios which consist of commercial auto, general liability and workers' compensation lines of business. This favorable movement was the net impact of favorable and adverse movements, including:
        - Favorable development of $40 million related to our annual assessment of multi-claimant events including industrial accidents, impacting the 2012 accident year. Consistent with prior years, we reviewed these potential exposures after the close of the accident year to allow for late reporting or identification of significant losses;
        - Adverse development of $40 million predominantly in workers' compensation, primarily impacting the 2006 and prior accident years. The development was a function of higher than expected reported loss activity, higher allocated loss adjustment expenses, as well as an increase in weighting applied to experience-based methods; and
        - Net favorable development of $28 million across a number of lines and accident years, none of which was significant individually or in the aggregate.
    - Favorable development of $25 million in our foreign casualty Controlled Master Program and Cash Flow portfolios affecting the 2009 and prior accident years. Paid and reported loss activity for this business in these accident years continued to be lower than expected and we have increased our weighting applied to experience-based methods.
- Favorable development of $106 million in short-tail business, primarily from:
    - Net favorable development of $45 million in our wholesale property and inland marine portfolios, primarily in accident years 2010 to 2012, due to favorable case incurred emergence and favorable settlements of several large claims; and
    - Favorable development of $29 million in our political risk business in the 2009 and 2010 accident years primarily due to favorable settlements of a few large claims.

Insurance - North American P&C's run-off operations incurred adverse PPD of $193 million in our Westchester and Brandywine run-off operations during 2013, which was a net result of adverse movements impacting accident years 1996 and prior, driven by the following principal changes:

- Adverse development of $161 million related to the completion of the reserve reviews during 2013. The development primarily arose from case specific asbestos and environmental claims related to increased loss and defense cost payment activity and the costs associated with certain case settlements in 2013. Further, we experienced higher than expected paid loss and case reserve activity in our assumed reinsurance portfolio; and

- Adverse development of $27 million on unallocated loss adjustment expenses due to run-off operating expenses paid and incurred during 2013.

Insurance - North American P&C active operations experienced net favorable PPD of $348 million in 2012, representing 2.2 percent of its beginning of period net unpaid loss and loss expense reserves. Insurance - North American P&C run-off operations incurred net adverse PPD of $168 million in 2012, representing 1.1 percent of its beginning of period net unpaid loss and loss expense reserves.

Insurance - North American Agriculture
Insurance - North American Agriculture experienced net adverse PPD of $34 million in 2014, compared to net favorable development of $13 million, and $12 million in 2013 and 2012, respectively. Actual claim development in 2014 for the 2013 crop year for Multiple Peril Crop Insurance (MPCI) was adverse relative to the long-term historical averages used to estimate our reserves at year-end 2013. Net favorable development in 2013 and 2012 was across a number of accident years, none of which was significant individually or in the aggregate.

Insurance - Overseas General
Insurance - Overseas General experienced net favorable PPD of $391 million in 2014, which was the net result of several underlying favorable and adverse movements, driven by the following principal changes:

- Net favorable development of $181 million in long-tail business, primarily from:
    - Net favorable development of $102 million in casualty lines with favorable development of $148 million in accident years 2010 and prior, predominantly due to favorable loss experience in European primary and excess lines, and adverse development of $46 million in accident years 2011 to 2013, predominantly due to large loss experience in the U.K. primary and excess lines;
    - Favorable development of $52 million on an older liability case. This release follows discussions with defense counsel, a review of key legal briefing, and a coverage analysis, all of which was completed in 2014 and after which it was concluded that the reserves were no longer required; and
    - Net favorable development of $27 million in financial lines with favorable development of $98 million in accident years 2010 and prior due to favorable loss experience and adverse development of $71 million in accident years 2011 to 2013. The adverse development was primarily due to large loss experience in D&O and financial institutions.
- Favorable development of $210 million in short-tail business, primarily from:
    - Favorable development of $136 million across property, technical and marine lines with favorable development of $44 million in accident year 2013 due to favorable large loss experience, and favorable development of $92 million in accident years 2012 and prior due to favorable development on specific claims and an increase in weighting applied to experience-based methods;
    - Favorable development of $30 million in aviation lines primarily in accident years 2010 and prior in the aviation products, airlines and airport liability lines; and
    - Favorable development of $25 million in personal lines primarily in accident years 2011 to 2013 across all Latin America personal lines and Asia Pacific personal automobile lines.

Insurance - Overseas General experienced net favorable PPD of $299 million in 2013, which was the net result of several underlying favorable and adverse movements, driven by the following principal changes:

- Net favorable development of $127 million in long-tail business, primarily from:
    - Favorable development of $92 million in casualty (primary and excess). Reserve reviews indicated favorable claim activity of $135 million in accident years 2009 and prior. These reviews reflected an increase in weighting applied to experience-based methods as these accident years continued to mature. Adverse development of $43 million in accident years 2010 to 2012 was primarily due to development in specific individual large claims and also in several

accounts now exposed on an excess basis following adverse loss development of the underlying aggregate retention layer; and

- Net favorable development of $35 million in financial lines. Reserve reviews indicated favorable claim activity of $63 million in accident years 2009 and prior. These reviews reflected an increase in weighting applied to experience-based methods as these accident years continued to mature. Adverse development of $28 million in accident year 2012 was incurred due to notifications on specific large claims.

- Favorable development of $172 million in short-tail business, primarily from:

- Favorable development of $104 million across property, technical lines and marine. Favorable development of $69 million in accident years 2010 to 2012 reflected lower than expected loss emergence. In addition, favorable development of $35 million in the property and marine liability lines in accident years 2009 and prior was primarily due to case specific developments;

- Favorable development of $39 million across accident and health and personal lines primarily reflected lower than expected loss emergence, primarily in accident years 2010 to 2012; and

- Favorable development of $29 million predominantly in the wholesale aviation business, primarily in accident years 2009 and prior, due to case specific developments.

Insurance - Overseas General experienced net favorable PPD of $226 million in 2012, representing 3.1 percent of the segment's beginning of period net unpaid loss and loss expense reserves.

Global Reinsurance

Global Reinsurance experienced net favorable PPD of $63 million in 2014, which was the net result of several underlying favorable and adverse movements, driven by the following principal change:

- Net favorable development of $52 million in long-tail business, primarily from:

- Favorable development of $34 million in professional liability lines, including medical malpractice business, primarily in treaty years 2009 and prior reflecting favorable paid and incurred loss trends and an increase in weighting applied to experience-based methods; and

- Favorable development of $25 million in casualty lines, principally in treaty years 2009 and prior reflecting favorable paid and incurred loss trends and an increase in weighting applied to experience-based methods.

Global Reinsurance experienced net favorable PPD of $84 million in 2013, which was the net result of several underlying favorable and adverse movements, driven by the following principal changes:

- Net favorable development of $53 million in long-tail business, primarily from:

- Favorable development of $25 million in professional liability lines, primarily in treaty years 2008 and prior, reflected favorable paid and incurred loss trends and an increase in weighting applied to experience-based methods; and

- Favorable development of $20 million in medical malpractice business, primarily in treaty years 2009 and prior, reflected favorable paid and incurred loss trends and an increase in weighting applied to experience-based methods.

- Net favorable development of $31 million in short-tail business, primarily in treaty years 2007 to 2012 across property lines (including property catastrophe), trade credit, marine, and surety principally as a result of lower than expected loss emergence.

Global Reinsurance experienced net favorable PPD of $61 million in 2012, representing 2.7 percent of the segment's beginning of period net unpaid loss and loss expense reserves.

Asbestos and environmental (A&E)

ACE's exposure to A&E claims principally arises out of liabilities acquired when it purchased Westchester Specialty in 1998 and CIGNA's P&C business in 1999, with the larger exposure contained within the liabilities acquired in the CIGNA transaction. The following table presents a roll-forward of consolidated A&E loss reserves, allocated loss expense reserves for A&E exposures, and the provision for uncollectible paid and unpaid reinsurance recoverables:

	Asbestos		Environmental		Total	
(in millions of U.S. dollars)	Gross	Net	Gross	Net	Gross	Net
Balance at December 31, 2013	$ 1,644	$ 926	$ 195	$ 125	$ 1,839	$ 1,051
Incurred activity	187	113	113	97	300	210 (1)
Paid activity	(331)	(147)	(109)	(73)	(440)	(220)
Balance at December 31, 2014	**$ 1,500**	**$ 892**	**$ 199**	**$ 149**	**$ 1,699**	**$ 1,041**

(1)Excludes unallocated loss expenses and the net activity reflects third-party reinsurance other than the aggregate excess of loss reinsurance provided by National Indemnity Company (NICO) to Westchester Specialty (see Westchester Specialty section below).

The A&E net loss reserves including allocated loss expense reserves and provision for uncollectible reinsurance at December 31, 2014 and 2013, of $1.0 billion and $1.1 billion shown in the table above comprise $837 million and $816 million, respectively, of reserves held by Brandywine operations, $119 million and $146 million, respectively, of reserves held by Westchester Specialty, and $85 million and $89 million, respectively, of reserves held by other operations, mainly Insurance - Overseas General. For 2014 and 2013, the incurred activity of $210 million and $171 million, respectively, were primarily the result of our annual internal, ground-up review of A&E liabilities.

Brandywine Run-off entities - The Restructuring Plan and uncertainties relating to ACE's ultimate Brandywine exposure

In 1996, the Pennsylvania Insurance Commissioner approved a plan to restructure INA Financial Corporation and its subsidiaries (the Restructuring) which included the division of Insurance Company of North America (INA) into two separate corporations:

(1) An active insurance company that retained the INA name and continued to write P&C business; and
(2) An inactive run-off company, now called Century Indemnity Company (Century).

As a result of the division, predominantly all A&E and certain other liabilities of INA were ascribed to Century and extinguished, as a matter of Pennsylvania law, as liabilities of INA.

As part of the Restructuring, most A&E liabilities of various U.S. affiliates of INA were reinsured to Century. Century and certain other run-off companies having A&E and other liabilities were contributed to Brandywine Holdings.

The U.S.-based ACE INA companies assumed two contractual obligations in respect of the Brandywine operations in connection with the Restructuring: a dividend retention fund obligation and a surplus maintenance obligation in the form of the excess of loss (XOL) agreement.

INA Financial Corporation established and funded a dividend retention fund (the Dividend Retention Fund) consisting of $50 million plus investment earnings. The full balance of the Dividend Retention Fund was contributed to Century as of December 31, 2002. Under the Restructuring Order, while any obligation to maintain the Dividend Retention Fund is in effect, to the extent dividends are paid by INA Holdings Corporation to its parent, INA Financial Corporation, and to the extent INA Financial Corporation then pays such dividends to INA Corporation, a portion of those dividends must be withheld to replenish the principal of the Dividend Retention Fund to $50 million. During 2011 and 2010, $35 million and $15 million, respectively, were withheld from such dividends and deposited into the Dividend Retention Fund as a result of dividends paid up to the INA Corporation. Capital contributions from the Dividend Retention Fund to Century are not required until the XOL Agreement has less than $200 million of capacity remaining on an incurred basis for statutory reporting purposes. The amount of the capital contribution shall be the lesser of the amount necessary to restore the XOL Agreement remaining capacity to $200 million or the Dividend Retention Fund balance. The Dividend Retention Fund may not be terminated without prior written approval from the Pennsylvania Insurance Commissioner.

In addition, an ACE INA insurance subsidiary provided reinsurance coverage to Century in the amount of $800 million under an XOL, triggered if the statutory capital and surplus of Century falls below $25 million or if Century lacks liquid assets with which to pay claims as they become due.

Effective December 31, 2004, ACE INA Holdings contributed $100 million to Century in exchange for a surplus note. After giving effect to the contribution and issuance of the surplus note, the statutory surplus of Century at December 31, 2014 was $25 million and approximately $298 million in statutory-basis losses have been ceded to the XOL on an inception-to-date basis. Century reports the amount ceded under the XOL in accordance with statutory accounting principles, which differ from GAAP by, among other things, allowing Century to discount its liabilities, including certain asbestos related and environmental pollution liabilities and Century's reinsurance payable to active companies. For GAAP reporting purposes, intercompany reinsurance recoverables related to the XOL are eliminated upon consolidation.

While ACE believes it has no legal obligation to fund losses above the XOL limit of coverage, ACE's consolidated results would nevertheless continue to include any losses above the limit of coverage for so long as the Brandywine companies remain consolidated subsidiaries of ACE.

Certain active ACE companies are primarily liable for asbestos, environmental, and other exposures that they have reinsured to Century. Accordingly, if Century were to become insolvent and placed into rehabilitation or liquidation, some or all of the recoverables due to these active ACE companies from Century could become uncollectible. At December 31, 2014 and 2013, the aggregate reinsurance recoverables owed by Century to the active ACE companies were approximately $1.1 billion and $929 million, respectively. ACE believes the active company intercompany reinsurance recoverables, which relate to direct liabilities payable over many years, are not impaired. At December 31, 2014 and 2013, Century's carried gross reserves (including reserves assumed from the active ACE companies) were $2.1 billion and $2.3 billion, respectively. 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 the active ACE companies 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.

Westchester Specialty - impact of NICO contracts on ACE’s run-off entities

As part of the Westchester Specialty acquisition in 1998, NICO provided a 75 percent pro-rata share of $1 billion of reinsurance protection on losses and loss adjustment expenses incurred on or before December 31, 1996, in excess of a retention of $721 million. At December 31, 2014, the remaining unused incurred limit under the Westchester NICO agreement was $472 million.

8. Taxation

Under Swiss law, a resident company is subject to income tax at the federal, cantonal, and communal levels that is levied on net worldwide income. Income attributable to permanent establishments or real estate located abroad is excluded from the Swiss tax base. ACE Limited is a holding company and, therefore, is exempt from cantonal and communal income tax. As a result, ACE Limited is subject to Swiss income tax only at the federal level. Furthermore, participation relief (i.e., tax relief) is granted to ACE Limited at the federal level for qualifying dividend income and capital gains related to the sale of qualifying participations (i.e., subsidiaries). It is expected that the participation relief will result in a full exemption of participation income from federal income tax. ACE Limited is resident in the Canton and City of Zurich and, as such, is subject to an annual cantonal and communal capital tax on the taxable equity of ACE Limited in Switzerland.

ACE has two Swiss operating subsidiaries resident in the Canton and City of Zurich, an insurance company, ACE Insurance (Switzerland) Limited, which, in turn, owns a reinsurance company, ACE Reinsurance (Switzerland) Limited. Both are subject to federal, cantonal, and communal income tax and to annual cantonal and communal capital tax.

Under current Bermuda law, ACE Limited and its Bermuda subsidiaries are not required to pay any taxes on income or capital gains. If a Bermuda law were enacted that would impose taxes on income or capital gains, ACE Limited and the Bermuda subsidiaries have received an undertaking from the Minister of Finance in Bermuda that would exempt such companies from Bermudian taxation until March 2035.

Income from ACE's operations at Lloyd's is subject to United Kingdom (U.K.) corporation taxes. Lloyd's is required to pay U.S. income tax on U.S. connected income (U.S. income) written by Lloyd's syndicates. Lloyd's has a closing agreement with the

Internal Revenue Service (IRS) whereby the amount of tax due on this business is calculated by Lloyd's and remitted directly to the IRS. These amounts are then charged to the accounts of the Names/Corporate Members in proportion to their participation in the relevant syndicates. ACE's Corporate Members are subject to this arrangement but, as U.K. domiciled companies, will receive U.K. corporation tax credits for any U.S. income tax incurred up to the value of the equivalent U.K. corporation income tax charge on the U.S. income.

ACE Group Holdings and its respective subsidiaries are subject to income taxes imposed by U.S. authorities and file a consolidated U.S. tax return. Starting in tax year 2014, Combined Insurance and its life subsidiary will join the ACE Group Holdings consolidated return. For tax years prior to 2014, Combined Insurance and its life subsidiary filed a separate consolidated U.S. tax return. Should ACE Group Holdings pay a dividend to ACE, withholding taxes would apply. Currently, however, no withholding taxes are accrued with respect to such un-remitted earnings as management has no intention of remitting these earnings. Similarly, no taxes have been provided on the un-remitted earnings of certain foreign subsidiaries as management has no intention of remitting these earnings. The cumulative amount that would be subject to withholding tax, if distributed, as well as the determination of the associated tax liability are not practicable to compute; however, such amount would be material to ACE. Certain international operations of ACE are also subject to income taxes imposed by the jurisdictions in which they operate.

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

ACE's domestic operations are in Switzerland, the jurisdiction where we are legally organized, incorporated, and registered. Domestic operations for the years ended December 31, 2014, 2013, and 2012 are not considered significant to the consolidated income before income taxes for the respective periods.

The following table presents the provision for income taxes:

	Years Ended December 31		
(in millions of U.S. dollars)	**2014**	2013	2012
Current tax expense	**$ 481**	$ 231	$ 305
Deferred tax expense (benefit)	**153**	249	(35)
Provision for income taxes	**$ 634**	$ 480	$ 270

The most significant jurisdictions contributing to the overall taxation of ACE are calculated using the following rates: Switzerland 7.83 percent, Bermuda 0.0 percent, U.S. 35.0 percent, and U.K. 21.5 percent. The following table presents a reconciliation of the difference between the provision for income taxes and the expected tax provision at the Swiss statutory income tax rate:

	Years Ended December 31		
(in millions of U.S. dollars)	**2014**	2013	2012
Expected tax provision at Swiss statutory tax rate	**$ 273**	$ 331	$ 233
Permanent differences:			
Taxes on earnings subject to rate other than Swiss statutory rate	**224**	124	129
Change to deferred taxes related to unrealized foreign exchange losses (1)	**139**	-	-
Tax-exempt interest and dividends received deduction, net of proration	**(33)**	(27)	(24)
Net withholding taxes	**33**	27	23
Favorable resolution of prior years' tax matters and closing statutes of limitations	**(1)**	(5)	(124)
Change in valuation allowance (1)	**(20)**	4	4
Other	**19**	26	29
Total provision for income taxes	**$ 634**	$ 480	$ 270

(1) Includes charge to deferred taxes related to non-recognition of foreign tax credits related to unrealized foreign exchange losses. Includes $71 million of net charges related to income taxes to correct prior periods. Such amounts are not material to any period presented.

The following table presents the components of the net deferred tax assets:

(in millions of U.S. dollars)	December 31 2014	December 31 2013
Deferred tax assets:		
Loss reserve discount	$ 794	$ 807
Unearned premiums reserve	99	93
Foreign tax credits	1,103	1,236
Investments	9	3
Provision for uncollectible balances	81	78
Loss carry-forwards	40	54
Compensation related amounts	185	177
Other	-	7
Total deferred tax assets	2,311	2,455
Deferred tax liabilities:		
Deferred policy acquisition costs	213	138
VOBA and other intangible assets	321	351
Un-remitted foreign earnings	939	982
Unrealized appreciation on investments	406	210
Depreciation	77	66
Other	43	28
Total deferred tax liabilities	1,999	1,775
Valuation allowance	17	64
Net deferred tax assets	$ 295	$ 616

The valuation allowance of $17 million at December 31, 2014, and $64 million at December 31, 2013, reflects management's assessment, based on available information, that it is more likely than not that a portion of the deferred tax assets 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. Adjustments to the valuation allowance are made when there is a change in management's assessment of the amount of deferred tax assets that are realizable.

At December 31, 2014, ACE has net operating loss carry-forwards, primarily from foreign jurisdictions, of $113 million which, if unused, will expire in the years 2015 through 2032, and a foreign tax credit carry-forward in the amount of $129 million which, if unused, will expire in the years 2015 through 2024.

The following table presents a reconciliation of the beginning and ending amount of gross unrecognized tax benefits:

(in millions of U.S. dollars)	December 31 2014	December 31 2013
Balance, beginning of year	$ 27	$ 26
Additions based on tax provisions related to the current year	2	5
Reductions for the lapse of the applicable statutes of limitations	(6)	(4)
Balance, end of year	$ 23	$ 27

At December 31, 2014 and 2013, the total amount of unrecognized tax benefits that would affect the effective tax rate, if recognized, were $6 million and $5 million, respectively. At December 31, 2014 and 2013, $17 million and $22 million, respectively, of unrecognized tax benefits would not affect the effective tax rate, if recognized, as the ultimate deductibility is highly certain but there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, an unfavorable resolution of these temporary items would not affect the effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

ACE recognizes accruals for interest and penalties, if any, related to unrecognized tax benefits in income tax expense in the consolidated statements of operations. Tax-related interest expense (income) and penalties reported in the consolidated statements of operations for the years ended December 31, 2014 and 2013 were $(1) million in both years and $(8) million in 2012. At December 31, 2014 and 2013, ACE recorded $9 million and $11 million, respectively, in liabilities for tax-related interest and penalties in our consolidated balance sheets.

In April 2012, ACE reached final settlement with the IRS Appeals Division regarding several issues raised by the IRS Examination Division in its federal tax returns for 2005, 2006, and 2007. The settlement of these issues had no net impact on our results of operations. In addition, the IRS completed its field examination of ACE's federal tax returns for 2008 and 2009 during June 2012. No material adjustments resulted from this examination. During 2012, ACE recognized a $124 million benefit resulting from the favorable resolution of various prior years' tax matters and the closing of statutes of limitations. During 2013 and 2014, ACE reduced the amount of unrecognized tax benefits by $5 million and $1 million, respectively, resulting from the closing of applicable statutes of limitations. The IRS commenced its field examination of ACE's federal tax returns for 2010, 2011 and 2012 during October 2014. It is reasonably possible that over the next twelve months, the amount of unrecognized tax benefits may change resulting from the re-evaluation of unrecognized tax benefits arising from examinations of taxing authorities and the closing of tax statutes of limitations. With few exceptions, ACE is no longer subject to state and local or non-U.S. income tax examinations for years before 2005.

9. Debt

(in millions of U.S. dollars)		December 31 2014		December 31 2013	Early Redemption Option
Short-term debt					
ACE INA senior notes:					
$500 million 5.875% due June 2014	$	-	$	500	Make-whole premium plus 0.20%
$450 million 5.6% due May 2015		450		-	Make-whole premium plus 0.35%
$700 million 2.6% due November 2015		700		-	Make-whole premium plus 0.20%
Repurchase agreements (weighted average interest rate of 0.3%)		1,402		1,401	None
Total short-term debt	$	2,552	$	1,901	
Long-term debt					
ACE INA senior notes:					
$450 million 5.6% due May 2015	$	-	$	449	Make-whole premium plus 0.35%
$700 million 2.6% due November 2015		-		700	Make-whole premium plus 0.20%
$500 million 5.7% due February 2017		500		500	Make-whole premium plus 0.20%
$300 million 5.8% due March 2018		300		300	Make-whole premium plus 0.35%
$500 million 5.9% due June 2019		500		500	Make-whole premium plus 0.40%
$475 million 2.7% due March 2023		474		473	Make-whole premium plus 0.10%
$700 million 3.35% due May 2024		699		-	Make-whole premium plus 0.15%
$300 million 6.7% due May 2036		299		299	Make-whole premium plus 0.20%
$475 million 4.15% due March 2043		474		474	Make-whole premium plus 0.15%
ACE INA $100 million 8.875% debentures due August 2029		100		100	None
Other long-term debt (2.75% to 7.1% due December 2019 to September 2020)		11		12	None
Total long-term debt	$	3,357	$	3,807	
Trust preferred securities					
ACE INA capital securities due April 2030	$	309	$	309	Redemption price[1]

(1) Redemption price is equal to accrued and unpaid interest to the redemption date plus the greater of (i) 100 percent of the principal amount thereof, or (ii) sum of present value of scheduled payments of principal and interest on the debentures from the redemption date to April 1, 2030.

a) Short-term debt
ACE has executed repurchase agreements with certain counterparties under which ACE agreed to sell securities and repurchase them at a future date for a predetermined price.

b) Long-term debt
In May 2014, ACE INA issued $700 million of 3.35 percent senior notes due May 2024. In June 2014, ACE INA's $500 million of 5.875 percent senior notes matured and were fully paid.

All of ACE INA’s senior notes are redeemable at any time at ACE INA's option subject to the provisions described above. A “make-whole premium” is the present value of the remaining principal and interest discounted at the applicable U.S. Treasury rate. The senior notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The debentures, subject to certain exceptions, are not redeemable before maturity.

The senior notes and debentures do not have the benefit of any sinking fund. These senior unsecured notes and debentures are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain

customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

c) ACE INA capital securities
In March 2000, ACE Capital Trust II, a Delaware statutory business trust, publicly issued $300 million of 9.7 percent Capital Securities (the Capital Securities) due to mature in April 2030. At the same time, ACE INA purchased $9.2 million of common securities of ACE Capital Trust II. The sole assets of ACE Capital Trust II consist of $309 million principal amount of 9.7 percent Junior Subordinated Deferrable Interest Debentures (the Subordinated Debentures) issued by ACE INA due to mature in April 2030.

Distributions on the Capital Securities are payable semi-annually and may be deferred for up to ten consecutive semi-annual periods (but no later than April 1, 2030). Any deferred payments would accrue interest compounded semi-annually if ACE INA defers interest on the Subordinated Debentures. Interest on the Subordinated Debentures is payable semi-annually. ACE INA may defer such interest payments (but no later than April 1, 2030), with such deferred payments accruing interest compounded semi-annually. The Capital Securities and the ACE Capital Trust II Common Securities will be redeemed upon repayment of the Subordinated Debentures.

ACE Limited has guaranteed, on a subordinated basis, ACE INA's obligations under the Subordinated Debentures, and distributions and other payments due on the Capital Securities. These guarantees, when taken together with ACE's obligations under expense agreements entered into with ACE Capital Trust II, provide a full and unconditional guarantee of amounts due on the Capital Securities.

10. Commitments, contingencies, and guarantees

a) Derivative instruments

Derivative instruments employed
ACE maintains positions in derivative instruments such as futures, options, swaps, and foreign currency forward contracts for which the primary purposes are to manage duration and foreign currency exposure, yield enhancement, or to obtain an exposure to a particular financial market. ACE also maintains positions in convertible securities that contain embedded derivatives. Investment derivative instruments are recorded in either Other assets (OA) or Accounts payable, accrued expenses, and other liabilities (AP), convertible bonds are recorded in Fixed maturities available for sale (FM AFS) and convertible equity securities are recorded in Equity securities (ES) in the consolidated balance sheets. These are the most numerous and frequent derivative transactions.

In addition, ACE from time to time purchases to be announced mortgage-backed securities (TBAs) as part of its investing activities.

Under reinsurance programs covering GLBs, ACE assumes the risk of GLBs, including GMIB and GMAB, associated with variable annuity contracts. The GMIB risk is triggered if, at the time the contract holder elects to convert the accumulated account value to a periodic payment stream (annuitize), the accumulated account value is not sufficient to provide a guaranteed minimum level of monthly income. The GMAB risk is triggered if, at contract maturity, the contract holder’s account value is less than a guaranteed minimum value. The GLB reinsurance product meets the definition of a derivative instrument. Benefit reserves in respect of GLBs are classified as Future policy benefits (FPB) while the fair value derivative adjustment is classified within AP. ACE also maintains positions in exchange-traded equity futures contracts and options on equity market indices to limit equity exposure in the GMDB and GLB blocks of business.

In relation to certain debt issuances, ACE from time to time enters into interest rate swap transactions for the purpose of either fixing or reducing borrowing costs. Although the use of these interest rate swaps has the economic effect of fixing or reducing borrowing costs on a net basis, gross interest expense on the related debt issuances is included in Interest expense while the settlements related to the interest rate swaps are reflected in Net realized gains (losses) in the consolidated statements of operations. At December 31, 2014, ACE had no in-force interest rate swaps.

All derivative instruments are carried at fair value with changes in fair value recorded in Net realized gains (losses) in the consolidated statements of operations. None of the derivative instruments are designated as hedges for accounting purposes.

The following table presents the balance sheet locations, fair values of derivative instruments in an asset or (liability) position, and notional values/payment provisions of our derivative instruments:

(in millions of U.S. dollars)	Consolidated Balance Sheet Location	December 31, 2014 Fair Value Derivative Asset	December 31, 2014 Fair Value Derivative (Liability)	December 31, 2014 Notional Value/ Payment Provision	December 31, 2013 Fair Value Derivative Asset	December 31, 2013 Fair Value Derivative (Liability)	December 31, 2013 Notional Value/ Payment Provision
Investment and embedded derivative instruments							
Foreign currency forward contracts	OA / (AP)	$ 12	$ (7)	$ 1,329	$ 3	$ (4)	$ 1,202
Cross-currency swaps	OA / (AP)	-	-	95	-	-	50
Futures contracts on money market instruments	OA / (AP)	-	-	2,467	3	-	3,910
Options/Futures contracts on notes and bonds	OA / (AP)	6	(29)	1,636	13	(2)	871
Convertible securities[1]	FM AFS/ES	291	-	267	302	-	254
		$ 309	$ (36)	$ 5,794	$ 321	$ (6)	$ 6,287
Other derivative instruments							
Futures contracts on equities[2]	OA / (AP)	$ -	$ (21)	$ 1,384	$ -	$ (60)	$ 1,692
Options on equity market indices[2]	OA / (AP)	2	-	250	6	-	250
Other	OA / (AP)	-	(4)	10	-	(2)	8
		$ 2	$ (25)	$ 1,644	$ 6	$ (62)	$ 1,950
GLB[3]	(AP) / (FPB)	$ -	$ (663)	$ 675	$ -	$ (427)	$ 277

(1) Includes fair value of embedded derivatives.
(2) Related to GMDB and GLB blocks of business.
(3) Includes both future policy benefits reserves and fair value derivative adjustment. Refer to Note 5 c) for additional information. Note that the payment provision related to GLB is the net amount at risk. The concept of a notional value does not apply to the GLB reinsurance contracts.

At December 31, 2014 and 2013, derivative liabilities of $34 million and $41 million, respectively, included in the table above were subject to a master netting agreement. The remaining derivatives included in the table above were not subject to a master netting agreement.

At December 31, 2014 and 2013, our repurchase obligations of $1,402 million and $1,401 million, respectively, were fully collateralized. At December 31, 2014 and 2013, our securities lending payable was $1,331 million and $1,633 million, respectively, and our securities lending collateral was $1,330 million and $1,632 million, respectively. The securities lending collateral can only be accessed in the event that the institution borrowing the securities is in default under the lending agreement. An indemnification agreement with the lending agent protects us in the event a borrower becomes insolvent or fails to return any of the securities on loan. In contrast to securities lending programs, the use of cash received is not restricted for the repurchase obligations.

The following table presents net realized gains (losses) related to derivative instrument activity in the consolidated statements of operations:

	Years Ended December 31		
(in millions of U.S. dollars)	**2014**	2013	2012
Investment and embedded derivative instruments			
Foreign currency forward contracts	**$ 29**	$ 11	$ (9)
All other futures contracts and options	**(118)**	61	(22)
Convertible securities[1]	**(18)**	6	25
Total investment and embedded derivative instruments	**$ (107)**	$ 78	$ (6)
GLB and other derivative instruments			
GLB[2]	**$ (217)**	$ 878	$ 171
Futures contracts on equities[3]	**(164)**	(555)	(273)
Options on equity market indices[3]	**(4)**	(24)	(24)
Other	**50**	(2)	(4)
Total GLB and other derivative instruments	**$ (335)**	$ 297	$ (130)
	$ (442)	$ 375	$ (136)

(1) Includes embedded derivatives.
(2) Excludes foreign exchange gains (losses) related to GLB.
(3) Related to GMDB and GLB blocks of business.

Derivative instrument objectives

(i) Foreign currency exposure management
A foreign currency forward contract (forward) is an agreement between participants to exchange specific foreign currencies at a future date. ACE uses forwards to minimize the effect of fluctuating foreign currencies.

(ii) Duration management and market exposure
Futures
Futures contracts give the holder the right and obligation to participate in market movements, determined by the index or underlying security on which the futures contract is based. Settlement is made daily in cash by an amount equal to the change in value of the futures contract times a multiplier that scales the size of the contract. Exchange-traded futures contracts on money market instruments, notes and bonds are used in fixed maturity portfolios to more efficiently manage duration, as substitutes for ownership of the money market instruments, bonds and notes without significantly increasing the risk in the portfolio. Investments in futures contracts may be made only to the extent that there are assets under management not otherwise committed.

Exchange-traded equity futures contracts are used to limit exposure to a severe equity market decline, which would cause an increase in expected claims and therefore, an increase in reserves for GMDB and GLB reinsurance business.

Options
An option contract conveys to the holder the right, but not the obligation, to purchase or sell a specified amount or value of an underlying security at a fixed price. Option contracts are used in the investment portfolio as protection against unexpected shifts in interest rates, which would affect the duration of the fixed maturity portfolio. By using options in the portfolio, the overall interest rate sensitivity of the portfolio can be reduced. Option contracts may also be used as an alternative to futures contracts in the synthetic strategy as described above.

Another use for option contracts is to limit exposure to a severe equity market decline, which would cause an increase in expected claims and therefore, an increase in reserves for GMDB and GLB reinsurance business.

The price of an option is influenced by the underlying security, expected volatility, time to expiration, and supply and demand.

The credit risk associated with the above derivative financial instruments relates to the potential for non-performance by counterparties. Although non-performance is not anticipated, in order to minimize the risk of loss, management monitors the creditworthiness of its counterparties and obtains collateral. The performance of exchange-traded instruments is guaranteed by

the exchange on which they trade. For non-exchange-traded instruments, the counterparties are principally banks which must meet certain criteria according to our investment guidelines.

Cross-currency swaps
Cross-currency swaps are agreements under which two counterparties exchange interest payments and principal denominated in different currencies at a future date. We use cross-currency swaps to reduce the foreign currency and interest rate risk by converting cash flows back into local currency. We invest in foreign currency denominated investments to improve credit diversification and also to obtain better duration matching to our liabilities that is limited in the local currency market.

Other
Included within Other are derivatives intended to reduce potential losses which may arise from certain exposures in our insurance business. The economic benefit provided by these derivatives is similar to purchased reinsurance. For example, ACE may enter into crop derivative contracts to protect underwriting results in the event of a significant decline in commodity prices. Also included within Other are certain life insurance products that meet the definition of a derivative instrument for accounting purposes.

(iii) Convertible security investments
A convertible security is a debt instrument or preferred stock that can be converted into a predetermined amount of the issuer's equity. The convertible option is an embedded derivative within the host instruments which are classified in the investment portfolio as either available for sale or as an equity security. ACE purchases convertible securities for their total return and not specifically for the conversion feature.

(iv) TBA
By acquiring TBAs, we make a commitment to purchase a future issuance of mortgage-backed securities. For the period between purchase of the TBAs and issuance of the underlying security, we account for our position as a derivative in the consolidated financial statements. ACE purchases TBAs both for their total return and for the flexibility they provide related to our mortgage-backed security strategy.

(v) GLB
Under the GLB program, as the assuming entity, ACE is obligated to provide coverage until the expiration or maturity of the underlying deferred annuity contracts or the expiry of the reinsurance treaty. Premiums received under the reinsurance treaties are classified as premium. Expected losses allocated to premiums received are classified as Future policy benefits and valued similar to GMDB reinsurance. Other changes in fair value, principally arising from changes in expected losses allocated to expected future premiums, are classified as Net realized gains (losses). Fair value represents management's estimate of an exit price and thus, includes a risk margin. We may recognize a realized loss for other changes in fair value due to adverse changes in the capital markets (e.g., declining interest rates and/or declining equity markets) and changes in actual or estimated future policyholder behavior (e.g., increased annuitization or decreased lapse rates) although we expect the business to be profitable. We believe this presentation provides the most meaningful disclosure of changes in the underlying risk within the GLB reinsurance programs for a given reporting period.

b) Concentrations of credit risk
Our investment portfolio is managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single issue and issuer. We believe that there are no significant concentrations of credit risk associated with our investments. Our three largest exposures by issuer at December 31, 2014, were JP Morgan Chase & Co., General Electric Company, and Goldman Sachs Group Inc. Our largest exposure by industry at December 31, 2014 was financial services.

We market our insurance and reinsurance worldwide primarily through insurance and reinsurance brokers. We assume a degree of credit risk associated with brokers with whom we transact business. For the year ended December 31, 2014, and during both years ended December 31, 2013 and 2012, approximately 10 percent and 11 percent, respectively, of our gross premiums written were generated from or placed by Marsh, Inc. This entity is a large, well established company and there are no indications that it is financially troubled at December 31, 2014. No other broker and no one insured or reinsured accounted for more than 10 percent of gross premiums written in the years ended December 31, 2014, 2013, and 2012.

c) Other investments
At December 31, 2014, included in Other investments in the consolidated balance sheet are investments in limited partnerships and partially-owned investment companies with a carrying value of $2.2 billion. In connection with these investments, we have commitments that may require funding of up to $1 billion over the next several years.

d) Letters of credit
We have a $1 billion unsecured operational LOC facility (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.

This facility requires that ACE Limited and/or certain of its subsidiaries continue to maintain certain covenants. ACE Limited is also required to maintain a minimum consolidated net worth covenant and a maximum leverage covenant, all of which have been met at December 31, 2014.

We did not renew our $500 million bilateral letter of credit 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.

e) Legal proceedings
Our insurance subsidiaries are subject to claims litigation involving disputed interpretations of policy coverages and, in some jurisdictions, direct actions by allegedly-injured persons seeking damages from policyholders. These lawsuits, involving claims on policies issued by our subsidiaries which are typical to the insurance industry in general and in the normal course of business, are considered in our loss and loss expense reserves. In addition to claims litigation, we are subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance policies. This category of business litigation typically involves, among other things, allegations of underwriting errors or misconduct, employment claims, regulatory activity, or disputes arising from our business ventures. In the opinion of management, our ultimate liability for these matters could be, but we believe is not likely to be, material to our consolidated financial condition and results of operations.

f) Lease commitments
We lease office space and equipment under operating leases which expire at various dates through 2033. Rent expense was $127 million, $128 million, and $112 million for the years ended December 31, 2014, 2013, and 2012, respectively. Future minimum lease payments under the leases are expected to be as follows:

For the year ending December 31 (in millions of U.S. dollars)		
2015	$	108
2016		94
2017		77
2018		58
2019		42
Thereafter		95
Total minimum future lease commitments	$	474

11. Shareholders' equity

a) Common Shares
All of ACE's Common Shares are authorized under Swiss corporate law. Though the par value of Common Shares is stated in Swiss francs, ACE continues to use U.S. dollars as its reporting currency for preparing the consolidated financial statements. Under Swiss corporate law, we are generally prohibited from issuing Common Shares below their par value. If there were a need to raise common equity at a time when the trading price of ACE's Common Shares is below par value, we would need in advance to obtain shareholder approval to decrease the par value of the Common Shares.

Dividend approval
At our May 2012 and 2013 annual general meetings, our shareholders approved an annual dividend for the following year of $1.96 and $2.04 per share, respectively, payable in four quarterly installments of $0.49 and $0.51 per share, respectively, 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 final two quarterly installments (made on January 31, 2014 and April 17, 2014) that had been earlier approved at our 2013 annual general meeting. The $0.12 per share increase for each installment was distributed from capital contribution reserves (Additional paid-in capital), a subaccount of legal reserves, and transferred to free reserves (Retained earnings) for payment, while the existing $0.51 per share was distributed by way of a 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.

Dividend distributions
Under Swiss corporate law, dividends, including distributions through a reduction in par value (par value reduction), must be stated in Swiss francs though dividend payments are made by ACE in U.S. dollars. Dividend distributions following ACE's redomestication to Switzerland have generally been made by way of par value reduction (under the methods approved by our shareholders at our annual general meetings) and had the effect of reducing par value per Common Share each time a dividend was distributed. We may also issue dividends without subjecting them to withholding tax by way of distributions from capital contribution reserves and payment out of free reserves. We employed this method of dividends during portions of 2012, and to effect our dividend increase that was approved by our shareholders on January 10, 2014.

The following table presents dividend distributions per Common Share in Swiss francs (CHF) and U.S. dollars (USD):

	Years Ended December 31					
		2014		2013		2012
	CHF	**USD**	CHF	USD	CHF	USD
Dividends - par value reduction	**2.27**	**$ 2.46**	1.85	$ 2.02	1.38	$ 1.47
Dividends - distributed from capital contribution reserves	**0.20**	**0.24**	-	-	0.53	0.59
Total dividend distributions per common share	**2.47**	**$ 2.70**	1.85	$ 2.02	1.91	$ 2.06

Par value reductions have been reflected as such through Common Shares in the consolidated statements of shareholders' equity and had the effect of reducing par value per Common Share to CHF 24.77 at December 31, 2014.

b) Shares issued, outstanding, authorized, and conditional

	Years Ended December 31		
	2014	2013	2012
Shares issued, beginning and end of year	**342,832,412**	342,832,412	342,832,412
Common Shares in treasury, end of year (at cost)	**(14,172,726)**	(3,038,477)	(2,510,878)
Shares issued and outstanding, end of year	**328,659,686**	339,793,935	340,321,534
Common Shares issued to employee trust			
Balance, beginning and end of year	**(9,467)**	(9,467)	(9,467)

Increases in Common Shares in treasury are due to open market repurchases of Common Shares and the surrender of Common Shares to satisfy tax withholding obligations in connection with the vesting of restricted stock and the forfeiture of unvested restricted stock. Decreases in Common Shares in treasury are principally due to grants of restricted stock, exercises of stock options, and purchases under the Employee Stock Purchase Plan (ESPP).

Common Shares issued to employee trust are issued by ACE to a rabbi trust for deferred compensation obligations as discussed in Note 11 e) below.

Authorized share capital for general purposes
The ACE Limited Board of Directors (Board) has shareholder-approved authority as set forth in the Articles of Association to increase for general purposes ACE's share capital from time to time until May 16, 2016, by the issuance of up to 140,000,000 fully paid up Common Shares, with a par value equal to the par value of ACE's Common Shares as set forth in the Articles of Association at the time of any such issuance.

Conditional share capital for bonds and similar debt instruments
ACE's share capital may be increased through the issuance of a maximum of 33,000,000 fully paid up Common Shares (with a par value of CHF 24.77 as of December 31, 2014) 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, including convertible debt instruments.

Conditional share capital for employee benefit plans
ACE's share capital may be increased through the issuance of a maximum of 25,410,929 fully paid up Common Shares (with a par value of CHF 24.77 as of December 31, 2014) in connection with the exercise of option rights granted to any employee of ACE, and any consultant, director, or other person providing services to ACE.

c) ACE Limited securities repurchases
On November 21, 2013, the Board announced authorization of a share repurchase program of up to $2.0 billion of ACE's Common Shares through December 31, 2014. This $2.0 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 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. At February 26, 2015, $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.

The following table presents repurchases of ACE's Common Shares conducted in a series of open market transactions under the Board authorizations:

(in millions of U.S. dollars, except share data)	Years Ended December 31 2014	2013	2012	January 1, 2015 through February 26, 2015
Number of shares repurchased	**13,982,358**	3,266,531	100,000	1,877,463
Dollar value of shares repurchased	**$ 1,449**	$ 290	$ 7	$ 211

ACE repurchased these Common Shares as part of an overall capital management strategy and to partially offset potential dilution from the exercise of stock options and the granting of restricted stock under share-based compensation plans.

d) General restrictions
The holders of the Common Shares are entitled to receive dividends as 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 in aggregate. 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.

e) Deferred compensation obligation
ACE maintains rabbi trusts for deferred compensation plans principally for employees and former directors. The shares issued by ACE to the rabbi trusts in connection with deferrals of share compensation are classified in shareholders' equity and accounted for at historical cost in a manner similar to Common Shares in treasury. Changes in the fair value of the shares underlying the obligations are recorded in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets and the related expense or income is recorded in Administrative expenses in the consolidated statements of operations.

The rabbi trusts also hold other assets, such as fixed maturities, equity securities, and life insurance policies. The assets of the rabbi trusts are consolidated with ACE's assets in the consolidated balance sheets. Assets held by the trust and the associated obligations are reported at fair value in Other investments and Accounts payable, accrued expenses, and other liabilities, respectively, in the consolidated balance sheets, with changes in fair value reflected as a corresponding increase or decrease to

Other (income) expense in the consolidated statements of operations. However, life insurance policies assets and obligations are reported at cash surrender value.

12. Share-based compensation

ACE has share-based compensation plans which currently provide the Board the ability to grant awards of stock options, restricted stock, and restricted stock units to its employees, consultants, and members of the Board.

ACE principally issues restricted stock grants and stock options on a graded vesting schedule. ACE recognizes compensation cost for restricted stock and stock option grants with only service conditions that have a graded vesting schedule on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. We incorporate an estimate of future forfeitures (6.5 percent assumption used for grants made in 2014, 2013, and 2012) into the determination of compensation cost for both grants of restricted stock and stock options.

During 2004, we established the ACE Limited 2004 Long-Term Incentive Plan (the 2004 LTIP), which replaced our prior incentive plans except for outstanding awards. The 2004 LTIP will continue in effect until terminated by the Board. Under the 2004 LTIP, Common Shares of ACE are authorized to be issued pursuant to awards made as stock options, stock appreciation rights, performance shares, performance units, restricted stock, and restricted stock units.

ACE generally grants restricted stock and restricted stock units with a 4-year vesting period, which vest in equal annual installments over the respective vesting period. The restricted stock is granted at market close price on the day of grant. Each restricted stock unit represents our obligation to deliver to the holder one Common Share upon vesting.

In May 2013, our shareholders approved an increase of eight million shares authorized to be issued under the 2004 LTIP, bringing the total shares authorized (i.e., for grant since its inception) to the sum of: (i) 38,600,000 common shares; and (ii) any shares that are represented by awards granted under the prior plans that are forfeited, expired, or are canceled after the effective date of the 2004 LTIP, 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. At December 31, 2014, a total of 7,811,839 shares remain available for future issuance under the 2004 LTIP.

In May 2012, our shareholders approved an increase of 1,500,000 shares authorized to be issued under the ESPP bringing the total shares authorized to 4,500,000 shares. At December 31, 2014, a total of 1,131,685 shares remain available for issuance under the ESPP.

ACE generally issues Common Shares for the exercise of stock options, restricted stock, and purchases under the ESPP from un-issued reserved shares (conditional share capital) and Common Shares in treasury.

The following table presents pre-tax and after-tax share-based compensation expense:

	Years Ended December 31		
(in millions of U.S. dollars)	**2014**	2013	2012
Stock options and shares issued under ESPP:			
Pre-tax	**$ 28**	$ 24	$ 22
After-tax (1)	**$ 19**	$ 18	$ 17
Restricted stock:			
Pre-tax	**$ 128**	$ 153	$ 109
After-tax	**$ 75**	$ 89	$ 64

(1) Excludes windfall tax benefit for share-based compensation recognized as a direct adjustment to Additional paid-in capital of $28 million, $36 million and $18 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Unrecognized compensation expense related to the unvested portion of ACE's employee share-based awards was $149 million at December 31, 2014, and is expected to be recognized over a weighted-average period of approximately 1 year.

Stock options
ACE's 2004 LTIP permits grants of both incentive and non-qualified stock options principally at an option price per share equal to the grant date fair value of ACE's Common Shares. Stock options are generally granted with a 3-year vesting period and a 10-year term. Stock options vest in equal annual installments over the respective vesting period, which is also the requisite service period.

ACE's 2014 share-based compensation expense includes a portion of the cost related to the 2011 through 2014 stock option grants. Stock option fair value was estimated on the grant date using the Black-Scholes option-pricing model that uses the weighted-average assumptions noted below:

	Years Ended December 31		
	2014	2013	2012
Dividend yield	**2.7%**	2.4%	2.7%
Expected volatility	**25.2%**	27.8%	29.8%
Risk-free interest rate	**1.7%**	1.0%	1.1%
Expected life	**5.8 years**	5.8 years	5.8 years

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life (estimated period of time from grant to exercise date) was estimated using the historical exercise behavior of employees. Expected volatility was calculated as a blend of (a) historical volatility based on daily closing prices over a period equal to the expected life assumption, (b) long-term historical volatility based on daily closing prices over the period from ACE's initial public trading date through the most recent quarter, and (c) implied volatility derived from ACE's publicly traded options.

The following table presents a roll-forward of ACE's stock options:

(Intrinsic Value in millions of U.S. dollars)	Number of Options	Weighted-Average Exercise Price	Weighted-Average Fair Value	Total Intrinsic Value
Options outstanding, December 31, 2011	10,579,507	$ 49.78		
Granted	1,462,103	$ 73.36	$ 15.58	
Exercised	(2,401,869)	$ 42.50		$ 78
Forfeited	(190,082)	$ 61.87		
Options outstanding, December 31, 2012	9,449,659	$ 55.03		
Granted	1,821,063	$ 85.41	$ 17.29	
Exercised	(1,658,671)	$ 48.17		$ 70
Forfeited	(115,195)	$ 72.50		
Options outstanding, December 31, 2013	9,496,856	$ 61.84		
Granted	1,782,903	$ 96.77	$ 18.00	
Exercised	(1,511,948)	$ 54.84		$ 73
Forfeited	(143,825)	$ 84.52		
Options outstanding, December 31, 2014	**9,623,986**	**$ 69.06**		**$ 441**
Options exercisable, December 31, 2014	**6,313,668**	**$ 58.24**		**$ 358**

The weighted-average remaining contractual term was 6.0 years for stock options outstanding and 4.7 years for stock options exercisable at December 31, 2014. Cash received from the exercise of stock options for the year ended December 31, 2014 was $83 million.

Restricted stock and restricted stock units
Grants of restricted stock and restricted stock units granted under the 2004 LTIP typically have a 4-year vesting period, based on a graded vesting schedule. ACE also grants restricted stock awards to non-management directors which vest at the following year's annual general meeting. The restricted stock is granted at market close price on the grant date. Each restricted stock unit

represents our obligation to deliver to the holder one Common Share upon vesting. ACE's 2014 share-based compensation expense includes a portion of the cost related to the restricted stock granted in the years 2010 through 2014.

The following table presents a roll-forward of our restricted stock awards. Included in the roll-forward below are 25,339 restricted stock awards, 20,969 restricted stock awards, and 25,669 restricted stock awards that were granted to non-management directors during the years ended December 31, 2014, 2013, and 2012, respectively:

	Number of Restricted Stock		Weighted-Average Grant-Date Fair Value
Unvested restricted stock, December 31, 2011	4,851,490	$	52.20
Granted	1,589,178	$	73.46
Vested	(1,923,385)	$	52.71
Forfeited	(262,436)	$	58.40
Unvested restricted stock, December 31, 2012	4,254,847	$	59.53
Granted	1,544,485	$	86.07
Vested	(1,951,494)	$	57.44
Forfeited	(139,651)	$	67.72
Unvested restricted stock, December 31, 2013	3,708,187	$	71.38
Granted	1,669,936	$	97.32
Vested	(1,660,903)	$	70.01
Forfeited	(145,012)	$	81.73
Unvested restricted stock, December 31, 2014	**3,572,208**	**$**	**83.72**

During the years ended December 31, 2014, 2013, and 2012, ACE awarded 300,511 restricted stock units, 271,004 restricted stock units, and 262,549 restricted stock units, respectively, to employees and officers each with a weighted-average grant date fair value per share of $97.66, $85.44, and $73.41, respectively. At December 31, 2014, there were 643,579 unvested restricted stock units.

Prior to 2009, ACE granted restricted stock units with a 1-year vesting period to non-management directors. Delivery of Common Shares on account of these restricted stock units to non-management directors is deferred until after the date of the non-management directors' termination from the Board. At December 31, 2014, there were 148,368 deferred restricted stock units.

ESPP

The ESPP gives participating employees the right to purchase Common Shares through payroll deductions during consecutive subscription periods at a purchase price of 85 percent of the fair value of a Common Share on the exercise date (Purchase Price). Annual purchases by participants are limited to the number of whole shares that can be purchased by an amount equal to ten percent of the participant's compensation or $25,000, whichever is less. The ESPP has two six-month subscription periods each year, the first of which runs between January 1 and June 30 and the second of which runs between July 1 and December 31. The amounts collected from participants during a subscription period are used on the exercise date to purchase full shares of Common Shares. An exercise date is generally the last trading day of a subscription period. The number of shares purchased is equal to the total amount, at the exercise date, collected from the participants through payroll deductions for that subscription period, divided by the Purchase Price, rounded down to the next full share. Participants may withdraw from an offering before the exercise date and obtain a refund of amounts withheld through payroll deductions. Pursuant to the provisions of the ESPP, during the years ended December 31, 2014, 2013, and 2012, employees paid $17 million, $14 million, and $13 million to purchase 181,901 shares, 175,437 shares, and 198,244 shares, respectively.

13. Pension plans

ACE provides pension benefits to eligible employees and their dependents through various defined contribution plans and defined benefit plans sponsored by ACE. The defined contribution plans include a capital accumulation plan (401(k)) in the U.S. The defined benefit plans consist of various plans offered in certain jurisdictions primarily outside of the U.S. and Bermuda.

Defined contribution plans (including 401(k))

Under these plans, employees' contributions may be supplemented by ACE matching contributions based on the level of employee contribution. These contributions are invested at the election of each employee in one or more of several investment portfolios offered by a third-party investment advisor. Expenses for these plans totaled $119 million, $111 million, and $99 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Defined benefit plans

We maintain non-contributory defined benefit plans that cover certain employees, principally located in Europe, Asia, and Mexico. We also provide a defined benefit plan to certain U.S.-based employees as a result of our acquisition of Penn Millers. We account for pension benefits using the accrual method. Benefits under these plans are based on employees' years of service and compensation during final years of service. All underlying defined benefit plans are subject to periodic actuarial valuation by qualified local actuarial firms using actuarial models in calculating the pension expense and liability for each plan. We use December 31 as the measurement date for our defined benefit pension plans.

Components of accrued pension liability (included in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets):

(in millions of U.S dollars)	December 31 2014	December 31 2013
Fair value of plan assets	$ 588	$ 566
Projected benefit obligation	594	591
Accrued pension liability	$ 6	$ 25

The defined benefit pension plan contribution for 2015 is expected to be $4 million. The estimated net actuarial loss for the defined benefit pension plans that will be amortized from AOCI into net benefit costs over the next year is $2 million.

Benefit payments were $24 million and $26 million for the years ended December 31, 2014 and 2013, respectively. Expected future payments are as follows:

For the year ending December 31 (in millions of U.S dollars)	
2015	$ 28
2016	21
2017	22
2018	25
2019	27
2020-2024	135

14. Other (income) expense

	Years Ended December 31		
(in millions of U.S. dollars)	**2014**	2013	2012
Amortization of intangible assets	**$ 108**	$ 95	$ 51
Equity in net (income) loss of partially-owned entities	**(231)**	(119)	(80)
(Gains) losses from fair value changes in separate account assets	**(2)**	(16)	(29)
Federal excise and capital taxes	**20**	24	22
Acquisition-related costs	**15**	4	11
Other	**8**	27	19
Other (income) expense	**$ (82)**	$ 15	$ (6)

Other (income) expense includes Amortization of intangible assets, which is higher in 2014 due primarily to the acquisitions of Samaggi (completed June 17, 2014) and Itaú Seguros (completed October 31, 2014) and higher in 2013 compared with 2012 due primarily to the acquisitions of Fianzas Monterrey (completed April 1, 2013) and ABA Seguros (completed May 2, 2013). Equity in net (income) loss of partially-owned entities includes our share of net (income) loss related to investment funds, limited partnerships, partially-owned investment companies, and partially-owned insurance companies. Also included in Other (income) expense are (Gains) losses from fair value changes in separate account assets that do not qualify for separate account reporting under GAAP. The offsetting movement in the separate account liabilities is included in Policy benefits in the consolidated statements of operations. Certain federal excise and capital taxes incurred as a result of capital management initiatives are included in Other (income) expense as these are considered capital transactions and are excluded from underwriting results.

15. Segment information

ACE operates through five business segments: Insurance - North American P&C, Insurance - North American Agriculture, Insurance - Overseas General, Global Reinsurance, and Life. These segments distribute their products through various forms of brokers, agencies, and direct marketing programs. All business segments have established relationships with reinsurance intermediaries.

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. ACE USA is the North American retail operating division which provides a broad array of traditional and specialty P&C, A&H, and risk management products and services to a diverse group of North America commercial and non-commercial enterprises and consumers. ACE Commercial Risk Services addresses the insurance needs of small and mid-sized businesses in North America by delivering a broad array of specialty product solutions for targeted industries that lend themselves to technology-assisted underwriting. ACE Private Risk Services provides high-value personal lines coverages for high net worth individuals and families in North America. ACE Westchester focuses on the North American wholesale distribution of excess and surplus lines property, casualty, environmental, professional liability, inland marine products and product recall coverages. ACE Bermuda provides commercial insurance products on an excess basis mainly to a global client base targeting Fortune 1000 companies and covering exposures that are generally low in frequency and high in severity 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. 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.

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 Services, Inc. as well as farm and ranch, and specialty P&C commercial insurance products and services through our ACE Agribusiness unit. The MPCI program is offered in conjunction with the U.S. Department of Agriculture.

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. ACE International maintains a presence in every major insurance market in the world and is organized geographically along product lines that provide dedicated underwriting focus to customers. ACE International has five regions of operations: ACE Europe, ACE Asia Pacific, ACE Eurasia and Africa, ACE Far East, and ACE Latin America. During 2014, ACE International expanded its operations with the acquisitions of Samaggi in Thailand and Itaú Seguros in Brazil. Refer to Note 2 for additional information. ACE International writes a variety of insurance products including P&C, professional lines (directors and officers and errors and omissions), marine, energy, aviation, political risk, specialty consumer-oriented products, and A&H (principally accident and supplemental health). AGM, our London-based international specialty and excess and surplus lines business, includes Syndicate 2488, a wholly-owned ACE syndicate. AGM offers products through its parallel distribution network via ACE European Group Limited (AEGL) and Syndicate 2488. ACE provides funds at Lloyd's to support underwriting by Syndicate 2488, which is managed by ACE Underwriting Agencies Limited. 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. The reinsurance operation of AGM is included in the Global Reinsurance segment. Combined Insurance distributes a wide range of supplemental A&H products.

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. These divisions provide a broad range of traditional and specialty reinsurance products including property catastrophe, casualty, and property reinsurance coverages to a diverse array of primary P&C insurers.

The Life segment includes 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. ACE Life provides 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 through multiple distribution channels primarily in emerging markets including: Egypt, Hong Kong, Indonesia, South Korea, Taiwan, Thailand, and Vietnam; also throughout Latin America, selectively in Europe, and China through a non-consolidated joint venture insurance company. ACE Life Re helps clients (ceding companies) manage mortality, morbidity, and lapse risks embedded in their books of business. 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. Combined Insurance distributes specialty supplemental A&H and life insurance products targeted to middle income consumers and businesses in the U.S. and Canada.

Corporate includes ACE Limited, ACE Group Management and Holdings Ltd., ACE INA Holdings, Inc., and intercompany eliminations.

For segment reporting purposes, certain items have been presented in a different manner below than in the consolidated financial statements. Management uses underwriting income as the main measure of segment performance. ACE calculates underwriting income by subtracting Losses and loss expenses, Policy benefits, Policy acquisition costs, and Administrative expenses from Net premiums earned. For the Insurance - North American Agriculture segment, management includes gains and losses on crop derivatives as a component of underwriting income. For 2014, underwriting income in our Insurance - North American Agriculture segment was $136 million. This amount includes $51 million of realized gains related to crop derivatives which are included in Net realized gains (losses) below. For the Life segment, management 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 as components of Life underwriting income. For example, for 2014, Life underwriting income of $363 million includes Net investment income of $268 million and gains from fair value changes in separate account assets of $2 million.

The following tables present the Statement of Operations by segment:

For the Year Ended December 31, 2014 (in millions of U.S. dollars)	Insurance - North American P&C	Insurance - North American Agriculture	Insurance - Overseas General	Global Reinsurance	Life	Corporate	ACE Consolidated
Net premiums written	$ 6,263	$ 1,590	$ 6,999	$ 935	$ 2,012	$ -	$ 17,799
Net premiums earned	6,107	1,526	6,805	1,026	1,962	-	17,426
Losses and loss expenses	4,086	1,351	3,189	431	589	3	9,649
Policy benefits	-	-	-	-	517	-	517
Policy acquisition costs	634	81	1,625	257	478	-	3,075
Administrative expenses	678	9	1,026	54	285	193	2,245
Underwriting income (loss)	709	85	965	284	93	(196)	1,940
Net investment income	1,085	26	545	316	268	12	2,252
Net realized gains (losses) including OTTI	(67)	54	(78)	(29)	(383)	(4)	(507)
Interest expense	9	-	6	4	11	250	280
Other (income) expense:							
(Gains) losses from fair value changes in separate account assets	-	-	-	-	(2)	-	(2)
Other	(101)	33	11	(54)	2	29	(80)
Income tax expense (benefit)	306	33	378	38	46	(167)	634
Net income (loss)	$ 1,513	$ 99	$ 1,037	$ 583	$ (79)	$ (300)	$ 2,853

For the Year Ended December 31, 2013 (in millions of U.S. dollars)	Insurance - North American P&C	Insurance - North American Agriculture	Insurance - Overseas General	Global Reinsurance	Life	Corporate	ACE Consolidated
Net premiums written	$ 5,915	$ 1,627	$ 6,520	$ 991	$ 1,972	$ -	$ 17,025
Net premiums earned	5,721	1,678	6,333	976	1,905	-	16,613
Losses and loss expenses	3,776	1,524	3,062	396	582	8	9,348
Policy benefits	-	-	-	-	515	-	515
Policy acquisition costs	597	53	1,453	197	358	1	2,659
Administrative expenses	601	11	1,008	50	343	198	2,211
Underwriting income (loss)	747	90	810	333	107	(207)	1,880
Net investment income	1,021	26	539	280	251	27	2,144
Net realized gains (losses) including OTTI	72	1	18	53	360	-	504
Interest expense	5	1	5	5	15	244	275
Other (income) expense:							
(Gains) losses from fair value changes in separate account assets	-	-	-	-	(16)	-	(16)
Other	(58)	32	39	(19)	13	24	31
Income tax expense (benefit)	347	20	222	36	34	(179)	480
Net income (loss)	$ 1,546	$ 64	$ 1,101	$ 644	$ 672	$ (269)	$ 3,758

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

For the Year Ended December 31, 2012 (in millions of U.S. dollars)	Insurance - North American P&C	Insurance - North American Agriculture	Insurance - Overseas General	Global Reinsurance	Life	Corporate	ACE Consolidated
Net premiums written	$ 5,349	$ 1,859	$ 5,863	$ 1,025	$ 1,979	$ -	$ 16,075
Net premiums earned	5,147	1,872	5,740	1,002	1,916	-	15,677
Losses and loss expenses	3,715	1,911	2,862	553	611	1	9,653
Policy benefits	-	-	-	-	521	-	521
Policy acquisition costs	558	28	1,353	172	334	1	2,446
Administrative expenses	608	(7)	935	51	328	181	2,096
Underwriting income (loss)	266	(60)	590	226	122	(183)	961
Net investment income	1,066	25	521	290	251	28	2,181
Net realized gains (losses) including OTTI	41	1	103	6	(72)	(1)	78
Interest expense	12	-	5	4	12	217	250
Other (income) expense:							
(Gains) losses from fair value changes in separate account assets	-	-	-	-	(29)	-	(29)
Other	(41)	32	3	(15)	25	19	23
Income tax expense (benefit)	229	(29)	133	15	58	(136)	270
Net income (loss)	$ 1,173	$ (37)	$ 1,073	$ 518	$ 235	$ (256)	$ 2,706

Underwriting assets are reviewed in total by management for purposes of decision-making. Other than goodwill and other intangible assets, ACE does not allocate assets to its segments.

The following table presents net premiums earned for each segment by product:

(in millions of U.S. dollars) For the Year Ended December 31, 2014	Property & All Other	Casualty	Life, Accident & Health	ACE Consolidated
Insurance - North American P&C	**$ 1,662**	**$ 4,032**	**$ 413**	**$ 6,107**
Insurance - North American Agriculture	**1,526**	**-**	**-**	**1,526**
Insurance - Overseas General	**2,948**	**1,573**	**2,284**	**6,805**
Global Reinsurance	**551**	**475**	**-**	**1,026**
Life	**-**	**-**	**1,962**	**1,962**
	$ 6,687	**$ 6,080**	**$ 4,659**	**$ 17,426**
For the Year Ended December 31, 2013				
Insurance - North American P&C	$ 1,489	$ 3,847	$ 385	$ 5,721
Insurance - North American Agriculture	1,678	-	-	1,678
Insurance - Overseas General	2,672	1,479	2,182	6,333
Global Reinsurance	543	433	-	976
Life	-	-	1,905	1,905
	$ 6,382	$ 5,759	$ 4,472	$ 16,613
For the Year Ended December 31, 2012				
Insurance - North American P&C	$ 1,370	$ 3,406	$ 371	$ 5,147
Insurance - North American Agriculture	1,872	-	-	1,872
Insurance - Overseas General	2,236	1,379	2,125	5,740
Global Reinsurance	495	507	-	1,002
Life	-	-	1,916	1,916
	$ 5,973	$ 5,292	$ 4,412	$ 15,677

The following table presents net premiums earned by geographic region. Allocations have been made on the basis of location of risk:

Years Ended December 31	North America	Europe(1)	Asia Pacific/Far East	Latin America
2014	**58%**	**16%**	**16%**	**10%**
2013	58%	17%	16%	9%
2012	60%	17%	16%	7%

(1) Europe includes Eurasia and Africa region.

16. Earnings per share

(in millions of U.S. dollars, except share and per share data)	Years Ended December 31 2014	2013	2012
Numerator:			
Net income	**$ 2,853**	$ 3,758	$ 2,706
Denominator:			
Denominator for basic earnings per share:			
Weighted-average shares outstanding	**335,609,899**	340,906,490	339,843,438
Denominator for diluted earnings per share:			
Share-based compensation plans	**3,376,388**	3,241,085	2,903,512
Weighted-average shares outstanding and assumed conversions	**338,986,287**	344,147,575	342,746,950
Basic earnings per share	**$ 8.50**	$ 11.02	$ 7.96
Diluted earnings per share	**$ 8.42**	$ 10.92	$ 7.89
Potential anti-dilutive share conversions	**1,024,788**	1,031,297	896,591

Excluded from weighted-average shares outstanding and assumed conversions is the impact of securities that would have been anti-dilutive during the respective years.

17. Related party transactions

The ACE Foundation - Bermuda is an unconsolidated not-for-profit organization whose primary purpose is to fund charitable causes in Bermuda. The Trustees are principally ACE management. ACE maintains a non-interest bearing demand note receivable from the ACE Foundation - Bermuda (Borrower), the balance of which was $25 million and $26 million, at December 31, 2014 and 2013, respectively. The receivable is included in Other assets in the consolidated balance sheets. The Borrower has used the related proceeds to finance investments in Bermuda real estate, some of which have been rented to ACE employees at rates established by independent, professional real estate appraisers. The Borrower uses income from the investments to both repay the note and to fund charitable activities. Accordingly, we report the demand note at the lower of its principal value or the fair value of assets held by the Borrower to repay the loan, including the real estate properties.

18. Statutory financial information

Our subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by insurance regulators. Statutory accounting differs from GAAP in the reporting of certain reinsurance contracts, investments, subsidiaries, acquisition expenses, fixed assets, deferred income taxes, and certain other items. Some jurisdictions impose complex regulatory requirements on insurance companies while other jurisdictions impose fewer requirements. In some jurisdictions, we must obtain licenses issued by governmental authorities to conduct local insurance business. These licenses may be subject to reserves and minimum capital and solvency tests. Jurisdictions may impose fines, censure, and/or criminal sanctions for violation of regulatory requirements. The 2014 amounts below are based on estimates.

ACE's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate. These regulations include restrictions that limit the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the local insurance regulatory authorities. The amount of dividends available to be paid in 2015 without prior approval totals $3.8 billion.

The statutory capital and surplus of our insurance subsidiaries met regulatory requirements for 2014, 2013, and 2012. The minimum amounts of statutory capital and surplus necessary to satisfy regulatory requirements was $13.7 billion for both December 31, 2014 and 2013.

The following tables present the combined statutory capital and surplus and statutory net income (loss) of our Property and casualty and Life subsidiaries:

	December 31	
(in millions of U.S. dollars)	**2014**	2013
Statutory capital and surplus		
Property and casualty	**$ 25,367**	$ 23,791
Life	**$ 1,455**	$ 1,693

	Year Ended December 31		
(in millions of U.S. dollars)	**2014**	2013	2012
Statutory net income (loss)			
Property and casualty	**$ 3,368**	$ 3,333	$ 2,683
Life	**$ (248)**	$ 409	$ 199

Several insurance subsidiaries follow accounting practices prescribed or permitted by the jurisdiction of domicile that differ from the applicable local statutory practice. The application of prescribed or permitted accounting practices does not have a material impact on ACE's statutory surplus and income. As prescribed by the Restructuring discussed previously in Note 7, certain of our U.S. subsidiaries discount certain A&E liabilities, which increased statutory capital and surplus by approximately $158 million at both December 31, 2014 and 2013.

19. Information provided in connection with outstanding debt of subsidiaries

The following tables present condensed consolidating financial information at December 31, 2014 and December 31, 2013, and for the years ended December 31, 2014, 2013, and 2012 for ACE Limited (Parent Guarantor) and ACE INA Holdings, Inc. (Subsidiary Issuer). The Subsidiary Issuer is an indirect 100 percent-owned subsidiary of the Parent Guarantor. The Parent Guarantor fully and unconditionally guarantees certain of the debt of the Subsidiary Issuer. Condensed consolidating financial information of the Parent Guarantor and Subsidiary Issuer are presented on the equity method of accounting. The revenues and expenses and cash flows of the subsidiaries of the Subsidiary Issuer are presented in the Other ACE Limited Subsidiaries column on a combined basis.

Condensed Consolidating Balance Sheet at December 31, 2014

(in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Assets					
Investments	$ 30	$ 225	$ 62,649	$ -	$ 62,904
Cash[1]	-	1	1,209	(555)	655
Insurance and reinsurance balances receivable	-	-	6,178	(752)	5,426
Reinsurance recoverable on losses and loss expenses	-	-	20,992	(9,000)	11,992
Reinsurance recoverable on policy benefits	-	-	1,194	(977)	217
Value of business acquired	-	-	466	-	466
Goodwill and other intangible assets	-	-	5,724	-	5,724
Investments in subsidiaries	29,497	18,762	-	(48,259)	-
Due from subsidiaries and affiliates, net	583	-	-	(583)	-
Other assets	4	295	14,196	(3,631)	10,864
Total assets	$ 30,114	$ 19,283	$ 112,608	$ (63,757)	$ 98,248
Liabilities					
Unpaid losses and loss expenses	$ -	$ -	$ 46,770	$ (8,455)	$ 38,315
Unearned premiums	-	-	9,958	(1,736)	8,222
Future policy benefits	-	-	5,731	(977)	4,754
Due to subsidiaries and affiliates, net	-	422	161	(583)	-
Affiliated notional cash pooling programs[1]	246	309	-	(555)	-
Short-term debt	-	1,150	1,402	-	2,552
Long-term debt	-	3,345	12	-	3,357
Trust preferred securities	-	309	-	-	309
Other liabilities	281	1,404	12,659	(3,192)	11,152
Total liabilities	527	6,939	76,693	(15,498)	68,661
Total shareholders' equity	29,587	12,344	35,915	(48,259)	29,587
Total liabilities and shareholders' equity	$ 30,114	$ 19,283	$ 112,608	$ (63,757)	$ 98,248

[1] ACE maintains two notional multicurrency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2014, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Balance Sheet at December 31, 2013

(in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Assets					
Investments	$ 32	$ 10	$ 60,886	$ -	$ 60,928
Cash[1]	-	16	748	(185)	579
Insurance and reinsurance balances receivable	-	-	5,835	(809)	5,026
Reinsurance recoverable on losses and loss expenses	-	-	20,057	(8,830)	11,227
Reinsurance recoverable on policy benefits	-	-	1,215	(997)	218
Value of business acquired	-	-	536	-	536
Goodwill and other intangible assets	-	-	5,404	-	5,404
Investments in subsidiaries	28,351	18,105	-	(46,456)	-
Due from subsidiaries and affiliates, net	844	-	-	(844)	-
Other assets	5	258	13,788	(3,459)	10,592
Total assets	$ 29,232	$ 18,389	$ 108,469	$ (61,580)	$ 94,510
Liabilities					
Unpaid losses and loss expenses	$ -	$ -	$ 45,714	$ (8,271)	$ 37,443
Unearned premiums	-	-	9,242	(1,703)	7,539
Future policy benefits	-	-	5,612	(997)	4,615
Due to subsidiaries and affiliates, net	-	714	130	(844)	-
Affiliated notional cash pooling programs[1]	185	-	-	(185)	-
Short-term debt	-	500	1,401	-	1,901
Long-term debt	-	3,795	12	-	3,807
Trust preferred securities	-	309	-	-	309
Other liabilities	222	1,318	11,655	(3,124)	10,071
Total liabilities	407	6,636	73,766	(15,124)	65,685
Total shareholders' equity	28,825	11,753	34,703	(46,456)	28,825
Total liabilities and shareholders' equity	$ 29,232	$ 18,389	$ 108,469	$ (61,580)	$ 94,510

[1] ACE maintains two notional multicurrency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2013, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

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Condensed Consolidating Statements of Operations and Comprehensive Income

For the Year Ended December 31, 2014 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Net premiums written	$ -	$ -	$ 17,799	$ -	$ 17,799
Net premiums earned	-	-	17,426	-	17,426
Net investment income	2	2	2,248	-	2,252
Equity in earnings of subsidiaries	2,707	791	-	(3,498)	-
Net realized gains (losses) including OTTI	-	53	(560)	-	(507)
Losses and loss expenses	-	-	9,649	-	9,649
Policy benefits	-	-	517	-	517
Policy acquisition costs and administrative expenses	78	26	5,216	-	5,320
Interest (income) expense	(35)	277	38	-	280
Other (income) expense	(201)	27	92	-	(82)
Income tax expense (benefit)	14	(94)	714	-	634
Net income	$ 2,853	$ 610	$ 2,888	$ (3,498)	$ 2,853
Comprehensive income	$ 2,892	$ 583	$ 2,926	$ (3,509)	$ 2,892

Condensed Consolidating Statements of Operations and Comprehensive Income

For the Year Ended December 31, 2013 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Net premiums written	$ -	$ -	$ 17,025	$ -	$ 17,025
Net premiums earned	-	-	16,613	-	16,613
Net investment income	2	3	2,139	-	2,144
Equity in earnings of subsidiaries	3,580	942	-	(4,522)	-
Net realized gains (losses) including OTTI	-	(2)	506	-	504
Losses and loss expenses	-	-	9,348	-	9,348
Policy benefits	-	-	515	-	515
Policy acquisition costs and administrative expenses	60	19	4,791	-	4,870
Interest (income) expense	(32)	270	37	-	275
Other (income) expense	(221)	27	209	-	15
Income tax expense (benefit)	17	(108)	571	-	480
Net income	$ 3,758	$ 735	$ 3,787	$ (4,522)	$ 3,758
Comprehensive income (loss)	$ 2,023	$ (230)	$ 2,051	$ (1,821)	$ 2,023

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Condensed Consolidating Statements of Operations and Comprehensive Income

For the Year Ended December 31, 2012 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Net premiums written	$ -	$ -	$ 16,075	$ -	$ 16,075
Net premiums earned	-	-	15,677	-	15,677
Net investment income	1	3	2,177	-	2,181
Equity in earnings of subsidiaries	2,590	911	-	(3,501)	-
Net realized gains (losses) including OTTI	17	-	61	-	78
Losses and loss expenses	-	-	9,653	-	9,653
Policy benefits	-	-	521	-	521
Policy acquisition costs and administrative expenses	62	28	4,452	-	4,542
Interest (income) expense	(33)	235	48	-	250
Other (income) expense	(137)	9	122	-	(6)
Income tax expense (benefit)	10	(110)	370	-	270
Net income	$ 2,706	$ 752	$ 2,749	$ (3,501)	$ 2,706
Comprehensive income	$ 3,682	$ 1,209	$ 3,724	$ (4,933)	$ 3,682

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2014 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Net cash flows from operating activities	$ 541	$ 210	$ 4,419	$ (674)	$ 4,496
Cash flows from investing activities					
Purchases of fixed maturities available for sale	-	-	(15,816)	263	(15,553)
Purchases of fixed maturities held to maturity	-	-	(267)	-	(267)
Purchases of equity securities	-	-	(251)	-	(251)
Sales of fixed maturities available for sale	-	-	7,750	(268)	7,482
Sales of equity securities	-	-	670	-	670
Maturities and redemptions of fixed maturities available for sale	-	-	6,413	-	6,413
Maturities and redemptions of fixed maturities held to maturity	-	-	875	-	875
Net change in short-term investments	-	(216)	(392)	5	(603)
Net derivative instruments settlements	-	53	(283)	-	(230)
Acquisition of subsidiaries (net of cash acquired of $20)	-	-	(766)	-	(766)
Capital contribution	-	(258)	-	258	-
Other	-	(8)	(266)	-	(274)
Net cash flows used for investing activities	-	(429)	(2,333)	258	(2,504)
Cash flows from financing activities					
Dividends paid on Common Shares	(862)	-	-	-	(862)
Common Shares repurchased	-	-	(1,429)	-	(1,429)
Proceeds from issuance of long-term debt	-	699	-	-	699
Proceeds from issuance of short-term debt	-	-	1,978	-	1,978
Repayment of long-term debt	-	(500)	(1)	-	(501)
Repayment of short-term debt	-	-	(1,977)	-	(1,977)
Proceeds from share-based compensation plans, including windfall tax benefits	-	-	127	-	127
Advances (to) from affiliates	260	(298)	38	-	-
Dividends to parent company	-	-	(674)	674	-
Capital contribution	-	-	258	(258)	-
Net proceeds from affiliated notional cash pooling programs[1]	61	309	-	(370)	-
Other	-	(6)	194	-	188
Net cash flows (used for) from financing activities	(541)	204	(1,486)	46	(1,777)
ffect of foreign currency rate changes on cash and cash equivalents	-	-	(139)	-	(139)
Net (decrease) increase in cash	-	(15)	461	(370)	76
Cash - beginning of year[1]	-	16	748	(185)	579
Cash - end of year[1]	$ -	$ 1	$ 1,209	$ (555)	$ 655

[1] ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2014 and 2013, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2013 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Net cash flows from (used for) operating activities	$ 970	$ (107)	$ 3,984	$ (825)	$ 4,022
Cash flows from investing activities					
Purchases of fixed maturities available for sale	-	-	(21,504)	106	(21,398)
Purchases of fixed maturities held to maturity	-	-	(447)	-	(447)
Purchases of equity securities	-	-	(264)	-	(264)
Sales of fixed maturities available for sale	-	-	10,519	(106)	10,413
Sales of equity securities	-	-	142	-	142
Maturities and redemptions of fixed maturities available for sale	-	-	6,941	-	6,941
Maturities and redemptions of fixed maturities held to maturity	-	-	1,488	-	1,488
Net change in short-term investments	(1)	4	521	-	524
Net derivative instruments settlements	-	(1)	(470)	-	(471)
Acquisition of subsidiaries (net of cash acquired of $38)	-	-	(977)	-	(977)
Capital contribution	(133)	(1,097)	-	1,230	-
Other	-	(4)	(389)	-	(393)
Net cash flows used for investing activities	(134)	(1,098)	(4,440)	1,230	(4,442)
Cash flows from financing activities					
Dividends paid on Common Shares	(517)	-	-	-	(517)
Common Shares repurchased	-	-	(287)	-	(287)
Proceeds from issuance of long-term debt	-	947	-	-	947
Proceeds from the issuance of short-term debt	-	-	2,572	-	2,572
Repayment of short-term debt	-	-	(2,572)	-	(2,572)
Proceeds from share-based compensation plans, including windfall tax benefits	14	-	121	-	135
Advances (to) from affiliates	(621)	621	-	-	-
Dividends to parent company	-	-	(825)	825	-
Capital contribution	-	-	1,230	(1,230)	-
Net proceeds from (payments to) affiliated notional cash pooling programs[(1)]	185	(349)	-	164	-
Other	-	-	113	-	113
Net cash flows (used for) from financing activities	(939)	1,219	352	(241)	391
ffect of foreign currency rate changes on cash and cash equivalents	-	-	(7)	-	(7)
Net (decrease) increase in cash	(103)	14	(111)	164	(36)
Cash - beginning of year[(1)]	103	2	859	(349)	615
Cash - end of year[(1)]	$ -	$ 16	$ 748	$ (185)	$ 579

[(1)]ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2013 and 2012, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2012 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Net cash flows from operating activities	$ 573	$ 296	$ 3,876	$ (750)	$ 3,995
Cash flows from investing activities					
Purchases of fixed maturities available for sale	-	-	(24,076)	115	(23,961)
Purchases of fixed maturities held to maturity	-	-	(388)	-	(388)
Purchases of equity securities	-	-	(135)	-	(135)
Sales of fixed maturities available for sale	-	-	14,884	(115)	14,769
Sales of equity securities	-	-	119	-	119
Maturities and redemptions of fixed maturities available for sale	-	-	5,523	-	5,523
Maturities and redemptions of fixed maturities held to maturity	-	-	1,451	-	1,451
Net change in short-term investments	-	(4)	121	-	117
Net derivative instruments settlements	(1)	-	(280)	-	(281)
Capital contribution	-	(352)	(90)	442	-
Acquisition of subsidiaries (net of cash acquired of $8)	-	-	(98)	-	(98)
Other	-	(33)	(522)	-	(555)
Net cash flows used for investing activities	(1)	(389)	(3,491)	442	(3,439)
Cash flows from financing activities					
Dividends paid on Common Shares	(815)	-	-	-	(815)
Common Shares repurchased	-	-	(11)	-	(11)
Proceeds from issuance of short-term debt	130	-	2,803	-	2,933
Repayment of short-term debt	(130)	-	(2,653)	-	(2,783)
Proceeds from share-based compensation plans, including windfall tax benefits	34	-	92	-	126
Advances from (to) affiliates	206	(201)	(5)	-	-
Dividends to parent company	-	-	(750)	750	-
Capital contribution	-	90	352	(442)	-
Net proceeds from affiliated notional cash pooling programs[1]	-	201	-	(201)	-
Net cash flows (used for) from financing activities	(575)	90	(172)	107	(550)
Effect of foreign currency rate changes on cash and cash equivalents	-	-	(5)	-	(5)
Net increase (decrease) in cash	(3)	(3)	208	(201)	1
Cash - beginning of year[1]	106	5	651	(148)	614
Cash - end of year[1]	$ 103	$ 2	$ 859	$ (349)	$ 615

[1]ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2012 and 2011, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

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20. Condensed unaudited quarterly financial data

	Three Months Ended			
(in millions of U.S. dollars, except per share data)	March 31 2014	June 30 2014	September 30 2014	December 31 2014
Net premiums earned	$ 3,970	$ 4,332	$ 4,754	$ 4,370
Net investment income	553	556	566	577
Net realized gains (losses) including OTTI	(104)	(73)	(120)	(210)
Total revenues	$ 4,419	$ 4,815	$ 5,200	$ 4,737
Losses and loss expenses	$ 2,161	$ 2,388	$ 2,684	$ 2,416
Policy benefits	$ 114	$ 144	$ 125	$ 134
Net income (1)	$ 734	$ 779	$ 785	$ 555
Basic earnings per share	$ 2.16	$ 2.30	$ 2.35	$ 1.68
Diluted earnings per share	$ 2.14	$ 2.28	$ 2.32	$ 1.66

(1) Net income for the three months ended December 31, 2014 includes $89 million of net charges related to income taxes to correct prior periods. Such amounts are not material to any period presented.

	Three Months Ended			
(in millions of U.S. dollars, except per share data)	March 31 2013	June 30 2013	September 30 2013	December 31 2013
Net premiums earned	$ 3,573	$ 4,067	$ 4,610	$ 4,363
Net investment income	531	534	522	557
Net realized gains (losses) including OTTI	206	104	40	154
Total revenues	$ 4,310	$ 4,705	$ 5,172	$ 5,074
Losses and loss expenses	$ 1,926	$ 2,250	$ 2,655	$ 2,517
Policy benefits	$ 131	$ 110	$ 138	$ 136
Net income	$ 953	$ 891	$ 916	$ 998
Basic earnings per share	$ 2.80	$ 2.61	$ 2.68	$ 2.93
Diluted earnings per share	$ 2.77	$ 2.59	$ 2.66	$ 2.90

SCHEDULE I
ACE Limited and Subsidiaries

SUMMARY OF INVESTMENTS - OTHER THAN INVESTMENTS IN RELATED PARTIES

December 31, 2014 (in millions of U.S. dollars)	Cost or Amortized Cost	Fair Value	Amount at Which Shown in the Balance Sheet
Fixed maturities available for sale			
U.S. Treasury and agency	$ 2,741	$ 2,820	$ 2,820
Foreign	14,703	15,242	15,242
Corporate securities	16,897	17,431	17,431
Mortgage-backed securities	10,011	10,286	10,286
States, municipalities, and political subdivisions	3,474	3,616	3,616
Total fixed maturities available for sale	47,826	49,395	49,395
Fixed maturities held to maturity			
U.S. Treasury and agency	832	850	832
Foreign	916	963	916
Corporate securities	2,323	2,423	2,323
Mortgage-backed securities	1,983	2,039	1,983
States, municipalities, and political subdivisions	1,277	1,314	1,277
Total fixed maturities held to maturity	7,331	7,589	7,331
Equity securities			
Industrial, miscellaneous, and all other	440	510	510
Short-term investments	2,322	2,322	2,322
Other investments	2,999	3,346	3,346
Total investments - other than investments in related parties	$ 60,918	$ 63,162	$ 62,904

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SCHEDULE II

ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS (Parent Company Only)

(in millions of U.S. dollars)		December 31 2014		December 31 2013
Assets				
Investments in subsidiaries and affiliates on equity basis	$	29,497	$	28,351
Short-term investments		1		2
Other investments, at cost		29		30
Total investments		29,527		28,383
Due from subsidiaries and affiliates, net		583		844
Other assets		4		5
Total assets	$	30,114	$	29,232
Liabilities				
Affiliated notional cash pooling programs[1]	$	246	$	185
Accounts payable, accrued expenses, and other liabilities		281		222
Total liabilities		527		407
Shareholders' equity				
Common Shares		8,055		8,899
Common Shares in treasury		(1,448)		(255)
Additional paid-in capital		5,145		5,238
Retained earnings		16,644		13,791
Accumulated other comprehensive income		1,191		1,152
Total shareholders' equity		29,587		28,825
Total liabilities and shareholders' equity	$	30,114	$	29,232

[1] ACE maintains two notional multicurrency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2014 and 2013, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

SCHEDULE II (continued)
ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF OPERATIONS (Parent Company Only)

	Years Ended December 31		
(in millions of U.S. dollars)	**2014**	2013	2012
Revenues			
Investment income, including interest income	**$ 37**	$ 34	$ 34
Equity in net income of subsidiaries and affiliates	**2,707**	3,580	2,590
Net realized gains (losses)	**-**	-	17
	2,744	3,614	2,641
Expenses			
Administrative and other (income) expense	**(123)**	(161)	(75)
Income tax expense	**14**	17	10
	(109)	(144)	(65)
Net income	**$ 2,853**	$ 3,758	$ 2,706
Comprehensive income	**$ 2,892**	$ 2,023	$ 3,682

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

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SCHEDULE II (continued)
ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF CASH FLOWS (Parent Company Only)

(in millions of U.S. dollars)	Years Ended December 31 2014	2013	2012
Net cash flows from operating activities[1]	**$ 541**	$ 970	$ 573
Cash flows from investing activities			
Net change in short-term investments	**-**	(1)	-
Net derivative instruments settlements	**-**	-	(1)
Capital contribution	**-**	(133)	-
Net cash flows used for investing activities	**-**	(134)	(1)
Cash flows from financing activities			
Dividends paid on Common Shares	**(862)**	(517)	(815)
Proceeds from issuance of short-term debt	**-**	-	130
Repayment of short-term debt	**-**	-	(130)
Proceeds from share-based compensation plans	**-**	14	34
Advances (to) from affiliates	**260**	(621)	206
Net proceeds from affiliated notional cash pooling programs[2]	**61**	185	-
Net cash flows used for financing activities	**(541)**	(939)	(575)
Net decrease in cash	**-**	(103)	(3)
Cash - beginning of year	**-**	103	106
Cash - end of year	**$ -**	$ -	$ 103

[1] Includes cash dividends received from subsidiaries of $300 million, $825 million, and $450 million in 2014, 2013, and 2012, respectively.

[2] ACE maintains two notional multicurrency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2014 and 2013, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

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SCHEDULE IV

ACE Limited and Subsidiaries

SUPPLEMENTAL INFORMATION CONCERNING REINSURANCE

Premiums Earned

For the years ended December 31, 2014, 2013, and 2012 (in millions of U.S. dollars, except for percentages)	Direct Amount	Ceded To Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
2014					
Property and Casualty	**$ 14,784**	**$ 4,940**	**$ 2,923**	**$ 12,767**	**23%**
Accident and Health	**3,971**	**434**	**141**	**3,678**	**4%**
Life	**800**	**91**	**272**	**981**	**28%**
Total	**$ 19,555**	**$ 5,465**	**$ 3,336**	**$ 17,426**	**19%**
2013					
Property and Casualty	$ 14,286	$ 5,160	$ 3,015	$ 12,141	25%
Accident and Health	3,885	486	168	3,567	5%
Life	685	76	296	905	33%
Total	$ 18,856	$ 5,722	$ 3,479	$ 16,613	21%
2012					
Property and Casualty	$ 13,395	$ 4,918	$ 2,788	$ 11,265	25%
Accident and Health	3,751	442	190	3,499	5%
Life	656	67	324	913	35%
Total	$ 17,802	$ 5,427	$ 3,302	$ 15,677	21%

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SCHEDULE VI

ACE Limited and Subsidiaries

SUPPLEMENTARY INFORMATION CONCERNING PROPERTY AND CASUALTY OPERATIONS

As of and for the years ended December 31, 2014, 2013, and 2012 (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			
2014	**$ 2,057**	**$ 27,008**	**$ 8,222**	**$ 16,445**	**$ 2,071**	**$ 10,176**	**$ (527)**	**$ 2,805**	**$ 9,235**	**$ 16,787**
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

ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

ACE Limited
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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Financial Statements

The consolidated financial statements of ACE Limited (ACE) were prepared by management, which is responsible for their reliability and objectivity. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management. Financial information elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Board of Directors (Board), operating through its Audit Committee, which is composed entirely of directors who are not officers or employees of ACE, provides oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use or disposition. The Audit Committee annually recommends the appointment of an independent registered public accounting firm and submits its recommendation to the Board for approval.

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.

The consolidated financial statements have been audited by an independent registered public accounting firm, PricewaterhouseCoopers LLP, which has been given unrestricted access to all financial records and related data, including minutes of all meetings of the Board and committees of the Board. ACE believes that all representations made to our independent registered public accountants during their audits were valid and appropriate.

Internal Control over Financial Reporting

The management of ACE is responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2013, management has evaluated the effectiveness of ACE's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in “Internal Control - Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Based on this evaluation, we have concluded that ACE's internal control over financial reporting was effective as of December 31, 2013.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the consolidated financial statements of ACE included in this Annual Report, has issued a report on the effectiveness of ACE's internal controls over financial reporting as of December 31, 2013. The report, which expresses an unqualified opinion on the effectiveness of ACE's internal control over financial reporting as of December 31, 2013, is included in this Item under “Report of Independent Registered Public Accounting Firm” and follows this statement.

/s/ Evan G. Greenberg	/s/ Philip V. Bancroft
Evan G. Greenberg	Philip V. Bancroft
Chairman, President and Chief Executive Officer	Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of ACE Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of ACE Limited and its subsidiaries (the "Company") at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15 (2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Internal Control Over Financial Reporting, appearing in Management's Responsibility for Financial Statements and Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 28, 2014

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CONSOLIDATED BALANCE SHEETS
ACE Limited and Subsidiaries

(in millions of U.S. dollars, except share and per share data)	December 31 2013	December 31 2012
Assets		
Investments		
Fixed maturities available for sale, at fair value (amortized cost - $48,406 and $44,666)	$ 49,254	$ 47,306
(includes hybrid financial instruments of $302 and $309)		
Fixed maturities held to maturity, at amortized cost (fair value - $6,263 and $7,633)	6,098	7,270
Equity securities, at fair value (cost - $841 and $707)	837	744
Short-term investments, at fair value and amortized cost	1,763	2,228
Other investments (cost - $2,671 and $2,465)	2,976	2,716
Total investments	60,928	60,264
Cash	579	615
Securities lending collateral	1,632	1,791
Accrued investment income	556	552
Insurance and reinsurance balances receivable	5,026	4,147
Reinsurance recoverable on losses and loss expenses	11,227	12,078
Reinsurance recoverable on policy benefits	218	241
Deferred policy acquisition costs	2,313	1,873
Value of business acquired	536	614
Goodwill and other intangible assets	5,404	4,975
Prepaid reinsurance premiums	1,675	1,617
Deferred tax assets	616	453
Investments in partially-owned insurance companies (cost - $467 and $451)	470	454
Other assets	3,330	2,871
Total assets	$ 94,510	$ 92,545
Liabilities		
Unpaid losses and loss expenses	$ 37,443	$ 37,946
Unearned premiums	7,539	6,864
Future policy benefits	4,615	4,470
Insurance and reinsurance balances payable	3,628	3,472
Securities lending payable	1,633	1,795
Accounts payable, accrued expenses, and other liabilities	4,810	5,397
Short-term debt	1,901	1,401
Long-term debt	3,807	3,360
Trust preferred securities	309	309
Total liabilities	65,685	65,014
Commitments and contingencies		
Shareholders' equity		
Common Shares (CHF 27.04 and CHF 28.89 par value; 342,832,412 shares issued; 339,793,935 and 340,321,534 shares outstanding)	8,899	9,591
Common Shares in treasury (3,038,477 and 2,510,878 shares)	(255)	(159)
Additional paid-in capital	5,238	5,179
Retained earnings	13,791	10,033
Accumulated other comprehensive income (AOCI)	1,152	2,887
Total shareholders' equity	28,825	27,531
Total liabilities and shareholders' equity	$ 94,510	$ 92,545

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

ACE Limited and Subsidiaries

For the years ended December 31, 2013, 2012 and 2011

(in millions of U.S. dollars, except per share data)		2013		2012		2011
Revenues						
Net premiums written	$	17,025	$	16,075	$	15,372
(Increase) decrease in unearned premiums		(412)		(398)		15
Net premiums earned		16,613		15,677		15,387
Net investment income		2,144		2,181		2,242
Net realized gains (losses):						
Other-than-temporary impairment (OTTI) losses gross		(22)		(38)		(65)
Portion of OTTI losses recognized in other comprehensive income (OCI)		-		1		15
Net OTTI losses recognized in income		(22)		(37)		(50)
Net realized gains (losses) excluding OTTI losses		526		115		(745)
Total net realized gains (losses) (includes $105 of net unrealized gains reclassified from AOCI in 2013)		504		78		(795)
Total revenues		19,261		17,936		16,834
Expenses						
Losses and loss expenses		9,348		9,653		9,520
Policy benefits		515		521		401
Policy acquisition costs		2,659		2,446		2,472
Administrative expenses		2,211		2,096		2,068
Interest expense		275		250		250
Other (income) expense		15		(6)		81
Total expenses		15,023		14,960		14,792
Income before income tax		4,238		2,976		2,042
Income tax expense (includes $17 Income tax expense from reclassification of unrealized gains in 2013)		480		270		502
Net income	$	3,758	$	2,706	$	1,540
Other comprehensive income (loss)						
Unrealized appreciation (depreciation)	$	(1,762)	$	1,350	$	646
Reclassification adjustment for net realized gains included in net income		(105)		(234)		(173)
		(1,867)		1,116		473
Change in:						
Cumulative translation adjustment		(339)		116		(5)
Pension liability		-		(35)		8
Other comprehensive income (loss), before income tax		(2,206)		1,197		476
Income tax benefit (expense) related to OCI items		471		(221)		(159)
Other comprehensive income (loss)		(1,735)		976		317
Comprehensive income	$	2,023	$	3,682	$	1,857
Earnings per share						
Basic earnings per share	$	11.02	$	7.96	$	4.55
Diluted earnings per share	$	10.92	$	7.89	$	4.52

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

ACE Limited and Subsidiaries

For the years ended December 31, 2013, 2012 and 2011 (in millions of U.S. dollars)	2013	2012	2011
Common Shares			
Balance - beginning of year	$ 9,591	$ 10,095	$ 10,161
Exercise of stock options	-	-	47
Dividends declared on Common Shares-par value reduction	(692)	(504)	(113)
Balance - end of year	8,899	9,591	10,095
Common Shares in treasury			
Balance - beginning of year	(159)	(327)	(330)
Common Shares repurchased	(290)	(7)	(132)
Common Shares issued in treasury, net of net shares redeemed under employee share-based compensation plans	194	175	135
Balance - end of year	(255)	(159)	(327)
Additional paid-in capital			
Balance - beginning of year	5,179	5,326	5,623
Net shares redeemed under employee share-based compensation plans	(126)	(93)	(104)
Exercise of stock options	(42)	(7)	16
Share-based compensation expense and other	191	135	139
Funding of dividends declared to Retained earnings	-	(200)	(354)
Tax benefit on share-based compensation expense	36	18	6
Balance - end of year	5,238	5,179	5,326
Retained earnings			
Balance - beginning of year	10,033	7,327	5,787
Net income	3,758	2,706	1,540
Funding of dividends declared from Additional paid-in capital	-	200	354
Dividends declared on Common Shares	-	(200)	(354)
Balance - end of year	13,791	10,033	7,327
Deferred compensation obligation			
Balance - beginning of year	-	-	2
Decrease to obligation	-	-	(2)
Balance - end of year	-	-	-
Accumulated other comprehensive income			
Net unrealized appreciation on investments			
Balance - beginning of year	2,633	1,715	1,399
Change in year, before reclassification from AOCI, net of income tax benefit of $391	(1,371)		
Amounts reclassified from AOCI, net of income tax benefit of $17	(88)		
Change in year, net of income tax benefit (expense) of $408, $(198), and $(157)	(1,459)	918	316
Balance - end of year	1,174	2,633	1,715
Cumulative translation adjustment			
Balance - beginning of year	339	258	262
Change in year, net of income tax benefit (expense) of $63, $(35) and $1	(276)	81	(4)
Balance - end of year	63	339	258
Pension liability adjustment			
Balance - beginning of year	(85)	(62)	(67)
Change in year, net of income tax benefit (expense) of nil, $12 and $(3)	-	(23)	5
Balance - end of year	(85)	(85)	(62)
Accumulated other comprehensive income	1,152	2,887	1,911
Common Shares issued to employee trust			
Balance - beginning of year	-	-	(2)
Decrease in Common Shares	-	-	2
Balance - end of year	-	-	-
Total shareholders' equity	$ 28,825	$ 27,531	$ 24,332

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

ACE Limited and Subsidiaries

For the years ended December 31, 2013, 2012, and 2011 (in millions of U.S. dollars)	2013	2012	2011
Cash flows from operating activities			
Net income	$ 3,758	$ 2,706	$ 1,540
Adjustments to reconcile net income to net cash flows from operating activities			
Net realized (gains) losses	(504)	(78)	795
Amortization of premiums/discounts on fixed maturities	268	220	152
Deferred income taxes	240	(7)	15
Unpaid losses and loss expenses	(365)	203	43
Unearned premiums	402	522	9
Future policy benefits	191	158	78
Insurance and reinsurance balances payable	176	(151)	216
Accounts payable, accrued expenses, and other liabilities	37	(42)	39
Income taxes payable	(45)	(167)	39
Insurance and reinsurance balances receivable	(624)	335	(217)
Reinsurance recoverable on losses and loss expenses	787	372	531
Reinsurance recoverable on policy benefits	23	52	25
Deferred policy acquisition costs	(503)	(340)	(122)
Prepaid reinsurance premiums	(31)	(123)	(34)
Other	212	335	361
Net cash flows from operating activities	4,022	3,995	3,470
Cash flows from investing activities			
Purchases of fixed maturities available for sale	(21,340)	(23,572)	(23,523)
Purchases of to be announced mortgage-backed securities	(58)	(389)	(755)
Purchases of fixed maturities held to maturity	(447)	(388)	(340)
Purchases of equity securities	(264)	(135)	(309)
Sales of fixed maturities available for sale	10,355	14,321	17,176
Sales of to be announced mortgage-backed securities	58	448	795
Sales of equity securities	142	119	376
Maturities and redemptions of fixed maturities available for sale	6,941	5,523	3,720
Maturities and redemptions of fixed maturities held to maturity	1,488	1,451	1,279
Net change in short-term investments	524	117	(300)
Net derivative instruments settlements	(471)	(281)	(67)
Acquisition of subsidiaries (net of cash acquired of $38, $8, and $91)	(977)	(98)	(606)
Other	(393)	(555)	(482)
Net cash flows used for investing activities	(4,442)	(3,439)	(3,036)
Cash flows from financing activities			
Dividends paid on Common Shares	(517)	(815)	(459)
Common Shares repurchased	(287)	(11)	(195)
Proceeds from issuance of long-term debt	947	-	-
Proceeds from issuance of short-term debt	2,572	2,933	5,238
Repayment of short-term debt	(2,572)	(2,783)	(5,288)
Proceeds from share-based compensation plans, including windfall tax benefits	135	126	139
Other	113	-	-
Net cash flows from (used for) financing activities	391	(550)	(565)
Effect of foreign currency rate changes on cash and cash equivalents	(7)	(5)	(27)
Net (decrease) increase in cash	(36)	1	(158)
Cash - beginning of year	615	614	772
Cash - end of year	$ 579	$ 615	$ 614
Supplemental cash flow information			
Taxes paid	$ 218	$ 438	$ 460
Interest paid	$ 253	$ 240	$ 234

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
ACE Limited and Subsidiaries

1. Summary of significant accounting policies

a) Basis of presentation
ACE Limited is a holding company incorporated in Zurich, Switzerland. ACE Limited, through its subsidiaries, provides a broad range of insurance and reinsurance products to insureds worldwide. ACE operates through five business segments: Insurance - North American P&C, Insurance - North American Agriculture, Insurance - Overseas General, Global Reinsurance, and Life. Refer to Note 15 for additional information.

The accompanying consolidated financial statements, which include the accounts of ACE Limited and its subsidiaries (collectively, ACE, we, us, or our), have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and, in the opinion of management, reflect all adjustments (consisting of normally recurring accruals) necessary for a fair statement of the results and financial position for such periods. All significant intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Amounts included in the consolidated financial statements reflect our best estimates and assumptions; actual amounts could differ materially from these estimates. ACE's principal estimates include:

- 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;
- reinsurance recoverable, including a provision for uncollectible reinsurance;
- the assessment of risk transfer for certain structured insurance and reinsurance contracts;
- the valuation of the investment portfolio and assessment of OTTI;
- the valuation of deferred tax assets;
- the valuation of derivative instruments related to guaranteed living benefits (GLB); and
- the valuation of goodwill.

b) Premiums
Premiums are generally recognized as written upon inception of the policy. For multi-year policies for which premiums written are payable in annual installments, only the current annual premium is included as written at policy inception due to the ability of the insured/reinsured to commute or cancel coverage within the policy term. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term.

For property and casualty (P&C) insurance and reinsurance products, premiums written are primarily earned on a pro-rata basis over the policy terms to which they relate. Unearned premiums represent the portion of premiums written applicable to the unexpired portion of the policies in force. For retrospectively-rated policies, written premiums are adjusted to reflect expected ultimate premiums consistent with changes to reported losses, or other measures of exposure as stated in the policy, and earned over the policy coverage period. For retrospectively-rated multi-year policies, premiums recognized in the current period are computed, using a with-and-without method, as the difference between the ceding enterprise's total contract costs before and after the experience under the contract at the reporting date. Accordingly, for retrospectively-rated multi-year policies, additional premiums are generally written and earned when losses are incurred.

Mandatory reinstatement premiums assessed on reinsurance policies are earned in the period of the loss event that gave rise to the reinstatement premiums. All remaining unearned premiums are recognized over the remaining coverage period.

Premiums from long-duration contracts such as certain traditional term life, whole life, endowment, and long-duration personal accident and health (A&H) policies are generally recognized as revenue when due from policyholders. Traditional life policies include those contracts with fixed and guaranteed premiums and benefits. Benefits and expenses are matched with income to result in the recognition of profit over the life of the contracts.

Retroactive loss portfolio transfer (LPT) contracts in which the insured loss events occurred prior to contract inception are evaluated to determine whether they meet criteria for reinsurance accounting. If reinsurance accounting is appropriate, written premiums are fully earned and corresponding losses and loss expenses recognized at contract inception. These contracts can cause significant variances in gross premiums written, net premiums written, net premiums earned, and net incurred losses in the years in which they are written. Reinsurance contracts sold not meeting criteria for reinsurance accounting are recorded using the deposit method as described below in Note 1 k).

Reinsurance premiums assumed are based on information provided by ceding companies supplemented by our own estimates of premium when we have not received ceding company reports. Estimates are reviewed and adjustments are recorded in the period in which they are determined. Premiums are earned over the coverage terms of the related reinsurance contracts and range from one to three years.

c) Deferred policy acquisition costs and value of business acquired

Policy acquisition costs consist of commissions (direct and ceded), premium taxes, and certain underwriting costs related directly to the successful acquisition of new or renewal insurance contracts. A VOBA intangible asset is established upon the acquisition of blocks of long-duration contracts in a business combination and represents the present value of estimated net cash flows for the contracts in force at the acquisition date. Acquisition costs and VOBA, collectively policy acquisition costs, are deferred and amortized. Amortization is recorded in Policy acquisition costs in the consolidated statements of operations. Policy acquisition costs on P&C contracts are generally amortized ratably over the period in which premiums are earned. Policy acquisition costs on traditional long-duration contracts are amortized 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 expected gross profits. The effect of changes in estimates of expected gross profits is reflected in the period the estimates are revised. Policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. Unrecoverable policy acquisition costs are expensed in the period identified.

Advertising costs are expensed as incurred except for direct-response campaigns that qualify for cost deferral, principally related to A&H business produced by the Insurance - Overseas General segment, which are deferred and recognized as a component of policy acquisition costs. For individual direct-response marketing campaigns that we can demonstrate have specifically resulted in incremental sales to customers and such sales have probable future economic benefits, incremental costs directly related to the marketing campaigns are capitalized. Deferred marketing costs are reviewed regularly for recoverability from future income, including investment income, and amortized in proportion to premium revenue recognized, primarily over a ten-year period, the expected economic future benefit period. The expected future benefit period is evaluated periodically based on historical results and adjusted prospectively. The amount of deferred marketing costs reported in Deferred policy acquisition costs in the consolidated balance sheets was $307 million and $274 million at December 31, 2013 and 2012, respectively. Amortization expense for deferred marketing costs was $128 million, $119 million, and $128 million for the years ended December 31, 2013, 2012, and 2011, respectively (2012 disclosure amount adjusted to present deferred marketing amortization costs in a manner consistent with the 2013 amount).

d) Reinsurance

ACE assumes and cedes reinsurance with other insurance companies to provide greater diversification of business and minimize the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve ACE of its primary obligation to policyholders.

For both ceded and assumed reinsurance, risk transfer requirements must be met in order to account for a contract as reinsurance, principally resulting in the recognition of cash flows under the contract as premiums and losses. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. To assess risk transfer for certain contracts, ACE generally develops expected discounted cash flow analyses at contract inception. Deposit accounting is used for contracts that do not meet risk transfer requirements. Deposit accounting requires that consideration received or paid be recorded in the balance sheet as opposed to recording premiums written or losses incurred in the statement of operations. Non-refundable fees on deposit contracts are earned based on the terms of the contract described below in Note 1 k).

Reinsurance recoverable includes balances due from reinsurance companies for paid and unpaid losses and loss expenses and policy benefits that will be recovered from reinsurers, based on contracts in force. The method for determining the reinsurance recoverable on unpaid losses and loss expenses incurred but not reported (IBNR) involves actuarial estimates consistent with

those used to establish the associated liability for unpaid losses and loss expenses as well as a determination of ACE's ability to cede unpaid losses and loss expenses under the terms of the reinsurance agreement.

Reinsurance recoverable is presented net of a provision for uncollectible reinsurance determined based upon a review of the financial condition of reinsurers and other factors. The provision for uncollectible reinsurance is based on an estimate of the reinsurance recoverable balance that will ultimately be unrecoverable due to reinsurer insolvency, a contractual dispute, or any other reason. The valuation of this provision includes several judgments including certain aspects of the allocation of reinsurance recoverable on IBNR claims by reinsurer and 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 determine the portion of a reinsurer's balance deemed uncollectible. 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 with the same legal entity for which ACE believes there is a contractual right of offset. The determination of the default factor is principally based on the financial strength rating of the reinsurer. 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. The more significant considerations 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 financial rating is based on a published source and the default factor is based on published default statistics of a major rating agency applicable to the reinsurer's particular rating class. 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, affiliate, or peer company, we determine a rating equivalent based on an 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 the ceded reserve is below a certain threshold, we generally apply a default factor of 34 percent, consistent with published statistics of a major rating agency;
- 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 reinsurer-specific facts and circumstances. Upon initial notification of an insolvency, we generally recognize an 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 other recoverables, management determines the provision for uncollectible reinsurance based on the specific facts and circumstances.

The methods used to determine the reinsurance recoverable balance and related provision for uncollectible reinsurance are regularly reviewed and updated, and any resulting adjustments are reflected in earnings in the period identified.

Prepaid reinsurance premiums represent the portion of premiums ceded to reinsurers applicable to the unexpired coverage terms of the reinsurance contracts in force.

The value of reinsurance business assumed of $27 million and $32 million at December 31, 2013 and 2012, respectively, included in Other assets in the accompanying consolidated balance sheets, represents the excess of estimated ultimate value of the liabilities assumed under retroactive reinsurance contracts over consideration received. The value of reinsurance business assumed is amortized and recorded to losses and loss expenses based on the payment pattern of the losses assumed and ranges between 9 and 40 years. The unamortized value is reviewed regularly to determine if it is recoverable based upon the terms of the contract, estimated losses and loss expenses, and anticipated investment income. Unrecoverable amounts are expensed in the period identified.

e) Investments
Fixed maturities are classified as either available for sale or held to maturity. The available for sale portfolio is reported at fair value. The held to maturity portfolio includes securities for which we have the ability and intent to hold to maturity or redemption and is reported at amortized cost. Equity securities are classified as available for sale and are recorded at fair value.

Short-term investments comprise securities due to mature within one year of the date of purchase and are recorded at fair value which typically approximates cost. Short-term investments include certain cash and cash equivalents, which are part of investment portfolios under the management of external investment managers.

Other investments principally comprise life insurance policies, policy loans, trading securities, other direct equity investments, investment funds, and limited partnerships.

- Life insurance policies are carried at policy cash surrender value.
- Policy loans are carried at outstanding balance.
- Trading securities are recorded on a trade date basis and carried at fair value. Unrealized gains and losses on trading securities are reflected in Net income.
- Other investments over which ACE can exercise significant influence are accounted for using the equity method.
- All other investments over which ACE cannot exercise significant influence are carried at fair value with changes in fair value recognized through OCI. For these investments, investment income and realized gains are recognized as related distributions are received.
- Partially-owned investment companies comprise entities in which we hold an ownership interest in excess of three percent. These investments as well as ACE's investments in investment funds where our ownership interest is in excess of three percent are accounted for under the equity method because ACE exerts significant influence. These investments apply investment company accounting to determine operating results, and ACE retains the investment company accounting in applying the equity method. This means that investment income, realized gains or losses, and unrealized gains or losses are included in the portion of equity earnings reflected in Other (income) expense.

Investments in partially-owned insurance companies primarily represent direct investments in which ACE has significant influence and, as such, meet the requirements for equity accounting. We report our share of the net income or loss of the partially-owned insurance companies in Other (income) expense. Investments in partially-owned insurance companies over which ACE does not exert significant influence are carried at fair value with changes in fair value recognized through OCI.

Realized gains or losses on sales of investments are determined on a first-in, first-out basis. Unrealized appreciation (depreciation) on investments is included as a separate component of AOCI in Shareholders' equity. We regularly review our investments for OTTI. Refer to Note 3 for additional information.

With respect to securities where the decline in value is determined to be temporary and the security's value is not written down, a subsequent decision may be made to sell that security and realize a loss. Subsequent decisions on security sales are the result of changing or unforeseen facts and circumstances (i.e., arising from a large insured loss such as a catastrophe), deterioration of the creditworthiness of the issuer or its industry, or changes in regulatory requirements. We believe that subsequent decisions to sell such securities are consistent with the classification of the majority of the portfolio as available for sale.

We use derivative instruments including futures, options, swaps, and foreign currency forward contracts for the purpose of managing certain investment portfolio risks and exposures. Refer to Note 10 for additional information. Derivatives are reported at fair value and are recorded in the accompanying consolidated balance sheets in either Accounts payable, accrued expenses, and other liabilities or Other assets with changes in fair value included in Net realized gains (losses) in the consolidated statements of operations. Collateral held by brokers equal to a percentage of the total value of open futures contracts is included in the investment portfolio.

Net investment income includes interest and dividend income and amortization of fixed maturity market premiums and discounts and is net of investment management and custody fees. For mortgage-backed securities, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognized prospectively. Prepayment fees or call premiums that are only payable when a security is called prior to its maturity are earned when received and reflected in Net investment income.

ACE participates in a securities lending program operated by a third-party banking institution whereby certain assets are loaned to qualified borrowers and from which we earn an incremental return. Borrowers provide collateral, in the form of either cash or approved securities, of 102 percent of the fair value of the loaned securities. Each security loan is deemed to be an overnight

transaction. Cash collateral is invested in a collateral pool which is managed by the banking institution. The collateral pool is subject to written investment guidelines with key objectives which include the safeguard of principal and adequate liquidity to meet anticipated redemptions. The fair value of the loaned securities is monitored on a daily basis, with additional collateral obtained or refunded as the fair value of the loaned securities changes. The collateral is held by the third-party banking institution, and the collateral can only be accessed in the event that the institution borrowing the securities is in default under the lending agreement. As a result of these restrictions, we consider our securities lending activities to be non-cash investing and financing activities. An indemnification agreement with the lending agent protects us in the event a borrower becomes insolvent or fails to return any of the securities on loan. The fair value of the securities on loan is included in fixed maturities and equity securities. The securities lending collateral is reported as a separate line in total assets with a related liability reflecting our obligation to return the collateral plus interest.

Similar to securities lending arrangements, securities sold under repurchase agreements, whereby ACE sells securities and repurchases them at a future date for a predetermined price, are accounted for as collateralized investments and borrowings and are recorded at the contractual repurchase amounts plus accrued interest. Assets to be repurchased are the same, or substantially the same, as the assets transferred and the transferor, through right of substitution, maintains the right and ability to redeem the collateral on short notice. The fair value of the underlying securities is included in fixed maturities and equity securities. In contrast to securities lending programs, the use of cash received is not restricted. We report the obligation to return the cash as Short-term debt in the consolidated balance sheets.

Refer to Note 4 for a discussion on the determination of fair value for ACE's various investment securities.

f) Cash
Cash includes cash on hand and deposits with an original maturity of three months or less at time of purchase. Cash held by external money managers is included in Short-term investments.

We have agreements with a third-party bank provider which implemented two international multi-currency notional cash pooling programs. In each program, participating ACE 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 ACE 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 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 overdraw contributed funds from the pool.

g) Goodwill and other intangible assets
Goodwill represents the excess of the cost of acquisitions over the fair value of net assets acquired and is not amortized. Goodwill is assigned at acquisition to the applicable reporting unit of the acquired entities giving rise to the goodwill. Goodwill impairment tests are performed annually or more frequently if circumstances indicate a possible impairment. For goodwill impairment testing, we use 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 our assessment indicates less than a 50 percent probability that fair value exceeds carrying value, we quantitatively estimate a reporting unit's fair value. Goodwill recorded in connection with investments in partially-owned insurance companies is recorded in Investments in partially-owned insurance companies and is also measured for impairment annually.

Indefinite lived intangible assets are not subject to amortization. Finite lived intangible assets are amortized over their useful lives, generally ranging from 1 to 20 years. The amortization of finite lived intangible assets is reported in Other (income) expense in the consolidated statements of operations. Intangible assets are regularly reviewed for indicators of impairment. Impairment is recognized if the carrying amount is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value.

h) Unpaid losses and loss expenses
A liability is established for the estimated unpaid losses and loss expenses under the terms of, and with respect to, ACE's policies and agreements. Similar to premiums that are recognized as revenues over the coverage period of the policy, a liability for unpaid losses and loss expenses is recognized as expense when insured events occur over the coverage period of the policy. This liability includes a provision for both reported claims (case reserves) and incurred but not reported claims (IBNR reserves). IBNR reserve estimates are generally calculated by first projecting the ultimate cost of all losses that have occurred (expected

losses), and then subtracting paid losses, case reserves, and loss expenses. The methods of determining such estimates and establishing the resulting liability are reviewed regularly and any adjustments are reflected in operations in the period in which they become known. Future developments may result in losses and loss expenses materially greater or less than recorded amounts.

Except for net loss and loss expense reserves of $54 million net of discount, held at December 31, 2013, representing certain structured settlements for which the timing and amount of future claim payments are reliably determinable and $52 million, net of discount, of certain reserves for unsettled claims that are discounted in statutory filings, ACE does not discount its P&C loss reserves. This compares with reserves of $58 million for certain structured settlements and $47 million of certain reserves for unsettled claims at December 31, 2012. Structured settlements represent contracts purchased from life insurance companies primarily to settle workers' compensation claims, where payments to the claimant by the life insurance company are expected to be made in the form of an annuity. ACE retains the liability to the claimant in the event that the life insurance company fails to pay. At December 31, 2013, the gross liability due to claimants was $631 million, net of discount, and reinsurance recoverables due from the life insurance companies was $577 million, net of discount. For structured settlement contracts where payments are guaranteed regardless of claimant life expectancy, the amounts recoverable from the life insurance companies at December 31, 2013 are included in Other assets in the consolidated balance sheets, as they do not meet the requirements for reinsurance accounting.

Included in unpaid losses and loss expenses are liabilities for asbestos and environmental (A&E) claims and expenses. These unpaid losses and loss expenses are principally related to claims arising from remediation costs associated with hazardous waste sites and bodily-injury claims related to asbestos products and environmental hazards. The estimation of these liabilities is particularly sensitive to changes in the legal environment including specific settlements that may be used as precedents to settle future claims. However, ACE does not anticipate future changes in laws and regulations in setting its A&E reserve levels.

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 premiums from previous accident years.

For purposes of analysis and disclosure, management views prior period development to be changes in the nominal value of loss estimates from period to period, net of premium and profit commission adjustments on loss sensitive contracts. Prior period development generally excludes changes in loss estimates that do not arise from the emergence of claims, such as those related to uncollectible reinsurance, interest, unallocated loss adjustment expenses, or foreign currency. Accordingly, specific items excluded from prior period development include the following: gains/losses related to foreign currency remeasurement; losses recognized from the early termination or commutation of reinsurance agreements that principally relate to the time value of money; changes in the value of reinsurance business assumed reflected in losses incurred but principally related to the time value of money; and losses that arise from changes in estimates of earned premiums from prior accident years. Except for foreign currency remeasurement, which is included in Net realized gains (losses), these items are included in current year losses.

i) Future policy benefits
The valuation of long-duration contract reserves requires management to make estimates and assumptions regarding expenses, mortality, persistency, and investment yields. Estimates are primarily based on historical experience and information provided by ceding companies and include a margin for adverse deviation. Interest rates used in calculating reserves range from less than 1.0 percent to 6.5 percent and less than 1.0 percent to 4.5 percent at December 31, 2013 and 2012, respectively. Actual results could differ materially from these estimates. Management monitors actual experience and where circumstances warrant, will revise assumptions and the related reserve estimates. Revisions are recorded in the period they are determined.

Certain of our long-duration contracts are supported by assets that do not qualify for separate account reporting under GAAP. These assets are classified as trading securities and reported in Other investments and the offsetting liabilities are reported in Future policy benefits in the consolidated balance sheets. Changes in the fair value of separate account assets that do not qualify for separate account reporting under GAAP are reported in Other income (expense) and the offsetting movements in the liabilities are included in Policy benefits in the consolidated statements of operations.

j) Assumed reinsurance programs involving minimum benefit guarantees under annuity contracts
ACE reinsures various death and living benefit guarantees associated with variable annuities issued primarily in the United States and Japan. Each reinsurance treaty covers variable annuities written during a limited period, typically not exceeding two years. We generally receive a monthly premium during the accumulation phase of the covered annuities (in-force) based on a

percentage of either the underlying accumulated account values or the underlying accumulated guaranteed values. Depending on an annuitant's age, the accumulation phase can last many years. To limit our exposure under these programs, all reinsurance treaties include annual or aggregate claim limits and many include an aggregate deductible.

The guarantees which are payable on death, referred to as guaranteed minimum death benefits (GMDB), principally cover shortfalls between accumulated account value at the time of an annuitant's death and either i) an annuitant's total deposits; ii) an annuitant's total deposits plus a minimum annual return; or iii) the highest accumulated account value attained at any policy anniversary date. In addition, a death benefit may be based on a formula specified in the variable annuity contract that uses a percentage of the growth of the underlying contract value. Liabilities for GMDBs are based on cumulative assessments or premiums to date multiplied by a benefit ratio that is determined by estimating the present value of benefit payments and related adjustment expenses divided by the present value of cumulative assessment or expected premiums during the contract period.

Under reinsurance programs covering GLBs, we assume the risk of guaranteed minimum income benefits (GMIB) and guaranteed minimum accumulation benefits (GMAB) associated with variable annuity contracts. The GMIB risk is triggered if, at the time the contract holder elects to convert the accumulated account value to a periodic payment stream (annuitize), the accumulated account value is not sufficient to provide a guaranteed minimum level of monthly income. The GMAB risk is triggered if, at contract maturity, the contract holder's account value is less than a guaranteed minimum value. Our GLB reinsurance product meets the definition of a derivative for accounting purposes and is carried at fair value with changes in fair value recognized in income and classified as described below. As the assuming entity, we are obligated to provide coverage until the earlier of the expiration of the underlying guaranteed benefit or the treaty expiration date. Premiums received under the reinsurance treaties are classified as premium. Expected losses allocated to premiums received are classified as policy benefits and valued similar to GMDB reinsurance. Other changes in fair value, principally arising from changes in expected losses allocated to expected future premiums, are classified as Net realized gains (losses). Fair value represents management's estimate of exit price and thus includes a risk margin. We may recognize a realized loss for other changes in fair value due to adverse changes in the capital markets (i.e., declining interest rates and/or declining equity markets) and changes in policyholder behavior (i.e., increased annuitization or decreased lapse rates) although we expect the business to be profitable. We believe this presentation provides the most meaningful disclosure of changes in the underlying risk within the GLB reinsurance programs for a given reporting period. Refer to Note 5 c) for additional information.

k) Deposit assets and liabilities

Deposit assets arise from ceded reinsurance contracts purchased that do not transfer significant underwriting or timing risk. Under deposit accounting, consideration received or paid, excluding non-refundable fees, is recorded as a deposit asset or liability in the balance sheet as opposed to recording premiums and losses in the statement of operations. Interest income on deposits, representing the consideration received or to be received in excess of cash payments related to the deposit contract, is earned based on an effective yield calculation. The calculation of the effective yield is based on the amount and timing of actual cash flows at the balance sheet date and the estimated amount and timing of future cash flows. The effective yield is recalculated periodically to reflect revised estimates of cash flows. When a change in the actual or estimated cash flows occurs, the resulting change to the carrying amount of the deposit asset is reported as income or expense. Deposit assets of $100 million and $138 million at December 31, 2013 and 2012, respectively, are reflected in Other assets in the consolidated balance sheets and the accretion of deposit assets related to interest pursuant to the effective yield calculation is reflected in Net investment income in the consolidated statements of operations.

Non-refundable fees are earned based on contract terms. Non-refundable fees paid but unearned are reflected in Other assets in the consolidated balance sheets and earned fees are reflected in Other (income) expense in the consolidated statements of operations.

Deposit liabilities include reinsurance deposit liabilities of $131 million and $283 million and contract holder deposit funds of $699 million and $548 million at December 31, 2013 and 2012, respectively. Deposit liabilities are reflected in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets. The reinsurance deposit liabilities arise from contracts sold for which there is not a significant transfer of risk. At contract inception, the deposit liability equals net cash received. An accretion rate is established based on actuarial estimates whereby the deposit liability is increased to the estimated amount payable over the contract term. The deposit accretion rate is the rate of return required to fund expected future payment obligations. We periodically reassess the estimated ultimate liability and related expected rate of return. Changes to the deposit liability are generally reflected through Interest expense to reflect the cumulative effect of the period the contract has been in force, and by an adjustment to the future accretion rate of the liability over the remaining estimated contract term.

Contract holder deposit funds represent a liability for investment contracts sold that do not meet the definition of an insurance contract, and certain of these contracts are sold with a guaranteed rate of return. The liability equals accumulated policy account values, which consist of the deposit payments plus credited interest less withdrawals and amounts assessed through the end of the period.

l) Foreign currency remeasurement and translation
The functional currency for each of our foreign operations is generally the currency of the local operating environment. Transactions in currencies other than a foreign operation's functional currency are remeasured into the functional currency and the resulting foreign exchange gains and losses are reflected in Net realized gains (losses) in the consolidated statements of operations. Functional currency assets and liabilities are translated into the reporting currency, U.S. dollars, using period end exchange rates and the related translation adjustments are recorded as a separate component of AOCI. Functional statement of operations amounts expressed in functional currencies are translated using average exchange rates.

m) Administrative expenses
Administrative expenses generally include all operating costs other than policy acquisition costs. The Insurance - North American P&C segment manages and uses an in-house third-party claims administrator, ESIS Inc. (ESIS). ESIS performs claims management and risk control services for domestic and international organizations that self-insure P&C exposures as well as internal P&C exposures. The net operating results of ESIS are included within Administrative expenses in the consolidated statements of operations and were $25 million, $23 million, and $21 million for the years ended December 31, 2013, 2012, and 2011, respectively.

n) Income taxes
Income taxes have been recorded related to those operations subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of our assets and liabilities. Refer to Note 8 for additional information. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. The valuation allowance assessment considers tax planning strategies, where applicable.

We recognize uncertain tax positions deemed more likely than not of being sustained upon examination. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

o) Earnings per share
Basic earnings per share is calculated using the weighted-average shares outstanding including participating securities with non-forfeitable rights to dividends such as unvested restricted stock. All potentially dilutive securities including stock options are excluded from the basic earnings per share calculation. In calculating diluted earnings per share, the weighted-average shares outstanding is increased to include all potentially dilutive securities. Basic and diluted earnings per share are calculated by dividing Net income by the applicable weighted-average number of shares outstanding during the year.

p) Cash flow information
Premiums received and losses paid associated with the GLB reinsurance products, which as discussed previously meet the definition of a derivative instrument for accounting purposes, are included within Cash flows from operating activities. Cash flows, such as settlements and collateral requirements, associated with GLB and all other derivative instruments are included on a net basis within Cash flows from investing activities. Purchases, sales, and maturities of short-term investments are recorded on a net basis within Cash flows from investing activities.

q) Derivatives
ACE recognizes all derivatives at fair value in the consolidated balance sheets and participates in derivative instruments in two principal ways:

- To sell protection to customers as an insurance or reinsurance contract that meets the definition of a derivative for accounting purposes. For 2013 and 2012, the reinsurance of GLBs was our primary product falling into this category; and
- To mitigate financial risks, principally arising from investment holdings, products sold, or assets and liabilities held in foreign currencies. For these instruments, changes in assets or liabilities measured at fair value are recorded as realized gains or losses in the consolidated statement of operations.

We did not designate any derivatives as accounting hedges during 2013, 2012, or 2011.

r) Share-based compensation
ACE measures and records compensation cost for all share-based payment awards at grant-date fair value. Compensation costs are recognized for share-based payment awards with only service conditions that have graded vesting schedules on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. Refer to Note 12 for additional information.

2. Acquisitions

PT Asuransi Jaya Proteksi
We 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. JaPro is one of Indonesia's leading general insurers offering personal lines and commercial coverages. This acquisition diversifies our existing business in Indonesia. The total purchase price for 100 percent of the company was approximately $107 million in cash. JaPro operates in our Insurance - Overseas General segment.

Fianzas Monterrey
On April 1, 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, for approximately $293 million in cash. This acquisition expands our global franchise in the surety business and enhances our existing commercial lines and personal accident insurance business in Mexico.

The acquisition generated $135 million of goodwill, attributable to expected growth and profitability, none of which is expected to be deductible for income tax purposes, and other intangible assets of $73 million, based on ACE's purchase price allocation. The other intangible assets primarily relate to customer lists. Amortization of other intangible assets is included in Other (income) expense in the consolidated statements of operations. Goodwill and other intangible assets arising from this acquisition are included in the Insurance - Overseas General segment.

ABA Seguros
On May 2, 2013, we acquired ABA Seguros, a property and casualty insurer in Mexico that provides automobile, homeowners, and small business coverages for approximately $690 million in cash.

The acquisition generated $283 million of goodwill, attributable to expected growth and profitability, none of which is expected to be deductible for income tax purposes, and other intangible assets of $140 million based on ACE’s purchase price allocation. The other intangible assets primarily relate to distribution channels. Amortization of other intangible assets is included in Other (income) expense in the consolidated statements of operations. Goodwill and other intangible assets arising from this acquisition are included in the Insurance - Overseas General segment.

To be acquired after 2013
On January 12, 2014, we announced that we and our local partner have reached a conditional agreement to purchase a 60.9 percent ownership in The Siam Commercial Samaggi Insurance PCL (Samaggi), a general insurance company in Thailand, from Siam Commercial Bank. This transaction, which is subject to approvals and other customary closing conditions, including Siam Commercial Bank shareholder approval, is expected to be completed in the second quarter of 2014. On the closing of this transaction, in compliance with Thai regulations, we and our local partner will make a mandatory tender offer for the remaining 39.1 percent ownership of Samaggi on the same terms. The implied purchase price for 100 percent of the company is approximately $185 million in cash.

Prior year acquisitions
We acquired New York Life's Korea operations on February 1, 2011 and New York Life's Hong Kong operations on April 1, 2011 for approximately $450 million in cash. These acquired businesses operate in our Life segment, expand our presence in the North Asia market, and complement our life insurance business established in that region. The acquisition generated $91 million of goodwill, none of which is expected to be deductible for income tax purposes, and $163 million of intangible assets. The most significant intangible asset is VOBA.

We acquired Penn Millers Holding Corporation (PMHC) on November 30, 2011 for approximately $107 million in cash. PMHC's primary insurance subsidiary, Penn Millers Insurance Company (Penn Millers), is a well-established underwriter in the agribusiness market since 1887. PMHC operates in our Insurance - North American Agriculture segment.

We acquired Rio Guayas Compania de Seguros y Reaseguros (Rio Guayas), a general insurance company in Ecuador on December 28, 2011 for approximately $65 million in cash. Rio Guayas sells a range of insurance products, including automobile, life, property, and A&H. The acquisition of Rio Guayas helped expand our Latin America capabilities in terms of geography, products, and distribution. Rio Guayas operates in our Insurance - Overseas General segment.

The consolidated financial statements include results of acquired businesses from the acquisition dates.

3. Investments

a) Fixed maturities

December 31, 2013 (in millions of U.S. dollars)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	OTTI Recognized in AOCI
Available for sale					
U.S. Treasury and agency	$ 2,946	$ 62	$ (59)	$ 2,949	$ -
Foreign	14,336	377	(122)	14,591	-
Corporate securities	16,825	777	(132)	17,470	(6)
Mortgage-backed securities	10,937	184	(227)	10,894	(34)
States, municipalities, and political subdivisions	3,362	65	(77)	3,350	-
	$ 48,406	$ 1,465	$ (617)	$ 49,254	$ (40)
Held to maturity					
U.S. Treasury and agency	$ 820	$ 16	$ (4)	$ 832	$ -
Foreign	864	33	-	897	-
Corporate securities	1,922	83	-	2,005	-
Mortgage-backed securities	1,341	39	(1)	1,379	-
States, municipalities, and political subdivisions	1,151	16	(17)	1,150	-
	$ 6,098	$ 187	$ (22)	$ 6,263	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

December 31, 2012 (in millions of U.S. dollars)		Amortized Cost		Gross Unrealized Appreciation		Gross Unrealized Depreciation		Fair Value		OTTI Recognized in AOCI
Available for sale										
U.S. Treasury and agency	$	3,553	$	183	$	(1)	$	3,735	$	-
Foreign		13,016		711		(14)		13,713		-
Corporate securities		15,529		1,210		(31)		16,708		(7)
Mortgage-backed securities		10,051		458		(36)		10,473		(84)
States, municipalities, and political subdivisions		2,517		163		(3)		2,677		-
	$	44,666	$	2,725	$	(85)	$	47,306	$	(91)
Held to maturity										
U.S. Treasury and agency	$	1,044	$	39	$	-	$	1,083	$	-
Foreign		910		54		-		964		-
Corporate securities		2,133		142		-		2,275		-
Mortgage-backed securities		2,028		88		-		2,116		-
States, municipalities, and political subdivisions		1,155		44		(4)		1,195		-
	$	7,270	$	367	$	(4)	$	7,633	$	-

As discussed in Note 3 c), if a credit loss is indicated on an impaired fixed maturity, an OTTI is considered to have occurred and the portion of the impairment not related to credit losses (non-credit OTTI) is recognized in OCI. Included in the “OTTI Recognized in AOCI” columns above are the cumulative amounts of non-credit OTTI recognized in OCI adjusted for subsequent sales, maturities, and redemptions. OTTI recognized in AOCI does not include the impact of subsequent changes in fair value of the related securities. In periods subsequent to a recognition of OTTI in OCI, changes in the fair value of the related fixed maturities are reflected in Unrealized appreciation (depreciation) in the consolidated statement of shareholders' equity. For the years ended December 31, 2013 and 2012, $25 million and $137 million of net unrealized appreciation, respectively, related to such securities is included in OCI. At December 31, 2013 and 2012, AOCI includes cumulative net unrealized depreciation of $4 million and $25 million, respectively, related to securities remaining in the investment portfolio at those dates for which ACE has recognized a non-credit OTTI.

Mortgage-backed securities (MBS) issued by U.S. government agencies are combined with all other to be announced mortgage derivatives held (refer to Note 10 a) (iv)) and are included in the category, “Mortgage-backed securities”. Approximately 83 percent and 85 percent, of the total mortgage-backed securities at December 31, 2013 and 2012, respectively, are represented by investments in U.S. government agency bonds. The remainder of the mortgage exposure consists of collateralized mortgage obligations and non-government mortgage-backed securities, the majority of which provide a planned structure for principal and interest payments and carry a rating of AAA by the major credit rating agencies.

The following table presents fixed maturities by contractual maturity:

		December 31 2013		December 31 2012
(in millions of U.S. dollars)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
Due in 1 year or less	$ 2,387	$ 2,411	$ 1,887	$ 1,906
Due after 1 year through 5 years	14,139	14,602	13,411	14,010
Due after 5 years through 10 years	16,200	16,535	15,032	16,153
Due after 10 years	4,743	4,812	4,285	4,764
	37,469	38,360	34,615	36,833
Mortgage-backed securities	10,937	10,894	10,051	10,473
	$ 48,406	$ 49,254	$ 44,666	$ 47,306
Held to maturity				
Due in 1 year or less	$ 401	$ 405	$ 656	$ 659
Due after 1 year through 5 years	2,284	2,363	1,870	1,950
Due after 5 years through 10 years	1,686	1,723	2,119	2,267
Due after 10 years	386	393	597	641
	4,757	4,884	5,242	5,517
Mortgage-backed securities	1,341	1,379	2,028	2,116
	$ 6,098	$ 6,263	$ 7,270	$ 7,633

Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

b) Equity securities

(in millions of U.S. dollars)	December 31 2013	December 31 2012
Cost	$ 841	$ 707
Gross unrealized appreciation	63	41
Gross unrealized depreciation	(67)	(4)
Fair value	$ 837	$ 744

c) Net realized gains (losses)
In accordance with guidance related to the recognition and presentation of OTTI, when an impairment related to a fixed maturity has occurred, OTTI is required to be recorded in Net income if management has the intent to sell the security or it is more likely than not that we will be required to sell the security before the recovery of its amortized cost. Further, in cases where we do not intend to sell the security and it is more likely than not that we will not be required to sell the security, ACE must evaluate the security to determine the portion of the impairment, if any, related to credit losses. If a credit loss is indicated, an OTTI is considered to have occurred and any portion of the OTTI related to credit losses must be reflected in Net income while the portion of OTTI related to all other factors is recognized in OCI. For fixed maturities held to maturity, OTTI recognized in OCI is accreted from AOCI to the amortized cost of the fixed maturity prospectively over the remaining term of the securities.

Each quarter, securities in an unrealized loss position (impaired securities), including fixed maturities, securities lending collateral, equity securities, and other investments, are reviewed to identify impaired securities to be specifically evaluated for a potential OTTI.

For all non-fixed maturities, OTTI is evaluated based on the following:

- the amount of time a security has been in a loss position and the magnitude of the loss position;
- the period in which cost is expected to be recovered, if at all, based on various criteria including economic conditions and other issuer-specific developments; and
- ACE's ability and intent to hold the security to the expected recovery period.

As a general rule, we also consider that equity securities in an unrealized loss position for twelve consecutive months are other than temporarily impaired.

Evaluation of potential credit losses related to fixed maturities
We review each fixed maturity in an unrealized loss position to assess whether the security is a candidate for credit loss. Specifically, we consider credit rating, market price, and issuer-specific financial information, among other factors, to assess the likelihood of collection of all principal and interest as contractually due. Securities for which we determine that credit loss is likely are subjected to further analysis to estimate the credit loss recognized in Net income, if any. In general, credit loss recognized in Net income equals the difference between the security's amortized cost and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security. All significant assumptions used in determining credit losses are subject to change as market conditions evolve.

U.S. Treasury and agency obligations (including agency mortgage-backed securities), foreign government obligations, and states, municipalities, and political subdivisions obligations
U.S. Treasury and agency obligations (including agency mortgage-backed securities), foreign government obligations, and states, municipalities, and political subdivisions obligations represent less than $425 million of gross unrealized loss at December 31, 2013. These securities were evaluated for credit loss primarily using qualitative assessments of the likelihood of credit loss considering credit rating of the issuers and level of credit enhancement, if any. ACE concluded that the high level of creditworthiness of the issuers coupled with credit enhancement, where applicable, supports recognizing no credit loss in net income.

Corporate securities
Projected cash flows for corporate securities (principally senior unsecured bonds) are driven primarily by assumptions regarding probability of default and also the timing and amount of recoveries associated with defaults. ACE developed projected cash flows for corporate securities (principally senior unsecured bonds) using market observable data, issuer-specific information, and credit ratings. We use historical default data by Moody's Investors Service (Moody's) rating category to calculate a 1-in-100 year probability of default, which results in a default assumption in excess of the historical mean default rate. Consistent with management's approach, ACE assumed a 32 percent recovery rate (the par value of a defaulted security that will be recovered) across all rating categories rather than using Moody's historical mean recovery rate of 42 percent. We believe that use of a default assumption in excess of the historical mean is conservative in light of current market conditions.

The following table presents default assumptions by Moody's rating category (historical mean default rate provided for comparison):

Moody's Rating Category	1-in-100 Year Default Rate	Historical Mean Default Rate
Investment Grade:		
Aaa-Baa	0.0-1.4%	0.0-0.3%
Below Investment Grade:		
Ba	4.9%	1.1%
B	12.8%	3.4%
Caa-C	53.2%	13.8%

Application of the methodology and assumptions described above resulted in credit losses recognized in Net income for corporate securities of $11 million, $14 million, and $9 million for the years ended December 31, 2013, 2012, and 2011, respectively.

Mortgage-backed securities
For mortgage-backed securities, credit impairment is assessed using a cash flow model that estimates the cash flows on the underlying mortgages, using the security-specific collateral and transaction structure. The model estimates cash flows from the underlying mortgage loans and distributes those cash flows to various tranches of securities, considering the transaction structure and any subordination and credit enhancements that exist in that structure. The cash flow model incorporates actual cash flows on the mortgage-backed securities through the current period and then projects the remaining cash flows using a number of assumptions, including default rates, prepayment rates, and loss severity rates (the par value of a defaulted security that will not be recovered) on foreclosed properties.

ACE develops specific assumptions using market data, where available, and includes internal estimates as well as estimates published by rating agencies and other third-party sources. ACE projects default rates by mortgage sector considering current underlying mortgage loan performance, generally assuming lower loss severity for Prime sector bonds versus ALT-A and Sub-prime bonds.

These estimates are extrapolated along a default timing curve to estimate the total lifetime pool default rate. Other assumptions used contemplate the actual collateral attributes, including geographic concentrations, rating agency loss projections, rating actions, and current market prices. If cash flow projections indicate that losses will exceed the credit enhancement for a given tranche, then we do not expect to recover our amortized cost basis and we recognize an estimated credit loss in Net income.

Application of the methodology and assumptions described above resulted in credit losses recognized in Net income for mortgage-backed securities of $1 million, $6 million, and $11 million for the years ended December 31, 2013, 2012, and 2011, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

The following table presents the Net realized gains (losses) and the losses included in Net realized gains (losses) and OCI as a result of conditions which caused us to conclude the decline in fair value of certain investments was "other-than-temporary" and the change in net unrealized appreciation (depreciation) of investments:

	Years Ended December 31		
(in millions of U.S. dollars)	**2013**	2012	2011
Fixed maturities:			
OTTI on fixed maturities, gross	**$ (18)**	$ (26)	$ (61)
OTTI on fixed maturities recognized in OCI (pre-tax)	**-**	1	15
OTTI on fixed maturities, net	**(18)**	(25)	(46)
Gross realized gains excluding OTTI	**237**	388	410
Gross realized losses excluding OTTI	**(129)**	(133)	(200)
Total fixed maturities	**90**	230	164
Equity securities:			
OTTI on equity securities	**(2)**	(5)	(1)
Gross realized gains excluding OTTI	**21**	11	15
Gross realized losses excluding OTTI	**(4)**	(2)	(5)
Total equity securities	**15**	4	9
OTTI on other investments	**(2)**	(7)	(3)
Foreign exchange gains (losses)	**29**	(16)	(13)
Investment and embedded derivative instruments	**78**	(6)	(143)
Fair value adjustments on insurance derivative	**878**	171	(779)
S&P put options and futures	**(579)**	(297)	(4)
Other derivative instruments	**(2)**	(4)	(4)
Other	**(3)**	3	(22)
Net realized gains (losses)	**504**	78	(795)
Change in net unrealized appreciation (depreciation) on investments:			
Fixed maturities available for sale	**(1,798)**	1,099	569
Fixed maturities held to maturity	**(82)**	(94)	(89)
Equity securities	**(41)**	61	(47)
Other	**54**	50	40
Income tax (expense) benefit	**408**	(198)	(157)
Change in net unrealized appreciation (depreciation) on investments	**(1,459)**	918	316
Total net realized gains (losses) and change in net unrealized appreciation (depreciation) on investments	**$ (955)**	$ 996	$ (479)

The following table presents a roll-forward of pre-tax credit losses related to fixed maturities for which a portion of OTTI was recognized in OCI:

(in millions of U.S. dollars)	Years Ended December 31 2013	2012	2011
Balance of credit losses related to securities still held - beginning of year	**$ 43**	$ 74	$ 137
Additions where no OTTI was previously recorded	**9**	8	12
Additions where an OTTI was previously recorded	**3**	12	8
Reductions for securities sold during the period	**(18)**	(51)	(83)
Balance of credit losses related to securities still held - end of year	**$ 37**	$ 43	$ 74

d) Other investments

(in millions of U.S. dollars)	December 31 2013 Fair Value	Cost	December 31 2012 Fair Value	Cost
Investment funds	**$ 428**	**$ 278**	$ 395	$ 278
Limited partnerships	**576**	**424**	531	398
Partially-owned investment companies	**1,284**	**1,284**	1,186	1,187
Life insurance policies	**180**	**180**	148	148
Policy loans	**179**	**179**	164	164
Trading securities	**276**	**273**	243	242
Other	**53**	**53**	49	48
Total	**$ 2,976**	**$ 2,671**	$ 2,716	$ 2,465

Investment funds include one highly diversified fund investment as well as several direct funds that employ a variety of investment styles such as long/short equity and arbitrage/distressed. Included in limited partnerships and partially-owned investment companies are 62 individual limited partnerships covering a broad range of investment strategies including large cap buyouts, specialist buyouts, growth capital, distressed, mezzanine, real estate, and co-investments. The underlying portfolio consists of various public and private debt and equity securities of publicly traded and privately held companies and real estate assets. The underlying investments across various partnerships, geographies, industries, asset types, and investment strategies provide risk diversification within the limited partnership portfolio and the overall investment portfolio. Trading securities comprise $246 million of mutual funds supported by assets that do not qualify for separate account reporting under GAAP at December 31, 2013 compared with $212 million at December 31, 2012. Trading securities also includes assets held in rabbi trusts of $23 million of equity securities and $7 million of fixed maturities at December 31, 2013, compared with $23 million of equity securities and $8 million of fixed maturities at December 31, 2012.

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e) Investments in partially-owned insurance companies

	December 31 2013			December 31 2012&bbsp;			
(in millions of U.S. dollars, except percentages)	Carrying Value	Issued Share Capital	Ownership Percentage	Carrying Value	Issued Share Capital	Ownership Percentage	Domicile
Huatai Group	$ 365	$ 631	20.0%	$ 350	$ 474	20.0%	China
Huatai Life Insurance Company	84	379	20.0%	84	205	20.0%	China
Freisenbruch-Meyer	9	5	40.0%	9	5	40.0%	Bermuda
ACE Cooperative Insurance Co. - Saudi Arabia	10	27	30.0%	9	27	30.0%	Saudi Arabia
Russian Reinsurance Company	2	4	23.3%	2	4	23.3%	Russia
Total	$ 470	$ 1,046		$ 454	$ 715		

Huatai Group and Huatai Life Insurance Company provide a range of P&C, life, and investment products.

f) Gross unrealized loss

At December 31, 2013, there were 6,161 fixed maturities out of a total of 25,062 fixed maturities in an unrealized loss position. The largest single unrealized loss in the fixed maturities was $6 million. There were 71 equity securities out of a total of 185 equity securities in an unrealized loss position. The largest single unrealized loss in the equity securities was $58 million. Fixed maturities in an unrealized loss position at December 31, 2013, comprised both investment grade and below investment grade securities for which fair value declined primarily due to widening credit spreads since the date of purchase. Equity securities in an unrealized loss position at December 31, 2013, included foreign fixed income securities held in a commingled fund structure for which fair value declined primarily due to widening credit spreads since the date of purchase.

The following tables present, for all securities in an unrealized loss position (including securities on loan), the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

December 31, 2013	0 - 12 Months		Over 12 Months		Total	
(in millions of U.S. dollars)	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
U.S. Treasury and agency	$ 1,794	$ (57)	$ 31	$ (6)	$ 1,825	$ (63)
Foreign	4,621	(114)	201	(8)	4,822	(122)
Corporate securities	3,836	(118)	194	(14)	4,030	(132)
Mortgage-backed securities	5,248	(197)	384	(31)	5,632	(228)
States, municipalities, and political subdivisions	2,164	(90)	84	(4)	2,248	(94)
Total fixed maturities	17,663	(576)	894	(63)	18,557	(639)
Equity securities	498	(67)	-	-	498	(67)
Other investments	67	(9)	-	-	67	(9)
Total	$ 18,228	$ (652)	$ 894	$ (63)	$ 19,122	$ (715)

December 31, 2012 (in millions of U.S. dollars)	0 - 12 Months Fair Value	0 - 12 Months Gross Unrealized Loss	Over 12 Months Fair Value	Over 12 Months Gross Unrealized Loss	Total Fair Value	Total Gross Unrealized Loss
U.S. Treasury and agency	$ 440	$ (1)	$ -	$ -	$ 440	$ (1)
Foreign	1,234	(8)	88	(6)	1,322	(14)
Corporate securities	1,026	(23)	85	(8)	1,111	(31)
Mortgage-backed securities	855	(4)	356	(32)	1,211	(36)
States, municipalities, and political subdivisions	316	(3)	48	(4)	364	(7)
Total fixed maturities	3,871	(39)	577	(50)	4,448	(89)
Equity securities	29	(4)	-	-	29	(4)
Other investments	68	(5)	-	-	68	(5)
Total	$ 3,968	$ (48)	$ 577	$ (50)	$ 4,545	$ (98)

g) Net investment income

(in millions of U.S. dollars)	Years Ended December 31 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

h) Restricted assets
ACE is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. The assets on deposit are available to settle insurance and reinsurance liabilities. ACE is also required to restrict assets pledged under repurchase agreements. We also use trust funds in certain large reinsurance transactions where the trust funds are set up for the benefit of the ceding companies and generally take the place of letter of credit (LOC) requirements. We also have investments in segregated portfolios primarily to provide collateral or guarantees for LOC and derivative transactions. Included in restricted assets at December 31, 2013 and 2012, are investments, primarily fixed maturities, totaling $16.3 billion and $16.6 billion, respectively, and cash of $162 million and $139 million, respectively.

The following table presents the components of restricted assets:

(in millions of U.S. dollars)	**December 31 2013**	December 31 2012
Trust funds	**$ 11,315**	$ 11,389
Deposits with non-U.S. regulatory authorities	**1,970**	2,133
Assets pledged under repurchase agreements	**1,435**	1,401
Deposits with U.S. regulatory authorities	**1,334**	1,338
Other pledged assets	**391**	456
	$ 16,445	$ 16,717

4. Fair value measurements

a) Fair value hierarchy

Fair value of financial assets and financial liabilities is estimated based on the framework established in the fair value accounting guidance. The 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 and the lowest priority to unobservable data.

The three levels of the hierarchy are as follows:

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 - Includes, among other items, inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves, quoted prices for similar assets and liabilities in active markets, and quoted prices for identical or similar assets and liabilities in markets that are not active; and
- Level 3 - Inputs that are unobservable and reflect management's 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.

We use pricing services to obtain fair value measurements for the majority of our investment securities. Based on management's understanding of the methodologies used, these 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 the pricing services, all applicable investments have been valued in accordance with GAAP. We do not typically adjust prices obtained from pricing services. The following is a description of the valuation techniques and inputs used to determine fair values for financial instruments carried at fair value, as well as the general classification of such financial instruments pursuant to the valuation hierarchy.

Fixed maturities

We use pricing services to estimate fair value measurements for the majority of our fixed maturities. The pricing services use market quotations for fixed maturities that have quoted prices in active markets; such securities are classified within Level 1. For fixed maturities other than U.S. Treasury securities that generally do not trade on a daily basis, the pricing services prepare estimates of fair value measurements using their pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additional valuation factors that can be taken into account are nominal spreads, dollar basis, and liquidity adjustments. The pricing services evaluate each asset class based on relevant market and credit information, perceived market movements, and sector news. The market inputs used in the pricing evaluation, listed in the approximate order of priority include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each input is dependent on the asset class and the market conditions. Given the asset class, the priority of the use of inputs may change or some market inputs may not be relevant. 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. The overwhelming majority of fixed maturities are classified within Level 2 because the most significant inputs used in the pricing techniques are observable. 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.

Equity securities

Equity securities with active markets are classified within Level 1 as fair values are based on quoted market prices. For equity securities in markets which are less active, fair values are based on market valuations and are classified within Level 2. Equity securities for which pricing is unobservable are classified within Level 3.

Short-term investments
Short-term investments, which comprise securities due to mature within one year of the date of purchase that are traded in active markets, are classified within Level 1 as fair values are based on quoted market prices. Securities such as commercial paper and discount notes are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates fair value. Short-term investments for which pricing is unobservable are classified within Level 3.

Other investments
Fair values for the majority of Other investments including investments in partially-owned investment companies, investment funds, and limited partnerships are based on their respective net asset values or equivalent (NAV). The majority of these investments, for which NAV was used as a practical expedient to measure fair value, are classified within Level 3 because either ACE will never have the contractual option to redeem the investments or will not have the contractual option to redeem the investments in the near term. The remainder of such investments is classified within Level 2. Certain of our long-duration contracts are supported by assets that do not qualify for separate account reporting under GAAP. These assets comprise mutual funds classified within Level 1 in the valuation hierarchy on the same basis as other equity securities traded in active markets. Other investments also includes equity securities and fixed maturities held in rabbi trusts maintained by ACE for deferred compensation plans, which are classified within the valuation hierarchy on the same basis as other equity securities and fixed maturities.

Securities lending collateral
The underlying assets included in Securities lending collateral in the consolidated balance sheets are fixed maturities which are classified in the valuation hierarchy on the same basis as other fixed maturities. Excluded from the valuation hierarchy is the corresponding liability related to ACE's obligation to return the collateral plus interest as it is reported at contract value and not fair value in the consolidated balance sheets.

Investment derivative instruments
Actively traded investment derivative instruments, including futures, options, and forward contracts are classified within Level 1 as fair values are based on quoted market prices. The fair value of cross-currency swaps are based on market valuations and are classified within Level 2. Investment derivative instruments are recorded in either Other assets or Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets.

Other derivative instruments
We maintain positions in other derivative instruments including exchange-traded equity futures contracts and option contracts designed to limit exposure to a severe equity market decline, which would cause an increase in expected claims and, therefore, reserves for our guaranteed minimum death benefits (GMDB) and guaranteed living benefits (GLB) reinsurance business. Our position in exchange-traded equity futures contracts is classified within Level 1. The fair value of the majority of the remaining positions in other derivative instruments is based on significant observable inputs including equity security and interest rate indices. Accordingly, these are classified within Level 2. Our position in credit default swaps is typically included within Level 3. Other derivative instruments are recorded in either Other assets or Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets.

Separate account assets
Separate account assets represent segregated funds where investment risks are borne by the customers, except to the extent of certain guarantees made by ACE. Separate account assets comprise mutual funds classified in the valuation hierarchy on the same basis as other equity securities traded in active markets and are classified within Level 1. Separate account assets also include fixed maturities classified within Level 2 because the most significant inputs used in the pricing techniques are observable. Excluded from the valuation hierarchy are the corresponding liabilities as they are reported at contract value and not fair value in the consolidated balance sheets. Separate account assets are recorded in Other assets in the consolidated balance sheets.

Guaranteed living benefits
The GLB arises from life reinsurance programs covering living benefit guarantees whereby we assume the risk of guaranteed minimum income benefits (GMIB) and guaranteed minimum accumulation benefits (GMAB) associated with variable annuity contracts. GLB's are recorded in Accounts payable, accrued expenses, and other liabilities and Future policy benefits in the consolidated balance sheets. For GLB reinsurance, ACE estimates fair value using an internal valuation model which includes current market information and estimates of policyholder behavior. All of the treaties contain claim limits, which are factored into the valuation model. The fair value depends on a number of inputs, including changes in interest rates, changes in equity markets, credit risk, current account value, changes in market volatility, expected annuitization rates, changes in policyholder behavior, and changes in policyholder mortality.

The most significant policyholder behavior assumptions include lapse rates and the GMIB annuitization rates. Assumptions regarding lapse rates and GMIB annuitization rates differ by treaty, but the underlying methodologies to determine rates applied to each treaty are comparable. The assumptions regarding lapse and GMIB annuitization rates determined for each treaty are based on a dynamic calculation that uses several underlying factors.

A lapse rate is the percentage of in-force policies surrendered in a given calendar year. All else equal, as lapse rates increase, ultimate claim payments will decrease. In general, the base lapse function assumes low lapse rates (ranging from about 1 percent to 6 percent per annum) during the surrender charge period of the GMIB contract, followed by a "spike" lapse rate (ranging from about 10 percent to 30 percent per annum) in the year immediately following the surrender charge period, and then reverting to an ultimate lapse rate (generally around 10 percent per annum), typically over a 2-year period. This base rate is adjusted downward for policies with more valuable guarantees (policies with guaranteed values far in excess of their account values) by multiplying the base lapse rate by a factor ranging from 8 percent to 68 percent. Additional lapses due to partial withdrawals and older policyholders with tax-qualified contracts (due to required minimum distributions) are also included.

GMIB annuitization rate is the percentage of policies for which the policyholder will elect to annuitize using the guaranteed benefit provided under the GMIB. All else equal, as GMIB annuitization rates increase, ultimate claim payments will increase, subject to treaty claim limits. All GMIB reinsurance treaties include claim limits to protect ACE in the event that actual annuitization behavior is significantly higher than expected. In general, ACE assumes that GMIB annuitization rates will be higher for policies with more valuable guarantees (policies with guaranteed values far in excess of their account values). In addition, we also assume that GMIB annuitization rates are higher in the first year immediately following the waiting period (the first year the policies are eligible to annuitize using the GMIB) in comparison to all subsequent years. We do not yet have fully credible annuitization experience for all clients.

- For clients representing about 37 percent of the total GMIB guaranteed value, we have credible annuitization experience for both the first year and also subsequent years of GMIB eligibility. The annuitization function reflects the actual experience: the maximum annuitization rates for the first year of GMIB eligibility vary from 7 percent to 12 percent per annum; the maximum annuitization rates for subsequent years of GMIB eligibility vary from 7 percent to 10 percent per annum.
- For clients representing about 37 percent of the total GMIB guaranteed value, we have credible annuitization experience only for the first year of GMIB eligibility. The annuitization function reflects the actual experience for the first year only: the maximum annuitization rates for the first year of GMIB eligibility vary from 14 percent to 55 percent per annum. The annuitization function for subsequent years of GMIB eligibility is a weighted average (with a heavier weighting on credible experience from other clients) of three different annuitization functions with maximum per annum annuitization rates of 7 percent, 15 percent, and 30 percent.
- For clients representing about 26 percent of the total GMIB guaranteed value, we do not have any credible annuitization experience. The annuitization function for the first year of GMIB eligibility is a weighted average (with a heavier weighting on credible observed experience from other clients) of three different annuitization functions with maximum per annum annuitization rates of 7 percent, 15 percent, and 55 percent. For subsequent years of GMIB eligibility, these three functions have maximum per annum annuitization rates of 7 percent, 12 percent, and 30 percent.

The effect of changes in key market factors on assumed lapse and annuitization rates reflect emerging trends using data available from cedants. For treaties with limited experience, rates are established in line with data received from other ceding companies adjusted, as appropriate, with industry estimates. 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 information, such as market conditions, market participant assumptions, and demographics of in-force annuities.

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 now 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 assumptions, the most significant of which was a reduction in lapses for most large, in-the-money, GMIB policies. The change in lapse assumptions increased the fair value of GLB liabilities and generated a realized loss of $104 million. We also made several adjustments to our annuitization assumptions, which generally lowered the utilization rates for most clients, while raising it for one client. The change in annuitization assumptions 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. Also, during the fourth quarter of 2013, we realized a gain of $92 million related to an out-of-period adjustment for an error in a market valuation model. We evaluated the quantitative and qualitative aspects of this correction and concluded that the impact of recognizing this adjustment is not material to the consolidated financial statements and all prior period consolidated financial statements.

For the years ended December 31, 2013, 2012, and 2011, we made minor technical refinements to the model with a favorable net income impact of approximately $9 million, $49 million, and $14 million, respectively.

We view the variable annuity reinsurance business as having a similar risk profile to that of catastrophe reinsurance, with the probability of a cumulative long-term economic net loss relatively small at the time of pricing. However, adverse changes in market factors and policyholder behavior will have an adverse impact on net income, which may be material. Because of the significant use of unobservable inputs including policyholder behavior, GLB reinsurance is classified within Level 3.

The following tables present, by valuation hierarchy, the financial instruments measured at fair value on a recurring basis:

December 31, 2013 (in millions of U.S. dollars)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities available for sale				
U.S. Treasury and agency	$ 1,626	$ 1,323	$ -	$ 2,949
Foreign	223	14,324	44	14,591
Corporate securities	-	17,304	166	17,470
Mortgage-backed securities	-	10,886	8	10,894
States, municipalities, and political subdivisions	-	3,350	-	3,350
	1,849	47,187	218	49,254
Equity securities	373	460	4	837
Short-term investments	953	803	7	1,763
Other investments	305	231	2,440	2,976
Securities lending collateral	-	1,632	-	1,632
Investment derivative instruments	19	-	-	19
Other derivative instruments	-	6	-	6
Separate account assets	1,145	81	-	1,226
Total assets measured at fair value	$ 4,644	$ 50,400	$ 2,669	$ 57,713
Liabilities:				
Investment derivative instruments	$ 6	$ -	$ -	$ 6
Other derivative instruments	60	2	-	62
GLB[(1)]	-	-	193	193
Total liabilities measured at fair value	$ 66	$ 2	$ 193	$ 261

(1) Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. Refer to Note 5 c) for additional information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

December 31, 2012 (in millions of U.S. dollars)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities available for sale				
U.S. Treasury and agency	$ 2,050	$ 1,685	$ -	$ 3,735
Foreign	222	13,431	60	13,713
Corporate securities	20	16,586	102	16,708
Mortgage-backed securities	-	10,460	13	10,473
States, municipalities, and political subdivisions	-	2,677	-	2,677
	2,292	44,839	175	47,306
Equity securities	253	488	3	744
Short-term investments	1,503	725	-	2,228
Other investments	268	196	2,252	2,716
Securities lending collateral	-	1,791	-	1,791
Investment derivative instruments	11	-	-	11
Other derivative instruments	(6)	30	-	24
Separate account assets	872	71	-	943
Total assets measured at fair value	$ 5,193	$ 48,140	$ 2,430	$ 55,763
Liabilities:				
GLB[1]	$ -	$ -	$ 1,119	$ 1,119

[1] Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. Refer to Note 5 c) for additional information.

The transfers from Level 1 to Level 2 were $19 million and there were no transfers from Level 2 to Level 1 during the year ended December 31, 2013. The transfers from Level 1 to Level 2 were $40 million and the transfers from Level 2 to Level 1 were $15 million during the year ended December 31, 2012. The transfers between Level 1 and Level 2 during the year ended December 31, 2011 were not material.

Fair value of alternative investments

Included in Other investments in the fair value hierarchy at December 31, 2013 and 2012 are investment funds, limited partnerships, and partially-owned investment companies measured at fair value using NAV as a practical expedient. At December 31, 2013, there were no probable or pending sales related to any of the investments measured at fair value using NAV.

The following table presents, by investment category, the expected liquidation period, fair value, and maximum future funding commitments of alternative investments:

		December 31 2013		December 31 2012	
(in millions of U.S. dollars)	Expected Liquidation Period of Underlying Assets	Fair Value	Maximum Future Funding Commitments	Fair Value	Maximum Future Funding Commitments
Financial	5 to 9 Years	$ 256	$ 129	$ 225	$ 111
Real estate	3 to 9 Years	322	92	292	62
Distressed	6 to 9 Years	180	230	192	152
Mezzanine	6 to 9 Years	276	252	284	279
Traditional	3 to 8 Years	813	456	711	587
Vintage	1 to 3 Years	13	-	14	-
Investment funds	Not Applicable	428	-	395	-
		$ 2,288	$ 1,159	$ 2,113	$ 1,191

Included in all categories in the above table except for Investment funds are investments for which ACE will never have the contractual option to redeem but receives distributions based on the liquidation of the underlying assets. Further, for all categories except for Investment funds, ACE does not have the ability to sell or transfer the investments without the consent from the general partner of individual funds.

Investment Category	Consists of investments in private equity funds:
Financial	targeting financial services companies such as financial institutions and insurance services worldwide
Real estate	targeting global distress opportunities, value added U.S. properties, and global mezzanine debt securities in the commercial real estate market
Distressed	targeting distressed debt/credit and equity opportunities in the U.S
Mezzanine	targeting private mezzanine debt of large-cap and mid-cap companies in the U.S. and worldwide
Traditional	employing traditional private equity investment strategies such as buyout and venture with different geographical focuses including Brazil, Asia, Europe, and the U.S.
Vintage	made before 2002 and where the funds' commitment periods had already expired

Investment funds

ACE's investment funds employ various investment strategies such as long/short equity and arbitrage/distressed. Included in this category are investments for which ACE has the option to redeem at agreed upon value as described in each investment fund's subscription agreement. Depending on the terms of the various subscription agreements, investment fund investments may be redeemed monthly, quarterly, semi-annually, or annually. If ACE wishes to redeem an investment fund investment, it must first determine if the investment fund is still in a lock-up period (a time when ACE cannot redeem its investment so that the investment fund manager has time to build the portfolio). If the investment fund is no longer in its lock-up period, ACE must then notify the investment fund manager of its intention to redeem by the notification date prescribed by the subscription agreement. Subsequent to notification, the investment fund can redeem ACE's investment within several months of the notification. Notice periods for redemption of the investment funds range between 5 and 120 days. ACE can redeem its investment funds without consent from the investment fund managers.

Level 3 financial instruments
The fair values of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) consist of various inputs and assumptions that management makes when determining fair value. Management analyzes changes in fair value measurements classified within Level 3 by comparing pricing and returns of our investments to benchmarks, including month-over-month movements, investment credit spreads, interest rate movements, and credit quality of securities.

The following table presents the significant unobservable inputs used in the Level 3 liability valuations. Excluded from the table below are inputs used to determine the fair value of Level 3 assets which are based on single broker quotes or net asset value and contain no quantitative unobservable inputs developed by management.

(in millions of U.S. dollars, except for percentages)		Fair Value at December 31, 2013	Valuation Technique	Significant Unobservable Inputs	Ranges
GLB[1]	$	193	**Actuarial model**	**Lapse rate**	**1% - 30%**
				Annuitization rate	**0% - 55%**

[1] Discussion of the most significant inputs used in the fair value measurement of GLB and the sensitivity of those assumptions is included within Note 4 a) Guaranteed living benefits.

The following tables present a reconciliation of the beginning and ending balances of financial instruments measured at fair value using significant unobservable inputs (Level 3):

							Assets	Liabilities
	Available-for-Sale Debt Securities							
Year Ended December 31, 2013 (in millions of U.S. dollars)	**Foreign**	**Corporate securities**	**MBS**	**Equity securities**	**Short-term investments**	**Other investments**		**GLB[1]**
Balance, beginning of year	$ 60	$ 102	$ 13	$ 3	$ -	$ 2,252		$ 1,119
Transfers into Level 3	36	47	-	8	8	-		-
Transfers out of Level 3	(54)	(31)	-	(1)	(2)	-		-
Change in Net Unrealized Gains (Losses) included in OCI	-	-	-	(6)	-	45		-
Net Realized Gains/Losses	1	(2)	-	4	-	(2)		(926)
Purchases	24	75	-	2	3	551		-
Sales	(21)	(7)	(3)	(6)	(1)	(10)		-
Settlements	(2)	(18)	(2)	-	(1)	(396)		-
Balance, end of year	$ 44	$ 166	$ 8	$ 4	$ 7	$ 2,440		$ 193
Net Realized Gains/Losses Attributable to Changes in Fair Value at the Balance Sheet Date	$ -	$ (2)	$ -	$ -	$ -	$ (2)		$ (926)

[1] Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. Refer to Note 5 c) for additional information.

Year Ended December 31, 2012 (in millions of U.S. dollars)	Available-for-Sale Debt Securities							Assets	Liabilities
	U.S. Treasury and Agency	Foreign	Corporate securities	MBS	States, municipalities, and political subdivisions	Equity securities	Other investments	Other derivative instruments	GLB[1]
Balance, beginning of year	$ 5	$ 33	$ 134	$ 28	$ 1	$ 13	$ 1,877	$ 3	$ 1,319
Transfers into Level 3	-	49	37	22	1	2	53	-	-
Transfers out of Level 3	(4)	(13)	(46)	(35)	(1)	(11)	-	-	-
Change in Net Unrealized Gains (Losses) included in OCI	-	(1)	6	-	-	-	55	-	-
Net Realized Gains/Losses	-	-	(1)	-	-	-	(7)	(4)	(200)
Purchases	-	46	24	9	-	4	520	3	-
Sales	-	(53)	(19)	(7)	-	(5)	(9)	-	-
Settlements	(1)	(1)	(33)	(4)	(1)	-	(237)	(2)	-
Balance, end of year	$ -	$ 60	$ 102	$ 13	$ -	$ 3	$ 2,252	$ -	$ 1,119
Net Realized Gains/Losses Attributable to Changes in Fair Value at the Balance Sheet Date	$ -	$ -	$ -	$ -	$ -	$ -	$ (7)	$ -	$ (200)

(1) Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. The liability for GLB reinsurance was $1.4 billion at December 31, 2012 and $1.5 billion at December 31, 2011, which includes a fair value derivative adjustment of $1.1 billion and $1.3 billion, respectively.

Year Ended December 31, 2011 (in millions of U.S. dollars)	Available-for-Sale Debt Securities							Assets	Liabilities
	U.S. Treasury and Agency	Foreign	Corporate securities	MBS	States, municipalities, and political subdivisions	Equity securities	Other investments	Other derivative instruments	GLB[1]
Balance, beginning of year	$ -	$ 26	$ 115	$ 39	$ 2	$ 13	$ 1,432	$ 4	$ 507
Transfers into Level 3	-	9	42	4	-	-	-	-	-
Transfers out of Level 3	-	(18)	(4)	(48)	-	-	-	-	-
Change in Net Unrealized Gains (Losses) included in OCI	-	(1)	(2)	-	-	(1)	93	-	-
Net Realized Gains/Losses	-	-	(3)	-	-	4	(3)	2	812
Purchased	5	23	32	59	-	5	602	-	-
Sales	-	(3)	(27)	(17)	-	(8)	(55)	-	-
Settlements	-	(3)	(19)	(9)	(1)	-	(192)	(3)	-
Balance, end of year	$ 5	$ 33	$ 134	$ 28	$ 1	$ 13	$ 1,877	$ 3	$ 1,319
Net Realized Gains/Losses Attributable to Changes in Fair Value at the Balance Sheet Date	$ -	$ -	$ -	$ -	$ -	$ -	$ (3)	$ (1)	$ 812

(1) Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. The liability for GLB reinsurance was $1.5 billion at December 31, 2011 and $648 million at December 31, 2010, which includes a fair value derivative adjustment of $1.3 billion and $507 million, respectively.

b) Financial instruments disclosed, but not measured, at fair value
ACE uses various financial instruments in the normal course of its business. Our insurance contracts are excluded from fair value of financial instruments accounting guidance, and therefore, are not included in the amounts discussed below.

The carrying values of cash, other assets, other liabilities, and other financial instruments not included below approximated their fair values.

Investments in partially-owned insurance companies
Fair values for investments in partially-owned insurance companies are based on ACE's share of the net assets based on the financial statements provided by those companies.

Short- and long-term debt and trust preferred securities
Where practical, fair values for short-term debt, long-term debt, and trust preferred securities are estimated using discounted cash flow calculations based principally on observable inputs including incremental borrowing rates, which reflect ACE's credit rating, for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

The following tables present fair value, by valuation hierarchy, and carrying value of the financial instruments not measured at fair value:

December 31, 2013	Fair Value				Carrying
(in millions of U.S. dollars)	Level 1	Level 2	Level 3	Total	Value
Assets:					
Fixed maturities held to maturity					
U.S. Treasury and agency	$ 596	$ 236	$ -	$ 832	$ 820
Foreign	-	897	-	897	864
Corporate securities	-	1,990	15	2,005	1,922
Mortgage-backed securities	-	1,379	-	1,379	1,341
States, municipalities, and political subdivisions	-	1,150	-	1,150	1,151
	596	5,652	15	6,263	6,098
Partially-owned insurance companies	-	-	470	470	470
Total assets	$ 596	$ 5,652	$ 485	$ 6,733	$ 6,568
Liabilities:					
Short-term debt	$ -	$ 1,913	$ -	$ 1,913	$ 1,901
Long-term debt	-	4,088	-	4,088	3,807
Trust preferred securities	-	438	-	438	309
Total liabilities	$ -	$ 6,439	$ -	$ 6,439	$ 6,017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

December 31, 2012			Fair Value		Carrying
(in millions of U.S. dollars)	Level 1	Level 2	Level 3	Total	Value
Assets:					
Fixed maturities held to maturity					
U.S. Treasury and agency	$ 619	$ 464	$ -	$ 1,083	$ 1,044
Foreign	-	964	-	964	910
Corporate securities	-	2,257	18	2,275	2,133
Mortgage-backed securities	-	2,116	-	2,116	2,028
States, municipalities, and political subdivisions	-	1,195	-	1,195	1,155
	619	6,996	18	7,633	7,270
Partially-owned insurance companies	-	-	454	454	454
Total assets	$ 619	$ 6,996	$ 472	$ 8,087	$ 7,724
Liabilities:					
Short-term debt	$ -	$ 1,401	$ -	$ 1,401	$ 1,401
Long-term debt	-	3,916	-	3,916	3,360
Trust preferred securities	-	446	-	446	309
Total liabilities	**$ -**	**$ 5,763**	**$ -**	**$ 5,763**	**$ 5,070**

5. Reinsurance

a) Consolidated reinsurance
ACE purchases reinsurance to manage various exposures including catastrophe risks. Although reinsurance agreements contractually obligate ACE's reinsurers to reimburse it for the agreed-upon portion of its gross paid losses, they do not discharge ACE's primary liability. The amounts for net premiums written and net premiums earned in the consolidated statements of operations are net of reinsurance. The following table presents direct, assumed, and ceded premiums:

	Years Ended December 31		
(in millions of U.S. dollars)	**2013**	2012	2011
Premiums written			
Direct	$ **19,212**	$ 18,144	$ 17,626
Assumed	**3,616**	3,449	3,205
Ceded	**(5,803)**	(5,518)	(5,459)
Net	$ **17,025**	$ 16,075	$ 15,372
Premiums earned			
Direct	$ **18,856**	$ 17,802	$ 17,534
Assumed	**3,479**	3,302	3,349
Ceded	**(5,722)**	(5,427)	(5,496)
Net	$ **16,613**	$ 15,677	$ 15,387

For the years ended December 31, 2013, 2012, and 2011, reinsurance recoveries on losses and loss expenses incurred were $3.1 billion, $4.3 billion, and $3.3 billion, respectively.

b) 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

(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 ACE, primarily because of disputes under reinsurance contracts and insolvencies. We have established provisions for amounts estimated to be uncollectible. At December 31, 2013 and 2012, we recorded a provision for uncollectible reinsurance of $390 million and $439 million, respectively.

The following tables present a listing, at December 31, 2013, of the categories of ACE's reinsurers. The first category, largest reinsurers, represents all groups of reinsurers where the gross recoverable exceeds one percent of ACE's total shareholders' equity. The provision for uncollectible reinsurance for the largest reinsurers, other reinsurers rated A- or better, and other reinsurers with ratings lower than A- is principally based on an analysis of the credit quality of the reinsurer and collateral balances. Other pools and government agencies include amounts backed by certain state and federal agencies. In certain states, insurance companies are required by law to participate in these pools. Structured settlements include annuities purchased from life insurance companies to settle claims. Since we retain the ultimate liability in the event that the life company fails to pay, we reflect the amount as a liability and a recoverable/receivable for GAAP purposes. Captives include companies established and owned by our insurance clients to assume a significant portion of their direct insurance risk from ACE (they are structured to allow clients to self-insure a portion of their insurance risk). It is generally our policy to obtain collateral equal to expected losses. Where appropriate, exceptions are granted but only with review and approval at a senior officer level. The final category, Other, includes amounts recoverable that are in dispute or are from companies that are in supervision, rehabilitation, or liquidation. We establish the provision for uncollectible reinsurance in this category based on a case-by-case analysis of individual situations including the merits of the underlying matter, credit and collateral analysis, and consideration of our collection experience in similar situations.

(in millions of U.S. dollars, except percentages)	2013	Provision	% of Gross
Categories			
Largest reinsurers	$ 5,117	$ 78	1.5%
Other reinsurers balances rated A- or better	2,901	36	1.2%
Other reinsurers balances with ratings lower than A- or not rated	587	103	17.5%
Other pools and government agencies	338	21	6.2%
Structured settlements	577	12	2.1%
Captives	1,762	14	0.8%
Other	335	126	37.6%
Total	$ 11,617	$ 390	3.4%

Largest Reinsurers

Alleghany Corp (Transatlantic)
Berkshire Hathaway Insurance Group
HDI Group (Hanover Re)
Lloyd's of London
Munich Re Group
Partner Re Group
Swiss Re Group
XL Capital Group

c) Assumed life reinsurance programs involving minimum benefit guarantees under annuity contracts
The following table presents income and expenses relating to GMDB and GLB reinsurance. GLBs include GMIBs as well as some GMABs originating in Japan.

	Years Ended December 31		
(in millions of U.S. dollars)	**2013**	2012	2011
GMDB			
Net premiums earned	**$ 77**	$ 85	$ 98
Policy benefits and other reserve adjustments	**$ 73**	$ 60	$ 59
GLB			
Net premiums earned	**$ 149**	$ 160	$ 163
Policy benefits and other reserve adjustments	**27**	61	47
Net realized gains (losses)	**929**	203	(812)
Gain (loss) recognized in income	**$ 1,051**	$ 302	$ (696)
Net cash received	**$ 126**	$ 149	$ 161
Net (increase) decrease in liability	**$ 925**	$ 153	$ (857)

At December 31, 2013, reported liabilities for GMDB and GLB reinsurance were $100 million and $427 million, respectively, compared with $90 million and $1.4 billion, respectively, at December 31, 2012. The reported liability for GLB reinsurance of $427 million at December 31, 2013, and $1.4 billion at December 31, 2012, includes a fair value derivative adjustment of$193 million and $1.1 billion, respectively. Included in Net realized gains (losses) in the table above are gains (losses) related to foreign exchange and other fair value derivative adjustments. Reported liabilities for both GMDB and GLB reinsurance are determined using internal valuation models. Such valuations require considerable judgment and are subject to significant uncertainty. The valuation of these products is subject to fluctuations arising from, among other factors, changes in interest rates, changes in equity markets, changes in credit markets, changes in the allocation of the investments underlying annuitants' account values, and assumptions regarding future policyholder behavior. These models and the related assumptions are continually reviewed by management and enhanced, as appropriate, based upon improvements in modeling assumptions and availability of more information, such as market conditions and demographics of in-force annuities.

Variable Annuity Net Amount at Risk
(i) Reinsurance covering the GMDB risk only
At December 31, 2013 and 2012, the net amount at risk from reinsurance programs covering the GMDB risk only was $586 million and $1.3 billion, respectively.

For reinsurance programs covering the GMDB risk only, the net amount at risk is defined as the present value of future claim payments under the following assumptions:

- policy account values and guaranteed values are fixed at the valuation date (December 31, 2013 and 2012, respectively);
- there are no lapses or withdrawals;
- mortality according to 100 percent of the Annuity 2000 mortality table;
- future claims are discounted in line with the discounting assumption used in the calculation of the benefit reserve averaging between 2.0 percent and 3.0 percent; and
- reinsurance coverage ends at the earlier of the maturity of the underlying variable annuity policy or the reinsurance treaty.

The total claim amount payable on reinsurance programs covering the GMDB risk only, if all the cedants' policyholders were to die immediately at December 31, 2013 was approximately $668 million. This takes into account all applicable reinsurance treaty claim limits.

(ii) Reinsurance covering the GLB risk only

At December 31, 2013 and 2012, the net amount at risk from reinsurance programs covering the GLB risk only was $136 million and $445 million, respectively.

For reinsurance programs covering the GLB risk only, the net amount at risk is defined as the present value of future claim payments under the following assumptions:

- policy account values and guaranteed values are fixed at the valuation date (December 31, 2013 and 2012, respectively);
- there are no deaths, lapses, or withdrawals;
- policyholders annuitize at a frequency most disadvantageous to ACE (in other words, annuitization at a level that maximizes claims taking into account the treaty limits) under the terms of the reinsurance contracts;
- for annuitizing policyholders, the GMIB claim is calculated using interest rates in line with those used in calculating the reserve;
- future claims are discounted in line with the discounting assumption used in the calculation of the benefit reserve averaging between 3.5 percent and 4.5 percent; and
- reinsurance coverage ends at the earlier of the maturity of the underlying variable annuity policy or the reinsurance treaty.

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

At December 31, 2013 and 2012, the GMDB net amount at risk from reinsurance programs covering both the GMDB and GLB risks on the same underlying policyholders was $73 million and $116 million, respectively.

At December 31, 2013 and 2012, the GLB net amount at risk from reinsurance programs covering both the GMDB and GLB risks on the same underlying policyholders was $141 million and $655 million, respectively.

These net amounts at risk reflect the interaction between the two types of benefits on any single policyholder (eliminating double-counting), and therefore the net amounts at risk should be considered additive.

For reinsurance programs covering both the GMDB and GLB risks on the same underlying policyholders, the net amount at risk is defined as the present value of future claim payments under the following assumptions:

- policy account values and guaranteed values are fixed at the valuation date (December 31, 2013 and 2012, respectively);
- there are no lapses, or withdrawals;
- mortality according to 100 percent of the Annuity 2000 mortality table;
- policyholders annuitize at a frequency most disadvantageous to ACE (in other words, annuitization at a level that maximizes claims taking into account the treaty limits) under the terms of the reinsurance contracts;
- for annuitizing policyholders, the GMIB claim is calculated using interest rates in line with those used in calculating the reserve;
- future claims are discounted in line with the discounting assumption used in the calculation of the benefit reserve averaging between 3.0 percent and 4.0 percent; and
- reinsurance coverage ends at the earlier of the maturity of the underlying variable annuity policy or the reinsurance treaty.

The total claim amount payable on reinsurance programs covering both the GMDB and GLB risks on the same underlying policyholders, if all of the cedants' policyholders were to die immediately at December 31, 2013 was approximately $84 million. This takes into account all applicable reinsurance treaty claim limits. Although there would be an increase in death claims resulting from 100 percent immediate mortality of all policyholders, the GLB claims would be zero.

The average attained age of all policyholders under sections i), ii), and iii) above, weighted by the guaranteed value of each reinsured policy, is approximately 68 years.

6. Intangible assets

Included in Goodwill and other intangible assets in the consolidated balance sheets at December 31, 2013 and 2012, are goodwill of $4.6 billion and $4.3 billion, respectively, and other intangible assets of $801 million and $656 million, respectively.

The following table presents a roll-forward of Goodwill by segment:

(in millions of U.S. dollars)	Insurance - North American P&C	Insurance - North American Agriculture	Insurance - Overseas General	Global Reinsurance	Life	ACE Consolidated
Balance at December 31, 2011	$ 1,216	$ 134	$ 1,603	$ 365	$ 830	$ 4,148
Purchase price allocation adjustment	-	-	-	-	4	4
Acquisition of JaPro	-	-	123	-	-	123
Foreign exchange revaluation and other	3	-	38	-	3	44
Balance at December 31, 2012	$ 1,219	$ 134	$ 1,764	$ 365	$ 837	$ 4,319
Acquisition of Fianzas Monterrey	-	-	135	-	-	135
Acquisition of ABA Seguros	-	-	283	-	-	283
Foreign exchange revaluation and other	(4)	-	(128)	-	(2)	(134)
Balance at December 31, 2013	**$ 1,215**	**$ 134**	**$ 2,054**	**$ 365**	**$ 835**	**$ 4,603**

Included in other intangible assets at December 31, 2013 and 2012, are intangible assets subject to amortization of $695 million and $554 million, respectively, and intangible assets not subject to amortization of $106 million and $102 million, respectively. Intangible assets subject to amortization include agency relationships, software, client lists, renewal rights, and trademarks, primarily attributable to the acquisitions of Rain and Hail, Fianzas Monterrey, and ABA Seguros. The majority of the balance of intangible assets not subject to amortization relates to Lloyd's of London (Lloyd's) Syndicate 2488 (Syndicate 2488) capacity. Amortization expense related to other intangible assets amounted to $95 million, $51 million, and $29 million for the years ended December 31, 2013, 2012, and 2011, respectively.

The following table presents a roll-forward of VOBA:

(in millions of U.S. dollars)	**2013**	2012	2011
Balance, beginning of year	**$ 614**	$ 676	$ 634
Acquisition of New York Life's Korea operations and Hong Kong operations	**-**	-	151
Amortization expense	**(64)**	(82)	(108)
Foreign exchange revaluation	**(14)**	20	(1)
Balance, end of year	**$ 536**	$ 614	$ 676

The following table presents estimated amortization expense related to other intangible assets and VOBA for the next five years:

For the Year Ending December 31 (in millions of U.S. dollars)	Other intangible assets	VOBA
2014	$ 81	$ 55
2015	62	50
2016	55	45
2017	52	40
2018	49	35
Total	$ 299	$ 225

7. Unpaid losses and loss expenses

ACE establishes reserves for the estimated unpaid ultimate liability for losses and loss expenses under the terms of its policies and agreements. Reserves include estimates for both claims that have been reported and for IBNR, and include estimates of expenses associated with processing and settling these claims. 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. Our estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed, or as laws change. We continually evaluate our estimate of reserves in light of developing information and in light of discussions and negotiations with our insureds. While we believe that our reserves for unpaid losses and loss expenses at December 31, 2013 are adequate, new information or trends may lead to future developments in ultimate losses and loss expenses significantly greater or less than the reserves provided. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable and would be reflected in our results of operations in the period in which the estimates are changed.

The following table presents a reconciliation of unpaid losses and loss expenses:

	Years Ended December 31		
(in millions of U.S. dollars)	**2013**	2012	2011
Gross unpaid losses and loss expenses, beginning of year	**$ 37,946**	$ 37,477	$ 37,391
Reinsurance recoverable on unpaid losses[1]	**(11,399)**	(11,602)	(12,149)
Net unpaid losses and loss expenses, beginning of year	**26,547**	25,875	25,242
Acquisition of subsidiaries	**86**	14	92
Total	**26,633**	25,889	25,334
Net losses and loss expenses incurred in respect of losses occurring in:			
Current year	**9,878**	10,132	10,076
Prior years	**(530)**	(479)	(556)
Total	**9,348**	9,653	9,520
Net losses and loss expenses paid in respect of losses occurring in:			
Current year	**3,942**	4,325	4,209
Prior years	**5,035**	4,894	4,657
Total	**8,977**	9,219	8,866
Foreign currency revaluation and other	**(173)**	224	(113)
Net unpaid losses and loss expenses, end of year	**26,831**	26,547	25,875
Reinsurance recoverable on unpaid losses[1]	**10,612**	11,399	11,602
Gross unpaid losses and loss expenses, end of year	**$ 37,443**	$ 37,946	$ 37,477

[1] Net of provision for uncollectible reinsurance.

Net losses and loss expenses incurred includes $530 million, $479 million, and $556 million, of net favorable prior period development in the years ended December 31, 2013, 2012, and 2011, respectively. Long-tail lines include lines such as workers' compensation, general liability, and professional liability; while short-tail lines include lines such as most property lines, energy, personal accident, aviation, marine (including associated liability-related exposures) and agriculture. Significant prior period movements by segment, principally driven by reserve reviews completed during each respective period, are discussed in more detail below. The remaining net development for long-tail and short-tail business for each segment comprises numerous favorable and adverse movements across a number of lines and accident years, none of which is significant individually or in the aggregate.

Insurance - North American P&C
Insurance - North American P&C's active operations experienced net favorable prior period development of $327 million in 2013 which was the net result of several underlying favorable and adverse movements driven by the following principal changes:

- Net favorable development of $221 million in long-tail business, including:
  - Favorable development of $72 million in our retail D&O portfolios, primarily impacting the 2008 and prior accident years. Favorable settlements on several large claims drove the favorable development in 2004 and prior accident years, while favorable action in 2008 is primarily due to an increase in weighting applied to experience-based and simulation methods;
  - Favorable development of $63 million in our medical risk operations, primarily impacting the 2007 to 2009 accident years. Paid and reported loss activity for this business in these accident years continued to be lower than expected and we have increased our weighting applied to experience-based methods; and
  - Favorable development of $50 million in our U.S. excess casualty and umbrella businesses primarily affecting the 2007 and prior accident years. Reported activity on loss and allocated loss adjustment expenses was lower than expected based on estimates from our prior review. In addition, increased weighting was applied to experience-based methods in the current review for these accident periods;
  - Net favorable development of $28 million in our national accounts portfolios which consist of commercial auto, general liability and workers' compensation lines of business. This favorable movement was the net impact of favorable and adverse movements, including:
    - Favorable development of $40 million related to our annual assessment of multi-claimant events including industrial accidents, impacting the 2012 accident year. Consistent with prior years, we reviewed these potential exposures after the close of the accident year to allow for late reporting or identification of significant losses;
    - Adverse development of $40 million predominantly in workers' compensation, primarily impacting the 2006 and prior accident years. The development was a function of higher than expected reported loss activity, higher allocated loss adjustment expenses, as well as an increase in weighting applied to experience-based methods; and
    - Net favorable development of $28 million across a number of lines and accident years, none of which was significant individually or in the aggregate.
  - Favorable development of $25 million in our foreign casualty Controlled Master Program and Cash Flow portfolios affecting the 2009 and prior accident years. Paid and reported loss activity for this business in these accident years continued to be lower than expected and we have increased our weighting applied to experience-based methods;
- Favorable development of $106 million in short-tail business, primarily from:
  - Net favorable development of $45 million in our wholesale property and inland marine portfolios, primarily in accident years 2010 to 2012, due to favorable case incurred emergence and favorable settlements of several large claims; and
  - Favorable development of $29 million in our political risk business in the 2009 and 2010 accident years primarily due to favorable settlements of a few large claims;

Insurance - North American P&C's run-off operations incurred adverse prior period development of $193 million in our Westchester and Brandywine run-off operations during 2013, which was the net result of adverse and favorable movements impacting accident years 1996 and prior, driven by the following principal changes:

- Adverse development of $161 million related to the completion of the reserve reviews during 2013. The development primarily arose from case specific asbestos and environmental claims related to increased loss and defense cost payment activity and the costs associated with certain case settlements in 2013. Further, we experienced higher than expected paid loss and case reserve activity in our assumed reinsurance portfolio; and

- Adverse development of $27 million on unallocated loss adjustment expenses due to run-off operating expenses paid and incurred during 2013.

Insurance - North American P&C's active operations experienced net favorable prior period development of $348 million in 2012 which was the net result of several underlying favorable and adverse movements driven by the following principal changes:

- Net favorable development of $245 million in long-tail business, including:
    - Favorable development of $73 million in a collection of portfolios of umbrella and excess casualty business, primarily affecting the 2007 and prior accident years. The favorable development was the function of both the continuation of the lower than expected reported loss activity in the period since our last review and an increase in weighting applied to experience-based methods, particularly for the 2006 accident year, as these accident periods matured;
    - Favorable development of $67 million in our D&O portfolios primarily affecting the 2007 and prior accident years. Case loss activity was lower than expected during the 2012 calendar year, including reductions in our internal estimates of exposure on several potentially large claims. These reductions were a function of changes in account specific circumstances since our prior review;
    - Favorable development of $57 million in our medical risk operations, primarily in the 2007 and prior accident years. Reported and paid loss activity for these accident years were lower than expected since our prior review; and
    - Net favorable development of $39 million in our national accounts portfolios which consists of commercial auto liability, general liability, and workers' compensation lines of business. This favorable development was the net impact of favorable and adverse movements, including:
        - Favorable development of $41 million in the 2011 accident year related to our annual assessment of multi-claimant events including industrial accidents. Consistent with prior years, we reviewed these potential exposures after the close of the accident year to allow for late reporting or identification of significant losses;
        - Favorable development of $34 million in the 2007 accident year, primarily in workers' compensation. The favorable development was the combined effect of lower than expected incurred loss activity and an increase in weighting applied to experience-based methods; and
        - Adverse development of $36 million affecting the 2006 and prior accident years largely in workers' compensation. The causes for this adverse movement were various and included adverse development on several specific large claims, higher than expected loss activity in certain accident years, an increase in weighting applied to experience-based methods, and a refinement of our treatment of ceded reinsurance recoveries on a few select treaties due to information which became known since our prior review.
- Favorable development of $103 million in short-tail business, primarily from:
    - Favorable development of $88 million in our property, inland marine and commercial marine businesses primarily arising in the 2009 through 2011 accident years. Reported loss activity during the 2012 calendar was lower than expected, particularly in our high excess property portfolio; and
    - Favorable development of $27 million in our aviation product lines, primarily general aviation hull and liability, affecting the 2009 and prior accident years. Actual paid and incurred loss activity were lower than expected based on long-term historical averages leading to a reduction in our estimate of ultimate losses.

Insurance - North American P&C's run-off operations incurred net adverse prior period development of $168 million in our Westchester and Brandywine run-off operations during 2012, which was the net result of adverse and favorable movements impacting accident years 1996 and prior, driven by the following principal changes:

- Adverse development of $150 million related to the completion of the reserve review during 2012. The development primarily arose from case specific asbestos and environmental claims related to increased loss and defense cost payment activity and the costs associated with certain case settlements made in 2012. Further, we experienced higher than expected paid loss and case reserve activity in our assumed reinsurance portfolio; and

- Adverse development of $18 million on unallocated loss adjustment expenses due to run-off operating expenses paid during 2012.

Insurance - North American P&C active operations experienced net favorable prior period development of $289 million in 2011, representing 1.8 percent of its beginning of period net unpaid loss and loss expense reserves. Insurance - North American P&C run-off operations incurred net adverse prior period development of $102 million in 2011, representing 0.6 percent of its beginning of period net unpaid loss and loss expense reserves.

Insurance - North American Agriculture
Insurance - North American Agriculture experienced net favorable prior period development of $13 million, $12 million, and $8 million in 2013, 2012, and 2011, respectively, in short-tail business across a number of accident years, none of which was significant individually or in the aggregate.

Insurance - Overseas General
Insurance - Overseas General experienced net favorable prior period development of $299 million in 2013, which was the net result of several underlying favorable and adverse movements, driven by the following principal changes:

- Net favorable development of $127 million in long-tail business, including:

- Favorable development of $92 million in casualty (primary and excess). Reserve reviews indicated favorable claim activity of $135 million in accident years 2009 and prior. These reviews reflected an increase in weighting applied to experience-based methods as these accident years continued to mature. Adverse development of $43 million in accident years 2010 to 2012 was primarily due to development in specific individual large claims and also in several accounts now exposed on an excess basis following adverse loss development of the underlying aggregate retention layer; and

- Net favorable development of $35 million in financial lines. Reserve reviews indicated favorable claim activity of $63 million in accident years 2009 and prior. These reviews reflected an increase in weighting applied to experience-based methods as these accident years continued to mature. Adverse development of $28 million in accident year 2012 was incurred due to notifications on specific large claims.

- Favorable development of $172 million in short-tail business, primarily from:

- Favorable development of $104 million across property, technical lines and marine. Favorable development of $69 million in accident years 2010 to 2012 reflected lower than expected loss emergence. In addition, favorable development of $35 million in the property and marine liability lines in accident years 2009 and prior was primarily due to case specific developments;

- Favorable development of $39 million across accident and health and personal lines primarily reflected lower than expected loss emergence, primarily in accident years 2010 to 2012; and

- Favorable development of $29 million predominantly in the wholesale aviation business, primarily in accident years 2009 and prior, due to case specific developments.

Insurance - Overseas General experienced net favorable prior period development of $226 million in 2012, which was the net result of several underlying favorable and adverse movements, driven by the following principal changes:

- Net favorable development of $121 million in long-tail business, including:

- Favorable development of $150 million in casualty (primary and excess) and financial lines for accident years 2008 and prior. We recognized the impact of favorable loss emergence since the prior study and increased the weighting applied to experience-based methods; and

- Adverse development of $29 million in casualty (mainly primary) and financial lines for accident years 2009 to 2011 in response to claims emergence primarily in 2011. The adverse development was driven by changes in case specific circumstances on several specific larger claims and, to a lesser extent, increased frequency trends in primary European casualty impacting accident year 2011.

- Favorable development of $105 million in short-tail business, including property, marine, A&H, and personal lines across multiple geographical regions, and in both retail and wholesale operations, principally as a result of lower than expected loss emergence, mostly in accident years 2009 and 2010.

Insurance - Overseas General experienced net favorable prior period development of $290 million in 2011, representing 4.2 percent of the segment's beginning of period net unpaid loss and loss expense reserves.

Global Reinsurance
Global Reinsurance experienced net favorable prior period development of $84 million in 2013, which was the net result of several underlying favorable and adverse movements, driven by the following principal changes:

- Net favorable development of $53 million in long-tail business, primarily including:

- Favorable development of $25 million in professional liability lines, primarily in treaty years 2008 and prior, reflected favorable paid and incurred loss trends and an increase in weighting applied to experience-based methods; and

- Favorable development of $20 million in medical malpractice business, principally in treaty years 2009 and prior, reflected favorable paid and incurred loss trends and an increase in weighting applied to experience-based methods.

- Net favorable development of $31 million in short-tail business, primarily in treaty years 2007 to 2012 across property lines (including property catastrophe), trade credit, marine, and surety principally as a result of lower than expected loss emergence.

Global Reinsurance experienced net favorable prior period development of $61 million in 2012, which was the net result of several underlying favorable and adverse movements, driven by the following principal changes:

- Favorable prior period development of $54 million in long-tail business primarily in treaty years 2008 and prior in casualty and medical malpractice lines. The lower loss estimates arose from a combination of favorable paid and incurred loss trends and increased weighting applied to experience-based methods; and

- Net favorable development of $29 million in short-tail business, primarily in treaty years 2010 and prior across property lines (including property catastrophe), trade credit, marine, and surety principally as a result of lower than expected loss emergence.

Global Reinsurance experienced net favorable prior period development of $71 million in 2011, representing 3.1 percent of the segment's beginning of period net unpaid loss and loss expense reserves.

Asbestos and environmental (A&E) and other run-off liabilities
a) A&E liabilities
Included in 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 A&E liabilities is particularly sensitive to future changes in the legal, social, and economic environments and legislative reforms. ACE has not assumed any such future changes in setting the value of its A&E reserves, which include provisions for both reported and IBNR claims. ACE's A&E reserves are not discounted for GAAP reporting.

The following table presents a roll-forward of consolidated A&E loss reserves (excluding other run-off liabilities), allocated loss expense reserves for A&E exposures, and the provision for uncollectible paid and unpaid reinsurance recoverables:

	Asbestos		Environmental	&bbsp;	Total	
(in millions of U.S. dollars)	Gross	Net	Gross	Net	Gross	Net
Balance at December 31, 2012 [1]	$ 1,886	$ 970	$ 194	$ 136	$ 2,080	$ 1,106
Incurred activity	125	96	119	75	244	171 [2]
Paid activity	(367)	(140)	(118)	(86)	(485)	(226)
Balance at December 31, 2013	**$ 1,644**	**$ 926**	**$ 195**	**$ 125**	**$ 1,839**	**$ 1,051**

(1)Balances at December 31, 2012 have been adjusted to present claims in a manner consistent with balances disclosed at December 31, 2013.
(2) Excludes unallocated loss expenses.

The A&E net loss reserves including allocated loss expense reserves and provision for uncollectible reinsurance at December 31, 2013, of $1.1 billion shown in the table above comprise $816 million in reserves in respect of Brandywine operations (see Brandywine run-off section below), $146 million of reserves held by Westchester Specialty (see Westchester Specialty section below), $79 million of reserves held by Insurance - Overseas General, $7 million of reserves held by ACE Bermuda, and $3 million of reserves held by Penn Millers. The incurred activity of $171 million is primarily the result of adverse activity in Brandywine and Westchester of $158 million and $14 million, respectively.

b) A&E and other run-off liabilities
The net figures in the above table (under A&E liabilities section) reflect third-party reinsurance other than reinsurance provided by National Indemnity Company (NICO) under two aggregate excess of loss contracts described below (collectively, the NICO contracts). ACE excludes the NICO contracts as they cover non-A&E liabilities as well as A&E liabilities. The split of coverage provided under the NICO contracts for A&E liabilities as compared to non-A&E liabilities is entirely dependent on the timing of the payment of the related claims. ACE's ability to make an estimate of this split is not practicable. ACE believes, instead, that the A&E discussion is best provided excluding the NICO contracts, while separately discussing the NICO contracts in relation to the total subject business, both A&E and other liabilities, covered by those contracts. With certain exceptions, the NICO contracts provide coverage for the net incurred losses and allocated loss expenses within the limits of coverage and above ACE's retention levels. These exceptions include losses arising from certain operations of Insurance - Overseas General and participation by ACE Bermuda as a co-reinsurer or retrocessionaire in the NICO contracts.

ACE's exposure to A&E claims principally arises out of liabilities acquired when it purchased Westchester Specialty in 1998 and CIGNA's P&C business in 1999, with the larger exposure contained within the liabilities acquired in the CIGNA transaction. In 1996, prior to ACE's acquisition of CIGNA's P&C business, the Pennsylvania Insurance Commissioner approved a plan to restructure INA Financial Corporation and its subsidiaries (the Restructuring) which included the division of Insurance Company of North America (INA) into two separate corporations that ACE acquired as part of the CIGNA P&C business:

(1) An active insurance company that retained the INA name and continued to write P&C business; and
(2) An inactive run-off company, now called Century Indemnity Company (Century).

As a result of the division, predominantly all A&E and certain other liabilities of INA were ascribed to Century and extinguished, as a matter of Pennsylvania law, as liabilities of INA.

As part of the Restructuring, most A&E liabilities of various U.S. affiliates of INA were reinsured to Century. Century and certain other run-off companies having A&E and other liabilities were contributed to Brandywine Holdings. ACE acquired Brandywine Holdings and its various subsidiaries as part of the 1999 acquisition of CIGNA's P&C business. For additional information, refer to “Brandywine Run-Off Entities” below.

During 2013, we conducted our annual internal, ground-up review of our consolidated A&E liabilities as of December 31, 2012. As a result of the internal review, we increased our gross unpaid losses and loss expenses in 2013 for the Brandywine operations, including A&E, by $277 million, while the net unpaid losses and loss expenses increased by $166 million. In addition, we increased gross unpaid losses and loss expenses for Westchester Specialty's A&E and other liabilities by $3 million, while the net unpaid losses and loss expenses increased by $5 million.

An internal review was also conducted during 2012 of consolidated A&E liabilities as of December 31, 2011. As a result of that internal review, we increased gross unpaid losses and loss expenses in 2012 for the Brandywine operations, including

A&E, by $275 million while the net unpaid losses and loss expenses increased by $146 million. In addition, we increased gross unpaid losses and loss expenses for Westchester Specialty's A&E and other liabilities by $17 million, while the net unpaid losses and loss expenses increased by $4 million.

In 2012, in addition to our annual internal review, a team of external actuaries performed an evaluation as to the adequacy of Century's reserves. This external review was conducted in accordance with the Brandywine Restructuring Order, which requires that an independent actuarial review of Century's reserves be completed every two years. Management takes full responsibility for the estimation of its A&E liabilities.

Brandywine run-off - impact of NICO contracts on ACE's run-off liabilities
As part of the acquisition of CIGNA's P&C business, NICO provided $2.5 billion of reinsurance protection to Century on all Brandywine loss and allocated loss adjustment expense reserves and on the A&E reserves of various ACE INA insurance subsidiaries reinsured by Century (in each case, including uncollectible reinsurance). The benefits of this NICO contract (the Brandywine NICO Agreement) flowed to the other Brandywine companies and to the ACE INA insurance subsidiaries through agreements between those companies and Century. The Brandywine NICO Agreement was exhausted on an incurred basis in 2002 and on a paid basis in 2013.

The following table presents a roll-forward of net loss reserves, allocated loss expense reserves, and provision for uncollectible paid and unpaid reinsurance recoverables in respect of Brandywine operations only, including the impact of the Brandywine NICO Agreement:

	Brandywine				
(in millions of U.S. dollars)	A&E	Other (1)	Total	NICO Coverage	Net of NICO Coverage
Balance at December 31, 2012	$ 852	$ 421	$ 1,273	$ 18	$ 1,255
Incurred activity	158	9	167	-	167 (2)
Paid activity	(194)	(63)	(257)	(18)	(239)
Balance at December 31, 2013	**$ 816**	**$ 367**	**$ 1,183**	**$ -**	**$ 1,183**

(1) Other consists primarily of workers' compensation, non-A&E general liability losses, and provision for uncollectible reinsurance on non-A&E business.
(2) Excludes $(1) million of unallocated loss expenses (benefits).

The incurred activity of $167 million primarily relates to the internal reviews of consolidated A&E loss reserves.

Westchester Specialty - impact of NICO contracts on ACE's run-off liabilities
As part of the Westchester Specialty acquisition in 1998, NICO provided a 75 percent pro-rata share of $1 billion of reinsurance protection on losses and loss adjustment expenses incurred on or before December 31, 1996, in excess of a retention of $721 million. At December 31, 2013, the remaining unused incurred limit under the NICO Agreement was $490 million, which is only available for losses and loss adjustment expenses.

The following table presents a roll-forward of net loss reserves, allocated loss expense reserves, and provision for uncollectible paid and unpaid reinsurance recoverables in respect of 1996 and prior Westchester Specialty operations only, including the impact of the Westchester NICO Agreement:

	Westchester Specialty				
(in millions of U.S. dollars)	A&E	Other	Total	NICO Coverage	Net of NICO Coverage
Balance at December 31, 2012	$ 151	$ 44	$ 195	$ 158	$ 37
Incurred activity	14	(11)	3	2	1 (1)
Paid activity	(19)	-	(19)	(19)	-
Balance at December 31, 2013	**$ 146**	**$ 33**	**$ 179**	**$ 141**	**$ 38**

(1)Excludes $4 million of unallocated loss expenses.

The incurred activity of $1 million primarily relates to the internal reviews of consolidated A&E loss reserves.

Brandywine run-off entities
In addition to housing a significant portion of ACE's A&E exposure, the Brandywine operations include run-off liabilities related to various insurance and reinsurance businesses. ACE's Brandywine insurance companies are Century (a Pennsylvania insurer) and Century International Reinsurance Company Ltd., a Bermuda insurer (CIRC). The Brandywine companies are direct or indirect subsidiaries of Brandywine Holdings.

The U.S.-based ACE INA companies assumed two contractual obligations in respect of the Brandywine operations in connection with the Restructuring: a dividend retention fund obligation and a surplus maintenance obligation in the form of the excess of loss (XOL) agreement.

INA Financial Corporation established and funded a dividend retention fund (the Dividend Retention Fund) consisting of $50 million plus investment earnings. Pursuant to an interpretation of the Brandywine Restructuring Order, the full balance of the Dividend Retention Fund was contributed to Century as of December 31, 2002. Under the Restructuring Order, while any obligation to maintain the Dividend Retention Fund is in effect, to the extent dividends are paid by INA Holdings Corporation to its parent, INA Financial Corporation, and to the extent INA Financial Corporation then pays such dividends to INA Corporation, a portion of those dividends must be withheld to replenish the principal of the Dividend Retention Fund to $50 million. Effective January 28, 2011, the Pennsylvania Insurance Department clarified the scope of the Dividend Retention Fund that capital contributions from the Dividend Retention Fund to Century shall not be required until the XOL Agreement has less than $200 million of capacity remaining on an incurred basis for statutory reporting purposes. The amount of the capital contribution shall be the lesser of the amount necessary to restore the XOL Agreement remaining capacity to $200 million or the Dividend Retention Fund balance. The Dividend Retention Fund may not be terminated without prior written approval from the Pennsylvania Insurance Commissioner.

In addition, an ACE INA insurance subsidiary provided reinsurance coverage to Century in the amount of $800 million under an XOL, triggered if the statutory capital and surplus of Century falls below $25 million or if Century lacks liquid assets with which to pay claims as they become due.

Effective December 31, 2004, ACE INA Holdings contributed $100 million to Century in exchange for a surplus note. After giving effect to the contribution and issuance of the surplus note, the statutory surplus of Century at December 31, 2013 was $25 million and approximately $232 million in statutory-basis losses have been ceded to the XOL on an inception-to-date basis. Century reports the amount ceded under the XOL in accordance with statutory accounting principles, which differ from GAAP by, among other things, allowing Century to discount its liabilities, including certain asbestos related and environmental pollution liabilities and Century's reinsurance payable to active companies. For GAAP reporting purposes, intercompany reinsurance recoverables related to the XOL are eliminated upon consolidation.

While ACE believes it has no legal obligation to fund losses above the XOL limit of coverage, ACE's consolidated results would nevertheless continue to include any losses above the limit of coverage for so long as the Brandywine companies remain consolidated subsidiaries of ACE.

Uncertainties relating to ACE's ultimate Brandywine exposure
In addition to the Dividend Retention Fund and XOL commitments described above, certain ACE entities are primarily liable for asbestos, environmental, and other exposures that they have reinsured to Century. Accordingly, if Century were to become insolvent and ACE were to lose control of Century, some or all of the recoverables due to these ACE companies from Century could become uncollectible, yet those ACE entities would continue to be responsible to pay claims to their insureds or reinsureds. At December 31, 2013 and 2012, the aggregate reinsurance balances ceded by the active ACE companies to Century were approximately $929 million and $958 million, respectively. At December 31, 2013 and 2012, Century's carried gross reserves (including reserves ceded by the active ACE companies to Century) were $2.3 billion and $2.1 billion, respectively. ACE believes the intercompany reinsurance recoverables, which relate to liabilities payable over many years, are not impaired. 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.

8. Taxation

Under Swiss law, a resident company is subject to income tax at the federal, cantonal, and communal levels that is levied on net worldwide income. Income attributable to permanent establishments or real estate located abroad is excluded from the Swiss tax base. ACE Limited is a holding company and, therefore, is exempt from cantonal and communal income tax. As a result, ACE Limited is subject to Swiss income tax only at the federal level. Furthermore, participation relief (i.e., tax relief) is granted to ACE Limited at the federal level for qualifying dividend income and capital gains related to the sale of qualifying participations (i.e., subsidiaries). It is expected that the participation relief will result in a full exemption of participation income from federal income tax. ACE Limited is resident in the Canton and City of Zurich and, as such, is subject to an annual cantonal and communal capital tax on the taxable equity of ACE Limited in Switzerland.

ACE has two Swiss operating subsidiaries resident in the Canton and City of Zurich, an insurance company, ACE Insurance (Switzerland) Limited, which, in turn, owns a reinsurance company, ACE Reinsurance (Switzerland) Limited. Both are subject to federal, cantonal, and communal income tax and to annual cantonal and communal capital tax.

Under current Bermuda law, ACE Limited and its Bermuda subsidiaries are not required to pay any taxes on income or capital gains. If a Bermuda law were enacted that would impose taxes on income or capital gains, ACE Limited and the Bermuda subsidiaries have received an undertaking from the Minister of Finance in Bermuda that would exempt such companies from Bermudian taxation until March 2035.

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

ACE Group Holdings and its respective subsidiaries are subject to income taxes imposed by U.S. authorities and file a consolidated U.S. tax return. Combined Insurance and its life subsidiary will file a separate consolidated U.S. tax return for tax years prior to 2014. Should ACE Group Holdings pay a dividend to ACE, withholding taxes would apply. Currently, however, no withholding taxes are accrued with respect to such un-remitted earnings as management has no intention of remitting these earnings. Similarly, no taxes have been provided on the un-remitted earnings of certain foreign subsidiaries as management has no intention of remitting these earnings. The cumulative amount that would be subject to withholding tax, if distributed, as well as the determination of the associated tax liability are not practicable to compute; however, such amount would be material to ACE. Certain international operations of ACE are also subject to income taxes imposed by the jurisdictions in which they operate.

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

ACE's domestic operations are in Switzerland, the jurisdiction where we are legally organized, incorporated, and registered. Domestic operations for the years ended December 31, 2013, 2012, and 2011 are not considered significant to the consolidated income before income taxes for the respective periods.

The following table presents the provision for income taxes:

	Years Ended December 31		
(in millions of U.S. dollars)	**2013**	2012	2011
Current tax expense	**$ 231**	$ 305	$ 485
Deferred tax expense (benefit)	**249**	(35)	17
Provision for income taxes	**$ 480**	$ 270	$ 502

The most significant jurisdictions contributing to the overall taxation of ACE are calculated using the following rates: Switzerland 7.83 percent, Bermuda 0.0 percent, U.S. 35.0 percent, and U.K. 23.25 percent. The following table presents a reconciliation of the difference between the provision for income taxes and the expected tax provision at the Swiss statutory income tax rate:

	Years Ended December 31		
(in millions of U.S. dollars)	**2013**	2012	2011
Expected tax provision at Swiss statutory tax rate	**$ 331**	$ 233	$ 160
Permanent differences:			
Taxes on earnings subject to rate other than Swiss statutory rate	**124**	129	323
Tax-exempt interest and dividends received deduction, net of proration	**(27)**	(24)	(21)
Net withholding taxes	**27**	23	19
Favorable resolution of prior years' tax matters and closing statutes of limitations	**(5)**	(124)	-
Change in valuation allowance	**4**	4	(2)
Other	**26**	29	23
Total provision for income taxes	**$ 480**	$ 270	$ 502

The following table presents the components of the net deferred tax assets:

(in millions of U.S. dollars)	**December 31 2013**	December 31 2012
Deferred tax assets:		
Loss reserve discount	**$ 807**	$ 849
Unearned premiums reserve	**93**	98
Foreign tax credits	**1,236**	1,131
Investments	**3**	43
Provision for uncollectible balances	**78**	110
Loss carry-forwards	**54**	55
Other	**184**	110
Total deferred tax assets	**2,455**	2,396
Deferred tax liabilities:		
Deferred policy acquisition costs	**138**	68
VOBA and other intangible assets	**351**	379
Un-remitted foreign earnings	**982**	795
Unrealized appreciation on investments	**210**	586
Other	**94**	59
Total deferred tax liabilities	**1,775**	1,887
Valuation allowance	**64**	56
Net deferred tax assets	**$ 616**	$ 453

The valuation allowance of $64 million at December 31, 2013, and $56 million at December 31, 2012, reflects management's assessment, based on available information, that it is more likely than not that a portion of the deferred tax assets 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. Adjustments to the valuation allowance are made when there is a change in management's assessment of the amount of deferred tax assets that are realizable.

At December 31, 2013, ACE has net operating loss carry-forwards of $154 million which, if unused, will expire in the years 2014 through 2033, and a foreign tax credit carry-forward in the amount of $131 million which, if unused, will expire in the years 2015 through 2023.

The following table presents a reconciliation of the beginning and ending amount of gross unrecognized tax benefits:

(in millions of U.S. dollars)		**December 31 2013**		December 31 2012
Balance, beginning of year	**$**	**26**	$	134
Additions based on tax provisions related to the current year		**5**		19
Reductions for settlements with tax authorities		**-**		(16)
Reductions for the lapse of the applicable statutes of limitations		**(4)**		(111)
Balance, end of year	**$**	**27**	$	26

At December 31, 2013 and 2012, the total amount of unrecognized tax benefits that would affect the effective tax rate, if recognized, is $5 million and $8 million, respectively. At December 31, 2013 and 2012, $22 million and $18 million, respectively, of unrecognized tax benefits would not affect the effective tax rate, if recognized, as the ultimate deductibility is highly certain but there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, an unfavorable resolution of these temporary items would not affect the effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

ACE recognizes accruals for interest and penalties, if any, related to unrecognized tax benefits in income tax expense in the consolidated statements of operations. Tax-related interest expense (income) and penalties reported in the consolidated statements of operations for the years ended December 31, 2013, 2012, and 2011 were $(1) million, $(8) million, and $3 million, respectively. At December 31, 2013 and 2012, ACE recorded $11 million and $12 million, respectively, in liabilities for tax-related interest and penalties in our consolidated balance sheets.

In April 2012, ACE reached final settlement with the IRS Appeals Division regarding several issues raised by the IRS Examination Division in its federal tax returns for 2005, 2006, and 2007. The settlement of these issues had no net impact on our results of operations. In addition, the IRS completed its field examination of ACE’s federal tax returns for 2008 and 2009 during June 2012. No material adjustments resulted from this examination. During 2012, ACE recognized a $124 million benefit resulting from the favorable resolution of various prior years' tax matters and the closing of statutes of limitations. During 2013, ACE reduced the amount of unrecognized tax benefits by $5 million resulting from the closing of applicable statutes of limitations. It is reasonably possible that over the next twelve months, the amount of unrecognized tax benefits may change resulting from the re-evaluation of unrecognized tax benefits arising from examinations of taxing authorities and the closing of tax statutes of limitations. With few exceptions, ACE is no longer subject to state and local or non-U.S. income tax examinations for years before 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

9. Debt

(in millions of U.S. dollars)	December 31 2013	December 31 2012	Early Redemption Option
Short-term debt			
ACE INA $500 million 5.875% senior notes due June 2014	$ 500	$ -	Make-whole premium plus 0.20%
Repurchase agreements (weighted average interest rate of 0.3% and 0.4%)	1,401	1,401	None
Total short-term debt	$ 1,901	$ 1,401	
Long-term debt			
ACE INA senior notes:			
$500 million 5.875% due June 2014	$ -	$ 500	Make-whole premium plus 0.20%
$450 million 5.6% due May 2015	449	449	Make-whole premium plus 0.35%
$700 million 2.6% due November 2015	700	699	Make-whole premium plus 0.20%
$500 million 5.7% due February 2017	500	500	Make-whole premium plus 0.20%
$300 million 5.8% due March 2018	300	300	Make-whole premium plus 0.35%
$500 million 5.9% due June 2019	500	500	Make-whole premium plus 0.40%
$475 million 2.7% due March 2023	473	-	Make-whole premium plus 0.10%
$300 million 6.7% due May 2036	299	299	Make-whole premium plus 0.20%
$475 million 4.15% due March 2043	474	-	Make-whole premium plus 0.15%
ACE INA $100 million 8.875% debentures due August 2029	100	100	None
Other long-term debt (2.75% to 7.1% due December 2019 to September 2020)	12	13	None
Total long-term debt	$ 3,807	$ 3,360	
Trust preferred securities			
ACE INA capital securities due April 2030	$ 309	$ 309	Redemption price[1]

(1) Redemption price is equal to accrued and unpaid interest to the redemption date plus the greater of (i) 100 percent of the principal amount thereof, or (ii) sum of present value of scheduled payments of principal and interest on the debentures from the redemption date to April 1, 2030.

a) Short-term debt
ACE has executed repurchase agreements with certain counterparties under which ACE agreed to sell securities and repurchase them at a future date for a predetermined price.

b) Long-term debt
In March 2013, ACE INA issued $475 million of 2.7 percent senior notes due March 2023 and $475 million of 4.15 percent senior notes due March 2043.

All of ACE INA’s senior notes are redeemable at any time at ACE INA's option subject to the provisions described above. A “make-whole premium” is the present value of the remaining principal and interest discounted at the applicable U.S. Treasury rate. The senior notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The debentures, subject to certain exceptions, are not redeemable before maturity.

The senior notes and debentures do not have the benefit of any sinking fund. These senior unsecured notes and debentures are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

c) ACE INA capital securities
In March 2000, ACE Capital Trust II, a Delaware statutory business trust, publicly issued $300 million of 9.7 percent Capital Securities (the Capital Securities) due to mature in April 2030. At the same time, ACE INA purchased $9.2 million of common securities of ACE Capital Trust II. The sole assets of ACE Capital Trust II consist of $309 million principal amount of 9.7 percent Junior Subordinated Deferrable Interest Debentures (the Subordinated Debentures) issued by ACE INA due to mature in April 2030.

Distributions on the Capital Securities are payable semi-annually and may be deferred for up to ten consecutive semi-annual periods (but no later than April 1, 2030). Any deferred payments would accrue interest compounded semi-annually if ACE INA defers interest on the Subordinated Debentures. Interest on the Subordinated Debentures is payable semi-annually. ACE INA may defer such interest payments (but no later than April 1, 2030), with such deferred payments accruing interest compounded semi-annually. The Capital Securities and the ACE Capital Trust II Common Securities will be redeemed upon repayment of the Subordinated Debentures.

ACE Limited has guaranteed, on a subordinated basis, ACE INA's obligations under the Subordinated Debentures, and distributions and other payments due on the Capital Securities. These guarantees, when taken together with ACE's obligations under expense agreements entered into with ACE Capital Trust II, provide a full and unconditional guarantee of amounts due on the Capital Securities.

10. Commitments, contingencies, and guarantees

a) Derivative instruments
Derivative instruments employed
ACE maintains positions in derivative instruments such as futures, options, swaps, and foreign currency forward contracts for which the primary purposes are to manage duration and foreign currency exposure, yield enhancement, or to obtain an exposure to a particular financial market. ACE also maintains positions in convertible bond investments that contain embedded derivatives. These are the most numerous and frequent derivative transactions.

In addition, ACE from time to time purchases to be announced mortgage-backed securities (TBAs) as part of its investing activities.

Under reinsurance programs covering GLBs, ACE assumes the risk of GLBs, including GMIB and GMAB, associated with variable annuity contracts. The GMIB risk is triggered if, at the time the contract holder elects to convert the accumulated account value to a periodic payment stream (annuitize), the accumulated account value is not sufficient to provide a guaranteed minimum level of monthly income. The GMAB risk is triggered if, at contract maturity, the contract holder’s account value is less than a guaranteed minimum value. The GLB reinsurance product meets the definition of a derivative instrument. Benefit reserves in respect of GLBs are classified as Future policy benefits (FPB) while the fair value derivative adjustment is classified within Accounts payable, accrued expenses, and other liabilities (AP). ACE also maintains positions in exchange-traded equity futures contracts and options on equity market indices to limit equity exposure in the GMDB and GLB blocks of business.

In relation to certain debt issuances, ACE from time to time enters into interest rate swap transactions for the purpose of either fixing or reducing borrowing costs. Although the use of these interest rate swaps has the economic effect of fixing or reducing borrowing costs on a net basis, gross interest expense on the related debt issuances is included in Interest expense while the settlements related to the interest rate swaps are reflected in Net realized gains (losses) in the consolidated statements of operations. At December 31, 2013, ACE had no in-force interest rate swaps.

ACE from time to time buys credit default swaps to mitigate global credit risk exposure, primarily related to reinsurance recoverables. At December 31, 2013, ACE had no in-force credit default swaps.

All derivative instruments are carried at fair value with changes in fair value recorded in Net realized gains (losses) in the consolidated statements of operations. None of the derivative instruments are designated as hedges for accounting purposes.

The following table presents the balance sheet locations, fair values of derivative instruments in an asset or (liability) position, and notional values/payment provisions of our derivative instruments:

	December 31, 2013				December 31, 2012			
		Fair Value				Fair Value		
(in millions of U.S. dollars)	**Consolidated Balance Sheet Location[(1)]**	**Derivative Asset**	**Derivative (Liability)**	**Notional Value/ Payment Provision**	Consolidated Balance Sheet Location	Derivative Asset	Derivative (Liability)	Notional Value/ Payment Provision
Investment and embedded derivative instruments								
Foreign currency forward contracts	**OA / (AP)**	**$ 3**	**$ (4)**	**$ 1,202**	AP	$ -	$ -	$ 620
Cross-currency swaps	**OA / (AP)**	**-**	**-**	**50**	AP	-	-	50
Futures contracts on money market instruments	**OA / (AP)**	**3**	**-**	**3,910**	AP	1	-	2,710
Futures contracts on notes and bonds	**OA / (AP)**	**13**	**(2)**	**871**	AP	10	-	915
Convertible bonds	**FM AFS**	**302**	**-**	**254**	FM AFS	309	-	279
		$ 321	**$ (6)**	**$ 6,287**		$ 320	$ -	$ 4,574
Other derivative instruments								
Futures contracts on equities[(2)]	**OA / (AP)**	**$ -**	**$ (60)**	**$ 1,692**	AP	$ -	$ (6)	$ 2,308
Options on equity market indices[(2)]	**OA / (AP)**	**6**	**-**	**250**	AP	30	-	250
Other	**OA / (AP)**	**-**	**(2)**	**8**	AP	-	-	-
		$ 6	**$ (62)**	**$ 1,950**		$ 30	$ (6)	$ 2,558
GLB[(3)]	**(AP) / (FPB)**	**$ -**	**$ (427)**	**$ 277**	AP / FPB	$ -	$ (1,352)	$ 1,100

(1)Other assets (OA), Fixed maturities available for sale (FM AFS)
(2) Related to GMDB and GLB blocks of business.
(3) Includes both future policy benefits reserves and fair value derivative adjustment. Refer to Note 5 c) for additional information. Note that the payment provision related to GLB is the net amount at risk. The concept of a notional value does not apply to the GLB reinsurance contracts.

On January 1, 2013, we adopted new accounting guidance that requires disclosure of financial instruments subject to a master netting agreement. At December 31, 2013 and December 31, 2012, derivative liabilities of $41 million and derivative assets of $35 million, respectively, included in the table above were subject to a master netting agreement. The remaining derivatives included in the table above were not subject to a master netting agreement.

At both December 31, 2013 and 2012, our repurchase obligations of $1,401 million were fully collateralized. At December 31, 2013 and 2012, our securities lending payable was $1,633 million and $1,795 million, respectively, and our securities lending collateral was $1,632 million and $1,791 million, respectively. The securities lending collateral can only be accessed in the event that the institution borrowing the securities is in default under the lending agreement. An indemnification agreement with the lending agent protects us in the event a borrower becomes insolvent or fails to return any of the securities on loan. In contrast to securities lending programs, the use of cash received is not restricted for the repurchase obligations.

The following table presents net realized gains (losses) related to derivative instrument activity in the consolidated statements of operations:

(in millions of U.S. dollars)	Years Ended December 31 2013	2012	2011
Investment and embedded derivative instruments			
Foreign currency forward contracts	**$ 11**	$ (9)	$ 6
All other futures contracts and options	**61**	(22)	(98)
Convertible bonds	**6**	25	(50)
TBAs	**-**	-	(1)
Total investment and embedded derivative instruments	**$ 78**	$ (6)	$ (143)
GLB and other derivative instruments			
GLB[1]	**$ 878**	$ 171	$ (779)
Futures contracts on equities[2]	**(555)**	(273)	(12)
Options on equity market indices[2]	**(24)**	(24)	8
Other	**(2)**	(4)	(4)
Total GLB and other derivative instruments	**$ 297**	$ (130)	$ (787)
	$ 375	$ (136)	$ (930)

(1) Excludes foreign exchange gains (losses) related to GLB.
(2) Related to GMDB and GLB blocks of business.

Derivative instrument objectives

(i) Foreign currency exposure management
A foreign currency forward contract (forward) is an agreement between participants to exchange specific foreign currencies at a future date. ACE uses forwards to minimize the effect of fluctuating foreign currencies.

(ii) Duration management and market exposure
Futures
Futures contracts give the holder the right and obligation to participate in market movements, determined by the index or underlying security on which the futures contract is based. Settlement is made daily in cash by an amount equal to the change in value of the futures contract times a multiplier that scales the size of the contract. Exchange-traded futures contracts on money market instruments, notes and bonds are used in fixed maturity portfolios to more efficiently manage duration, as substitutes for ownership of the money market instruments, bonds and notes without significantly increasing the risk in the portfolio. Investments in futures contracts may be made only to the extent that there are assets under management not otherwise committed.

Exchange-traded equity futures contracts are used to limit exposure to a severe equity market decline, which would cause an increase in expected claims and therefore, reserves for GMDB and GLB reinsurance business.

Options
An option contract conveys to the holder the right, but not the obligation, to purchase or sell a specified amount or value of an underlying security at a fixed price. Option contracts are used in the investment portfolio as protection against unexpected shifts in interest rates, which would affect the duration of the fixed maturity portfolio. By using options in the portfolio, the overall interest rate sensitivity of the portfolio can be reduced. Option contracts may also be used as an alternative to futures contracts in the synthetic strategy as described above.

Another use for option contracts is to limit exposure to a severe equity market decline, which would cause an increase in expected claims and therefore, reserves for GMDB and GLB reinsurance business.

The price of an option is influenced by the underlying security, expected volatility, time to expiration, and supply and demand.

The credit risk associated with the above derivative financial instruments relates to the potential for non-performance by counterparties. Although non-performance is not anticipated, in order to minimize the risk of loss, management monitors the creditworthiness of its counterparties and obtains collateral. The performance of exchange-traded instruments is guaranteed by

the exchange on which they trade. For non-exchange-traded instruments, the counterparties are principally banks which must meet certain criteria according to our investment guidelines.

Cross-currency swaps
Cross-currency swaps are agreements under which two counterparties exchange interest payments and principal denominated in different currencies at a future date. We use cross-currency swaps to reduce the foreign currency and interest rate risk by converting cash flows back into local currency. We invest in foreign currency denominated investments to improve credit diversification and also to obtain better duration matching to our liabilities that is limited in the local currency market.

Other
Included within Other are derivatives intended to reduce potential losses which may arise from certain exposures in our insurance business. The economic benefit provided by these derivatives is similar to purchased reinsurance. For example, from time to time ACE may enter into derivative contracts to protect underwriting results in the event of a significant decline in commodity prices. Also included within Other are credit default swaps purchased and certain life insurance products that meet the definition of a derivative instrument for accounting purposes.

(iii) Convertible security investments
A convertible bond is a debt instrument that can be converted into a predetermined amount of the issuer's equity at certain times prior to the bond's maturity. The convertible option is an embedded derivative within the fixed maturity host instruments which are classified in the investment portfolio as available for sale. ACE purchases convertible bonds for their total return and not specifically for the conversion feature.

(iv) TBA
By acquiring TBAs, we make a commitment to purchase a future issuance of mortgage-backed securities. For the period between purchase of the TBAs and issuance of the underlying security, we account for our position as a derivative in the consolidated financial statements. ACE purchases TBAs both for their total return and for the flexibility they provide related to our mortgage-backed security strategy.

(v) GLB
Under the GLB program, as the assuming entity, ACE is obligated to provide coverage until the expiration or maturity of the underlying deferred annuity contracts or the expiry of the reinsurance treaty. Premiums received under the reinsurance treaties are classified as premium. Expected losses allocated to premiums received are classified as Future policy benefits and valued similar to GMDB reinsurance. Other changes in fair value, principally arising from changes in expected losses allocated to expected future premiums, are classified as Net realized gains (losses). Fair value represents management's estimate of exit price and thus, includes a risk margin. We may recognize a realized loss for other changes in fair value due to adverse changes in the capital markets (e.g., declining interest rates and/or declining equity markets) and changes in actual or estimated future policyholder behavior (e.g., increased annuitization or decreased lapse rates) although we expect the business to be profitable. We believe this presentation provides the most meaningful disclosure of changes in the underlying risk within the GLB reinsurance programs for a given reporting period.

b) Concentrations of credit risk
Our investment portfolio is managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single issue and issuer. We believe that there are no significant concentrations of credit risk associated with our investments. Our three largest exposures by issuer at December 31, 2013, were JP Morgan Chase & Co., Goldman Sachs Group Inc., and General Electric Company. Our largest exposure by industry at December 31, 2013 was financial services.

We market our insurance and reinsurance worldwide primarily through insurance and reinsurance brokers. We assume a degree of credit risk associated with brokers with whom we transact business. During both years ended December 31, 2013 and 2012, and in the year ended December 31, 2011, approximately 11 percent and 12 percent, respectively, of our gross premiums written were generated from or placed by Marsh, Inc. This entity is a large, well established company and there are no indications that it is financially troubled at December 31, 2013. In addition, during the year ended December 31, 2011, approximately 10 percent of our gross premiums written were generated from or placed by Aon Corporation and its affiliates. No other broker and no one insured or reinsured accounted for more than 10 percent of gross premiums written in the years ended December 31, 2013, 2012, and 2011.

c) Other investments
At December 31, 2013, included in Other investments in the consolidated balance sheet are investments in limited partnerships and partially-owned investment companies with a carrying value of $1.9 billion. In connection with these investments, we have commitments that may require funding of up to $1.2 billion over the next several years.

d) Letters of credit
We have a $1.0 billion unsecured operational LOC facility (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, 2013, outstanding LOCs issued under this facility were $376 million. We also have a $500 million unsecured operational LOC facility expiring in June 2014. At December 31, 2013, this facility was fully utilized.

To satisfy funding requirements of ACE's Lloyd's Syndicate 2488 through 2014, we have a series of four bilateral uncollateralized LOC facilities totaling $425 million. LOCs issued under these facilities will expire no earlier than December 2017. Usage of this facility at December 31, 2013 was $352 million.

These facilities require that ACE Limited and/or certain of its subsidiaries continue to maintain certain covenants. ACE Limited is also required to maintain a minimum consolidated net worth covenant and a maximum leverage covenant, which have been met at December 31, 2013.

e) Legal proceedings
Our insurance subsidiaries are subject to claims litigation involving disputed interpretations of policy coverages and, in some jurisdictions, direct actions by allegedly-injured persons seeking damages from policyholders. These lawsuits, involving claims on policies issued by our subsidiaries which are typical to the insurance industry in general and in the normal course of business, are considered in our loss and loss expense reserves. In addition to claims litigation, we are subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance policies. This category of business litigation typically involves, among other things, allegations of underwriting errors or misconduct, employment claims, regulatory activity, or disputes arising from our business ventures. In the opinion of management, our ultimate liability for these matters could be, but we believe is not likely to be, material to our consolidated financial condition and results of operations.

f) Lease commitments
We lease office space and equipment under operating leases which expire at various dates through 2033. Rent expense was $128 million, $112 million, and $114 million for the years ended December 31, 2013, 2012, and 2011, respectively. Future minimum lease payments under the leases are expected to be as follows:

For the year ending December 31 (in millions of U.S. dollars)		
2014	$	106
2015		99
2016		86
2017		70
2018		49
Thereafter		124
Total minimum future lease commitments	$	534

11. Shareholders' equity

a) Common Shares
All of ACE's Common Shares are authorized under Swiss corporate law. Though the par value of Common Shares is stated in Swiss francs, ACE continues to use U.S. dollars as its reporting currency for preparing the consolidated financial statements. Under Swiss corporate law, we are generally prohibited from issuing Common Shares below their par value. If there were a need to raise common equity at a time when the trading price of ACE's Common Shares is below par value, we would need in advance to obtain shareholder approval to decrease the par value of the Common Shares.

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. 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 final two quarterly installments (made on January 31, 2014 and the payment to be made by the end of April 2014) that had been earlier approved at our 2013 annual general meeting. The $0.12 per share increase for each installment will be distributed from capital contribution reserves while the existing $0.51 per share will be distributed by way of a par value reduction.

Under Swiss corporate law, dividends, including distributions through a reduction in par value (par value reduction), must be stated in Swiss francs though dividend payments are made by ACE in U.S. dollars. Dividend distributions following ACE's redomestication to Switzerland have generally been made by way of par value reduction (under the methods approved by our shareholders at our Annual General Meetings) and had the effect of reducing par value per Common Share each time a dividend was distributed. In light of a January 1, 2011 Swiss tax law change, we may also issue dividends without subjecting them to withholding tax by way of distributions from capital contribution reserves (Additional paid-in capital), a subaccount of legal reserves, and paid out of free reserves (Retained earnings). We employed this method of dividends during portions of 2011 and 2012, and to effect our dividend increase that was approved by shareholders on January 10, 2014.

b) Shares issued, outstanding, authorized, and conditional

	Years Ended December 31		
	2013	2012	2011
Shares issued, beginning of year	**342,832,412**	342,832,412	341,094,559
Exercise of stock options	**-**	-	1,737,853
Shares issued, end of year	**342,832,412**	342,832,412	342,832,412
Common Shares in treasury, end of year (at cost)	**(3,038,477)**	(2,510,878)	(5,905,136)
Shares issued and outstanding, end of year	**339,793,935**	340,321,534	336,927,276
Common Shares issued to employee trust			
Balance, beginning of year	**(9,467)**	(9,467)	(101,481)
Shares redeemed	**-**	-	92,014
Balance, end of year	**(9,467)**	(9,467)	(9,467)

Prior to August 2011, exercises of stock options were satisfied through newly issued shares. From August 2011 onward, exercises of stock options were satisfied through Common Shares in treasury. Other decreases in Common Shares in treasury are principally due to grants of restricted stock, and purchases under the Employee Stock Purchase Plan (ESPP). Increases in Common Shares in treasury are due to open market repurchases of Common Shares and the surrender of Common Shares to satisfy tax withholding obligations in connection with the vesting of restricted stock and the forfeiture of unvested restricted stock.

For the years ended December 31, 2013, 2012, and 2011, ACE repurchased 3,266,531 Common Shares, 100,000 Common Shares, and 2,058,860 Common Shares in a series of open market transactions, respectively. The cost of these shares, which were placed in treasury, totaled $290 million, $7 million, and $132 million for the years ended December 31, 2013, 2012, and 2011, respectively. ACE repurchased these Common Shares to partially offset potential dilution from the exercise of stock options and the granting of restricted stock under share-based compensation plans as well as part of an overall capital management strategy.

Common Shares issued to employee trust are issued by ACE to a rabbi trust for deferred compensation obligations as discussed in Note 11 f) below.

Authorized share capital for general purposes
The ACE Limited Board of Directors (Board) has shareholder-approved authority as set forth in the Articles of Association to increase for general purposes ACE's share capital from time to time through May 16, 2014, by the issuance of up to 140,000,000 fully paid up Common Shares, with a par value equal to the par value of ACE's Common Shares as set forth in the Articles of Association at the time of any such issuance.

Conditional share capital for bonds and similar debt instruments
The share capital of ACE may be increased through the issuance of a maximum of 33,000,000 fully paid up Common Shares (with a par value of CHF 27.04 as of December 31, 2013) 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, including convertible debt instruments.

Conditional share capital for employee benefit plans
The share capital of ACE may be increased through the issuance of a maximum of 25,410,929 fully paid up Common Shares (with a par value of CHF 27.04 as of December 31, 2013) in connection with the exercise of option rights granted to any employee of ACE, and any consultant, director, or other person providing services to ACE.

c) ACE Limited securities repurchase authorization
On November 21, 2013, the Board announced authorization of a share repurchase program of up to $2 billion of ACE's Common Shares through December 31, 2014. This $2 billion authorization replaces the previous authorizations which had a remaining balance of $228 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 in share repurchase authorization remained through December 31, 2014 pursuant to the Board authorization. For the period January 1, 2014 through February 27, 2014, ACE 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.

d) General restrictions
The holders of the Common Shares are entitled to receive dividends as 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 in aggregate. 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.

e) Dividends
Refer to section a) above for a discussion on the methods of dividend payments. Dividend distributions on Common Shares amounted to CHF 1.85 ($2.02) per Common Share (paid through par value reductions), CHF 1.91 ($2.06) per Common Share (including par value reductions of CHF 1.38 per Common Share), and CHF 1.22 ($1.38) per Common Share (including a par value reduction of CHF 0.30 per Common Share) for the years ended December 31, 2013, 2012, and 2011, respectively. Par value reductions have been reflected as such through Common Shares in the consolidated statements of shareholders' equity. The par value per Common Share at December 31, 2013, was CHF 27.04.

f) Deferred compensation obligation
ACE maintains rabbi trusts for deferred compensation plans principally for employees and former directors. The shares issued by ACE to the rabbi trusts in connection with deferrals of share compensation are classified in shareholders' equity and accounted for at historical cost in a manner similar to Common Shares in treasury. These shares are recorded in Common Shares issued to employee trust and the obligations are recorded in Deferred compensation obligation in the consolidated balance sheets. Changes in the fair value of the shares underlying the obligations are recorded in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets and the related expense or income is recorded in Administrative expenses in the consolidated statements of operations.

The rabbi trusts also hold other assets, such as fixed maturities, equity securities, and life insurance policies. The assets of the rabbi trusts are consolidated with ACE's assets in the consolidated balance sheets. Assets held by the trust and the associated obligations are reported at fair value in Other investments and Accounts payable, accrued expenses, and other liabilities, respectively, in the consolidated balance sheets, with changes in fair value reflected as a corresponding increase or decrease to Other (income) expense in the consolidated statements of operations. However, life insurance policies assets and obligations are reported at cash surrender value.

12. Share-based compensation

ACE has share-based compensation plans which currently provide the Board the ability to grant awards of stock options, restricted stock, and restricted stock units to its employees, consultants, and members of the Board.

ACE principally issues restricted stock grants and stock options on a graded vesting schedule. ACE recognizes compensation cost for restricted stock and stock option grants with only service conditions that have a graded vesting schedule on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. We incorporate an estimate of future forfeitures (6.5 percent assumption used for 2013, 2012, and 2011) into the determination of compensation cost for both grants of restricted stock and stock options.

During 2004, we established the ACE Limited 2004 Long-Term Incentive Plan (the 2004 LTIP), which replaced our prior incentive plans except for outstanding awards. The 2004 LTIP will continue in effect until terminated by the Board. Under the 2004 LTIP, Common Shares of ACE are authorized to be issued pursuant to awards made as stock options, stock appreciation rights, performance shares, performance units, restricted stock, and restricted stock units.

ACE generally grants restricted stock and restricted stock units with a 4-year vesting period, based on a graded vesting schedule. The restricted stock is granted at market close price on the day of grant. Each restricted stock unit represents our obligation to deliver to the holder one Common Share upon vesting.

In May 2013, our shareholders approved an increase of eight million shares authorized to be issued under the 2004 LTIP, bringing the total shares authorized (i.e., for grant since its inception) to the sum of: (i) 38,600,000 common shares; and (ii) any shares that are represented by awards granted under the prior plans that are forfeited, expired, or are canceled after the effective date of the 2004 LTIP, 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. At December 31, 2013, a total of 11,231,423 shares remain available for future issuance under the 2004 LTIP.

In May 2012, our shareholders approved an increase of 1,500,000 shares authorized to be issued under the ESPP bringing the total shares authorized to 4,500,000 shares. At December 31, 2013, a total of 1,313,586 shares remain available for issuance under the ESPP.

ACE generally issues Common Shares for the exercise of stock options, restricted stock, and purchases under the ESPP from un-issued reserved shares (conditional share capital) and Common Shares in treasury.

The following table presents pre-tax and after-tax share-based compensation expense:

	Years Ended December 31		
(in millions of U.S. dollars)	**2013**	2012	2011
Stock options and shares issued under ESPP:			
Pre-tax	**$ 24**	$ 22	$ 23
After-tax [1]	**$ 18**	$ 17	$ 17
Restricted stock:			
Pre-tax	**$ 153**	$ 109	$ 108
After-tax	**$ 89**	$ 64	$ 70

[1] Excludes windfall tax benefit for share-based compensation recognized as a direct adjustment to Additional paid-in capital of $36 million, $18 million and $6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Unrecognized compensation expense related to the unvested portion of ACE's employee share-based awards was $107 million at December 31, 2013, and is expected to be recognized over a weighted-average period of approximately 1 year.

Stock options

ACE's 2004 LTIP permits grants of both incentive and non-qualified stock options principally at an option price per share equal to the grant date fair value of ACE's Common Shares. Stock options are generally granted with a 3-year vesting period and a 10-year term. Stock options vest in equal annual installments over the respective vesting period, which is also the requisite service period.

ACE's 2013 share-based compensation expense includes a portion of the cost related to the 2010 through 2013 stock option grants. Stock option fair value was estimated on the grant date using the Black-Scholes option-pricing model that uses the weighted-average assumptions noted below:

	Years Ended December 31		
	2013	2012	2011
Dividend yield	**2.4%**	2.7%	2.2%
Expected volatility	**27.8%**	29.8%	28.8%
Risk-free interest rate	**1.0%**	1.1%	2.3%
Expected life	**5.8 years**	5.8 years	5.4 years

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life (estimated period of time from grant to exercise date) was estimated using the historical exercise behavior of employees. Expected volatility was calculated as a blend of (a) historical volatility based on daily closing prices over a period equal to the expected life assumption, (b) long-term historical volatility based on daily closing prices over the period from ACE's initial public trading date through the most recent quarter, and (c) implied volatility derived from ACE's publicly traded options.

The following table presents a roll-forward of ACE's stock options:

(Intrinsic Value in millions of U.S. dollars)	Number of Options	Weighted-Average Exercise Price	Weighted-Average Fair Value	Total Intrinsic Value
Options outstanding, December 31, 2010	11,942,893	$ 46.80		
Granted	1,649,824	$ 62.68	$ 14.67	
Exercised	(2,741,238)	$ 44.45		$ 63
Forfeited	(271,972)	$ 51.33		
Options outstanding, December 31, 2011	10,579,507	$ 49.78		
Granted	1,462,103	$ 73.36	$ 15.58	
Exercised	(2,401,869)	$ 42.50		$ 78
Forfeited	(190,082)	$ 61.87		
Options outstanding, December 31, 2012	9,449,659	$ 55.03		
Granted	1,821,063	$ 85.41	$ 17.29	
Exercised	(1,658,671)	$ 48.17		$ 70
Forfeited	(115,195)	$ 72.50		
Options outstanding, December 31, 2013	**9,496,856**	**$ 61.84**		**$ 396**
Options exercisable, December 31, 2013	**6,330,456**	**$ 53.52**		**$ 317**

The weighted-average remaining contractual term was 6.5 years for stock options outstanding and 4.8 years for stock options exercisable at December 31, 2013. Cash received from the exercise of stock options for the year ended December 31, 2013 was $85 million.

Restricted stock and restricted stock units
Grants of restricted stock and restricted stock units granted under the 2004 LTIP typically have a 4-year vesting period, based on a graded vesting schedule. ACE also grants restricted stock awards to non-management directors which vest at the following year's annual general meeting. The restricted stock is granted at market close price on the grant date. Each restricted stock unit represents our obligation to deliver to the holder one Common Share upon vesting. ACE's 2013 share-based compensation expense includes a portion of the cost related to the restricted stock granted in the years 2009 through 2013.

The following table presents a roll-forward of our restricted stock awards. Included in the roll-forward below are 20,969 restricted stock awards, 25,669 restricted stock awards, and 32,660 restricted stock awards that were granted to non-management directors during the years ended December 31, 2013, 2012, and 2011 respectively:

	Number of Restricted Stock		Weighted-Average Grant-Date Fair Value
Unvested restricted stock, December 31, 2010	5,305,732	$	48.74
Granted	1,808,745	$	60.01
Vested	(1,929,189)	$	50.82
Forfeited	(333,798)	$	47.46
Unvested restricted stock, December 31, 2011	4,851,490	$	52.20
Granted	1,589,178	$	73.46
Vested	(1,923,385)	$	52.71
Forfeited	(262,436)	$	58.40
Unvested restricted stock, December 31, 2012	4,254,847	$	59.53
Granted	1,544,485	$	86.07
Vested	(1,951,494)	$	57.44
Forfeited	(139,651)	$	67.72
Unvested restricted stock, December 31, 2013	**3,708,187**	**$**	**71.38**

During the years ended December 31, 2013, 2012, and 2011, ACE awarded 271,004 restricted stock units, 262,549 restricted stock units, and 261,214 restricted stock units, respectively, to employees and officers each with a weighted-average grant date fair value per share of $85.44, $73.41, and $62.85, respectively. At December 31, 2013, there were 617,893 unvested restricted stock units.

Prior to 2009, ACE granted restricted stock units with a 1-year vesting period to non-management directors. Delivery of Common Shares on account of these restricted stock units to non-management directors is deferred until after the date of the non-management directors' termination from the Board. At December 31, 2013, there were 196,622 deferred restricted stock units.

ESPP

The ESPP gives participating employees the right to purchase Common Shares through payroll deductions during consecutive subscription periods at a purchase price of 85 percent of the fair value of a Common Share on the exercise date (Purchase Price). Annual purchases by participants are limited to the number of whole shares that can be purchased by an amount equal to ten percent of the participant's compensation or $25,000, whichever is less. The ESPP has two six-month subscription periods each year, the first of which runs between January 1 and June 30 and the second of which runs between July 1 and December 31. The amounts collected from participants during a subscription period are used on the exercise date to purchase full shares of Common Shares. An exercise date is generally the last trading day of a subscription period. The number of shares purchased is equal to the total amount, at the exercise date, collected from the participants through payroll deductions for that subscription period, divided by the Purchase Price, rounded down to the next full share. Participants may withdraw from an offering before the exercise date and obtain a refund of amounts withheld through payroll deductions. Pursuant to the provisions of the ESPP, during the years ended December 31, 2013, 2012, and 2011, employees paid $14 million, $13 million, and $12 million to purchase 175,437 shares, 198,244 shares, and 205,812 shares, respectively.

13. Pension plans

ACE provides pension benefits to eligible employees and their dependents through various defined contribution plans and defined benefit plans sponsored by ACE. The defined contribution plans include a capital accumulation plan (401(k)) in the U.S. The defined benefit plans consist of various plans offered in certain jurisdictions primarily outside of the U.S. and Bermuda.

Defined contribution plans (including 401(k))
Under these plans, employees' contributions may be supplemented by ACE matching contributions based on the level of employee contribution. These contributions are invested at the election of each employee in one or more of several investment portfolios offered by a third-party investment advisor. Expenses for these plans totaled $111 million, $99 million, and $96 million for the years ended December 31, 2013, 2012, and 2011, respectively.

Defined benefit plans
We maintain non-contributory defined benefit plans that cover certain employees, principally located in Europe, Asia, and Mexico. We also provide a defined benefit plan to certain U.S.-based employees as a result of our acquisition of Penn Millers in November 2011. We account for pension benefits using the accrual method. Benefits under these plans are based on employees' years of service and compensation during final years of service. All underlying defined benefit plans are subject to periodic actuarial valuation by qualified local actuarial firms using actuarial models in calculating the pension expense and liability for each plan. We use December 31 as the measurement date for our defined benefit pension plans.

Components of accrued pension liability (included in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets):

(in millions of U.S dollars)	**December 31 2013**	December 31 2012
Fair value of plan assets	**$ 566**	$ 487
Projected benefit obligation	**591**	531
Accrued pension liability	**$ 25**	$ 44

The defined benefit pension plan contribution for 2014 is expected to be $3 million. The estimated net actuarial loss for the defined benefit pension plans that will be amortized from AOCI into net benefit costs over the next year is $3 million.

Benefit payments were $26 million and $37 million for the years ended December 31, 2013 and 2012, respectively. Benefit payments for the year ended December 31, 2012 included $12 million related to the full settlement of a defined benefit plan. Expected future payments are as follows:

For the year ending December 31 (in millions of U.S dollars)	
2014	$ 19
2015	22
2016	23
2017	22
2018	23
2019-2023	129

14. Other (income) expense

(in millions of U.S. dollars)	Years Ended December 31 2013	2012	2011
Amortization of intangible assets	$ 95	$ 51	$ 29
Equity in net (income) loss of partially-owned entities	(119)	(80)	(32)
(Gains) losses from fair value changes in separate account assets	(16)	(29)	36
Federal excise and capital taxes	24	22	20
Acquisition-related costs	4	11	5
Other	27	19	23
Other (income) expense	$ 15	$ (6)	$ 81

Other (income) expense includes Amortization of intangible assets, which is higher in 2013 due primarily to the acquisitions of Fianzas Monterrey (completed April 1, 2013) and ABA Seguros (completed May 2, 2013). Equity in net (income) loss of partially-owned entities includes our share of net (income) loss related to investment funds, limited partnerships, partially-owned investment companies, and partially-owned insurance companies. Also included in Other (income) expense are (Gains) losses from fair value changes in separate account assets that do not qualify for separate account reporting under GAAP. The offsetting movement in the separate account liabilities is included in Policy benefits in the consolidated statements of operations. Certain federal excise and capital taxes incurred as a result of capital management initiatives are included in Other (income) expense as these are considered capital transactions and are excluded from underwriting results.

15. Segment information

ACE operates through five business segments: Insurance - North American P&C, Insurance - North American Agriculture, Insurance - Overseas General, Global Reinsurance, and Life. These segments distribute their products through various forms of brokers, agencies, and direct marketing programs. All business segments have established relationships with reinsurance intermediaries.

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.

The Insurance - North American P&C segment comprises our operations in the U.S., Canada, and Bermuda. This segment includes the operations of ACE USA (including ACE Canada), ACE Commercial Risk Services, ACE Private Risk Services, ACE Westchester, ACE Bermuda, and various run-off operations, including Brandywine. ACE USA is the North American retail operating division which provides a broad array of traditional and specialty P&C, A&H, and risk management products and services to a diverse group of North America commercial and non-commercial enterprises and consumers. ACE Commercial Risk Services addresses the insurance needs of small and mid-sized businesses in North America by delivering a broad array of specialty product solutions for targeted industries that lend themselves to technology-assisted underwriting. ACE Private Risk Services provides high-value personal lines coverages for high net worth individuals and families in North America. ACE Westchester focuses on the North American wholesale distribution of excess and surplus lines property, casualty, environmental, professional liability and inland marine products. ACE Bermuda provides commercial insurance products on an excess basis mainly to a global client base targeting Fortune 1000 companies and covering exposures that are generally low in frequency and high in severity. 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.

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 Services, Inc. as well as farm and ranch, and specialty P&C commercial insurance products and services through our ACE Agribusiness unit. The MPCI program is offered in conjunction with the U.S. Department of Agriculture.

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. ACE International maintains a presence in every major insurance market in the world and is organized geographically along product lines that provide dedicated underwriting focus to customers. ACE International has four regions of operations: ACE Europe, ACE Asia Pacific, ACE Far East, and ACE Latin America. During 2013, ACE International expanded its operations with the acquisitions of ABA Seguros and Fianzas Monterrey in Mexico. Refer to Note 2 for additional information. Companies within the Insurance - Overseas General segment write a variety of insurance products including P&C, professional lines (directors and officers and errors and omissions), marine, energy, aviation, political risk, specialty consumer-oriented products, and A&H (principally accident and supplemental health). Combined Insurance distributes a wide range of supplemental A&H products. AGM, our London-based international specialty and excess and surplus lines business, includes Syndicate 2488, a wholly-owned ACE syndicate. AGM offers products through its parallel distribution network via ACE European Group Limited (AEGL) and Syndicate 2488. ACE provides funds at Lloyd's to support underwriting by Syndicate 2488, which is managed by ACE Underwriting Agencies Limited. 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. The reinsurance operation of AGM is included in the Global Reinsurance segment.

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. These divisions provide a broad range of traditional and specialty reinsurance products including property catastrophe, casualty, and property reinsurance coverages to a diverse array of primary P&C insurers.

The Life segment includes 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. ACE Life provides 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 through multiple distribution channels primarily in emerging markets including: Egypt, Hong Kong, Indonesia, South Korea, Taiwan, Thailand, and Vietnam; also throughout Latin America, selectively in Europe, and China through a non-consolidated joint venture insurance company. ACE Life Re helps clients (ceding companies) manage mortality, morbidity, and lapse risks embedded in their books of business. 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. Combined Insurance distributes specialty supplemental A&H and life insurance products targeted to middle income consumers and businesses in the U.S. and Canada.

Corporate includes ACE Limited, ACE Group Management and Holdings Ltd., ACE INA Holdings, Inc., and intercompany eliminations. Due to our initiatives to reduce reinsurance recoverable balances, losses recognized in connection with the commutation of ceded reinsurance contracts are generally not considered when assessing segment performance and, accordingly, are directly allocated to Corporate. Losses and loss expenses arise in connection with the commutation of ceded reinsurance contracts that result from a differential between the consideration received from reinsurers and the related reduction of reinsurance recoverable, principally related to the time value of money.

For segment reporting purposes, certain items have been presented in a different manner below than in the consolidated financial statements. Management uses underwriting income as the main measure of segment performance. ACE calculates underwriting income by subtracting Losses and loss expenses, Policy benefits, Policy acquisition costs, and Administrative expenses from Net premiums earned. For the Insurance - North American Agriculture segment, management includes gains and losses from fair value changes on crop derivatives as a component of underwriting income. For 2013, underwriting income in our Insurance - North American Agriculture segment was $89 million. This amount includes $1 million of realized losses related to crop derivatives which are included in Net realized gains (losses) below. For the Life segment, management 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 as components of Life underwriting income. For example, for 2013, Life underwriting income of $374 million includes Net investment income of $251 million and gains from fair value changes in separate account assets of $16 million.

The following tables present the Statement of Operations by segment:

For the Year Ended December 31, 2013 (in millions of U.S. dollars)	Insurance - North American P&C	Insurance - North American Agriculture	Insurance - Overseas General	Global Reinsurance	Life	Corporate	ACE Consolidated
Net premiums written	$ 5,915	$ 1,627	$ 6,520	$ 991	$ 1,972	$ -	$ 17,025
Net premiums earned	5,721	1,678	6,333	976	1,905	-	16,613
Losses and loss expenses	3,776	1,524	3,062	396	582	8	9,348
Policy benefits	-	-	-	-	515	-	515
Policy acquisition costs	597	53	1,453	197	358	1	2,659
Administrative expenses	601	11	1,008	50	343	198	2,211
Underwriting income (loss)	747	90	810	333	107	(207)	1,880
Net investment income	1,021	26	539	280	251	27	2,144
Net realized gains (losses) including OTTI	72	1	18	53	360	-	504
Interest expense	5	1	5	5	15	244	275
Other (income) expense:							
(Gains) losses from fair value changes in separate account assets	-	-	-	-	(16)	-	(16)
Other	(58)	32	39	(19)	13	24	31
Income tax expense (benefit)	347	20	222	36	34	(179)	480
Net income (loss)	$ 1,546	$ 64	$ 1,101	$ 644	$ 672	$ (269)	$ 3,758

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

For the Year Ended December 31, 2012 (in millions of U.S. dollars)	Insurance - North American P&C	Insurance - North American Agriculture	Insurance - Overseas General	Global Reinsurance	Life	Corporate	ACE Consolidated
Net premiums written	$ 5,349	$ 1,859	$ 5,863	$ 1,025	$ 1,979	$ -	$ 16,075
Net premiums earned	5,147	1,872	5,740	1,002	1,916	-	15,677
Losses and loss expenses	3,715	1,911	2,862	553	611	1	9,653
Policy benefits	-	-	-	-	521	-	521
Policy acquisition costs	558	28	1,353	172	334	1	2,446
Administrative expenses	608	(7)	935	51	328	181	2,096
Underwriting income (loss)	266	(60)	590	226	122	(183)	961
Net investment income	1,066	25	521	290	251	28	2,181
Net realized gains (losses) including OTTI	41	1	103	6	(72)	(1)	78
Interest expense	12	-	5	4	12	217	250
Other (income) expense:							
(Gains) losses from fair value changes in separate account assets	-	-	-	-	(29)	-	(29)
Other	(41)	32	3	(15)	25	19	23
Income tax expense (benefit)	229	(29)	133	15	58	(136)	270
Net income (loss)	$ 1,173	$ (37)	$ 1,073	$ 518	$ 235	$ (256)	$ 2,706

For the Year Ended December 31, 2011 (in millions of U.S. dollars)	Insurance - North American P&C	Insurance - North American Agriculture	Insurance - Overseas General	Global Reinsurance	Life	Corporate	ACE Consolidated
Net premiums written	$ 4,900	$ 1,951	$ 5,629	$ 979	$ 1,913	$ -	$ 15,372
Net premiums earned	4,969	1,942	5,614	1,003	1,859	-	15,387
Losses and loss expenses	3,577	1,699	3,029	621	593	1	9,520
Policy benefits	-	-	-	-	401	-	401
Policy acquisition costs	532	80	1,335	185	339	1	2,472
Administrative expenses	598	(6)	939	52	317	168	2,068
Underwriting income (loss)	262	169	311	145	209	(170)	926
Net investment income	1,148	22	546	287	226	13	2,242
Net realized gains (losses) including OTTI	28	6	33	(50)	(806)	(6)	(795)
Interest expense	13	2	5	2	11	217	250
Other (income) expense:							
(Gains) losses from fair value changes in separate account assets	-	-	-	-	36	-	36
Other	(13)	18	-	(1)	26	15	45
Income tax expense (benefit)	344	51	164	30	50	(137)	502
Net income (loss)	$ 1,094	$ 126	$ 721	$ 351	$ (494)	$ (258)	$ 1,540

Underwriting assets are reviewed in total by management for purposes of decision-making. Other than goodwill and other intangible assets, ACE does not allocate assets to its segments.

The following table presents net premiums earned for each segment by product:

(in millions of U.S. dollars) For the Year Ended December 31, 2013	Property & All Other	Casualty	Life, Accident & Health	ACE Consolidated
Insurance - North American P&C	**$ 1,489**	**$ 3,847**	**$ 385**	**$ 5,721**
Insurance - North American Agriculture	**1,678**	**-**	**-**	**1,678**
Insurance - Overseas General	**2,672**	**1,479**	**2,182**	**6,333**
Global Reinsurance	**543**	**433**	**-**	**976**
Life	**-**	**-**	**1,905**	**1,905**
	$ 6,382	**$ 5,759**	**$ 4,472**	**$ 16,613**
For the Year Ended December 31, 2012				
Insurance - North American P&C	$ 1,370	$ 3,406	$ 371	$ 5,147
Insurance - North American Agriculture	1,872	-	-	1,872
Insurance - Overseas General	2,236	1,379	2,125	5,740
Global Reinsurance	495	507	-	1,002
Life	-	-	1,916	1,916
	$ 5,973	$ 5,292	$ 4,412	$ 15,677
For the Year Ended December 31, 2011				
Insurance - North American P&C	$ 1,232	$ 3,380	$ 357	$ 4,969
Insurance - North American Agriculture	1,942	-	-	1,942
Insurance - Overseas General	2,080	1,415	2,119	5,614
Global Reinsurance	458	545	-	1,003
Life	-	-	1,859	1,859
	$ 5,712	$ 5,340	$ 4,335	$ 15,387

The following table presents net premiums earned by geographic region. Allocations have been made on the basis of location of risk:

Years Ended	North America	Europe	Asia Pacific/Far East	Latin America
2013	**58%**	**17%**	**16%**	**9%**
2012	60%	17%	16%	7%
2011	61%	18%	14%	7%

16. Earnings per share

(in millions of U.S. dollars, except share and per share data)	Years Ended December 31 2013	2012	2011
Numerator:			
Net income	**$ 3,758**	$ 2,706	$ 1,540
Denominator:			
Denominator for basic earnings per share:			
Weighted-average shares outstanding	**340,906,490**	339,843,438	338,159,409
Denominator for diluted earnings per share:			
Share-based compensation plans	**3,241,085**	2,903,512	2,620,815
Weighted-average shares outstanding and assumed conversions	**344,147,575**	342,746,950	340,780,224
Basic earnings per share	**$ 11.02**	$ 7.96	$ 4.55
Diluted earnings per share	**$ 10.92**	$ 7.89	$ 4.52
Potential anti-dilutive share conversions	**1,031,297**	896,591	111,326

Excluded from weighted-average shares outstanding and assumed conversions is the impact of securities that would have been anti-dilutive during the respective years.

17. Related party transactions

The ACE Foundation - Bermuda is an unconsolidated not-for-profit organization whose primary purpose is to fund charitable causes in Bermuda. The Trustees are principally ACE management. ACE maintains a non-interest bearing demand note receivable from the ACE Foundation - Bermuda (Borrower), the balance of which was $26 million and $27 million, at December 31, 2013 and 2012, respectively. The

receivable is included in Other assets in the consolidated balance sheets. The Borrower has used the related proceeds to finance investments in Bermuda real estate, some of which have been rented to ACE employees at rates established by independent, professional real estate appraisers. The Borrower uses income from the investments to both repay the note and to fund charitable activities. Accordingly, we report the demand note at the lower of its principal value or the fair value of assets held by the Borrower to repay the loan, including the real estate properties.

18. Statutory financial information

Our subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by insurance regulators. Statutory accounting differs from GAAP in the reporting of certain reinsurance contracts, investments, subsidiaries, acquisition expenses, fixed assets, deferred income taxes, and certain other items. Some jurisdictions impose complex regulatory requirements on insurance companies while other jurisdictions impose fewer requirements. In some jurisdictions, we must obtain licenses issued by governmental authorities to conduct local insurance business. These licenses may be subject to reserves and minimum capital and solvency tests. Jurisdictions may impose fines, censure, and/or criminal sanctions for violation of regulatory requirements. The 2013 amounts below are based on estimates.

ACE's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate. These regulations include restrictions that limit the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the local insurance regulatory authorities. The amount of dividends available to be paid in 2014 without prior approval totals $3.8 billion.

The statutory capital and surplus of our insurance subsidiaries met regulatory requirements for 2013, 2012, and 2011. The minimum amounts of statutory capital and surplus necessary to satisfy regulatory requirements were $14.5 billion and $14.3 billion for December 31, 2013 and 2012, respectively.

The combined statutory capital and surplus was $25.6 billion and $24.4 billion at December 31, 2013 and 2012, respectively. The combined statutory net income was $3.7 billion, $2.9 billion, and $1.9 billion for the years ended December 31, 2013, 2012, and 2011, respectively.

Several insurance subsidiaries follow accounting practices prescribed or permitted by the jurisdiction of domicile that differ from the applicable local statutory practice. The application of prescribed or permitted accounting practices does not have a material impact on ACE's statutory surplus and income. As prescribed by the Restructuring discussed previously in Note 7, certain of our U.S. subsidiaries discount certain A&E liabilities, which increased statutory capital and surplus by approximately $158 million and $161 million at December 31, 2013 and 2012, respectively.

19. Information provided in connection with outstanding debt of subsidiaries

The following tables present condensed consolidating financial information at December 31, 2013 and December 31, 2012, and for the years ended December 31, 2013, 2012, and 2011 for ACE Limited (Parent Guarantor) and ACE INA Holdings, Inc. (Subsidiary Issuer). The Subsidiary Issuer is an indirect 100 percent-owned subsidiary of the Parent Guarantor. The Parent Guarantor fully and unconditionally guarantees certain of the debt of the Subsidiary Issuer.

During the third quarter of 2013, we determined that the Subsidiary Issuer columns presented in the previously issued condensed consolidating financial information should be presented on the equity method of accounting rather than on a consolidated basis. Accordingly, we have revised the disclosure to correct the Condensed Consolidating Balance Sheet as of December 31, 2012, the Condensed Consolidating Statements of Operations and Comprehensive Income for the years ended December 31, 2012 and 2011, and the Condensed Consolidating Statements of Cash Flows for the years ended December 31, 2012 and 2011. As a result of this revision to the Subsidiary Issuer condensed consolidating financial information, the assets and liabilities, revenues and expenses, and cash flows of the subsidiaries of ACE INA Holdings, Inc. (Subsidiary Issuer) are now presented in the Other ACE Limited Subsidiaries column on a combined basis. In addition, we revised the Consolidating Adjustments and Eliminations column to correctly include all intercompany eliminations. Previously, this column reflected only ACE Limited parent company intercompany eliminations. We also revised the Condensed Consolidating Balance Sheet as of December 31, 2012 and Condensed Consolidating Statement of Cash Flows for the years ended December 31, 2012 and 2011 to correct the presentation of negative cash associated with our affiliated notional cash pooling programs (Pools). In addition, certain items in the Condensed Consolidating Statement of Cash Flows for the years ended December 31, 2012 and 2011 have been reclassified to conform to current period presentation. Also, the operating cash flows have been corrected to properly reflect certain intercompany transactions previously recorded in investing and financing cash flows for the years ended December 31, 2012 and 2011.

Total shareholders' equity and net income of the Subsidiary Issuer and Parent Guarantor were not impacted as a result of these revisions. The impact of the revisions was not material to the prior period consolidated financial statements taken as a whole. There was no impact on the consolidated amounts previously reported. The prior period condensed consolidating financial statements will be similarly revised as the information is presented in the first and second quarter Form 10-Q filings for 2014.

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Condensed Consolidating Balance Sheet at December 31, 2013

(in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Assets					
Investments	$ 32	$ 10	$ 60,886	$ -	$ 60,928
Cash[1]	-	16	748	(185)	579
Insurance and reinsurance balances receivable	-	-	5,835	(809)	5,026
Reinsurance recoverable on losses and loss expenses	-	-	20,057	(8,830)	11,227
Reinsurance recoverable on policy benefits	-	-	1,215	(997)	218
Value of business acquired	-	-	536	-	536
Goodwill and other intangible assets	-	-	5,404	-	5,404
Investments in subsidiaries	28,351	18,105	-	(46,456)	-
Due from subsidiaries and affiliates, net	844	-	-	(844)	-
Other assets	5	258	13,788	(3,459)	10,592
Total assets	$ 29,232	$ 18,389	$ 108,469	$ (61,580)	$ 94,510
Liabilities					
Unpaid losses and loss expenses	$ -	$ -	$ 45,714	$ (8,271)	$ 37,443
Unearned premiums	-	-	9,242	(1,703)	7,539
Future policy benefits	-	-	5,612	(997)	4,615
Due to (from) subsidiaries and affiliates, net	-	714	130	(844)	-
Affiliated notional cash pooling programs[1]	185	-	-	(185)	-
Short-term debt	-	500	1,401	-	1,901
Long-term debt	-	3,795	12	-	3,807
Trust preferred securities	-	309	-	-	309
Other liabilities	222	1,318	11,655	(3,124)	10,071
Total liabilities	407	6,636	73,766	(15,124)	65,685
Total shareholders' equity	28,825	11,753	34,703	(46,456)	28,825
Total liabilities and shareholders' equity	$ 29,232	$ 18,389	$ 108,469	$ (61,580)	$ 94,510

(1) ACE maintains two notional multicurrency cash pools (Pools) with a third-party bank. Refer to Note 1f) for additional information. At December 31, 2013, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Balance Sheet at December 31, 2012 (Revised)

(in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Assets					
Investments	$ 31	$ 14	$ 60,219	$ -	$ 60,264
Cash[1]	103	2	859	(349)	615
Insurance and reinsurance balances receivable	-	-	4,742	(595)	4,147
Reinsurance recoverable on losses and loss expenses	-	-	20,935	(8,857)	12,078
Reinsurance recoverable on policy benefits	-	-	1,229	(988)	241
Value of business acquired	-	-	614	-	614
Goodwill and other intangible assets	-	-	4,975	-	4,975
Investments in subsidiaries	27,251	17,016	-	(44,267)	-
Due from subsidiaries and affiliates, net	204	-	-	(204)	-
Other assets	13	210	11,304	(1,916)	9,611
Total assets	$ 27,602	$ 17,242	$ 104,877	$ (57,176)	$ 92,545
Liabilities					
Unpaid losses and loss expenses	$ -	$ -	$ 46,109	$ (8,163)	$ 37,946
Unearned premiums	-	-	8,248	(1,384)	6,864
Future policy benefits	-	-	5,458	(988)	4,470
Due to subsidiaries and affiliates, net	-	68	136	(204)	-
Affiliated notional cash pooling programs[1]	-	349	-	(349)	-
Short-term debt	-	-	1,401	-	1,401
Long-term debt	-	3,347	13	-	3,360
Trust preferred securities	-	309	-	-	309
Other liabilities	71	1,195	11,219	(1,821)	10,664
Total liabilities	71	5,268	72,584	(12,909)	65,014
Total shareholders' equity	27,531	11,974	32,293	(44,267)	27,531
Total liabilities and shareholders' equity	$ 27,602	$ 17,242	$ 104,877	$ (57,176)	$ 92,545

[1] ACE maintains two notional multicurrency cash pools (Pools) with a third-party bank. Refer to Note 1f) for additional information. At December 31, 2012, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Balance Sheet at December 31, 2012 (As previously reported)

(in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Assets					
Investments	$ 31	$ 31,074	$ 29,159	$ -	$ 60,264
Cash(3)	103	515	(3)	-	615
Insurance and reinsurance balances receivable	-	3,654	493	-	4,147
Reinsurance recoverable on losses and loss expenses	-	17,232	(5,154)	-	12,078
Reinsurance recoverable on policy benefits	-	1,187	(946)	-	241
Value of business acquired	-	610	4	-	614
Goodwill and other intangible assets	-	4,419	556	-	4,975
Investments in subsidiaries	27,251	-	-	(27,251)	-
Due from subsidiaries and affiliates, net	204	-	-	(204)	-
Other assets	13	7,563	2,035	-	9,611
Total assets	$ 27,602	$ 66,254	$ 26,144	$ (27,455)	$ 92,545
Liabilities					
Unpaid losses and loss expenses	$ -	$ 31,356	$ 6,590	$ -	$ 37,946
Unearned premiums	-	5,872	992	-	6,864
Future policy benefits	-	3,876	594	-	4,470
Due to (from) subsidiaries and affiliates, net	-	384	(180)	(204)	-
Short-term debt	-	851	550	-	1,401
Long-term debt	-	3,360	-	-	3,360
Trust preferred securities	-	309	-	-	309
Other liabilities	71	8,272	2,321	-	10,664
Total liabilities	71	54,280	10,867	(204)	65,014
Total shareholders' equity	27,531	11,974	15,277	(27,251)	27,531
Total liabilities and shareholders' equity	$ 27,602	$ 66,254	$ 26,144	$ (27,455)	$ 92,545

(1)Includes all other subsidiaries of ACE Limited and intercompany eliminations.
(2)Includes ACE Limited parent company eliminations.
(3)ACE maintains two notional multicurrency cash pools (Pools) with a third-party bank. Refer to Note 1f) for additional information. At December 31, 2012, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

Condensed Consolidating Statements of Operations and Comprehensive Income

For the Year Ended December 31, 2013 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Net premiums written	$ -	$ -	$ 17,025	$ -	$ 17,025
Net premiums earned	-	-	16,613	-	16,613
Net investment income	2	3	2,139	-	2,144
Equity in earnings of subsidiaries	3,580	942	-	(4,522)	-
Net realized gains (losses) including OTTI	-	(2)	506	-	504
Losses and loss expenses	-	-	9,348	-	9,348
Policy benefits	-	-	515	-	515
Policy acquisition costs and administrative expenses	60	19	4,791	-	4,870
Interest (income) expense	(32)	270	37	-	275
Other (income) expense	(221)	27	209	-	15
Income tax expense (benefit)	17	(108)	571	-	480
Net income	$ 3,758	$ 735	$ 3,787	$ (4,522)	$ 3,758
Comprehensive income	$ 2,023	$ (230)	$ 2,051	$ (1,821)	$ 2,023

Condensed Consolidating Statements of Operations and Comprehensive Income (Revised)

For the Year Ended December 31, 2012 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Net premiums written	$ -	$ -	$ 16,075	$ -	$ 16,075
Net premiums earned	-	-	15,677	-	15,677
Net investment income	1	3	2,177	-	2,181
Equity in earnings of subsidiaries	2,590	911	-	(3,501)	-
Net realized gains (losses) including OTTI	17	-	61	-	78
Losses and loss expenses	-	-	9,653	-	9,653
Policy benefits	-	-	521	-	521
Policy acquisition costs and administrative expenses	62	28	4,452	-	4,542
Interest (income) expense	(33)	235	48	-	250
Other (income) expense	(137)	9	122	-	(6)
Income tax expense (benefit)	10	(110)	370	-	270
Net income	$ 2,706	$ 752	$ 2,749	$ (3,501)	$ 2,706
Comprehensive income	$ 3,682	$ 1,209	$ 3,724	$ (4,933)	$ 3,682

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Statements of Operations and Comprehensive Income (As previously reported)

For the Year Ended December 31, 2012 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net premiums written	$ -	$ 9,466	$ 6,609	$ -	$ 16,075
Net premiums earned	-	9,194	6,483	-	15,677
Net investment income	1	1,048	1,132	-	2,181
Equity in earnings of subsidiaries	2,590	-	-	(2,590)	-
Net realized gains (losses) including OTTI	17	121	(60)	-	78
Losses and loss expenses	-	6,211	3,442	-	9,653
Policy benefits	-	309	212	-	521
Policy acquisition costs and administrative expenses	62	2,564	1,916	-	4,542
Interest (income) expense	(33)	257	26	-	250
Other (income) expense	(137)	77	54	-	(6)
Income tax expense	10	193	67	-	270
Net income	$ 2,706	$ 752	$ 1,838	$ (2,590)	$ 2,706
Comprehensive income	$ 3,682	$ 1,209	$ 1,381	$ (2,590)	$ 3,682

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

Condensed Consolidating Statements of Operations and Comprehensive Income (Revised)

For the Year Ended December 31, 2011 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Net premiums written	$ -	$ -	$ 15,372	$ -	$ 15,372
Net premiums earned	-	-	15,387	-	15,387
Net investment income	2	2	2,238	-	2,242
Equity in earnings of subsidiaries	1,459	989	-	(2,448)	-
Net realized gains (losses) including OTTI	(4)	-	(791)	-	(795)
Losses and loss expenses	-	-	9,520	-	9,520
Policy benefits	-	-	401	-	401
Policy acquisition costs and administrative expenses	69	37	4,434	-	4,540
Interest (income) expense	(37)	266	21	-	250
Other (income) expense	(125)	21	185	-	81
Income tax expense (benefit)	10	(103)	595	-	502
Net income	$ 1,540	$ 770	$ 1,678	$ (2,448)	$ 1,540
Comprehensive income	$ 1,857	$ 1,077	$ 1,994	$ (3,071)	$ 1,857

Condensed Consolidating Statements of Operations and Comprehensive Income (As previously reported)

For the Year Ended December 31, 2011 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments (2)	ACE Limited Consolidated
Net premiums written	$ -	$ 9,081	$ 6,291	$ -	$ 15,372
Net premiums earned	-	9,082	6,305	-	15,387
Net investment income	2	1,096	1,144	-	2,242
Equity in earnings of subsidiaries	1,459	-	-	(1,459)	-
Net realized gains (losses) including OTTI	(4)	62	(853)	-	(795)
Losses and loss expenses	-	5,889	3,631	-	9,520
Policy benefits	-	192	209	-	401
Policy acquisition costs and administrative expenses	69	2,561	1,910	-	4,540
Interest (income) expense	(37)	267	20	-	250
Other (income) expense	(125)	143	63	-	81
Income tax expense	10	418	74	-	502
Net income	$ 1,540	$ 770	$ 689	$ (1,459)	$ 1,540
Comprehensive income	$ 1,857	$ 1,077	$ 382	$ (1,459)	$ 1,857

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

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Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2013 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Net cash flows from (used for) operating activities	$ 970	$ (107)	$ 3,984	$ (825)	$ 4,022
Cash flows from investing activities					
Purchases of fixed maturities available for sale	-	-	(21,504)	106	(21,398)
Purchases of fixed maturities held to maturity	-	-	(447)	-	(447)
Purchases of equity securities	-	-	(264)	-	(264)
Sales of fixed maturities available for sale	-	-	10,519	(106)	10,413
Sales of equity securities	-	-	142	-	142
Maturities and redemptions of fixed maturities available for sale	-	-	6,941	-	6,941
Maturities and redemptions of fixed maturities held to maturity	-	-	1,488	-	1,488
Net change in short-term investments	(1)	4	521	-	524
Net derivative instruments settlements	-	(1)	(470)	-	(471)
Acquisition of subsidiaries (net of cash acquired of $38)	-	-	(977)	-	(977)
Capital contribution	(133)	(1,097)	-	1,230	-
Other	-	(4)	(389)	-	(393)
Net cash flows used for investing activities	(134)	(1,098)	(4,440)	1,230	(4,442)
Cash flows from financing activities					
Dividends paid on Common Shares	(517)	-	-	-	(517)
Common Shares repurchased	-	-	(287)	-	(287)
Net proceeds from issuance of long-term debt	-	947	-	-	947
Proceeds from share-based compensation plans, including windfall tax benefits	14	-	121	-	135
Advances (to) from affiliates	(621)	621	-	-	-
Dividends to parent company	-	-	(825)	825	-
Capital contribution	-	-	1,230	(1,230)	-
Net proceeds from (payments to) affiliated notional cash pooling programs[(1)]	185	(349)	-	164	-
Other	-	-	113	-	113
Net cash flows (used for) from financing activities	(939)	1,219	352	(241)	391
ffect of foreign currency rate changes on cash and cash equivalents	-	-	(7)	-	(7)
Net (decrease) increase in cash	(103)	14	(111)	164	(36)
Cash - beginning of year[(1)]	103	2	859	(349)	615
Cash - end of year[(1)]	$ -	$ 16	$ 748	$ (185)	$ 579

(1) ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2013 and December 31, 2012, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Statement of Cash Flows (Revised)

For the Year Ended December 31, 2012 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Net cash flows from operating activities	$ 573	$ 296	$ 3,876	$ (750)	$ 3,995
Cash flows from investing activities					
Purchases of fixed maturities available for sale	-	-	(24,076)	115	(23,961)
Purchases of fixed maturities held to maturity	-	-	(388)	-	(388)
Purchases of equity securities	-	-	(135)	-	(135)
Sales of fixed maturities available for sale	-	-	14,884	(115)	14,769
Sales of equity securities	-	-	119	-	119
Maturities and redemptions of fixed maturities available for sale	-	-	5,523	-	5,523
Maturities and redemptions of fixed maturities held to maturity	-	-	1,451	-	1,451
Net change in short-term investments	-	(4)	121	-	117
Net derivative instruments settlements	(1)	-	(280)	-	(281)
Capital contribution	-	(352)	(90)	442	-
Acquisition of subsidiaries (net of cash acquired of $8)	-	-	(98)	-	(98)
Other	-	(33)	(522)	-	(555)
Net cash flows used for investing activities	(1)	(389)	(3,491)	442	(3,439)
Cash flows from financing activities					
Dividends paid on Common Shares	(815)	-	-	-	(815)
Common Shares repurchased	-	-	(11)	-	(11)
Net proceeds from issuance of short-term debt	-	-	150	-	150
Proceeds from share-based compensation plans, including windfall tax benefits	34	-	92	-	126
Advances from (to) affiliates	206	(201)	(5)	-	-
Dividends to parent company	-	-	(750)	750	-
Capital contribution	-	90	352	(442)	-
Net proceeds from affiliated notional cash pooling programs[(1)]	-	201	-	(201)	-
Net cash flows (used for) from financing activities	(575)	90	(172)	107	(550)
ffect of foreign currency rate changes on cash and cash equivalents	-	-	(5)	-	(5)
Net increase (decrease) in cash	(3)	(3)	208	(201)	1
Cash - beginning of year[(1)]	106	5	651	(148)	614
Cash - end of year[(1)]	$ 103	$ 2	$ 859	$ (349)	$ 615

[(1)]ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2012 and December 31, 2011, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

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Condensed Consolidating Statement of Cash Flows (As previously reported)

For the Year Ended December 31, 2012 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net cash flows from operating activities	$ 781	$ 1,744	$ 1,920	$ (450)	$ 3,995
Cash flows from investing activities					
Purchases of fixed maturities available for sale	-	(11,843)	(12,001)	-	(23,844)
Purchases of fixed maturities held to maturity	-	(384)	(4)	-	(388)
Purchases of equity securities	-	(70)	(65)	-	(135)
Sales of fixed maturities available for sale	-	7,347	7,422	-	14,769
Sales of equity securities	-	59	60	-	119
Maturities and redemptions of fixed maturities available for sale	-	2,759	2,764	-	5,523
Maturities and redemptions of fixed maturities held to maturity	-	1,045	406	-	1,451
Net derivative instruments settlements	(1)	(6)	(274)	-	(281)
Capital contribution	-	-	(90)	90	-
Advances from (to) affiliates	(2)	-	-	2	-
Acquisition of subsidiaries (net of cash acquired of $8)	-	(111)	13	-	(98)
Other	-	(395)	(160)	-	(555)
Net cash flows used for investing activities	(3)	(1,599)	(1,929)	92	(3,439)
Cash flows from financing activities					
Dividends paid on Common Shares	(815)	-	-	-	(815)
Common Shares repurchased	-	-	(11)	-	(11)
Net proceeds from issuance of short-term debt	-	1	149	-	150
Proceeds from share-based compensation plans, including windfall tax benefits	34	13	79	-	126
Advances (to) from affiliates	-	(105)	107	(2)	-
Dividends to parent company	-	-	(450)	450	-
Capital contribution	-	90	-	(90)	-
Net cash flows used for financing activities	(781)	(1)	(126)	358	(550)
ffect of foreign currency rate changes on cash and cash equivalents	-	(11)	6	-	(5)
Net increase (decrease) in cash	(3)	133	(129)	-	1
Cash - beginning of year	106	382	126	-	614
Cash - end of year[3]	$ 103	$ 515	$ (3)	$ -	$ 615

(1) Includes all other subsidiaries of ACE Limited and intercompany eliminations.
(2) Includes ACE Limited parent company eliminations and certain consolidating adjustments.
(3) ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2012, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Statement of Cash Flows (Revised)

For the Year Ended December 31, 2011 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries	Consolidating Adjustments and Eliminations	ACE Limited Consolidated
Net cash flows from operating activities	$ 831	$ 1,221	$ 3,455	$ (2,037)	$ 3,470
Cash flows from investing activities					
Purchases of fixed maturities available for sale	-	-	(24,601)	323	(24,278)
Purchases of fixed maturities held to maturity	-	-	(340)	-	(340)
Purchases of equity securities	-	-	(309)	-	(309)
Sales of fixed maturities available for sale	-	-	18,294	(323)	17,971
Sales of equity securities	-	-	376	-	376
Maturities and redemptions of fixed maturities available for sale	-	-	3,720	-	3,720
Maturities and redemptions of fixed maturities held to maturity	-	-	1,279	-	1,279
Net change in short-term investments	9	-	(309)	-	(300)
Net derivative instruments settlements	(3)	-	(64)	-	(67)
Capital contribution	(385)	(581)	-	966	-
Acquisition of subsidiaries (net of cash acquired of $91)	-	(76)	(530)	-	(606)
Other	-	(19)	(463)	-	(482)
Net cash flows used for investing activities	(379)	(676)	(2,947)	966	(3,036)
Cash flows from financing activities					
Dividends paid on Common Shares	(459)	-	-	-	(459)
Common Shares repurchased	-	-	(195)	-	(195)
Net proceeds from issuance (repayments) of short-term debt	(300)	-	250	-	(50)
Proceeds from share-based compensation plans, including windfall tax benefits	133	-	6	-	139
Advances from (to) affiliates	(28)	(721)	749	-	-
Dividends to parent company	-	-	(2,037)	2,037	-
Capital contribution	-	-	966	(966)	-
Net proceeds from affiliated notional cash pooling programs[1]	-	148	-	(148)	-
Net cash flows used for financing activities	(654)	(573)	(261)	923	(565)
Effect of foreign currency rate changes on cash and cash equivalents	-	-	(27)	-	(27)
Net increase (decrease) in cash	(202)	(28)	220	(148)	(158)
Cash - beginning of year[1]	308	33	431	-	772
Cash - end of year[1]	$ 106	$ 5	$ 651	$ (148)	$ 614

[1] ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2011 and December 31, 2010, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Statement of Cash Flows (As previously reported)

For the Year Ended December 31, 2011 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net cash flows from operating activities	$ 762	$ 1,053	$ 2,395	$ (740)	$ 3,470
Cash flows from investing activities					
Purchases of fixed maturities available for sale	-	(12,203)	(12,375)	-	(24,578)
Purchases of fixed maturities held to maturity	-	(338)	(2)	-	(340)
Purchases of equity securities	-	(157)	(152)	-	(309)
Sales of fixed maturities available for sale	9	9,718	8,244	-	17,971
Sales of equity securities	-	354	22	-	376
Maturities and redemptions of fixed maturities available for sale	-	1,784	1,936	-	3,720
Maturities and redemptions of fixed maturities held to maturity	-	933	346	-	1,279
Net derivative instruments settlements	(3)	(24)	(40)	-	(67)
Capital contribution	(385)	-	-	385	-
Advances from (to) affiliates	41	-	-	(41)	-
Acquisition of subsidiaries (net of cash acquired of $91)	-	(569)	(37)	-	(606)
Other	-	(420)	(62)	-	(482)
Net cash flows used for investing activities	(338)	(922)	(2,120)	344	(3,036)
Cash flows from financing activities					
Dividends paid on Common Shares	(459)	-	-	-	(459)
Common Shares repurchased	-	-	(195)	-	(195)
Net proceeds from (repayments) issuance of short-term debt	(300)	(150)	400	-	(50)
Net proceeds from share-based compensation plans, including windfall tax benefits	133	3	3	-	139
Advances from (to) affiliates	-	(149)	108	41	-
Dividends to parent company	-	-	(740)	740	-
Capital contribution	-	-	385	(385)	-
Net cash flows used for financing activities	(626)	(296)	(39)	396	(565)
Effect of foreign currency rate changes on cash and cash equivalents	-	(26)	(1)	-	(27)
Net increase (decrease) in cash	(202)	(191)	235	-	(158)
Cash - beginning of year[3]	308	573	(109)	-	772
Cash - end of year	$ 106	$ 382	$ 126	$ -	$ 614

[1]Includes all other subsidiaries of ACE Limited and intercompany eliminations.
[2]Includes ACE Limited parent company eliminations and certain consolidating adjustments.
[3]ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2010, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

20. Condensed unaudited quarterly financial data

	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
(in millions of U.S. dollars, except per share data)	**2013**	**2013**	**2013**	**2013**
Net premiums earned	**$ 3,573**	**$ 4,067**	**$ 4,610**	**$ 4,363**
Net investment income	**531**	**534**	**522**	**557**
Net realized gains (losses) including OTTI	**206**	**104**	**40**	**154** (1)
Total revenues	**$ 4,310**	**$ 4,705**	**$ 5,172**	**$ 5,074**
Losses and loss expenses	**$ 1,926**	**$ 2,250**	**$ 2,655**	**$ 2,517**
Policy benefits	**$ 131**	**$ 110**	**$ 138**	**$ 136**
Net income	**$ 953**	**$ 891**	**$ 916**	**$ 998**
Basic earnings per share	**$ 2.80**	**$ 2.61**	**$ 2.68**	**$ 2.93**
Diluted earnings per share	**$ 2.77**	**$ 2.59**	**$ 2.66**	**$ 2.90**

(1) Includes a realized gain of $92 million for an out-of-period adjustment related to guaranteed living benefits. Refer to Note 4 a) for additional information.

	Three Months Ended			
	March 31	June 30	September 30	December 31
(in millions of U.S. dollars, except per share data)	2012	2012	2012	2012
Net premiums earned	$ 3,381	$ 3,783	$ 4,665	$ 3,848
Net investment income	544	537	533	567
Net realized gains (losses) including OTTI	260	(394)	(60)	272
Total revenues	$ 4,185	$ 3,926	$ 5,138	$ 4,687
Losses and loss expenses	$ 1,804	$ 2,119	$ 3,047	$ 2,683
Policy benefits	$ 147	$ 102	$ 130	$ 142
Net income	$ 973	$ 328	$ 640	$ 765
Basic earnings per share	$ 2.87	$ 0.96	$ 1.88	$ 2.24
Diluted earnings per share	$ 2.84	$ 0.96	$ 1.86	$ 2.22

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SCHEDULE I

ACE Limited and Subsidiaries

SUMMARY OF INVESTMENTS - OTHER THAN INVESTMENTS IN RELATED PARTIES

December 31, 2013 (in millions of U.S. dollars)	Cost or Amortized Cost	Fair Value	Amount at Which Shown in the Balance Sheet
Fixed maturities available for sale			
U.S. Treasury and agency	$ 2,946	$ 2,949	$ 2,949
Foreign	14,336	14,591	14,591
Corporate securities	16,825	17,470	17,470
Mortgage-backed securities	10,937	10,894	10,894
States, municipalities, and political subdivisions	3,362	3,350	3,350
Total fixed maturities available for sale	48,406	49,254	49,254
Fixed maturities held to maturity			
U.S. Treasury and agency	820	832	820
Foreign	864	897	864
Corporate securities	1,922	2,005	1,922
Mortgage-backed securities	1,341	1,379	1,341
States, municipalities, and political subdivisions	1,151	1,150	1,151
Total fixed maturities held to maturity	6,098	6,263	6,098
Equity securities			
Industrial, miscellaneous, and all other	841	837	837
Short-term investments	1,763	1,763	1,763
Other investments	2,671	2,976	2,976
	4,434	4,739	4,739
Total investments - other than investments in related parties	$ 59,779	$ 61,093	$ 60,928

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SCHEDULE II

ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS (Parent Company Only)

(in millions of U.S. dollars)		December 31 2013		December 31 2012
Assets				
Investments in subsidiaries and affiliates on equity basis	$	28,351	$	27,251
Short-term investments		2		1
Other investments, at cost		30		30
Total investments		28,383		27,282
Cash		-		103
Due from subsidiaries and affiliates, net		844		204
Other assets		5		13
Total assets	$	29,232	$	27,602
Liabilities				
Affiliated notional cash pooling programs[1]	$	185	$	-
Accounts payable, accrued expenses, and other liabilities		222		71
Total liabilities		407		71
Shareholders' equity				
Common Shares		8,899		9,591
Common Shares in treasury		(255)		(159)
Additional paid-in capital		5,238		5,179
Retained earnings		13,791		10,033
Accumulated other comprehensive income		1,152		2,887
Total shareholders' equity		28,825		27,531
Total liabilities and shareholders' equity	$	29,232	$	27,602

[1] ACE maintains two notional multicurrency cash pools (Pools) with a third-party bank. Refer to Note 1f) for additional information. At December 31, 2013, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

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SCHEDULE II (continued)

ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF OPERATIONS (Parent Company Only)

	Years Ended December 31		
(in millions of U.S. dollars)	**2013**	2012	2011
Revenues			
Investment income, including interest income	**$ 34**	$ 34	$ 39
Equity in net income of subsidiaries and affiliates	**3,580**	2,590	1,459
Net realized gains (losses)	**-**	17	(4)
	3,614	2,641	1,494
Expenses			
Administrative and other (income) expense	**(161)**	(75)	(56)
Income tax expense	**17**	10	10
	(144)	(65)	(46)
Net income	**$ 3,758**	$ 2,706	$ 1,540
Comprehensive income	**$ 2,023**	$ 3,682	$ 1,857

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

SCHEDULE II (continued)

ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF CASH FLOWS (Parent Company Only)

(in millions of U.S. dollars)	Years Ended December 31 2013	2012[1]	2011[1]
Net cash flows from operating activities[2]	**$ 970**	$ 573	$ 831
Cash flows from investing activities			
Net change in short-term investments	**(1)**	-	9
Net derivative instruments settlements	**-**	(1)	(3)
Capital contribution	**(133)**	-	(385)
Net cash flows used for investing activities	**(134)**	(1)	(379)
Cash flows from financing activities			
Dividends paid on Common Shares	**(517)**	(815)	(459)
Net repayments of short-term debt	**-**	-	(300)
Proceeds from share-based compensation plans	**14**	34	133
Advances (to) from affiliates	**(621)**	206	(28)
Net proceeds from affiliated notional cash pooling programs[3]	**185**	-	-
Net cash flows used for financing activities	**(939)**	(575)	(654)
Net decrease in cash	**(103)**	(3)	(202)
Cash - beginning of year	**103**	106	308
Cash - end of year	**$ -**	$ 103	$ 106

[1] Certain items in the Condensed Statements of Cash Flows for the years ended December 31, 2012 and 2011 have been revised. Refer to Note 19 to the Consolidated Financial Statements for additional information.

[2] Includes cash dividends received from subsidiaries of $825 million, $450 million, and $740 million in 2013, 2012, and 2011, respectively.

[3] ACE maintains two notional multicurrency cash pools (Pools) with a third-party bank. Refer to Note 1f) for additional information. At December 31, 2013, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

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SCHEDULE IV

ACE Limited and Subsidiaries

SUPPLEMENTAL INFORMATION CONCERNING REINSURANCE

Premiums Earned

For the years ended December 31, 2013, 2012, and 2011 (in millions of U.S. dollars, except for percentages)	Direct Amount	Ceded To Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
2013	**$ 18,856**	**$ 5,722**	**$ 3,479**	**$ 16,613**	**21%**
2012	$ 17,802	$ 5,427	$ 3,302	$ 15,677	21%
2011	$ 17,534	$ 5,496	$ 3,349	$ 15,387	22%

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

ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

ACE Limited
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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Financial Statements

The consolidated financial statements of ACE Limited (ACE) were prepared by management, who are responsible for their reliability and objectivity. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management. Financial information elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Board of Directors, operating through its Audit Committee, which is composed entirely of directors who are not officers or employees of ACE, provides oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use or disposition. The Audit Committee annually recommends the appointment of an independent registered public accounting firm and submits its recommendation to the Board of Directors for approval.

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.

The consolidated financial statements have been audited by an independent registered public accounting firm, PricewaterhouseCoopers LLP, who were given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees of the Board. ACE believes that all representations made to our independent registered public accountants during their audits were valid and appropriate.

Internal Control over Financial Reporting

The management of ACE is responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2012, management has evaluated the effectiveness of ACE's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in “Internal Control - Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, we have concluded that ACE's internal control over financial reporting was effective as of December 31, 2012.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the consolidated financial statements of ACE included in this Annual Report, has issued a report on the effectiveness of ACE's internal controls over financial reporting as of December 31, 2012. The report, which expresses an unqualified opinion on the effectiveness of ACE's internal control over financial reporting as of December 31, 2012, is included in this Item under “Report of Independent Registered Public Accounting Firm” and follows this statement.

/s/ Evan G. Greenberg	/s/ Philip V. Bancroft
Evan G. Greenberg	Philip V. Bancroft
Chairman, President and Chief Executive Officer	Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of ACE Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of ACE Limited and its subsidiaries (the "Company") at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15 (2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Internal Control Over Financial Reporting, appearing in Management's Responsibility for Financial Statements and Internal Controls Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 28, 2013

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CONSOLIDATED BALANCE SHEETS
ACE Limited and Subsidiaries

(in millions of U.S. dollars, except share and per share data)	December 31 2012	December 31 2011
Assets		
Investments		
Fixed maturities available for sale, at fair value (amortized cost - $44,666 and $40,450) (includes hybrid financial instruments of $309 and $357)	$ 47,306	$ 41,967
Fixed maturities held to maturity, at amortized cost (fair value - $7,633 and $8,605)	7,270	8,447
Equity securities, at fair value (cost - $707 and $671)	744	647
Short-term investments, at fair value and amortized cost	2,228	2,301
Other investments (cost - $2,465 and $2,112)	2,716	2,314
Total investments	60,264	55,676
Cash	615	614
Securities lending collateral	1,791	1,375
Accrued investment income	552	547
Insurance and reinsurance balances receivable	4,147	4,387
Reinsurance recoverable on losses and loss expenses	12,078	12,389
Reinsurance recoverable on policy benefits	241	249
Deferred policy acquisition costs	1,873	1,548
Value of business acquired	614	676
Goodwill and other intangible assets	4,975	4,799
Prepaid reinsurance premiums	1,617	1,541
Deferred tax assets	453	673
Investments in partially-owned insurance companies (cost - $451 and $345)	454	352
Other assets	2,871	2,495
Total assets	$ 92,545	$ 87,321
Liabilities		
Unpaid losses and loss expenses	$ 37,946	$ 37,477
Unearned premiums	6,864	6,334
Future policy benefits	4,470	4,274
Insurance and reinsurance balances payable	3,472	3,542
Securities lending payable	1,795	1,385
Accounts payable, accrued expenses, and other liabilities	5,377	4,898
Income taxes payable	20	159
Short-term debt	1,401	1,251
Long-term debt	3,360	3,360
Trust preferred securities	309	309
Total liabilities	65,014	62,989
Commitments and contingencies		
Shareholders' equity		
Common Shares (CHF 28.89 and CHF 30.27 par value; 342,832,412 shares issued; 340,321,534 and 336,927,276 shares outstanding)	9,591	10,095
Common Shares in treasury (2,510,878 and 5,905,136 shares)	(159)	(327)
Additional paid-in capital	5,179	5,326
Retained earnings	10,033	7,327
Accumulated other comprehensive income (AOCI)	2,887	1,911
Total shareholders' equity	27,531	24,332
Total liabilities and shareholders' equity	$ 92,545	$ 87,321

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

ACE Limited and Subsidiaries

For the years ended December 31, 2012, 2011 and 2010

(in millions of U.S. dollars, except per share data)	2012	2011	2010
Revenues			
Net premiums written	$ 16,075	$ 15,372	$ 13,708
Change in unearned premiums	(398)	15	(204)
Net premiums earned	15,677	15,387	13,504
Net investment income	2,181	2,242	2,070
Net realized gains (losses):			
Other-than-temporary impairment (OTTI) losses gross	(38)	(65)	(128)
Portion of OTTI losses recognized in other comprehensive income (OCI)	1	15	69
Net OTTI losses recognized in income	(37)	(50)	(59)
Net realized gains (losses) excluding OTTI losses	115	(745)	491
Total net realized gains (losses)	78	(795)	432
Total revenues	17,936	16,834	16,006
Expenses			
Losses and loss expenses	9,653	9,520	7,579
Policy benefits	521	401	357
Policy acquisition costs	2,446	2,472	2,345
Administrative expenses	2,096	2,068	1,873
Interest expense	250	250	224
Other (income) expense	(6)	81	(10)
Total expenses	14,960	14,792	12,368
Income before income tax	2,976	2,042	3,638
Income tax expense	270	502	553
Net income	$ 2,706	$ 1,540	$ 3,085
Other comprehensive income			
Unrealized appreciation	$ 1,350	$ 646	$ 1,526
Reclassification adjustment for Net realized (gains) losses included in net income	(234)	(173)	(632)
	1,116	473	894
Change in:			
Cumulative translation adjustment	116	(5)	(7)
Pension liability	(35)	8	11
Other comprehensive income, before income tax	1,197	476	898
Income tax expense related to OCI items	(221)	(159)	(127)
Other comprehensive income	976	317	771
Comprehensive income	$ 3,682	$ 1,857	$ 3,856
Earnings per share			
Basic earnings per share	$ 7.96	$ 4.55	$ 9.08
Diluted earnings per share	$ 7.89	$ 4.52	$ 9.04

See accompanying notes to the consolidated financial statements

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

ACE Limited and Subsidiaries

For the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars)	**2012**	2011	2010
Common Shares			
Balance - beginning of year	**$ 10,095**	$ 10,161	$ 10,503
Net shares issued under employee share-based compensation plans	**-**	-	71
Exercise of stock options	**-**	47	30
Dividends declared on Common Shares-par value reduction	**(504)**	(113)	(443)
Balance - end of year	**9,591**	10,095	10,161
Common Shares in treasury			
Balance - beginning of year	**(327)**	(330)	(3)
Common Shares repurchased	**(7)**	(132)	(303)
Common Shares issued in treasury, net of net shares redeemed under employee share-based compensation plans	**175**	135	(24)
Balance - end of year	**(159)**	(327)	(330)
Additional paid-in capital			
Balance - beginning of year	**5,326**	5,623	5,526
Net shares redeemed under employee share-based compensation plans	**(93)**	(104)	(64)
Exercise of stock options	**(7)**	16	23
Share-based compensation expense and other	**135**	139	139
Funding of dividends declared to Retained earnings	**(200)**	(354)	-
Tax (expense) benefit on share-based compensation expense	**18**	6	(1)
Balance - end of year	**5,179**	5,326	5,623
Retained earnings			
Balance - beginning of year, as reported			2,818
Cumulative effect of adjustment resulting from adoption of new accounting guidance			(116)
Balance - beginning of year, as adjusted	**7,327**	5,787	2,702
Net income	**2,706**	1,540	3,085
Funding of dividends declared from Additional paid-in capital	**200**	354	-
Dividends declared on Common Shares	**(200)**	(354)	-
Balance - end of year	**10,033**	7,327	5,787
Deferred compensation obligation			
Balance - beginning of year	**-**	2	2
Decrease to obligation	**-**	(2)	-
Balance - end of year	**$ -**	$ -	$ 2

See accompanying notes to the consolidated financial statements

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (continued)
ACE Limited and Subsidiaries

For the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars)	2012	2011	2010
Accumulated other comprehensive income			
Net unrealized appreciation on investments			
Balance - beginning of year	**$ 1,715**	$ 1,399	$ 657
Change in year, net of income tax expense of $(198), $(157), and $(152)	**918**	316	742
Balance - end of year	**2,633**	1,715	1,399
Cumulative translation adjustment			
Balance - beginning of year	**258**	262	240
Change in year, net of income tax (expense) benefit of $(35), $1, and $29	**81**	(4)	22
Balance - end of year	**339**	258	262
Pension liability adjustment			
Balance - beginning of year	**(62)**	(67)	(74)
Change in year, net of income tax (expense) benefit of $12, $(3) and $(4)	**(23)**	5	7
Balance - end of year	**(85)**	(62)	(67)
Accumulated other comprehensive income	**2,887**	1,911	1,594
Common Shares issued to employee trust			
Balance - beginning of year	**-**	(2)	(2)
Decrease in Common Shares	**-**	2	-
Balance - end of year	**-**	-	(2)
Total shareholders' equity	**$ 27,531**	$ 24,332	$ 22,835

See accompanying notes to the consolidated financial statements

For the years ended December 31, 2012, 2011, and 2010 (in millions of U.S. dollars)	2012	2011	2010
Cash flows from operating activities			
Net income	**$ 2,706**	$ 1,540	$ 3,085
Adjustments to reconcile net income to net cash flows from operating activities			
Net realized (gains) losses	**(78)**	795	(432)
Amortization of premiums/discounts on fixed maturities	**220**	152	145
Deferred income taxes	**(7)**	15	110
Unpaid losses and loss expenses	**203**	43	(360)
Unearned premiums	**522**	9	262
Future policy benefits	**158**	78	48
Insurance and reinsurance balances payable	**(151)**	216	(172)
Accounts payable, accrued expenses, and other liabilities	**(42)**	39	130
Income taxes payable	**(167)**	39	10
Insurance and reinsurance balances receivable	**335**	(217)	50
Reinsurance recoverable on losses and loss expenses	**372**	531	626
Reinsurance recoverable on policy benefits	**52**	25	49
Deferred policy acquisition costs	**(340)**	(122)	(170)
Prepaid reinsurance premiums	**(123)**	(34)	(13)
Other	**335**	361	178
Net cash flows from operating activities	**3,995**	3,470	3,546
Cash flows from investing activities			
Purchases of fixed maturities available for sale	**(23,455)**	(23,823)	(29,985)
Purchases of to be announced mortgage-backed securities	**(389)**	(755)	(1,271)
Purchases of fixed maturities held to maturity	**(388)**	(340)	(616)
Purchases of equity securities	**(135)**	(309)	(794)
Sales of fixed maturities available for sale	**14,321**	17,176	23,096
Sales of to be announced mortgage-backed securities	**448**	795	1,183
Sales of equity securities	**119**	376	774
Maturities and redemptions of fixed maturities available for sale	**5,523**	3,720	3,660

Maturities and redemptions of fixed maturities held to maturity	**1,451**	1,279	1,353
Net derivative instruments settlements	**(281)**	(67)	(109)
Acquisition of subsidiaries (net of cash acquired of $8, $91, and $80)	**(98)**	(606)	(1,139)
Other	**(555)**	(482)	(333)
Net cash flows used for investing activities	**(3,439)**	(3,036)	(4,181)
Cash flows from financing activities			
Dividends paid on Common Shares	**(815)**	(459)	(435)
Common Shares repurchased	**(11)**	(195)	(235)
Proceeds from issuance of short-term debt	**2,933**	5,238	1,300
Repayment of short-term debt	**(2,783)**	(5,288)	(159)
Proceeds from issuance of long-term debt	**-**	-	699
Repayment of long-term debt	**-**	-	(500)
Proceeds from share-based compensation plans, including windfall tax benefits	**126**	139	62
Net cash flows (used for) from financing activities	**(550)**	(565)	732
Effect of foreign currency rate changes on cash and cash equivalents	**(5)**	(27)	6
Net increase (decrease) in cash	**1**	(158)	103
Cash - beginning of year	**614**	772	669
Cash - end of year	**$ 615**	$ 614	$ 772
Supplemental cash flow information			
Taxes paid	**$ 438**	$ 460	$ 434
Interest paid	**$ 240**	$ 234	$ 204

See accompanying notes to the consolidated financial statements

1. Summary of significant accounting policies

a) Basis of presentation
ACE Limited is a holding company incorporated in Zurich, Switzerland. ACE Limited, through its various subsidiaries, provides a broad range of insurance and reinsurance products to insureds worldwide. ACE operates through the following business segments: Insurance - North American, Insurance - Overseas General, Global Reinsurance, and Life. Refer to Note 15 for additional information.

The accompanying consolidated financial statements, which include the accounts of ACE Limited and its subsidiaries (collectively, ACE, we, us, or our), have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and, in the opinion of management, reflect all adjustments (consisting of normally recurring accruals) necessary for a fair statement of the results and financial position for such periods. All significant intercompany accounts and transactions have been eliminated.

Effective January 1, 2012, we retrospectively adopted new accounting guidance for costs associated with acquiring or renewing insurance contracts. Prior year amounts contained in this report have been adjusted to reflect this adoption. Refer to Note 1 s) below for additional information.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Amounts included in the consolidated financial statements reflect our best estimates and assumptions; actual amounts could differ materially from these estimates. ACE's principal estimates include:

- 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;
- reinsurance recoverable, including a provision for uncollectible reinsurance;
- the assessment of risk transfer for certain structured insurance and reinsurance contracts;
- the valuation of the investment portfolio and assessment of OTTI;
- the valuation of deferred tax assets;
- the valuation of derivative instruments related to guaranteed living benefits (GLB); and
- the valuation of goodwill.

b) Premiums
Premiums are generally recognized as written upon inception of the policy. For multi-year policies for which premiums written are payable in annual installments, only the current annual premium is included as written at policy inception due to the ability of the insured/reinsured to commute or cancel coverage within the term of the policy. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term.

For property and casualty (P&C) insurance and reinsurance products, premiums written are primarily earned on a pro-rata basis over the terms of the policies to which they relate. Unearned premiums represent the portion of premiums written applicable to the unexpired portion of the policies in force. For retrospectively-rated policies, written premiums are adjusted to reflect expected ultimate premiums consistent with changes to reported losses, or other measures of exposure as stated in the policy, and earned over the coverage period of the policy. For retrospectively-rated multi-year policies, the amount of premiums recognized in the current period is computed, using a with-and-without method, as the difference between the ceding enterprise's total contract costs before and after the experience under the contract at the reporting date. Accordingly, for retrospectively-rated multi-year policies, additional premiums are generally written and earned when losses are incurred.

Mandatory reinstatement premiums assessed on reinsurance policies are earned in the period of the loss event that gave rise to the reinstatement premiums. All remaining unearned premiums are recognized over the remaining coverage period.

Premiums from long duration contracts such as certain traditional term life, whole life, endowment, and long duration personal accident and health (A&H) policies are generally recognized as revenue when due from policyholders. Traditional life policies include those contracts with fixed and guaranteed premiums and benefits. Benefits and expenses are matched with such income to result in the recognition of profit over the life of the contracts.

Retroactive loss portfolio transfer (LPT) contracts in which the insured loss events occurred prior to the inception of the contract are evaluated to determine whether they meet the established criteria for reinsurance accounting. If reinsurance accounting is appropriate, written premiums are fully earned and corresponding losses and loss expenses recognized at the inception of the contract. The contracts can cause significant variances in gross premiums written, net premiums written, net premiums earned, and net incurred losses in the years in which they are written. Reinsurance contracts sold not meeting the established criteria for reinsurance accounting are recorded using the deposit method as described below in Note 1 k).

Reinsurance premiums assumed are based on information provided by ceding companies supplemented by our own estimates of premium when we have not received ceding company reports. The information used in establishing these estimates is reviewed and adjustments are recorded in the period in which they are determined. These premiums are earned over the coverage terms of the related reinsurance contracts and range from one to three years.

c) Deferred policy acquisition costs and value of business acquired
Policy acquisition costs consist of commissions, premium taxes, and certain underwriting costs related directly to the successful acquisition of new or renewal insurance contracts. A VOBA intangible asset is established upon the acquisition of blocks of long duration contracts and represents the present value of estimated net cash flows for the contracts in force at the time of the acquisition. Acquisition costs and VOBA, collectively policy acquisition costs, are deferred and amortized. This amortization is recorded in Policy acquisition costs in the consolidated statements of operations. Policy acquisition costs on P&C contracts are generally amortized ratably over the period in which premiums are earned. Policy acquisition costs on traditional long-duration contracts are amortized 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 effect of changes in estimates of expected gross profits is reflected in the period that the estimates are revised. Policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. Unrecoverable costs are expensed in the period identified.

Advertising costs are expensed as incurred except for direct-response campaigns that qualify for cost deferral, principally related to A&H business produced by the Insurance - Overseas General segment, which are deferred and recognized as a component of policy acquisition costs. For individual direct-response marketing campaigns that we can demonstrate have specifically resulted in incremental sales to customers and such sales have probable future economic benefits, incremental costs directly related to the marketing campaigns are capitalized. Deferred marketing costs are reviewed regularly for recoverability from future income, including investment income, and amortized in proportion to premium revenue recognized, primarily over a ten-year period, the expected economic future benefit period. The expected future benefit period is evaluated periodically based on historical results and adjusted prospectively. The amount of deferred marketing costs reported in Deferred policy acquisition costs in the consolidated balance sheets was $274 million and $236 million at December 31, 2012 and 2011, respectively. The amortization expense for deferred marketing costs was $156 million, $128 million, and $115 million for the years ended December 31, 2012, 2011, and 2010, respectively.

d) Reinsurance
ACE assumes and cedes reinsurance with other insurance companies to provide greater diversification of business and minimize the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve ACE of its primary obligation to its policyholders.

For both ceded and assumed reinsurance, risk transfer requirements must be met in order to account for a contract as reinsurance, principally resulting in the recognition of cash flows under the contract as premiums and losses. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. To assess risk transfer for certain contracts, ACE generally develops expected discounted cash flow analyses at contract inception. Deposit accounting is used for contracts that do not meet risk transfer requirements. Deposit accounting requires that consideration received or paid be recorded in the balance sheet as opposed to recording premiums written or losses incurred in the statement of operations. Non-refundable fees on deposit contracts are earned based on the terms of the contract. Refer to Note 1 k).

Reinsurance recoverable includes the balances due from reinsurance companies for paid and unpaid losses and loss expenses and policy benefits that will be recovered from reinsurers, based on contracts in force. The method for determining the reinsurance recoverable on unpaid losses and loss expenses incurred but not reported (IBNR) involves actuarial estimates consistent with those used to establish the associated liability for unpaid losses and loss expenses as well as a determination of ACE's ability to cede unpaid losses and loss expenses.

Reinsurance recoverable is presented net of a provision for uncollectible reinsurance determined based upon a review of the financial condition of reinsurers and other factors. The provision for uncollectible reinsurance is based on an estimate of the amount of the reinsurance recoverable balance that will ultimately be unrecoverable due to reinsurer insolvency, a contractual dispute, or any other reason. The valuation of this provision includes several judgments including certain aspects of the allocation of reinsurance recoverable on IBNR claims by reinsurer and 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 determine the portion of a reinsurer's balance deemed uncollectible. 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 with the same legal entity for which ACE believes there is a contractual right of offset. The determination of the default factor is principally based on the financial strength rating of the reinsurer. 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. The more significant considerations 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 financial rating is based on a published source and the default factor is based on published default statistics of a major rating agency applicable to the reinsurer's particular rating class. 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, affiliate, or peer company, we determine a rating equivalent based on an 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 the ceded reserve is below a certain threshold, we generally apply a default factor of 34 percent, consistent with published statistics of a major rating agency;
- 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 reinsurer-specific facts and circumstances. Upon initial notification of an insolvency, we generally recognize an 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 other recoverables, management determines the provision for uncollectible reinsurance based on the specific facts and circumstances.

The methods used to determine the reinsurance recoverable balance and related provision for uncollectible reinsurance are regularly reviewed and updated and any resulting adjustments are reflected in earnings in the period identified.

Prepaid reinsurance premiums represent the portion of premiums ceded to reinsurers applicable to the unexpired coverage terms of the reinsurance contracts in force.

The value of reinsurance business assumed of $32 million and $35 million at December 31, 2012 and 2011, respectively, included in Other assets in the accompanying consolidated balance sheets, represents the excess of estimated ultimate value of the liabilities assumed under retroactive reinsurance contracts over consideration received. The value of reinsurance business assumed is amortized and recorded to losses and loss expenses based on the payment pattern of the losses assumed and ranges between 7 and 40 years. The unamortized value is reviewed regularly to determine if it is recoverable based upon the terms of the contract, estimated losses and loss expenses, and anticipated investment income. Unrecoverable amounts are expensed in the period identified.

e) Investments
Fixed maturities are classified as either available for sale or held to maturity. The available for sale portfolio is reported at fair value. The held to maturity portfolio includes securities for which we have the ability and intent to hold to maturity or redemption and is reported at amortized cost. Equity securities are classified as available for sale and are recorded at fair value. Short-term investments comprise securities due to mature within one year of the date of purchase and are recorded at fair value which typically approximates cost. Short-term investments include certain cash and cash equivalents, which are part of investment portfolios under the management of external investment managers.

Other investments principally comprise life insurance policies, policy loans, trading securities, other direct equity investments, investment funds, and limited partnerships.

- Life insurance policies are carried at policy cash surrender value.
- Policy loans are carried at outstanding balance.
- Trading securities are recorded on a trade date basis and carried at fair value. Unrealized gains and losses on trading securities are reflected in net income.
- Other investments over which ACE can exercise significant influence are accounted for using the equity method.
- All other investments over which ACE cannot exercise significant influence are carried at fair value with changes in fair value recognized through OCI. For these investments, investment income and realized gains are recognized as related distributions are received.
- Partially-owned investment companies comprise entities in which we hold an ownership interest in excess of three percent. These investments as well as ACE's investments in investment funds where our ownership interest is in excess of three percent are accounted for under the equity method because ACE exerts significant influence. These investments apply investment company accounting to determine operating results, and ACE retains the investment company accounting in applying the equity method. This means that investment income, realized gains or losses, and unrealized gains or losses are included in the portion of equity earnings reflected in Other (income) expense.

Investments in partially-owned insurance companies primarily represent direct investments in which ACE has significant influence and, as such, meet the requirements for equity accounting. We report our share of the net income or loss of the partially-owned insurance companies in Other (income) expense. Investments in partially-owned insurance companies over which ACE does not exert significant influence are carried at fair value.

Realized gains or losses on sales of investments are determined on a first-in, first-out basis. Unrealized appreciation (depreciation) on investments is included as a separate component of AOCI in shareholders' equity. We regularly review our investments for OTTI. Refer to Note 3 for additional information.

With respect to securities where the decline in value is determined to be temporary and the security's value is not written down, a subsequent decision may be made to sell that security and realize a loss. Subsequent decisions on security sales are the result of changing or unforeseen facts and circumstances (i.e., arising from a large insured loss such as a catastrophe), deterioration of the creditworthiness of the issuer or its industry, or changes in regulatory requirements. We believe that subsequent decisions to sell such securities are consistent with the classification of the majority of the portfolio as available for sale.

We use derivative instruments including futures, options, swaps, and foreign currency forward contracts for the purpose of managing certain investment portfolio risks and exposures. Refer to Note 10 for additional information. Derivatives are reported at fair value and recorded in the accompanying consolidated balance sheets in Accounts payable, accrued expenses, and other liabilities with changes in fair value included in Net realized gains (losses) in the consolidated statements of operations. Collateral held by brokers equal to a percentage of the total value of open futures contracts is included in the investment portfolio.

Net investment income includes interest and dividend income and amortization of fixed maturity market premiums and discounts and is net of investment management and custody fees. For mortgage-backed securities, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognized prospectively. Prepayment fees or call premiums

that are only payable when a security is called prior to its maturity are earned when received and reflected in Net investment income.

ACE participates in a securities lending program operated by a third party banking institution whereby certain assets are loaned to qualified borrowers and from which we earn an incremental return. Borrowers provide collateral, in the form of either cash or approved securities, of 102 percent of the fair value of the loaned securities. Each security loan is deemed to be an overnight transaction. Cash collateral is invested in a collateral pool which is managed by the banking institution. The collateral pool is subject to written investment guidelines with key objectives which include the safeguard of principal and adequate liquidity to meet anticipated redemptions. The fair value of the loaned securities is monitored on a daily basis, with additional collateral obtained or refunded as the fair value of the loaned securities changes. The collateral is held by the third party banking institution, and the collateral can only be accessed in the event that the institution borrowing the securities is in default under the lending agreement. As a result of these restrictions, we consider our securities lending activities to be non-cash investing and financing activities. An indemnification agreement with the lending agent protects us in the event a borrower becomes insolvent or fails to return any of the securities on loan. The fair value of the securities on loan is included in fixed maturities and equity securities. The securities lending collateral is reported as a separate line in total assets with a related liability reflecting our obligation to return the collateral plus interest.

Similar to securities lending arrangements, securities sold under reverse repurchase agreements, whereby ACE sells securities and repurchases them at a future date for a predetermined price, are accounted for as collateralized investments and borrowings and are recorded at the contractual repurchase amounts plus accrued interest. Assets to be repurchased are the same, or substantially the same, as the assets transferred and the transferor, through right of substitution, maintains the right and ability to redeem the collateral on short notice. The fair value of the underlying securities is included in fixed maturities and equity securities. In contrast to securities lending programs, the use of cash received is not restricted. We report the obligation to return the cash as Short-term debt in the consolidated balance sheets.

Refer to Note 4 for a discussion on the determination of fair value for ACE's various investment securities.

f) Cash
Cash includes cash on hand and deposits with an original maturity of three months or less at time of purchase. Cash held by external money managers is included in Short-term investments.

We have agreements with a third party bank provider which implemented two international multi-currency notional cash pooling programs. In each program, participating ACE 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 ACE 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 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.

g) Goodwill and other intangible assets
Goodwill represents the excess of the cost of acquisitions over the fair value of net assets acquired and is not amortized. Goodwill is assigned at acquisition to the applicable reporting unit of the acquired entities giving rise to the goodwill. Goodwill impairment tests are performed annually, or more frequently if circumstances indicate a possible impairment. For goodwill impairment testing, we use 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 our assessment indicates less than a 50 percent probability that fair value exceeds carrying value, we quantitatively estimate a reporting unit's fair value using a consistently applied combination of the following models: an earnings multiple, a book value multiple, a discounted cash flow, or an allocated market capitalization model. The earnings and book value models apply multiples of comparable publicly traded companies to forecasted earnings or book value of each reporting unit and consider current market transactions. The discounted cash flow model applies a discount to estimated cash flows including a terminal value calculation. The market capitalization model allocates market capitalization to each reporting unit. Where appropriate, we consider the impact of a control premium. Goodwill recorded in connection with investments in partially-owned insurance companies is recorded in Investments in partially-owned insurance companies and is also measured for impairment annually.

Indefinite lived intangible assets are not subject to amortization. Finite lived intangible assets are amortized over their useful lives, generally ranging from 4 to 20 years. The amortization of finite lived intangible assets is reported in Other (income) expense in the consolidated statements of operations. The carrying amounts of intangible assets are regularly reviewed for indicators of impairment. Impairment is recognized if the carrying amount is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value.

h) Unpaid losses and loss expenses
A liability is established for the estimated unpaid losses and loss expenses under the terms of, and with respect to, ACE's policies and agreements. These amounts include provision for both reported claims (case reserves) and IBNR claims. The methods of determining such estimates and establishing the resulting liability are reviewed regularly and any adjustments are reflected in operations in the period in which they become known. Future developments may result in losses and loss expenses materially greater or less than recorded amounts.

Except for net loss and loss expense reserves of $58 million net of discount, held at December 31, 2012, representing certain structured settlements for which the timing and amount of future claim payments are reliably determinable and $47 million net of discount of certain reserves for unsettled claims that are discounted in statutory filings, ACE does not discount its P&C loss reserves. This compares with reserves of $59 million for certain structured settlements and $35 million of certain reserves for unsettled claims at December 31, 2011. Structured settlements represent contracts purchased from life insurance companies primarily to settle workers' compensation claims, where payments to the claimant by the life insurance company are expected to be made in the form of an annuity. ACE retains the liability to the claimant in the event that the life insurance company fails to pay. At December 31, 2012, the gross liability for the amount due to claimants was $640 million net of discount and reinsurance recoverables for amounts due from the life insurance companies was $582 million net of discount. For structured settlement contracts where payments are guaranteed regardless of claimant life expectancy, the amounts recoverable from the life insurance companies at December 31, 2012 are included in Other assets in the consolidated balance sheets, as they do not meet the requirements for reinsurance accounting.

Included in unpaid losses and loss expenses are liabilities for asbestos and environmental (A&E) claims and expenses. These unpaid losses and loss expenses are principally related to claims arising from remediation costs associated with hazardous waste sites and bodily-injury claims related to asbestos products and environmental hazards. The estimation of these liabilities is particularly sensitive to changes in the legal environment, including specific settlements that may be used as precedents to settle future claims. However, ACE does not anticipate future changes in laws and regulations in setting its A&E reserve levels.

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 premiums from previous accident years. With respect to crop business, prior to the December 2010 acquisition of Rain and Hail Insurance Service, Inc. (Rain and Hail), reports relating to the previous crop year(s) were normally received in subsequent calendar years and this typically resulted in adjustments to the previously reported premiums, losses and loss expenses, and profit share commission. Following the acquisition, such information is available before the close of the calendar year.

For purposes of analysis and disclosure, management views prior period development to be changes in the nominal value of loss estimates from period to period, net of premium and profit commission adjustments on loss sensitive contracts. Prior period development excludes changes in loss estimates that do not arise from the emergence of claims, such as those related to uncollectible reinsurance, interest, unallocated loss adjustment expenses, or foreign currency. Accordingly, specific items excluded from prior period development include the following: gains/losses related to foreign currency remeasurement; losses recognized from the early termination or commutation of reinsurance agreements that principally relate to the time value of money; changes in the value of reinsurance business assumed reflected in losses incurred but principally related to the time value of money; and losses that arise from changes in estimates of earned premiums from prior accident years. Except for foreign currency remeasurement, which is disclosed separately, these items are included in current year losses.

i) Future policy benefits
The valuation of long duration contract reserves requires management to make estimates and assumptions regarding expenses, mortality, persistency, and investment yields. Such estimates are primarily based on historical experience and information provided by ceding companies and include a margin for adverse deviation. Interest rates used in calculating reserves range from less than 1.0 percent to 4.5 percent and less than 1.0 percent to 6.0 percent at December 31, 2012 and 2011, respectively. Actual results could differ materially from these estimates. Management monitors actual experience, and where circumstances warrant, will revise assumptions and the related reserve estimates. Revisions are recorded in the period they are determined.

Certain of our long duration contracts are supported by assets that do not qualify for separate account reporting under GAAP. These assets are classified as trading securities and reported in Other investments and the offsetting liabilities are reported in Future policy benefits in the consolidated balance sheets. Changes in the fair value of separate account assets that do not quality for separate account reporting under GAAP are reported in Other income (expense) and the offsetting movements in the liabilities are included in Policy benefits in the consolidated statements of operations.

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

The guarantees which are payable on death, referred to as guaranteed minimum death benefits (GMDB), principally cover shortfalls between accumulated account value at the time of an annuitant's death and either i) an annuitant's total deposits; ii) an annuitant's total deposits plus a minimum annual return; or iii) the highest accumulated account value attained at any policy anniversary date. In addition, a death benefit may be based on a formula specified in the variable annuity contract that uses a percentage of the growth of the underlying contract value. Liabilities for GMDBs are based on cumulative assessments or premiums to date multiplied by a benefit ratio that is determined by estimating the present value of benefit payments and related adjustment expenses divided by the present value of cumulative assessment or expected premiums during the contract period.

Under reinsurance programs covering GLBs, we assume the risk of guaranteed minimum income benefits (GMIB) and guaranteed minimum accumulation benefits (GMAB) associated with variable annuity contracts. The GMIB risk is triggered if, at the time the contract holder elects to convert the accumulated account value to a periodic payment stream (annuitize), the accumulated account value is not sufficient to provide a guaranteed minimum level of monthly income. The GMAB risk is triggered if, at contract maturity, the contract holder's account value is less than a guaranteed minimum value. Our GLB reinsurance product meets the definition of a derivative for accounting purposes and is carried at fair value with changes in fair value recognized in income and classified as described below. As the assuming entity, we are obligated to provide coverage until the earlier of the expiration of the underlying guaranteed benefit or the treaty expiration date. Premiums received under the reinsurance treaties are classified as premium. Expected losses allocated to premiums received are classified as policy benefits and valued similar to GMDB reinsurance. Other changes in fair value, principally arising from changes in expected losses allocated to expected future premiums, are classified as Net realized gains (losses). Fair value represents management's estimate of exit price and thus includes a risk margin. We may recognize a realized loss for other changes in fair value due to adverse changes in the capital markets (i.e., declining interest rates and/or declining equity markets) and changes in policyholder behavior (i.e., increased annuitization or decreased lapse rates) although we expect the business to be profitable. We believe this presentation provides the most meaningful disclosure of changes in the underlying risk within the GLB reinsurance programs for a given reporting period. Refer to Note 5 c) for additional information.

k) Deposit assets and liabilities
Deposit assets arise from ceded reinsurance contracts purchased that do not transfer significant underwriting or timing risk. Under deposit accounting, consideration received or paid, excluding non-refundable fees, is recorded as a deposit asset or liability in the balance sheet as opposed to recording premiums and losses in the statement of operations. Interest income on deposits, representing the consideration received or to be received in excess of cash payments related to the deposit contract, is earned based on an effective yield calculation. The calculation of the effective yield is based on the amount and timing of actual cash flows at the balance sheet date and the estimated amount and timing of future cash flows. The effective yield is recalculated periodically to reflect revised estimates of cash flows. When a change in the actual or estimated cash flows occurs, the resulting change to the carrying amount of the deposit asset is reported as income or expense. Deposit assets of $138 million and $133 million at December 31, 2012 and 2011, respectively, are reflected in Other assets in the consolidated balance sheets and the accretion of deposit assets related to interest pursuant to the effective yield calculation is reflected in Net investment income in the consolidated statements of operations.

Non-refundable fees are earned based on contract terms. Non-refundable fees paid but unearned are reflected in Other assets in the consolidated balance sheets and earned fees are reflected in Other (income) expense in the consolidated statements of operations.

Deposit liabilities include reinsurance deposit liabilities of $283 million and $318 million and contract holder deposit funds of $548 million and $345 million at December 31, 2012 and 2011, respectively. Deposit liabilities are reflected in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets. The reinsurance deposit liabilities arise from contracts sold for which there is not a significant transfer of risk. At contract inception, the deposit liability equals net cash received. An accretion rate is established based on actuarial estimates whereby the deposit liability is increased to the estimated amount payable over the contract term. The deposit accretion rate is the rate of return required to fund expected future payment obligations. We periodically reassess the estimated ultimate liability and related expected rate of return. Changes to the amount of the deposit liability are generally reflected through Interest expense to reflect the cumulative effect of the period the contract has been in force, and by an adjustment to the future accretion rate of the liability over the remaining estimated contract term.

Contract holder deposit funds represent a liability for investment contracts sold that do not meet the definition of an insurance contract and are sold with a guaranteed rate of return. The liability equals accumulated policy account values, which consist of the deposit payments plus credited interest, less withdrawals and amounts assessed through the end of the period.

l) Foreign currency remeasurement and translation
The functional currency for each of our foreign operations is generally the currency of the local operating environment. Transactions in currencies other than a foreign operation's functional currency are remeasured into the functional currency and the resulting foreign exchange gains and losses are reflected in Net realized gains (losses) in the consolidated statements of operations. Functional currency assets and liabilities are translated into the reporting currency, U.S. dollars, using period end rates of exchange and the related translation adjustments are recorded as a separate component of AOCI. Functional statement of operations amounts expressed in functional currencies are translated using average exchange rates. Gains and losses resulting from foreign currency transactions are recorded in Net realized gains (losses) in the consolidated statements of operations.

m) Administrative expenses
Administrative expenses generally include all operating costs other than policy acquisition costs. The Insurance - North American segment manages and uses an in-house third-party claims administrator, ESIS Inc. (ESIS). ESIS performs claims management and risk control services for domestic and international organizations that self-insure P&C exposures as well as internal P&C exposures. The net operating results of ESIS are included within Administrative expenses in the consolidated statements of operations and were $23 million, $21 million, and $85 million for the years ended December 31, 2012, 2011, and 2010, respectively.

n) Income taxes
Income taxes have been recorded related to those operations subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of our assets and liabilities. Refer to Note 8 for additional information. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. The valuation allowance assessment considers tax planning strategies, where applicable.

We recognize uncertain tax positions deemed more likely than not of being sustained upon examination. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

o) Earnings per share
Basic earnings per share is calculated using the weighted-average shares outstanding including participating securities with non-forfeitable rights to dividends such as unvested restricted stock. All potentially dilutive securities including stock options are excluded from the basic earnings per share calculation. In calculating diluted earnings per share, the weighted-average shares outstanding is increased to include all potentially dilutive securities. Basic and diluted earnings per share are calculated by dividing net income available to common shareholders by the applicable weighted-average number of shares outstanding during the year.

p) Cash flow information
Premiums received and losses paid associated with the GLB reinsurance products, which as discussed previously meet the definition of a derivative instrument for accounting purposes, are included within cash flows from operating activities in the consolidated statement of cash flows. Cash flows, such as settlements and collateral requirements, associated with GLB and all

other derivative instruments are included on a net basis within cash flows from investing activities in the consolidated statement of cash flows. Purchases, sales, and maturities of short-term investments are recorded net for purposes of the consolidated statements of cash flows and are classified with cash flows related to fixed maturities.

q) Derivatives

ACE recognizes all derivatives at fair value in the consolidated balance sheets and participates in derivative instruments in two principal ways:

- To sell protection to customers as an insurance or reinsurance contract that meets the definition of a derivative for accounting purposes. For 2012 and 2011, the reinsurance of GLBs was our primary product falling into this category; and
- To mitigate financial risks, principally arising from investment holdings, products sold, or assets and liabilities held in foreign currencies. For these instruments, changes in assets or liabilities measured at fair value are recorded as realized gains or losses in the consolidated statement of operations.

We did not designate any derivatives as accounting hedges during 2012, 2011, or 2010.

r) Share-based compensation

ACE measures and records compensation cost for all share-based payment awards at grant-date fair value. Compensation costs are recognized for share-based payment awards with only service conditions that have graded vesting schedules on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. Refer to Note 12 for additional information.

s) New accounting pronouncements

Adopted in 2012

Accounting for costs associated with acquiring or renewing insurance contracts

In October 2010, the Financial Accounting Standards Board (FASB) issued new guidance related to the accounting for costs associated with acquiring or renewing insurance contracts. Under the new guidance, the definition of acquisition costs was modified to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. We adopted this guidance retrospectively effective January 1, 2012 and reduced Retained earnings as of January 1, 2010 by $116 million which represents the cumulative effect of adjustment resulting from adoption of new accounting guidance. We adjusted prior year amounts contained in this report to reflect the effect of adjustment from adoption of new accounting guidance including reducing Deferred policy acquisition costs and Retained earnings by $213 million and $181 million, respectively, as of December 31, 2011. The reduction to Deferred policy acquisition costs is primarily due to lower deferrals associated with unsuccessful efforts. We also reduced Net income by $45 million, or $0.13 per share, and $23 million, or $0.07 per share, for the years ended December 31, 2011 and 2010, respectively.

Fair value measurements

In May 2011, the FASB issued new guidance on fair value measurements to revise the wording used to describe the requirements for measuring fair value and for disclosing information about fair value measurements. The guidance is not necessarily intended to result in a significant change in the application of the current requirements. Instead, it is intended to clarify the application of existing fair value measurement requirements. It also changes certain principles or requirements for measuring fair value and disclosing information about fair value measurements. We adopted this guidance prospectively effective January 1, 2012. The application of this guidance resulted in additional fair value measurements disclosures only and did not impact our financial condition or results of operations.

Adopted in 2011

Testing goodwill for impairment

In September 2011, the FASB issued new accounting guidance which eliminates the requirement to calculate the fair value of reporting units at least annually and replaces it with an optional qualitative assessment. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We adopted this guidance on October 1, 2011. The application of the new guidance resulted in a change in the procedures for assessing goodwill impairment, and did not impact our financial condition or results of operations.

2. Acquisitions

On June 13, 2012, we announced that we and our local partner had signed a definitive agreement to acquire PT Asuransi Jaya Proteksi (JaPro), one of Indonesia's leading general insurers. On September 18, 2012, we acquired 80 percent of JaPro and on January 3, 2013 our local partner acquired the remaining 20 percent. The total purchase price for 100 percent of the company was approximately $107 million in cash. The information needed to complete the purchase price allocation is preliminary and will be adjusted as further information becomes available during the measurement period. JaPro operates in our Insurance - Overseas General segment.

On September 12, 2012, we announced that we reached a definitive agreement to acquire Fianzas Monterrey, a leading surety lines company in Mexico offering administrative performance bonds primarily to clients in the construction and industrial sectors, for approximately $285 million in cash. This transaction, which is subject to regulatory approvals and other customary closing conditions, is expected to be completed in the first half of 2013.

On October 18, 2012, we announced that we reached a definitive agreement to acquire ABA Seguros, a property and casualty insurer in Mexico that provides automobile, homeowners, and small business coverages. We expect to pay approximately $865 million in cash for this transaction, subject to adjustment for dividends paid between signing and closing. This transaction, which is subject to regulatory approvals and other customary closing conditions, is expected to be completed in the first half of 2013.

Prior year acquisitions

We acquired New York Life’s Korea operations on February 1, 2011 and New York Life’s Hong Kong operations on April 1, 2011 for approximately $450 million in cash. These acquired businesses operate in our Life segment, expand our presence in the North Asia market and complement our life insurance business established in that region. In 2012, we finalized purchase price allocations resulting in $91 million of goodwill, none of which is expected to be deductible for income tax purposes, and $163 million of intangible assets. The most significant intangible asset is VOBA.

We acquired Penn Millers Holding Corporation (PMHC) on November 30, 2011 for approximately $107 million in cash. PMHC’s primary insurance subsidiary, Penn Millers Insurance Company (Penn Millers), is a well-established underwriter in the agribusiness market since 1887. PMHC operates in our Insurance - North American segment.

We acquired Rio Guayas Compania de Seguros y Reaseguros (Rio Guayas), a general insurance company in Ecuador on December 28, 2011 for approximately $65 million in cash. Rio Guayas sells a range of insurance products, including automobile, life, property, and A&H. The acquisition of Rio Guayas expands our capabilities in terms of geography, products, and distribution. Rio Guayas operates in our Insurance - Overseas General segment.

On December 28, 2010, we acquired all the outstanding common stock of Rain and Hail Insurance Service, Inc. (Rain and Hail) not previously owned by us for approximately $1.1 billion in cash. Rain and Hail has served America's farmers since 1919, providing comprehensive multiple peril crop and crop-hail insurance protection to customers in the U.S. and Canada. This acquisition is consistent with our strategy to expand our specialty lines business and provides further diversification of our global product mix.

Prior to the consummation of this business combination, our 20.1 percent ownership in Rain and Hail was recorded in Investments in partially-owned insurance companies in the consolidated balance sheets. In accordance with GAAP, at the date of the business combination, we were deemed to have disposed of our 20.1 percent ownership interest and recognized 100 percent of the assets and liabilities of Rain and Hail at acquisition date fair value. In connection with this deemed disposition, we recognized a $175 million gain in Net realized gains (losses) in the consolidated statement of operations, which represents the excess of acquisition date fair value of the 20.1 percent ownership interest over the cost basis. Acquisition date fair value of the 20.1 percent ownership interest was determined by first calculating the implied fair value of 100 percent of Rain and Hail based on the purchase price for the net assets not previously owned by us at the acquisition date. The implied fair value of the 20.1 percent ownership interest was then reduced to reflect a noncontrolling interest discount. The acquisition generated $123 million of goodwill, none of which is expected to be deductible for income tax purposes, and $523 million of other intangible assets based on our purchase price allocation. Goodwill and other intangible assets arising from this acquisition are included in our Insurance - North American segment. Legal and other expenses incurred to complete the acquisition amounted to $2 million and are included in Other (income) expense.

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On December 1, 2010, we acquired Jerneh Insurance Berhad (Jerneh), a general insurance company in Malaysia, for approximately $218 million in cash. The acquisitions of Rain and Hail and Jerneh were financed with cash on hand and the use of reverse repurchase agreements of $1 billion.

The consolidated financial statements include the results of these acquired businesses from the date of acquisition.

3. Investments

a) Fixed maturities

The following tables present the amortized cost and fair value of fixed maturities and related OTTI recognized in AOCI:

December 31, 2012 (in millions of U.S. dollars)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	OTTI Recognized in AOCI
Available for sale					
U.S. Treasury and agency	$ 3,553	$ 183	$ (1)	$ 3,735	$ -
Foreign	13,016	711	(14)	13,713	-
Corporate securities	15,529	1,210	(31)	16,708	(7)
Mortgage-backed securities	10,051	458	(36)	10,473	(84)
States, municipalities, and political subdivisions	2,517	163	(3)	2,677	-
	$ 44,666	$ 2,725	$ (85)	$ 47,306	$ (91)
Held to maturity					
U.S. Treasury and agency	$ 1,044	$ 39	$ -	$ 1,083	$ -
Foreign	910	54	-	964	-
Corporate securities	2,133	142	-	2,275	-
Mortgage-backed securities	2,028	88	-	2,116	-
States, municipalities, and political subdivisions	1,155	44	(4)	1,195	-
	$ 7,270	$ 367	$ (4)	$ 7,633	$ -

December 31, 2011 (in millions of U.S. dollars)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	OTTI Recognized in AOCI
Available for sale					
U.S. Treasury and agency	$ 2,774	$ 186	$ -	$ 2,960	$ -
Foreign	12,025	475	(99)	12,401	(2)
Corporate securities	14,055	773	(135)	14,693	(22)
Mortgage-backed securities	9,979	397	(175)	10,201	(151)
States, municipalities, and political subdivisions	1,617	96	(1)	1,712	-
	$ 40,450	$ 1,927	$ (410)	$ 41,967	$ (175)
Held to maturity					
U.S. Treasury and agency	$ 1,078	$ 48	$ - &bbsp;	$ 1,126	$ -
Foreign	935	18	(23)	930	-
Corporate securities	2,338	44	(45)	2,337	-
Mortgage-backed securities	2,949	90	(3)	3,036	-
States, municipalities, and political subdivisions	1,147	32	(3)	1,176	-
	$ 8,447	$ 232	$ (74)	$ 8,605	$ -

As discussed in Note 3 d), if a credit loss is indicated on an impaired fixed maturity, an OTTI is considered to have occurred and the portion of the impairment not related to credit losses (non-credit OTTI) is recognized in OCI. Included in the "OTTI Recognized in AOCI" columns above are the cumulative amounts of non-credit OTTI recognized in OCI adjusted for subsequent

sales, maturities, and redemptions. OTTI Recognized in AOCI does not include the impact of subsequent changes in fair value of the related securities. In periods subsequent to a recognition of OTTI in OCI, changes in the fair value of the related fixed maturities are reflected in Unrealized appreciation (depreciation) in the consolidated statement of shareholders' equity. For the years ended December 31, 2012 and 2011, $137 million of net unrealized appreciation and $48 million of net unrealized depreciation, respectively, related to such securities is included in OCI. At December 31, 2012 and 2011, AOCI includes net unrealized depreciation of $25 million and $155 million, respectively, related to securities remaining in the investment portfolio at those dates for which ACE has recognized a non-credit OTTI.

Mortgage-backed securities (MBS) issued by U.S. government agencies are combined with all other to be announced mortgage derivatives held (refer to Note 10 a) (iv)) and are included in the category, "Mortgage-backed securities". Approximately 85 percent and 84 percent of the total mortgage-backed securities at December 31, 2012 and December 31, 2011, respectively, are represented by investments in U.S. government agency bonds. The remainder of the mortgage exposure consists of collateralized mortgage obligations and non-government mortgage-backed securities, the majority of which provide a planned structure for principal and interest payments and carry a rating of AAA by the major credit rating agencies.

The following table presents fixed maturities by contractual maturity:

		December 31 2012		December 31 2011
(in millions of U.S. dollars)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Available for sale				
Due in 1 year or less	**$ 1,887**	**$ 1,906**	$ 2,321	$ 2,349
Due after 1 year through 5 years	**13,411**	**14,010**	12,325	12,722
Due after 5 years through 10 years	**15,032**	**16,153**	12,379	12,995
Due after 10 years	**4,285**	**4,764**	3,446	3,700
	34,615	**36,833**	30,471	31,766
Mortgage-backed securities	**10,051**	**10,473**	9,979	10,201
	$ 44,666	**$ 47,306**	$ 40,450	$ 41,967
Held to maturity				
Due in 1 year or less	**$ 656**	**$ 659**	$ 393	$ 396
Due after 1 year through 5 years	**1,870**	**1,950**	2,062	2,090
Due after 5 years through 10 years	**2,119**	**2,267**	2,376	2,399
Due after 10 years	**597**	**641**	667	684
	5,242	**5,517**	5,498	5,569
Mortgage-backed securities	**2,028**	**2,116**	2,949	3,036
	$ 7,270	**$ 7,633**	$ 8,447	$ 8,605

Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

b) Equity securities
The following table presents the cost and fair value of equity securities:

(in millions of U.S. dollars)	December 31 2012	December 31 2011
Cost	$ 707	$ 671
Gross unrealized appreciation	41	18
Gross unrealized depreciation	(4)	(42)
Fair value	$ 744	$ 647

c) Net realized gains (losses)
In accordance with guidance related to the recognition and presentation of OTTI, when an impairment related to a fixed maturity has occurred, OTTI is required to be recorded in net income if management has the intent to sell the security or it is more likely than not that we will be required to sell the security before the recovery of its amortized cost. Further, in cases where we do not intend to sell the security and it is more likely than not that we will not be required to sell the security, ACE must evaluate the security to determine the portion of the impairment, if any, related to credit losses. If a credit loss is indicated, an OTTI is considered to have occurred and any portion of the OTTI related to credit losses must be reflected in net income while the portion of OTTI related to all other factors is recognized in OCI. For fixed maturities held to maturity, OTTI recognized in OCI is accreted from AOCI to the amortized cost of the fixed maturity prospectively over the remaining term of the securities.

Each quarter, securities in an unrealized loss position (impaired securities), including fixed maturities, securities lending collateral, equity securities, and other investments, are reviewed to identify impaired securities to be specifically evaluated for a potential OTTI.

For all non-fixed maturities, OTTI is evaluated based on the following:

- the amount of time a security has been in a loss position and the magnitude of the loss position;
- the period in which cost is expected to be recovered, if at all, based on various criteria including economic conditions and other issuer-specific developments; and
- ACE's ability and intent to hold the security to the expected recovery period.

As a general rule, we also consider that equity securities in an unrealized loss position for twelve consecutive months are other than temporarily impaired.

Evaluation of potential credit losses related to fixed maturities
We review each fixed maturity in an unrealized loss position to assess whether the security is a candidate for credit loss. Specifically, we consider credit rating, market price, and issuer-specific financial information, among other factors, to assess the likelihood of collection of all principal and interest as contractually due. Securities for which we determine that credit loss is likely are subjected to further analysis to estimate the credit loss recognized in net income, if any. In general, credit loss recognized in net income equals the difference between the security's amortized cost and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security. All significant assumptions used in determining credit losses are subject to change as market conditions evolve.

U.S. Treasury and agency obligations (including agency mortgage-backed securities), foreign government obligations, and states, municipalities, and political subdivisions obligations
U.S. Treasury and agency obligations (including agency mortgage-backed securities), foreign government obligations, and states, municipalities, and political subdivisions obligations represent less than $18 million of gross unrealized loss at December 31, 2012. These securities were evaluated for credit loss primarily using qualitative assessments of the likelihood of credit loss considering credit rating of the issuers and level of credit enhancement, if any. ACE concluded that the high level of creditworthiness of the issuers coupled with credit enhancement, where applicable, supports recognizing no credit loss in net income.

Corporate securities
Projected cash flows for corporate securities (principally senior unsecured bonds) are driven primarily by assumptions regarding probability of default and also the timing and amount of recoveries associated with defaults. We develop these estimates using information based on market observable data, issuer-specific information, and credit ratings. ACE developed its default assumption by using historical default data by Moody's Investors Service (Moody's) rating category to calculate a 1-in-100 year probability of default, which results in a default assumption in excess of the historical mean default rate. We believe that use of a default assumption in excess of the historical mean is reasonable in light of current market conditions.

The following table presents default assumptions by Moody's rating category (historical mean default rate provided for comparison):

Moody's Rating Category	1-in-100 Year Default Rate	Historical Mean Default Rate
Investment Grade:		
Aaa-Baa	0.0-1.4%	0.0-0.3%
Below Investment Grade:		
Ba	4.9%	1.1%
B	12.8%	3.4%
Caa-C	53.4%	13.8%

Consistent with management's approach to developing default rate assumptions considering recent market conditions, ACE assumed a 32 percent recovery rate (the par value of a defaulted security that will be recovered) across all rating categories rather than using Moody's historical mean recovery rate of 42 percent. ACE believes that use of a recovery rate assumption lower than the historical mean is reasonable in light of recent market conditions.

Application of the methodology and assumptions described above resulted in credit losses recognized in net income for corporate securities of $14 million, $9 million, and $14 million for the years ended December 31, 2012, 2011, and 2010, respectively.

Mortgage-backed securities
For mortgage-backed securities, credit impairment is assessed using a cash flow model that estimates the cash flows on the underlying mortgages, using the security-specific collateral and transaction structure. The model estimates cash flows from the underlying mortgage loans and distributes those cash flows to various tranches of securities, considering the transaction structure and any subordination and credit enhancements that exist in that structure. The cash flow model incorporates actual cash flows on the mortgage-backed securities through the current period and then projects the remaining cash flows using a number of assumptions, including default rates, prepayment rates, and loss severity rates (the par value of a defaulted security that will not be recovered) on foreclosed properties.

ACE develops specific assumptions using market data, where available, and includes internal estimates as well as estimates published by rating agencies and other third-party sources. ACE projects default rates by mortgage sector considering current underlying mortgage loan performance, generally assuming lower loss severity for Prime sector bonds versus ALT-A and Sub-prime bonds.

These estimates are extrapolated along a default timing curve to estimate the total lifetime pool default rate. Other assumptions used contemplate the actual collateral attributes, including geographic concentrations, rating agency loss projections, rating actions, and current market prices. If cash flow projections indicate that losses will exceed the credit enhancement for a given tranche, then we do not expect to recover our amortized cost basis and we recognize an estimated credit loss in net income.

Application of the methodology and assumptions described above resulted in credit losses recognized in net income for mortgage-backed securities of $6 million, $11 million, and $32 million for the years ended December 31, 2012, 2011, and 2010, respectively.

The following table presents the Net realized gains (losses) and the losses included in Net realized gains (losses) and OCI as a result of conditions which caused us to conclude the decline in fair value of certain investments was "other-than-temporary" and the change in net unrealized appreciation (depreciation) of investments:

	Years Ended December 31		
(in millions of U.S. dollars)	**2012**	2011	2010
Fixed maturities:			
OTTI on fixed maturities, gross	**$ (26)**	$ (61)	$ (115)
OTTI on fixed maturities recognized in OCI (pre-tax)	**1**	15	69
OTTI on fixed maturities, net	**(25)**	(46)	(46)
Gross realized gains excluding OTTI	**388**	410	569
Gross realized losses excluding OTTI	**(133)**	(200)	(143)
Total fixed maturities	**230**	164	380
Equity securities:			
OTTI on equity securities	**(5)**	(1)	-
Gross realized gains excluding OTTI	**11**	15	86
Gross realized losses excluding OTTI	**(2)**	(5)	(2)
Total equity securities	**4**	9	84
OTTI on other investments	**(7)**	(3)	(13)
Foreign exchange losses	**(16)**	(13)	(54)
Investment and embedded derivative instruments	**(6)**	(143)	58
Fair value adjustments on insurance derivative	**171**	(779)	(28)
S&P put options and futures	**(297)**	(4)	(150)
Other derivative instruments	**(4)**	(4)	(19)
Other	**3**	(22)	174
Net realized gains (losses)	**78**	(795)	432
Change in net unrealized appreciation (depreciation) on investments:			
Fixed maturities available for sale	**1,099**	569	451
Fixed maturities held to maturity	**(94)**	(89)	522
Equity securities	**61**	(47)	(44)
Other	**50**	40	(35)
Income tax expense	**(198)**	(157)	(152)
Change in net unrealized appreciation on investments	**918**	316	742
Total net realized gains (losses) and change in net unrealized appreciation (depreciation) on investments	**$ 996**	$ (479)	$ 1,174

The following table presents a roll-forward of pre-tax credit losses related to fixed maturities for which a portion of OTTI was recognized in OCI:

	Years Ended December 31		
(in millions of U.S. dollars)	**2012**	2011	2010
Balance of credit losses related to securities still held - beginning of year	**$ 74**	$ 137	$ 174
Additions where no OTTI was previously recorded	**8**	12	34
Additions where an OTTI was previously recorded	**12**	8	12
Reductions for securities sold during the period	**(51)**	(83)	(83)
Balance of credit losses related to securities still held - end of year	**$ 43**	$ 74	$ 137

d) Other investments
The following table presents the fair value and cost of other investments:

	December 31 2012		December 31 2011	
(in millions of U.S. dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Investment funds	**$ 395**	**$ 278**	$ 378	$ 277
Limited partnerships	**531**	**398**	531	429
Partially-owned investment companies	**1,186**	**1,187**	904	904
Life insurance policies	**148**	**148**	127	127
Policy loans	**164**	**164**	143	143
Trading securities	**243**	**242**	194	195
Other	**49**	**48**	37	37
Total	**$ 2,716**	**$ 2,465**	$ 2,314	$ 2,112

Investment funds include one highly diversified fund investment as well as several direct funds that employ a variety of investment styles such as long/short equity and arbitrage/distressed. Included in limited partnerships and partially-owned investment companies are 65 individual limited partnerships covering a broad range of investment strategies including large cap buyouts, specialist buyouts, growth capital, distressed, mezzanine, real estate, and co-investments. The underlying portfolio consists of various public and private debt and equity securities of publicly traded and privately held companies and real estate assets. The underlying investments across various partnerships, geographies, industries, asset types, and investment strategies provide risk diversification within the limited partnership portfolio and the overall investment portfolio. Trading securities comprise $212 million of mutual funds supported by assets that do not quality for separate account reporting under GAAP at December 31, 2012 compared with $162 million at December 31, 2011. Trading securities also includes assets held in rabbi trusts of $23 million of equity securities and $8 million of fixed maturities at December 31, 2012, compared with $24 million of equity securities and $8 million of fixed maturities at December 31, 2011.

e) Investments in partially-owned insurance companies

The following table presents Investments in partially-owned insurance companies:

	December 31 2012			December 31 2011			
(in millions of U.S. dollars, except percentages)	Carrying Value	Issued Share Capital	Ownership Percentage	Carrying Value	Issued Share Capital	Ownership Percentage	Domicile
Huatai Group	$ 350 [(1)]	$ 474	20.0%	$ 228	$ 457	20.0%	China
Huatai Life Insurance Company	84	205	20.0%	103	196	20.0%	China
Freisenbruch-Meyer	9	6	40.0%	8	5	40.0%	Bermuda
ACE Cooperative Ins. Co. - Saudi Arabia	9	27	30.0%	7	27	30.0%	Saudi Arabia
Russian Reinsurance Company	2	4	23.3%	2	4	23.3%	Russia
Island Heritage	-	-	-	4	27	10.8%	Cayman Islands
Total	$ 454	$ 716		$ 352	$ 716		

(1) Includes additional investment of approximately $100 million which is pending regulatory approval.

Huatai Group and Huatai Life Insurance Company provide a range of P&C, life, and investment products.

f) Gross unrealized loss

At December 31, 2012, there were 2,029 fixed maturities out of a total of 23,679 fixed maturities in an unrealized loss position. The largest single unrealized loss in the fixed maturities was $5 million. There were 56 equity securities out of a total of 193 equity securities in an unrealized loss position. The largest single unrealized loss in the equity securities was $1 million. Fixed maturities in an unrealized loss position at December 31, 2012 comprised both investment grade and below investment grade securities for which fair value declined primarily due to widening credit spreads since the date of purchase.

The following tables present, for all securities in an unrealized loss position (including securities on loan), the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

December 31, 2012	0 - 12 Months		Over 12 Months		Total	
(in millions of U.S. dollars)	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
U.S. Treasury and agency	$ 440	$ (1.4)	$ -	$ -	$ 440	$ (1.4)
Foreign	1,234	(8.6)	88	(5.8)	1,322	(14.4)
Corporate securities	1,026	(22.7)	85	(7.9)	1,111	(30.6)
Mortgage-backed securities	855	(3.8)	356	(32.6)	1,211	(36.4)
States, municipalities, and political subdivisions	316	(3.0)	48	(3.6)	364	(6.6)
Total fixed maturities	3,871	(39.5)	577	(49.9)	4,448	(89.4)
Equity securities	29	(4.2)	-	-	29	(4.2)
Other investments	68	(4.9)	-	-	68	(4.9)
Total	$ 3,968	$ (48.6)	$ 577	$ (49.9)	$ 4,545	$ (98.5)

December 31, 2011 (in millions of U.S. dollars)	0 - 12 Months Fair Value	0 - 12 Months Gross Unrealized Loss	Over 12 Months Fair Value	Over 12 Months Gross Unrealized Loss	Total Fair Value	Total Gross Unrealized Loss
Foreign	$ 1,801	$ (82.2)	$ 529	$ (40.0)	$ 2,330	$ (122.2)
Corporate securities	3,084	(148.2)	268	(32.2)	3,352	(180.4)
Mortgage-backed securities	440	(7.5)	586	(170.2)	1,026	(177.7)
States, municipalities, and political subdivisions	30	(0.4)	98	(3.5)	128	(3.9)
Total fixed maturities	5,355	(238.3)	1,481	(245.9)	6,836	(484.2)
Equity securities	484	(42.3)	-	-	484	(42.3)
Other investments	88	(8.3)	-	-	88	(8.3)
Total	$ 5,927	$ (288.9)	$ 1,481	$ (245.9)	$ 7,408	$ (534.8)

g) Net investment income
The following table presents the sources of net investment income:

(in millions of U.S. dollars)	Years Ended December 31 2012	2011	2010
Fixed maturities	**$ 2,134**	$ 2,196	$ 2,071
Short-term investments	**28**	43	34
Equity securities	**34**	36	26
Other	**104**	62	44
Gross investment income	**2,300**	2,337	2,175
Investment expenses	**(119)**	(95)	(105)
Net investment income	**$ 2,181**	$ 2,242	$ 2,070

h) Restricted assets
ACE is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. The assets on deposit are available to settle insurance and reinsurance liabilities. ACE is also required to restrict assets pledged under reverse repurchase agreements. We also use trust funds in certain large reinsurance transactions where the trust funds are set up for the benefit of the ceding companies and generally take the place of letter of credit (LOC) requirements. We also have investments in segregated portfolios primarily to provide collateral or guarantees for LOCs and derivative transactions. Included in restricted assets at December 31, 2012 and 2011, are fixed maturities and short-term investments totaling $16.6 billion and $14.9 billion, respectively, and cash of $139 million and $179 million, respectively.

The following table presents the components of restricted assets:

(in millions of U.S. dollars)	**December 31 2012**	December 31 2011
Trust funds	**$ 11,389**	$ 9,940
Deposits with non-U.S. regulatory authorities	**2,133**	2,240
Assets pledged under reverse repurchase agreements	**1,401**	1,251
Deposits with U.S. regulatory authorities	**1,338**	1,307
Other pledged assets	**456**	364
	$ 16,717	$ 15,102

4. Fair value measurements

a) Fair value hierarchy
Fair value of financial assets and financial liabilities is estimated based on the framework established in the fair value accounting guidance. The guidance defines fair value as the price to sell an asset or transfer a liability in an orderly transaction between market participants and establishes a three-level valuation hierarchy in which inputs into valuation techniques used to measure fair value are classified. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data.

The three levels of the hierarchy are as follows:

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 - Includes, among other items, inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves, quoted prices for similar assets and liabilities in active markets, and quoted prices for identical or similar assets and liabilities in markets that are not active; and
- Level 3 - Inputs that are unobservable and reflect management's 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.

We use one or more pricing services to obtain fair value measurements for the majority of the investment securities we hold. Based on management's understanding of the methodologies used, these 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 the pricing services, all applicable investments have been valued in accordance with GAAP. We do not typically adjust prices obtained from pricing services. The following is a description of the valuation techniques and inputs used to determine fair values for financial instruments carried at fair value, as well as the general classification of such financial instruments pursuant to the valuation hierarchy.

Fixed maturities
We use pricing services to estimate fair value measurements for the majority of our fixed maturities. The pricing services use market quotations for fixed maturities that have quoted prices in active markets; such securities are classified within Level 1. For fixed maturities other than U.S. Treasury securities that generally do not trade on a daily basis, the pricing services prepare estimates of fair value measurements using their pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additional valuation factors that can be taken into account are nominal spreads, dollar basis, and liquidity adjustments. The pricing services evaluate each asset class based on relevant market and credit information, perceived market movements, and sector news. The market inputs used in the pricing evaluation, listed in the approximate order of priority include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each input is dependent on the asset class and the market conditions. Given the asset class, the priority of the use of inputs may change or some market inputs may not be relevant. Additionally, the valuation of fixed maturities 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 the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur. The overwhelming majority of fixed maturities are classified within Level 2 because the most significant inputs used in the pricing techniques are observable. 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.

Equity securities
Equity securities with active markets are classified within Level 1 as fair values are based on quoted market prices. For equity securities in markets which are less active, fair values are based on market valuations and are classified within Level 2. Equity securities for which pricing is unobservable are classified within Level 3.

Short-term investments
Short-term investments, which comprise securities due to mature within one year of the date of purchase that are traded in active markets, are classified within Level 1 as fair values are based on quoted market prices. Securities such as commercial paper and discount notes are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates fair value.

Other investments
Fair values for the majority of Other investments including investments in partially-owned investment companies, investment funds, and limited partnerships are based on their respective net asset values or equivalent (NAV). The majority of these investments, for which NAV was used as a practical expedient to measure fair value, are classified within Level 3 because either ACE will never have the contractual option to redeem the investments or will not have the contractual option to redeem the investments in the near term. The remainder of such investments is classified within Level 2. Certain of our long duration contracts are supported by assets that do not qualify for separate account reporting under GAAP. These assets comprise mutual funds classified within Level 1 in the valuation hierarchy on the same basis as other equity securities traded in active markets. Other investments also includes equity securities and fixed maturities held in rabbi trusts maintained by ACE for deferred compensation plans, which are classified within the valuation hierarchy on the same basis as other equity securities and fixed maturities.

Securities lending collateral
The underlying assets included in Securities lending collateral in the consolidated balance sheets are fixed maturities which are classified in the valuation hierarchy on the same basis as other fixed maturities. Excluded from the valuation hierarchy is the corresponding liability related to ACE's obligation to return the collateral plus interest as it is reported at contract value and not fair value in the consolidated balance sheets.

Investment derivative instruments
Actively traded investment derivative instruments, including futures, options, and exchange-traded forward contracts are classified within Level 1 as fair values are based on quoted market prices. The fair value of cross-currency swaps are based on market valuations and are classified within Level 2. Investment derivative instruments are recorded in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets.

Other derivative instruments
We maintain positions in other derivative instruments including exchange-traded equity futures contracts and option contracts designed to limit exposure to a severe equity market decline, which would cause an increase in expected claims and, therefore, reserves for our guaranteed minimum death benefits (GMDB) and guaranteed living benefits (GLB) reinsurance business. Our position in exchange-traded equity futures contracts is classified within Level 1. The fair value of the majority of the remaining positions in other derivative instruments is based on significant observable inputs including equity security and interest rate indices. Accordingly, these are classified within Level 2. Our position in credit default swaps is typically included within Level 3. Other derivative instruments are recorded in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets.

Separate account assets
Separate account assets represent segregated funds where investment risks are borne by the customers, except to the extent of certain guarantees made by ACE. Separate account assets comprise mutual funds classified in the valuation hierarchy on the same basis as other equity securities traded in active markets and are classified within Level 1. Separate account assets also include fixed maturities classified within Level 2 because the most significant inputs used in the pricing techniques are observable. Excluded from the valuation hierarchy are the corresponding liabilities as they are reported at contract value and not fair value in the consolidated balance sheets. Separate account assets are recorded in Other assets in the consolidated balance sheets.

Guaranteed living benefits
The GLB arises from life reinsurance programs covering living benefit guarantees whereby we assume the risk of guaranteed minimum income benefits (GMIB) and guaranteed minimum accumulation benefits (GMAB) associated with variable annuity contracts. GLB's are recorded in Accounts payable, accrued expenses, and other liabilities and Future policy benefits in the consolidated balance sheets. For GLB reinsurance, ACE estimates fair value using an internal valuation model which includes current market information and estimates of policyholder behavior. All of the treaties contain claim limits, which are factored into the valuation model. The fair value depends on a number of inputs, including changes in interest rates, changes in equity markets, credit risk, current account value, changes in market volatility, expected annuitization rates, changes in policyholder behavior, and changes in policyholder mortality.

The most significant policyholder behavior assumptions include lapse rates and the GMIB annuitization rates. Assumptions regarding lapse rates and GMIB annuitization rates differ by treaty but the underlying methodologies to determine rates applied to each treaty are comparable. The assumptions regarding lapse and GMIB annuitization rates determined for each treaty are based on a dynamic calculation that uses several underlying factors.

A lapse rate is the percentage of in-force policies surrendered in a given calendar year. All else equal, as lapse rates increase, ultimate claim payments will decrease. In general, the base lapse function assumes low lapse rates (ranging from about 1 percent to 6 percent per annum) during the surrender charge period of the GMIB contract, followed by a "spike" lapse rate (ranging from about 10 percent to 30 percent per annum) in the year immediately following the surrender charge period, and then reverting to an ultimate lapse rate (generally around 10 percent per annum), typically over a 2-year period. This base rate is adjusted downward for policies with more valuable guarantees (policies with guaranteed values far in excess of their account values) by multiplying the base lapse rate by a factor ranging from 15 percent to 75 percent. Additional lapses due to partial withdrawals and older policyholders with tax-qualified contracts (due to required minimum distributions) are also included.

The GMIB annuitization rate is the percentage of policies for which the policyholder will elect to annuitize using the guaranteed benefit provided under the GMIB. All else equal, as GMIB annuitization rates increase, ultimate claim payments will increase, subject to treaty claim limits. In general ACE assumes that GMIB annuitization rates will be higher for policies with more valuable guarantees (policies with guaranteed values far in excess of their account values). In addition, we also assume that GMIB annuitization rates are higher in the first year immediately following the waiting period (the first year the policies are eligible to annuitize using the GMIB) in comparison to all subsequent years. We do not yet have a robust set of annuitization experience because most of our clients' policyholders are not yet eligible to annuitize using the GMIB. However, for certain clients representing approximately 36 percent of the total GMIB guaranteed value there are several years of annuitization experience. For these clients the annuitization function reflects the actual experience and has a maximum annuitization rate per annum of 8 percent (a higher maximum applies in the first year a policy is eligible to annuitize using the GMIB-it is over 13 percent). For most clients, there is not a credible amount of observable relevant behavior data and so we use a weighted-average (with a heavier weighting on the observed experience noted previously) of three different annuitization functions with maximum annuitization rates per annum of 8 percent, 12 percent, and 30 percent, respectively (with significantly higher rates in the first year a policy is eligible to annuitize using the GMIB). The GMIB reinsurance treaties include claim limits to protect ACE in the event that actual annuitization behavior is significantly higher than expected.

The effect of changes in key market factors on assumed lapse and annuitization rates reflect emerging trends using data available from cedants. For treaties with limited experience, rates are established in line with data received from other ceding companies adjusted, as appropriate, with industry estimates. 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 information, such as market conditions, market participant assumptions, and demographics of in-force annuities. During 2012, no material changes were made to actuarial or behavioral assumptions. We made minor technical refinements to the model with a favorable net income impact of approximately $49 million, $14 million, and $98 million for the years ended December 31, 2012, 2011, and 2010 respectively.

We view the variable annuity reinsurance business as having a similar risk profile to that of catastrophe reinsurance, with the probability of a cumulative long-term economic net loss relatively small at the time of pricing. However, adverse changes in market factors and policyholder behavior will have an adverse impact on net income, which may be material. Because of the significant use of unobservable inputs including policyholder behavior, GLB reinsurance is classified within Level 3.

The following tables present, by valuation hierarchy, the financial instruments measured at fair value on a recurring basis:

December 31, 2012 (in millions of U.S. dollars)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities available for sale				
U.S. Treasury and agency	$ 2,050	$ 1,685	$ -	$ 3,735
Foreign	222	13,431	60	13,713
Corporate securities	20	16,586	102	16,708
Mortgage-backed securities	-	10,460	13	10,473
States, municipalities, and political subdivisions	-	2,677	-	2,677
	2,292	44,839	175	47,306
Equity securities	253	488	3	744
Short-term investments	1,503	725	-	2,228
Other investments	268	196	2,252	2,716
Securities lending collateral	-	1,791	-	1,791
Investment derivative instruments	11	-	-	11
Other derivative instruments	(6)	30	-	24
Separate account assets	872	71	-	943
Total assets measured at fair value	$ 5,193	$ 48,140	$ 2,430	$ 55,763
Liabilities:				
GLB[1]	$ -	$ -	$ 1,119	$ 1,119

(1) Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. Refer to Note 5 c) for additional information.

December 31, 2011 (in millions of U.S. dollars)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities available for sale				
U.S. Treasury and agency	$ 1,691	$ 1,264	$ 5	$ 2,960
Foreign	212	12,156	33	12,401
Corporate securities	20	14,539	134	14,693
Mortgage-backed securities	-	10,173	28	10,201
States, municipalities, and political subdivisions	-	1,711	1	1,712
	1,923	39,843	201	41,967
Equity securities	215	419	13	647
Short-term investments	1,246	1,055	-	2,301
Other investments	208	229	1,877	2,314
Securities lending collateral	-	1,375	-	1,375
Investment derivative instruments	10	-	-	10
Other derivative instruments	(16)	54	3	41
Separate account assets	607	53	-	660
Total assets measured at fair value	$ 4,193	$ 43,028	$ 2,094	$ 49,315
Liabilities:				
GLB[1]	$ -	$ -	$ 1,319	$ 1,319

(1) Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. Refer to Note 5 c) for additional information.

The transfers from Level 1 to Level 2 were $40 million and the transfers from Level 2 to Level 1 were $15 million during the year ended December 31, 2012. The transfers between Level 1 and Level 2 during the years ended December 31, 2011 and 2010 were not material. Level 2 equity securities in the above table at December 31, 2011 were adjusted to include a $417 million investment previously classified as Level 1.

Fair value of alternative investments
Included in Other investments in the fair value hierarchy at December 31, 2012 and 2011 are investment funds, limited partnerships, and partially-owned investment companies measured at fair value using NAV as a practical expedient. At December 31, 2012, there were no probable or pending sales related to any of the investments measured at fair value using NAV.

The following table presents, by investment category, the expected liquidation period, fair value, and maximum future funding commitments of alternative investments:

		December 31 2012		December 31 2011	
(in millions of U.S. dollars)	Expected Liquidation Period	Fair Value	Maximum Future Funding Commitments	Fair Value	Maximum Future Funding Commitments
Financial	5 to 9 Years	$ 225	$ 111	$ 205	$ 141
Real estate	3 to 9 Years	292	62	270	96
Distressed	6 to 9 Years	192	152	182	57
Mezzanine	6 to 9 Years	284	279	195	282
Traditional	3 to 8 Years	711	587	565	200
Vintage	1 to 3 Years	14	-	18	1
Investment funds	Not Applicable	395	-	378	-
		$ 2,113	$ 1,191	$ 1,813	$ 777

Included in all categories in the above table except for Investment funds are investments for which ACE will never have the contractual option to redeem but receives distributions based on the liquidation of the underlying assets. Included in the "Expected Liquidation Period" column above is the range in years over which ACE expects the majority of underlying assets in the respective categories to be liquidated. Further, for all categories except for Investment funds, ACE does not have the ability to sell or transfer the investments without the consent from the general partner of individual funds.

Financial
Financial consists of investments in private equity funds targeting financial services companies such as financial institutions and insurance services around the world.

Real estate
Real estate consists of investments in private equity funds targeting global distress opportunities, value added U.S. properties, and global mezzanine debt securities in the commercial real estate market.

Distressed
Distressed consists of investments in private equity funds targeting distressed debt/credit and equity opportunities in the U.S.

Mezzanine
Mezzanine consists of investments in private equity funds targeting private mezzanine debt of large-cap and mid-cap companies in the U.S. and worldwide.

Traditional
Traditional consists of investments in private equity funds employing traditional private equity investment strategies such as buyout and venture with different geographical focuses including Brazil, Asia, Europe, and the U.S.

Vintage
Vintage consists of investments in private equity funds made before 2002 and where the funds' commitment periods had already expired.

Investment funds
ACE's investment funds employ various investment strategies such as long/short equity and arbitrage/distressed. Included in this category are investments for which ACE has the option to redeem at agreed upon value as described in each investment fund's subscription agreement. Depending on the terms of the various subscription agreements, investment fund investments may be redeemed monthly, quarterly, semi-annually, or annually. If ACE wishes to redeem an investment fund investment, it must first determine if the investment fund is still in a lock-up period (a time when ACE cannot redeem its investment so that the investment fund manager has time to build the portfolio). If the investment fund is no longer in its lock-up period, ACE must then notify the investment fund manager of its intention to redeem by the notification date prescribed by the subscription agreement. Subsequent to notification, the investment fund can redeem ACE's investment within several months of the notification. Notice periods for redemption of the investment funds range between 5 and 120 days. ACE can redeem its investment funds without consent from the investment fund managers.

Level 3 financial instruments
The fair value of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) consist of various inputs and assumptions that management makes when determining fair value. Management analyzes changes in fair value measurements classified within Level 3 by comparing pricing and returns of our investments to benchmarks, including month-over-month movements, investment credit spreads, interest rate movements, and credit quality of securities.

The following table presents the significant unobservable inputs used in the Level 3 liability valuations. Excluded from the table below are inputs used to fair value Level 3 assets which are based on single broker quotes or net asset value and contain no quantitative unobservable inputs developed by management.

(in millions of U.S. dollars)	Fair Value at December 31, 2012	Valuation Technique	Significant Unobservable Inputs	Ranges
GLB[1]	$ 1,119	**Actuarial model**	**Lapse rate**	**1% - 30%**
			Annuitization rate	**0% - 50%**

(1) Discussion of the most significant inputs used in the fair value measurement of GLB and the sensitivity of those assumptions is included within Note 4 a) Guaranteed living benefits.

The following tables present a reconciliation of the beginning and ending balances of financial instruments measured at fair value using significant unobservable inputs (Level 3):

Year Ended December 31, 2012 (in millions of U.S. dollars)	**Assets**								**Liabilities**
	Available-for-Sale Debt Securities								
	U.S. Treasury and agency	**Foreign**	**Corporate securities**	**MBS**	**States, municipalities, and political subdivisions**	**Equity securities**	**Other investments**	**Other derivative instruments**	**GLB[(1)]**
Balance-Beginning of year	**$ 5**	**$ 33**	**$ 134**	**$ 28**	**$ 1**	**$ 13**	**$ 1,877**	**$ 3**	**$ 1,319**
Transfers into Level 3	**-**	**49**	**37**	**22**	**1**	**2**	**53**	**-**	**-**
Transfers out of Level 3	**(4)**	**(13)**	**(46)**	**(35)**	**(1)**	**(11)**	**-**	**-**	**-**
Change in Net Unrealized Gains (Losses) included in OCI	**-**	**(1)**	**6**	**-**	**-**	**-**	**55**	**-**	**-**
Net Realized Gains/Losses	**-**	**-**	**(1)**	**-**	**-**	**-**	**(7)**	**(4)**	**(200)**
Purchases	**-**	**46**	**24**	**9**	**-**	**4**	**520**	**3**	**-**
Sales	**-**	**(53)**	**(19)**	**(7)**	**-**	**(5)**	**(9)**	**-**	**-**
Settlements	**(1)**	**(1)**	**(33)**	**(4)**	**(1)**	**-**	**(237)**	**(2)**	**-**
Balance-End of Year	**$ -**	**$ 60**	**$ 102**	**$ 13**	**$ -**	**$ 3**	**$ 2,252**	**$ -**	**$ 1,119**
Net Realized Gains/Losses Attributable to Changes in Fair Value at the Balance Sheet Date	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (7)**	**$ -**	**$ (200)**

(1) Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. Refer to Note 5 c) for additional information.

Year Ended December 31, 2011 (in millions of U.S. dollars)	Assets								Liabilities
	Available-for-Sale Debt Securities								
	U.S. Treasury and Agency	Foreign	Corporate securities	MBS	States, municipalities, and political subdivisions	Equity securities	Other investments	Other derivative instruments	GLB[(1)]
Balance-Beginning of year	$ -	$ 26	$ 115	$ 39	$ 2	$ 13	$ 1,432	$ 4	$ 507
Transfers into Level 3	-	9	42	4	-	-	-	-	-
Transfers out of Level 3	-	(18)	(4)	(48)	-	-	-	-	-
Change in Net Unrealized Gains (Losses) included in OCI	-	(1)	(2)	-	-	(1)	93	-	-
Net Realized Gains/Losses	-	-	(3)	-	-	4	(3)	2	812
Purchases	5	23	32	59	-	5	602	-	-
Sales	-	(3)	(27)	(17)	-	(8)	(55)	-	-
Settlements	-	(3)	(19)	(9)	(1)	-	(192)	(3)	-
Balance-End of Year	$ 5	$ 33	$ 134	$ 28	$ 1	$ 13	$ 1,877	$ 3	$ 1,319
Net Realized Gains/Losses Attributable to Changes in Fair Value at the Balance Sheet Date	$ -	$ -	$ -	$ -	$ -	$ -	$ (3)	$ (1)	$ 812

(1) Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. The liability for GLB reinsurance was $1.5 billion at December 31, 2011 and $648 million at December 31, 2010, which includes a fair value derivative adjustment of $1.3 billion and $507 million, respectively.

Year Ended December 31, 2010 (in millions of U.S. dollars)	Available-for-Sale Debt Securities: Foreign	Corporate securities	MBS	States, municipalities, and political subdivisions	Equity securities	Other investments	Assets: Other derivative instruments	Liabilities: GLB[(1)]
Balance-Beginning of year	$ 59	$ 168	$ 21	$ 3	$ 12	$ 1,149	$ 14	$ 443
Transfers into (Out of) Level 3	(14)	(25)	(1)	-	1	-	-	-
Change in Net Unrealized Gains (Losses) included in OCI	1	9	-	-	-	53	-	-
Net Realized Gains/Losses	1	(3)	-	-	1	(7)	2	64
Purchases, Sales, Issuances, and Settlements, Net	(21)	(34)	19	(1)	(1)	237	(12)	-
Balance-End of Year	$ 26	$ 115	$ 39	$ 2	$ 13	$ 1,432	$ 4	$ 507
Net Realized Gains/Losses Attributable to Changes in Fair Value at the Balance Sheet Date	$ -	$ -	$ -	$ -	$ -	$ (7)	$ 1	$ 64

(1) Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. The liability for GLB reinsurance was $648 million at December 31, 2010 and $559 million at December 31, 2009, which includes a fair value derivative adjustment of $507 million and $443 million, respectively.

b) Financial instruments disclosed, but not measured, at fair value
ACE uses various financial instruments in the normal course of its business. Our insurance contracts are excluded from fair value of financial instruments accounting guidance, and therefore, are not included in the amounts discussed below.

The carrying values of cash, other assets, other liabilities, and other financial instruments not included below approximated their fair values.

Investments in partially-owned insurance companies
Fair values for investments in partially-owned insurance companies are based on ACE's share of the net assets based on the financial statements provided by those companies.

Short- and long-term debt and trust preferred securities
Where practical, fair values for short-term debt, long-term debt, and trust preferred securities are estimated using discounted cash flow calculations based principally on observable inputs including incremental borrowing rates, which reflect ACE's credit rating, for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

The following table presents carrying values and fair values of financial instruments not measured at fair value:

(in millions of U.S. dollars)	December 31 2012 Carrying Value	December 31 2012 Fair Value	December 31 2011 Carrying Value	December 31 2011 Fair Value
Assets:				
Fixed maturities held to maturity				
U.S. Treasury and agency	$ 1,044	$ 1,083	$ 1,078	$ 1,126
Foreign	910	964	935	930
Corporate securities	2,133	2,275	2,338	2,337
Mortgage-backed securities	2,028	2,116	2,949	3,036
States, municipalities, and political subdivisions	1,155	1,195	1,147	1,176
	7,270	7,633	8,447	8,605
Partially-owned insurance companies	454	454	352	352
Total assets	$ 7,724	$ 8,087	$ 8,799	$ 8,957
Liabilities:				
Short-term debt	$ 1,401	$ 1,401	$ 1,251	$ 1,251
Long-term debt	3,360	3,916	3,360	3,823
Trust preferred securities	309	446	309	404
Total liabilities	$ 5,070	$ 5,763	$ 4,920	$ 5,478

The following table presents, by valuation hierarchy, the financial instruments not measured at fair value:

				December 31, 2012
(in millions of U.S. dollars)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities held to maturity				
U.S. Treasury and agency	$ 619	$ 464	$ -	$ 1,083
Foreign	-	964	-	964
Corporate securities	-	2,257	18	2,275
Mortgage-backed securities	-	2,116	-	2,116
States, municipalities, and political subdivisions	-	1,195	-	1,195
	619	6,996	18	7,633
Partially-owned insurance companies	-	-	454	454
Total assets	$ 619	$ 6,996	$ 472	$ 8,087
Liabilities:				
Short-term debt	$ -	$ 1,401	$ -	$ 1,401
Long-term debt	-	3,916	-	3,916
Trust preferred securities	-	446	-	446
Total liabilities	$ -	$ 5,763	$ -	$ 5,763

5. Reinsurance

a) Consolidated reinsurance
ACE purchases reinsurance to manage various exposures including catastrophe risks. Although reinsurance agreements contractually obligate ACE's reinsurers to reimburse it for the agreed-upon portion of its gross paid losses, they do not discharge ACE's primary liability. The amounts for net premiums written and net premiums earned in the consolidated statements of operations are net of reinsurance. The following table presents direct, assumed, and ceded premiums:

	Years Ended December 31		
(in millions of U.S. dollars)	**2012**	2011	2010
Premiums written			
Direct	$ **18,144**	$ 17,626	$ 15,887
Assumed	**3,449**	3,205	3,624
Ceded	**(5,518)**	(5,459)	(5,803)
Net	$ **16,075**	$ 15,372	$ 13,708
Premiums earned			
Direct	$ **17,802**	$ 17,534	$ 15,780
Assumed	**3,302**	3,349	3,516
Ceded	**(5,427)**	(5,496)	(5,792)
Net	$ **15,677**	$ 15,387	$ 13,504

For the years ended December 31, 2012, 2011, and 2010, reinsurance recoveries on losses and loss expenses incurred were $4.3 billion, $3.3 billion, and $3.3 billion, respectively.

b) Reinsurance recoverable on ceded reinsurance
The following table presents the composition of reinsurance recoverable on losses and loss expenses:

(in millions of U.S. dollars)	**December 31 2012**	December 31 2011
Reinsurance recoverable on unpaid losses and loss expenses (1)	**$ 11,399**	$ 11,602
Reinsurance recoverable on paid losses and loss expenses (1)	**679**	787
Net reinsurance recoverable on losses and loss expenses	**$ 12,078**	$ 12,389

(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 ACE, primarily because of disputes under reinsurance contracts and insolvencies. We have established provisions for amounts estimated to be uncollectible. At December 31, 2012 and 2011, we recorded a provision for uncollectible reinsurance of $439 million and $479 million, respectively.

The following tables present a listing, at December 31, 2012, of the categories of ACE's reinsurers. The first category, largest reinsurers, represents all groups of reinsurers where the gross recoverable exceeds one percent of ACE's total shareholders' equity. The provision for uncollectible reinsurance for the largest reinsurers, other reinsurers rated A- or better, and other reinsurers with ratings lower than A- is principally based on an analysis of the credit quality of the reinsurer and collateral balances. Other pools and government agencies include amounts backed by certain state and federal agencies. In certain states, insurance companies are required by law to participate in these pools. Structured settlements include annuities purchased from life insurance companies to settle claims. Since we retain the ultimate liability in the event that the life company fails to pay, we reflect the amount as a liability and a recoverable/receivable for GAAP purposes. Captives include companies established and owned by our insurance clients to assume a significant portion of their direct insurance risk from ACE (they are structured to allow clients to self-insure a portion of their insurance risk). It is generally our policy to obtain collateral equal to expected losses. Where appropriate, exceptions are granted but only with review and approval at a senior officer level. The final category, Other, includes amounts recoverable that are in dispute or are from companies that are in supervision, rehabilitation, or liquidation. We establish the provision for uncollectible reinsurance in this category based on a

case by case analysis of individual situations including the merits of the underlying matter, credit and collateral analysis, and consideration of our collection experience in similar situations.

(in millions of U.S. dollars, except percentages)	2012	Provision	% of Gross
Categories			
Largest reinsurers	$ 5,800	$ 98	1.7%
Other reinsurers balances rated A- or better	3,080	40	1.3%
Other reinsurers balances with ratings lower than A- or not rated	602	120	19.9%
Other pools and government agencies	383	14	3.7%
Structured settlements	582	24	4.1%
Captives	1,761	14	0.8%
Other	309	129	41.7%
Total	$ 12,517	$ 439	3.5%

Largest Reinsurers

Berkshire Hathaway Insurance Group	Lloyd's of London	Swiss Re Group
Federal Crop Insurance Corporation	Munich Re Group	Transatlantic Holdings
HDI Re Group (Hanover Re)	Partner Re	XL Capital Group

c) Assumed life reinsurance programs involving minimum benefit guarantees under annuity contracts

The following table presents income and expenses relating to GMDB and GLB reinsurance. GLBs include GMIBs as well as some GMABs originating in Japan.

	Years Ended December 31		
(in millions of U.S. dollars)	2012	2011	2010
GMDB			
Net premiums earned	$ 85	$ 98	$ 109
Policy benefits and other reserve adjustments	$ 60	$ 59	$ 99
GLB			
Net premiums earned	$ 160	$ 163	$ 164
Policy benefits and other reserve adjustments	61	47	29
Net realized gains (losses)	203	(812)	(64)
Gain (loss) recognized in income	$ 302	$ (696)	$ 71
Net cash received	$ 149	$ 161	$ 160
Net (increase) decrease in liability	$ 153	$ (857)	$ (89)

At December 31, 2012, reported liabilities for GMDB and GLB reinsurance were $90 million and $1.4 billion, respectively, compared with $138 million and $1.5 billion, respectively, at December 31, 2011. The reported liability for GLB reinsurance of $1.4 billion at December 31, 2012, and $1.5 billion at December 31, 2011, includes a fair value derivative adjustment of $1.1 billion and $1.3 billion, respectively. Included in Net realized gains (losses) in the table above are gains (losses) related to foreign exchange and other fair value derivative adjustments. Reported liabilities for both GMDB and GLB reinsurance are determined using internal valuation models. Such valuations require considerable judgment and are subject to significant uncertainty. The valuation of these products is subject to fluctuations arising from, among other factors, changes in interest rates, changes in equity markets, changes in credit markets, changes in the allocation of the investments underlying annuitants' account values, and assumptions regarding future policyholder behavior. These models and the related assumptions are continually reviewed by management and enhanced, as appropriate, based upon improvements in modeling assumptions and availability of more information, such as market conditions and demographics of in-force annuities.

Variable Annuity Net Amount at Risk
(i) Reinsurance covering the GMDB risk only
At December 31, 2012 and 2011, the net amount at risk from reinsurance programs covering the GMDB risk only was $1.3 billion and $1.8 billion, respectively.

For reinsurance programs covering the GMDB risk only, the net amount at risk is defined as the present value of future claim payments under the following assumptions:

- policy account values and guaranteed values are fixed at the valuation date (December 31, 2012 and 2011, respectively);
- there are no lapses or withdrawals;
- mortality according to 100 percent of the Annuity 2000 mortality table;
- future claims are discounted in line with the discounting assumption used in the calculation of the benefit reserve averaging between 1.0 percent and 2.0 percent; and
- reinsurance coverage ends at the earlier of the maturity of the underlying variable annuity policy or the reinsurance treaty.

The total claim amount payable on reinsurance programs covering the GMDB risk only, if all the cedants' policyholders were to die immediately at December 31, 2012 was approximately $495 million. This takes into account all applicable reinsurance treaty claim limits.

(ii) Reinsurance covering the GLB risk only

At December 31, 2012 and 2011, the net amount at risk from reinsurance programs covering the GLB risk only was $445 million and $380 million, respectively.

For reinsurance programs covering the GLB risk only, the net amount at risk is defined as the present value of future claim payments under the following assumptions:

- policy account values and guaranteed values are fixed at the valuation date (December 31, 2012 and 2011, respectively);
- there are no deaths, lapses, or withdrawals;
- policyholders annuitize at a frequency most disadvantageous to ACE (in other words, annuitization at a level that maximizes claims taking into account the treaty limits) under the terms of the reinsurance contracts;
- for annuitizing policyholders, the GMIB claim is calculated using interest rates in line with those used in calculating the reserve;
- future claims are discounted in line with the discounting assumption used in the calculation of the benefit reserve averaging between 3.5 percent and 4.5 percent; and
- reinsurance coverage ends at the earlier of the maturity of the underlying variable annuity policy or the reinsurance treaty.

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

At December 31, 2012 and 2011, the GMDB net amount at risk from reinsurance programs covering both the GMDB and GLB risks on the same underlying policyholders was $116 million and $182 million, respectively.

At December 31, 2012 and 2011, the GLB net amount at risk from reinsurance programs covering both the GMDB and GLB risks on the same underlying policyholders was $655 million and $998 million, respectively.

These net amounts at risk reflect the interaction between the two types of benefits on any single policyholder (eliminating double-counting), and therefore the net amounts at risk should be considered additive.

For reinsurance programs covering both the GMDB and GLB risks on the same underlying policyholders, the net amount at risk is defined as the present value of future claim payments under the following assumptions:

- policy account values and guaranteed values are fixed at the valuation date (December 31, 2012 and 2011, respectively);
- there are no lapses, or withdrawals;
- mortality according to 100 percent of the Annuity 2000 mortality table;

- policyholders annuitize at a frequency most disadvantageous to ACE (in other words, annuitization at a level that maximizes claims taking into account the treaty limits) under the terms of the reinsurance contracts;
- for annuitizing policyholders, the GMIB claim is calculated using interest rates in line with those used in calculating the reserve;
- future claims are discounted in line with the discounting assumption used in the calculation of the benefit reserve averaging between 1.5 percent and 2.5 percent; and
- reinsurance coverage ends at the earlier of the maturity of the underlying variable annuity policy or the reinsurance treaty.

The total claim amount payable on reinsurance programs covering both the GMDB and GLB risks on the same underlying policyholders, if all of the cedants' policyholders were to die immediately at December 31, 2012 was approximately $640 million. This takes into account all applicable reinsurance treaty claim limits. Although there would be an increase in death claims resulting from 100 percent immediate mortality of all policyholders, the GLB claims would be zero.

The average attained age of all policyholders under sections i), ii), and iii) above, weighted by the guaranteed value of each reinsured policy, is approximately 68 years.

6. Intangible assets

Included in Goodwill and other intangible assets in the consolidated balance sheets at December 31, 2012 and 2011, are goodwill of $4.3 billion and $4.1 billion, respectively, and other intangible assets of $656 million and $651 million, respectively.

The following table presents a roll-forward of Goodwill by business segment:

(in millions of U.S. dollars)	Insurance - North American	Insurance - Overseas General	Global Reinsurance	Life	ACE Consolidated
Balance at December 31, 2010	$ 1,351	$ 1,564	$ 365	$ 750	$ 4,030
Purchase price allocation adjustment	(12)	5	-	-	(7)
Acquisition of New York Life's Korea operations and Hong Kong operations	-	-	-	89	89
Acquisition of PMHC	11	-	-	-	11
Acquisition of Rio Guayas	-	31	-	-	31
Foreign exchange revaluation and other	-	3	-	(9)	(6)
Balance at December 31, 2011	$ 1,350	$ 1,603	$ 365	$ 830	$ 4,148
Purchase price allocation adjustment	-	-	-	4	4
Acquisition of JaPro	-	123	-	-	123
Foreign exchange revaluation and other	3	38	-	3	44
Balance at December 31, 2012	**$ 1,353**	**$ 1,764**	**$ 365**	**$ 837**	**$ 4,319**

Included in the other intangible assets balance at December 31, 2012, are intangible assets subject to amortization of $554 million and intangible assets not subject to amortization of $102 million. Intangible assets subject to amortization include agency relationships, software, client lists, renewal rights, and trademarks, primarily attributable to the acquisitions of Rain and Hail and Combined Insurance. The majority of the balance of intangible assets not subject to amortization relates to Lloyd's of London (Lloyd's) Syndicate 2488 (Syndicate 2488) capacity. Amortization expense related to other intangible assets amounted to $51 million, $29 million, and $9 million for the years ended December 31, 2012, 2011, and 2010, respectively.

The following table presents a roll-forward of VOBA:

(in millions of U.S. dollars)	2012	2011	2010
Balance, beginning of year	$ 676	$ 634	$ 748
Acquisition of New York Life's Korea operations and Hong Kong operations	-	151	-
Amortization expense	(82)	(108)	(111)
Foreign exchange revaluation	20	(1)	(3)
Balance, end of year	$ 614	$ 676	$ 634

The following table presents the estimated amortization expense related to other intangible assets and VOBA for the next five years:

For the Year Ending December 31 (in millions of U.S. dollars)	Other intangible assets	VOBA
2013	$ 49	$ 67
2014	45	58
2015	40	51
2016	35	45
2017	33	42
Total	$ 202	$ 263

7. Unpaid losses and loss expenses

ACE establishes reserves for the estimated unpaid ultimate liability for losses and loss expenses under the terms of its policies and agreements. These reserves include estimates for both claims that have been reported and for IBNR, and include estimates of expenses associated with processing and settling these claims. 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. Our estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed, or as laws change. We continually evaluate our estimate of reserves in light of developing information and in light of discussions and negotiations with our insureds. While we believe that our reserves for unpaid losses and loss expenses at December 31, 2012 are adequate, new information or trends may lead to future developments in ultimate losses and loss expenses significantly greater or less than the reserves provided. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable and would be reflected in our results of operations in the period in which the estimates are changed.

The following table presents a reconciliation of unpaid losses and loss expenses:

	Years Ended December 31		
(in millions of U.S. dollars)	**2012**	2011	2010
Gross unpaid losses and loss expenses, beginning of year	**$ 37,477**	$ 37,391	$ 37,783
Reinsurance recoverable on unpaid losses[1]	**(11,602)**	(12,149)	(12,745)
Net unpaid losses and loss expenses, beginning of year	**25,875**	25,242	25,038
Acquisition of subsidiaries	**14**	92	145
Total	**25,889**	25,334	25,183
Net losses and loss expenses incurred in respect of losses occurring in:			
Current year	**10,132**	10,076	8,082
Prior years	**(479)**	(556)	(503)
Total	**9,653**	9,520	7,579
Net losses and loss expenses paid in respect of losses occurring in:			
Current year	**4,325**	4,209	2,689
Prior years	**4,894**	4,657	4,724
Total	**9,219**	8,866	7,413
Foreign currency revaluation and other	**224**	(113)	(107)
Net unpaid losses and loss expenses, end of year	**26,547**	25,875	25,242
Reinsurance recoverable on unpaid losses[1]	**11,399**	11,602	12,149
Gross unpaid losses and loss expenses, end of year	**$ 37,946**	$ 37,477	$ 37,391

[1] Net of provision for uncollectible reinsurance.

Net losses and loss expenses incurred includes $479 million, $556 million, and $503 million, of net favorable prior period development in the years ended December 31, 2012, 2011, and 2010, respectively. The following is a summary of prior period development for the periods indicated. The remaining net development for long-tail and short-tail business for each segment comprises numerous favorable and adverse movements across lines and accident years.

Insurance - North American
Insurance - North American's active operations experienced net favorable prior period development of $360 million in 2012, representing 2.2 percent of net unpaid reserves at December 31, 2011. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $245 million on long-tail business included favorable development of $73 million on umbrella and excess casualty business primarily affecting the 2007 and prior accident years; $67 million in the directors and officers (D&O) portfolio affecting the 2007 and prior accident years; $57 million on medical risk operations primarily affecting the 2007 and prior accident years; and $39 million on the national accounts portfolios (commercial auto liability, general liability, and workers' compensation lines of business). Net prior period development also included favorable development of $9 million across a number of lines and accident years, none of which was significant individually or in the aggregate. Favorable development of $115 million on short-tail business included favorable development of $88 million in the property, inland marine and commercial marine portfolios primarily arising on the 2009 through 2011 accident years and favorable development of $27 million on aviation product lines affecting the 2009 and prior accident years.

Insurance - North American's run-off operations incurred net adverse prior period development of $168 million in the Westchester and Brandywine run-off operations during 2012, which was the net result of adverse movements impacting accident years 2001 and prior, representing one percent of net unpaid reserves at December 31, 2011. Net adverse prior period development was driven by adverse development of $150 million related to the completion of the reserve review during 2012 and $18 million of unallocated loss adjustment expenses due to run-off operating expenses reserved and paid during 2012.

Insurance - North American's active operations experienced net favorable prior period development of $297 million in 2011, representing 1.9 percent of net unpaid reserves at December 31, 2010. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $186 million on long-tail business included favorable development of $82 million in the D&O portfolio affecting the 2006 and prior accident years; $54 million in the excess casualty business affecting the 2005 and prior accident years; $43 million on medical risk operations; $28 million on the national accounts portfolio (commercial auto liability, general liability, and workers' compensation lines of business); and $26 million within the financial solutions business relating to a single account on the 2002 through 2010 accident years. Additional favorable development included $26 million in the foreign casualty product affecting the 2007 and prior accident years and $21 million on surety business primarily impacting the 2009 year. Partially offsetting this favorable development was adverse development of $40 million on errors and omissions coverage primarily affecting the 2007 and 2008 accident years and adverse development of $29 million within the environmental liability product line concentrated in the 2005 through 2007 accident years. Net prior period development also included adverse development of $25 million on other lines across a number of accident years, none of which was significant individually or in the aggregate. Net favorable development of $111 million on short-tail business included favorable development of $48 million in the property portfolios primarily affecting the 2009 and 2010 accident years and favorable development of $63 million on other lines across a number of accident years, primarily following better than expected loss emergence.

Insurance - North American's run-off operations incurred net adverse prior period development of $102 million in the Westchester and Brandywine run-off operations during 2011, which was the net result of adverse movements impacting the accident years 2000 and prior, representing 0.6 percent of net unpaid reserves at December 31, 2010. Net adverse prior period development was driven by adverse development of $82 million related to the completion of the reserve review during 2011 and $17 million of unallocated loss adjustment expenses due to operating expenses reserved and paid during 2011. Net prior period development also included $3 million of adverse development on other lines across a number of accident years, none of which was significant individually or in the aggregate.

Insurance - North American experienced net favorable prior period development of $107 million in 2010, representing 0.7 percent of the segment's net unpaid reserves at December 31, 2009.

Insurance - Overseas General
Insurance - Overseas General experienced net favorable prior period development of $226 million in 2012 representing 3.1 percent of net unpaid reserves at December 31, 2011. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $121 million on long-tail business included favorable development of $150 million in casualty (primary and excess) and financial lines for accident years 2008 and prior, and adverse development of $29 million in the casualty (mainly primary) and financial lines for accident years 2009 through 2011. Favorable development of $105 million on short-tail business included property, marine, A&H, and personal lines across multiple geographical regions, and within both retail and wholesale operations, principally as a result of lower than expected loss emergence, mostly on accident years 2009 and 2010.

Insurance - Overseas General experienced net favorable prior period development of $290 million in 2011 representing 4.2 percent of net unpaid reserves at December 31, 2010. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $154 million on long-tail business included favorable development of $337 million in casualty (primary and excess) and financial lines for accident years 2007 and prior, and adverse development of $183 million in the casualty (primary and excess) and financial lines book for accident years 2008 through 2010. Net favorable development of $136 million on short-tail business included property, marine, A&H, and energy lines across multiple geographical regions, and within both retail and wholesale operations, principally on accident years 2008 and 2009.

Insurance - Overseas General experienced net favorable prior period development of $290 million in 2010, representing 4.3 percent of the segment's net unpaid reserves at December 31, 2009.

Global Reinsurance
Global Reinsurance experienced net favorable prior period development of $61 million in 2012 representing 2.7 percent of net unpaid reserves at December 31, 2011. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $32 million on long-tail business included favorable development of $54 million principally in treaty years 2008 and prior in casualty and medical malpractice lines. Net adverse development of $18 million on non-medical professional liability composed of favorable development on treaty years 2005 and prior, offset by adverse development on treaty years 2006 through 2011. Net prior period development also included $4 million of adverse

development across a number of lines and treaty years, none of which was significant individually or in the aggregate. Net favorable development of $29 million on short-tail business, principally in treaty years 2010 and prior across property lines (including property catastrophe), trade credit, marine, and surety.

Global Reinsurance experienced net favorable prior period development of $71 million in 2011 representing 3.1 percent of net unpaid reserves at December 31, 2010. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $58 million on long-tail business included net favorable development of $79 million principally in treaty years 2007 and prior across a number of portfolios (professional liability, D&O, casualty, and medical malpractice). Net favorable development of $13 million on short-tail business, primarily in treaty years 2009 and prior across property lines (including property catastrophe), trade credit, and surety.

Global Reinsurance experienced net favorable prior period development of $106 million in 2010, representing 4.7 percent of the segment's net unpaid reserves at December 31, 2009.

Asbestos and environmental (A&E) and other run-off liabilities

Included in 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 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 its A&E reserves, which include provisions for both reported and IBNR claims.

ACE's exposure to A&E claims principally arises out of liabilities acquired when it purchased Westchester Specialty in 1998 and CIGNA's P&C business in 1999, with the larger exposure contained within the liabilities acquired in the CIGNA transaction. In 1996, prior to ACE's acquisition of CIGNA's P&C business, the Pennsylvania Insurance Commissioner approved a plan to restructure INA Financial Corporation and its subsidiaries (the Restructuring) which included the division of Insurance Company of North America (INA) into two separate corporations:

(1) An active insurance company that retained the INA name and continued to write P&C business; and
(2) An inactive run-off company, now called Century Indemnity Company (Century).

As a result of the division, predominantly all A&E and certain other liabilities of INA were ascribed to Century and extinguished, as a matter of Pennsylvania law, as liabilities of INA.

As part of the Restructuring, most A&E liabilities of various U.S. affiliates of INA were reinsured to Century. Century and certain other run-off companies having A&E and other liabilities were contributed to Brandywine Holdings. ACE acquired Brandywine Holdings and its various subsidiaries as part of the 1999 acquisition of CIGNA's P&C business. For additional information, refer to “Brandywine Run-Off Entities” below.

During 2012, we conducted our annual internal, ground-up review of our consolidated A&E liabilities as of December 31, 2011. As a result of the internal review, we increased our gross loss reserves in 2012 for the Brandywine operations, including A&E, by $275 million, while the net loss reserves increased by $146 million. In addition, we increased gross loss reserves for Westchester Specialty's A&E and other liabilities by $17 million, while the net loss reserves increased by $4 million.

In 2012, in addition to our annual internal review, a team of external actuaries performed an evaluation as to the adequacy of Century's reserves. This external review was conducted in accordance with the Brandywine Restructuring Order, which requires that an independent actuarial review of Century's reserves be completed every two years. Management takes full responsibility for the estimation of its A&E liabilities.

An internal review was also conducted during 2011 of consolidated A&E liabilities as of December 31, 2010. As a result of that internal review, we increased gross loss reserves in 2011 for the Brandywine operations, including A&E, by $241 million while the net loss reserves increased by $76 million. In addition, we decreased gross loss reserves for Westchester Specialty's A&E and other liabilities by $29 million, while the net loss reserves increased by $6 million.

ACE's A&E reserves are not discounted for GAAP reporting and do not reflect any anticipated future changes in the legal, social, or economic environment, or any benefit from future legislative reforms.

The table below presents a roll-forward of consolidated A&E loss reserves (excluding other run-off liabilities), allocated loss expense reserves for A&E exposures, and the provision for uncollectible paid and unpaid reinsurance recoverables:

	Asbestos		Environmental		Total	
(in millions of U.S. dollars)	Gross	Net	Gross	Net	Gross	Net
Balance at December 31, 2011[(1)]	$ 2,086	$ 1,142	$ 245	$ 162	$ 2,331	$ 1,304
Incurred activity	211	95	40	39	251	134
Paid activity	(440)	(275)	(78)	(61)	(518)	(336)
Balance at December 31, 2012	**$ 1,857**	**$ 962**	**$ 207**	**$ 140**	**$ 2,064**	**$ 1,102**

(1) Balances at December 31, 2011 have been adjusted to present claims in a manner consistent with balances disclosed at December 31, 2012.

The A&E net loss reserves including allocated loss expense reserves and provision for uncollectible reinsurance at December 31, 2012, of $1.1 billion shown in the table above comprise $852 million in reserves in respect of Brandywine operations, $151 million of reserves held by Westchester Specialty, $84 million of reserves held by Insurance - Overseas General, $12 million of reserves held by ACE Bermuda, and $3 million of reserves held by Penn Millers. The incurred activity of $134 million is primarily the result of adverse activity in Brandywine and Westchester of $110 million and $22 million, respectively.

The net figures in the above table reflect third-party reinsurance other than reinsurance provided by National Indemnity Company (NICO) under two aggregate excess of loss contracts described below (collectively, the NICO contracts). ACE excludes the NICO contracts as they cover non-A&E liabilities as well as A&E liabilities. The split of coverage provided under the NICO contracts for A&E liabilities as compared to non-A&E liabilities is entirely dependent on the timing of the payment of the related claims. ACE's ability to make an estimate of this split is not practicable. ACE believes, instead, that the A&E discussion is best provided excluding the NICO contracts, while separately discussing the NICO contracts in relation to the total subject business, both A&E and non-A&E, covered by those contracts. With certain exceptions, the NICO contracts provide coverage for the net A&E incurred losses and allocated loss expenses within the limits of coverage and above ACE's retention levels. These exceptions include losses arising from certain operations of Insurance - Overseas General and participation by ACE Bermuda as a co-reinsurer or retrocessionaire in the NICO contracts.

Brandywine run-off - impact of NICO contracts on ACE's run-off liabilities

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

The following table presents a roll-forward of net loss reserves, allocated loss expense reserves, and provision for uncollectible paid and unpaid reinsurance recoverables in respect of Brandywine operations only, including the impact of the Brandywine NICO Agreement for the year ended December 31, 2012:

	Brandywine				Net of
(in millions of U.S. dollars)	A&E	Other [(1)]	Total	NICO Coverage [(2)]	NICO Coverage
Balance at December 31, 2011[(3)]	$ 1,032	$ 458	$ 1,490	$ 386	$ 1,104
Incurred activity	110	19	129	-	129
Paid activity	(290)	(56)	(346)	(368)	22
Balance at December 31, 2012	**$ 852**	**$ 421**	**$ 1,273**	**$ 18**	**$ 1,255**

(1) Other consists primarily of workers' compensation, non-A&E general liability losses, and provision for uncollectible reinsurance on non-A&E business.
(2) NICO Coverage at December 31, 2011 was reduced to reflect $238 million of advances from NICO on uncollected inuring reinsurance recoverables as payments reducing the limit.
(3) Balances at December 31, 2011 have been adjusted to present claims in a manner consistent with balances disclosed at December 31, 2012.

The incurred activity of $129 million primarily relates to the internal review of consolidated A&E liabilities as discussed above.

Westchester Specialty - impact of NICO contracts on ACE's run-off liabilities
As part of the Westchester Specialty acquisition in 1998, NICO provided a 75 percent pro-rata share of $1 billion of reinsurance protection on losses and loss adjustment expenses incurred on or before December 31, 1996, in excess of a retention of $721 million (the 1998 NICO Agreement). NICO has also provided an 85 percent pro-rata share of $150 million of reinsurance protection on losses and allocated loss adjustment expenses incurred on or before December 31, 1992, in excess of a retention of $755 million (the 1992 NICO Agreement). At December 31, 2012, the remaining unused incurred limit under the 1998 NICO Agreement was $492 million, which is only available for losses and loss adjustment expenses. The 1992 NICO Agreement was exhausted on a paid basis in 2009.

The following table presents a roll-forward of net loss reserves, allocated loss expense reserves, and provision for uncollectible paid and unpaid reinsurance recoverables in respect of 1996 and prior Westchester Specialty operations that are the subject business of the NICO covers for the year ended December 31, 2012:

(in millions of U.S. dollars)	Westchester Specialty A&E	Westchester Specialty Other	Westchester Specialty Total	NICO Coverage	Net of NICO Coverage
Balance at December 31, 2011[1]	$ 144	$ 54	$ 198	$ 165	$ 33
Incurred activity	22	(6)	16	12	4
Paid activity	(15)	(4)	(19)	(19)	-
Balance at December 31, 2012	**$ 151**	**$ 44**	**$ 195**	**$ 158**	**$ 37**

(1) Balances at December 31, 2011 have been adjusted to present claims in a manner consistent with balances disclosed at December 31, 2012.

The incurred activity of $4 million primarily relates to the internal review of consolidated A&E liabilities as discussed above.

Brandywine run-off entities
In addition to housing a significant portion of ACE's A&E exposure, the Brandywine operations include run-off liabilities related to various insurance and reinsurance businesses. ACE's Brandywine insurance companies are Century (a Pennsylvania insurer) and Century International Reinsurance Company Ltd., a Bermuda insurer (CIRC). The Brandywine companies are direct or indirect subsidiaries of Brandywine Holdings.

The U.S.-based ACE INA companies assumed two contractual obligations in respect of the Brandywine operations in connection with the Restructuring: a dividend retention fund obligation and a surplus maintenance obligation in the form of the excess of loss (XOL) agreement.

INA Financial Corporation established and funded a dividend retention fund (the Dividend Retention Fund) consisting of $50 million plus investment earnings. Pursuant to an interpretation of the Brandywine Restructuring Order, the full balance of the Dividend Retention Fund was contributed to Century as of December 31, 2002. Under the Restructuring Order, while any obligation to maintain the Dividend Retention Fund is in effect, to the extent dividends are paid by INA Holdings Corporation to its parent, INA Financial Corporation, and to the extent INA Financial Corporation then pays such dividends to INA Corporation, a portion of those dividends must be withheld to replenish the principal of the Dividend Retention Fund to $50 million. During 2012 and 2011, nil and $35 million respectively, were withheld from such dividends and deposited in the Dividend Retention Fund by INA Financial Corporation. Effective January 28, 2011, the Pennsylvania Insurance Department clarified the scope of the Dividend Retention Fund that capital contributions from the Dividend Retention Fund to Century shall not be required until the XOL Agreement has less than $200 million of capacity remaining on an incurred basis for statutory reporting purposes. The amount of the capital contribution shall be the lesser of the amount necessary to restore the XOL Agreement remaining capacity to $200 million or the Dividend Retention Fund balance. The Dividend Retention Fund may not be terminated without prior written approval from the Pennsylvania Insurance Commissioner.

In addition, an ACE INA insurance subsidiary provided reinsurance coverage to Century in the amount of $800 million under an XOL, triggered if the statutory capital and surplus of Century falls below $25 million or if Century lacks liquid assets with which to pay claims as they become due.

Effective December 31, 2004, ACE INA Holdings contributed $100 million to Century in exchange for a surplus note. After giving effect to the contribution and issuance of the surplus note, the statutory surplus of Century at December 31, 2012 was $25 million and approximately $394 million in statutory-basis losses have been ceded to the XOL on an inception-to-date basis. Century reports the amount ceded under the XOL in accordance with statutory accounting principles, which differ from GAAP by, among other things, allowing Century to discount its liabilities, including certain asbestos related and environmental

pollution liabilities. For GAAP reporting purposes, intercompany reinsurance recoverables related to the XOL are eliminated upon consolidation.

While ACE believes it has no legal obligation to fund losses above the XOL limit of coverage, ACE's consolidated results would nevertheless continue to include any losses above the limit of coverage for so long as the Brandywine companies remain consolidated subsidiaries of ACE.

Uncertainties relating to ACE's ultimate Brandywine exposure
In addition to the Dividend Retention Fund and XOL commitments described above, certain ACE entities are primarily liable for asbestos, environmental, and other exposures that they have reinsured to Century. Accordingly, if Century were to become insolvent and ACE were to lose control of Century, some or all of the recoverables due to these ACE companies from Century could become uncollectible, yet those ACE entities would continue to be responsible to pay claims to their insureds or reinsureds. At December 31, 2012 and 2011, the aggregate reinsurance balances ceded by the active ACE companies to Century were approximately $958 million and $877 million, respectively. At December 31, 2012 and 2011, Century's carried gross reserves (including reserves ceded by the active ACE companies to Century) were $2.1 billion and $2.4 billion, respectively. ACE believes the intercompany reinsurance recoverables, which relate to liabilities payable over many years (i.e., 25 years or more), are not impaired. A portion of the liabilities ceded to Century by its affiliates have, in turn, been ceded by Century to NICO and, at December 31, 2012 and 2011, remaining cover on a paid loss basis was approximately $18 million and $386 million, respectively. 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. Losses ceded by Century to the active ACE companies and other amounts owed to Century by the active ACE companies were, in the aggregate, approximately $402 million and $171 million at December 31, 2012 and 2011, respectively.

8. Taxation

Under Swiss law, a resident company is subject to income tax at the federal, cantonal, and communal levels that is levied on net worldwide income. Income attributable to permanent establishments or real estate located abroad is excluded from the Swiss tax base. ACE Limited is a holding company and, therefore, is exempt from cantonal and communal income tax. As a result, ACE Limited is subject to Swiss income tax only at the federal level. Furthermore, participation relief (i.e., tax relief) is granted to ACE Limited at the federal level for qualifying dividend income and capital gains related to the sale of qualifying participations (i.e., subsidiaries). It is expected that the participation relief will result in a full exemption of participation income from federal income tax. ACE Limited is resident in the Canton and City of Zurich and, as such, is subject to an annual cantonal and communal capital tax on the taxable equity of ACE Limited in Switzerland.

ACE has two Swiss operating subsidiaries resident in the Canton and City of Zurich, an insurance company, ACE Insurance (Switzerland) Limited, which, in turn, owns a reinsurance company, ACE Reinsurance (Switzerland) Limited. Both are subject to federal, cantonal, and communal income tax and to annual cantonal and communal capital tax.

Under current Bermuda law, ACE Limited and its Bermuda subsidiaries are not required to pay any taxes on income or capital gains. If a Bermuda law were enacted that would impose taxes on income or capital gains, ACE Limited and the Bermuda subsidiaries have received an undertaking from the Minister of Finance in Bermuda that would exempt such companies from Bermudian taxation until March 2035.

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

ACE Group Holdings and its respective subsidiaries are subject to income taxes imposed by U.S. authorities and file a consolidated U.S. tax return. Combined Insurance and its subsidiaries will file a separate consolidated U.S. tax return for tax years prior to 2014. Should ACE Group Holdings pay a dividend to ACE, withholding taxes would apply. Currently, however, no

withholding taxes are accrued with respect to such un-remitted earnings as management has no intention of remitting these earnings. Similarly, no taxes have been provided on the un-remitted earnings of certain foreign subsidiaries as management has no intention of remitting these earnings. The cumulative amount that would be subject to withholding tax, if distributed, as well as the determination of the associated tax liability are not practicable to compute; however, such amount would be material to ACE. Certain international operations of ACE are also subject to income taxes imposed by the jurisdictions in which they operate.

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

ACE's domestic operations are in Switzerland, the jurisdiction where we are legally organized, incorporated, and registered. Domestic operations for the years ended December 31, 2012, 2011, and 2010 are not considered significant to the consolidated income before income taxes for the respective periods.

The following table presents the provision for income taxes:

	Years Ended December 31		
(in millions of U.S. dollars)	**2012**	2011	2010
Current tax expense	**$ 305**	$ 485	$ 443
Deferred tax expense (benefit)	**(35)**	17	110
Provision for income taxes	**$ 270**	$ 502	$ 553

The most significant jurisdictions contributing to the overall taxation of ACE are calculated using the following rates: Switzerland 7.83 percent, Bermuda 0.0 percent, U.S. 35.0 percent, and U.K. 24.5 percent. The following table presents a reconciliation of the difference between the provision for income taxes and the expected tax provision at the Swiss statutory income tax rate:

	Years Ended December 31		
(in millions of U.S. dollars)	**2012**	2011	2010
Expected tax provision at Swiss statutory tax rate	**$ 233**	$ 160	$ 285
Permanent differences:			
Taxes on earnings subject to rate other than Swiss statutory rate	**129**	323	327
Tax-exempt interest and dividends received deduction, net of proration	**(24)**	(21)	(20)
Net withholding taxes	**23**	19	15
Favorable resolution of prior years' tax matters and closing statutes of limitations	**(124)**	-	(21)
Change in valuation allowance	**4**	(2)	(3)
Non-taxable acquisition gain	**-**	-	(61)
Other	**29**	23	31
Total provision for income taxes	**$ 270**	$ 502	$ 553

The following table presents the components of the net deferred tax assets:

(in millions of U.S. dollars)		December 31 2012		December 31 2011
Deferred tax assets:				
Loss reserve discount	$	849	$	933
Unearned premiums reserve		98		85
Foreign tax credits		1,131		1,074
Investments		43		67
Provision for uncollectible balances		110		113
Loss carry-forwards		55		43
Other, net		110		31
Cumulative translation adjustment		-		5
Total deferred tax assets		2,396		2,351
Deferred tax liabilities:				
Deferred policy acquisition costs		68		47
VOBA and other intangible assets		379		372
Un-remitted foreign earnings		795		810
Unrealized appreciation on investments		586		392
Cumulative translation adjustment		59		-
Total deferred tax liabilities		1,887		1,621
Valuation allowance		56		57
Net deferred tax assets	$	453	$	673

The valuation allowance of $56 million at December 31, 2012, and $57 million at December 31, 2011, reflects management's assessment, based on available information, that it is more likely than not that a portion of the deferred tax assets 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 utilize foreign tax credits. Adjustments to the valuation allowance are made when there is a change in management's assessment of the amount of deferred tax assets that are realizable.

At December 31, 2012, ACE has net operating loss carry-forwards of $157 million which, if unutilized, will expire in the years 2013 through 2030, and a foreign tax credit carry-forward in the amount of $76 million which, if unutilized, will expire in the years 2015 through 2022.

The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits:

(in millions of U.S. dollars)		December 31 2012		December 31 2011
Balance, beginning of year	$	134	$	139
Additions based on tax provisions related to the current year		19		1
Reductions for tax positions of prior years		-		(6)
Reductions for settlements with tax authorities		(16)		-
Reductions for the lapse of the applicable statutes of limitations		(111)		-
Balance, end of year	$	26	$	134

Not included in the balance above at December 31, 2012 and 2011, is $18 million and $1 million, respectively, of unrecognized tax benefits for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, an unfavorable resolution of these temporary items would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. Consequently, the total amount of unrecognized tax benefits at December 31, 2012, that would affect the effective tax rate, if recognized, is $8 million.

ACE recognizes accruals for interest and penalties, if any, related to unrecognized tax benefits in income tax expense in the consolidated statements of operations. Tax-related interest expense (income) and penalties reported in the consolidated statements of operations for the years ended December 31, 2012, 2011, and 2010 were $(8) million, $3 million, and $(1) million, respectively. At December 31, 2012 and 2011, ACE recorded $12 million and $22 million, respectively, in liabilities for tax-related interest and penalties in our consolidated balance sheets.

In 2010, ACE reached final settlement with the IRS Appeals Division (Appeals) regarding its federal tax returns for 2002, 2003, and 2004. As a result of the settlement, the amount of unrecognized tax benefits including interest was reduced by approximately $21 million. In 2012, ACE reached final settlement with Appeals regarding several issues raised by the IRS Examination Division in its federal tax returns for 2005, 2006, and 2007. The settlement of these issues had no net impact on our results of operations. During 2012, the IRS completed its field examination of ACE's federal tax returns for 2008 and 2009. No material adjustments resulted from this examination. During 2012, ACE recognized a $124 million benefit resulting from the favorable resolution of various prior years' tax matters and the closing of statutes of limitations. It is reasonably possible that over the next twelve months, the amount of unrecognized tax benefits may change resulting from the re-evaluation of unrecognized tax benefits arising from examinations of taxing authorities and the closing of tax statutes of limitations. With few exceptions, ACE is no longer subject to state and local or non-U.S. income tax examinations for years before 2005.

9. Debt

Debt outstanding consisted of the following:

(in millions of U.S. dollars)		**December 31 2012**		December 31 2011
Short-term debt				
Reverse repurchase agreements	**$**	**1,401**	$	1,251
Long-term debt				
ACE INA senior notes due 2014	**$**	**500**	$	500
ACE INA senior notes due 2015		**449**		449
ACE INA senior notes due 2015		**699**		699
ACE INA senior notes due 2017		**500**		500
ACE INA senior notes due 2018		**300**		300
ACE INA senior notes due 2019		**500**		500
ACE INA debentures due 2029		**100**		100
ACE INA senior notes due 2036		**299**		299
Other		**13**		13
	$	**3,360**	$	3,360
Trust Preferred Securities				
ACE INA capital securities due 2030	**$**	**309**	$	309

a) Short-term debt
ACE has executed reverse repurchase agreements with certain counterparties under which ACE agreed to sell securities and repurchase them at a future date for a predetermined price. At December 31, 2012, there were $1.4 billion of reverse repurchase agreements outstanding with a weighted average interest rate of 0.40 percent.

b) ACE INA notes and debentures
In June 2004, ACE INA issued $500 million of 5.875 percent senior notes due June 2014. These notes are redeemable at any time at ACE INA's option subject to a "make-whole" premium plus 0.20 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other

senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In May 2008, ACE INA issued $450 million of 5.6 percent senior notes due May 2015. These notes are redeemable at any time at ACE INA's option subject to a “make-whole” premium plus 0.35 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In November 2010, ACE INA issued $700 million of 2.6 percent senior notes due November 2015. These notes are redeemable at any time at ACE INA's option subject to a “make-whole” premium plus 0.20 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In February 2007, ACE INA issued $500 million of 5.7 percent senior notes due February 2017. These notes are redeemable at any time at ACE INA's option subject to a “make-whole” premium plus 0.20 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. These notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In February 2008, ACE INA issued $300 million of 5.8 percent senior notes due March 2018. These notes are redeemable at any time at ACE INA's option subject to a “make-whole” premium plus 0.35 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. These notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In June 2009, ACE INA issued $500 million of 5.9 percent senior notes due June 2019. These notes are redeemable at any time at ACE INA's option subject to a “make-whole” premium plus 0.40 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In August 1999, ACE INA issued $100 million of 8.875 percent debentures due August 2029. Subject to certain exceptions, the debentures are not redeemable before maturity and do not have the benefit of any sinking fund. These unsecured debentures are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE INA's other senior indebtedness. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In May 2006, ACE INA issued $300 million of 6.7 percent notes due May 2036. These notes are redeemable at any time at ACE INA's option subject to a “make-whole” premium plus 0.20 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. These notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

c) Other long-term debt

In August 2005, ACE American borrowed $10 million from the Pennsylvania Industrial Development Authority (PIDA) at a rate of 2.75 percent due September 2020. The proceeds from PIDA were restricted for purposes of defraying construction costs of a new office building. Principal and interest are payable on a monthly basis. The current balance outstanding is $6 million.

In addition, in 1999, ACE American assumed a CIGNA loan of $8 million borrowed from the City of Philadelphia under the Urban Development Action Grant with an imputed rate of 7.1 percent due December 2019. The current amount outstanding is $7 million.

d) ACE INA capital securities
In March 2000, ACE Capital Trust II, a Delaware statutory business trust, publicly issued $300 million of 9.7 percent Capital Securities (the Capital Securities). At the same time, ACE INA purchased $9.2 million of common securities of ACE Capital Trust II.

The Capital Securities mature in April 2030. Distributions on the Capital Securities are payable semi-annually. ACE Capital Trust II may defer these payments for up to ten consecutive semi-annual periods (but no later than April 1, 2030). Any deferred payments would accrue interest compounded semi-annually if ACE INA defers interest on the Subordinated Debentures due 2030 (as defined below).

The sole assets of ACE Capital Trust II consist of $309 million principal amount of 9.7 percent Junior Subordinated Deferrable Interest Debentures (the Subordinated Debentures) issued by ACE INA. The Subordinated Debentures mature in April 2030. Interest on the Subordinated Debentures is payable semi-annually. ACE INA may defer such interest payments (but no later than April 1, 2030), with such deferred payments accruing interest compounded semi-annually. ACE INA may redeem the Subordinated Debentures in the event certain changes in tax or investment company law occur at a redemption price equal to accrued and unpaid interest to the redemption date plus the greater of (i) 100 percent of the principal amount thereof, or (ii) the sum of the present value of scheduled payments of principal and interest on the debentures from the redemption date to April 1, 2030. The Capital Securities and the ACE Capital Trust II Common Securities will be redeemed upon repayment of the Subordinated Debentures.

ACE Limited has guaranteed, on a subordinated basis, ACE INA's obligations under the Subordinated Debentures, and distributions and other payments due on the Capital Securities. These guarantees, when taken together with ACE's obligations under expense agreements entered into with ACE Capital Trust II, provide a full and unconditional guarantee of amounts due on the Capital Securities.

10. Commitments, contingencies, and guarantees

a) Derivative instruments
Derivative instruments employed
ACE maintains positions in derivative instruments such as futures, options, swaps, and foreign currency forward contracts for which the primary purposes are to manage duration and foreign currency exposure, yield enhancement, or to obtain an exposure to a particular financial market. Along with convertible bonds and to be announced mortgage-backed securities (TBA), discussed below, these are the most numerous and frequent derivative transactions.

ACE maintains positions in convertible bond investments that contain embedded derivatives. In addition, ACE, from time to time, purchases TBAs as part of its investing activities. These securities are included within the fixed maturities available for sale (FM AFS) portfolio. At December 31, 2012, ACE had no positions in TBAs.

Under reinsurance programs covering GLBs, ACE assumes the risk of GLBs, including GMIB and GMAB, associated with variable annuity contracts. The GMIB risk is triggered if, at the time the contract holder elects to convert the accumulated account value to a periodic payment stream (annuitize), the accumulated account value is not sufficient to provide a guaranteed minimum level of monthly income. The GMAB risk is triggered if, at contract maturity, the contract holder’s account value is less than a guaranteed minimum value. The GLB reinsurance product meets the definition of a derivative instrument. Benefit reserves in respect of GLBs are classified as Future policy benefits (FPB) while the fair value derivative adjustment is classified within Accounts payable, accrued expenses, and other liabilities (AP). ACE also maintains positions in exchange-traded equity futures contracts and options on equity market indices to limit equity exposure in the GMDB and GLB blocks of business.

In relation to certain debt issuances, ACE, from time to time, enters into interest rate swap transactions for the purpose of either fixing or reducing borrowing costs. Although the use of these interest rate swaps has the economic effect of fixing or reducing borrowing costs on a net basis, gross interest expense on the related debt issuances is included in Interest expense while the settlements related to the interest rate swaps are reflected in Net realized gains (losses) in the consolidated statements of operations. At December 31, 2012, ACE had no in-force interest rate swaps.

ACE, from time to time, buys credit default swaps to mitigate global credit risk exposure, primarily related to reinsurance recoverables. At December 31, 2012, ACE had no in-force credit default swaps.

All derivative instruments are carried at fair value with changes in fair value recorded in Net realized gains (losses) in the consolidated statements of operations. None of the derivative instruments are designated as hedges for accounting purposes.

The following table presents the balance sheet locations, fair values in an asset or (liability) position, and notional values/payment provisions of our derivative instruments:

		December 31		December 31	
			2012		2011
(in millions of U.S. dollars)	Consolidated Balance Sheet Location	**Fair Value**	**Notional Value/ Payment Provision**	Fair Value	Notional Value/ Payment Provision
Investment and embedded derivative instruments					
Foreign currency forward contracts	AP	**$ -**	**$ 620**	$ 7	$ 674
Cross-currency swaps	AP	**-**	**50**	-	-
Futures contracts on money market instruments	AP	**1**	**2,710**	7	10,476
Futures contracts on notes and bonds	AP	**10**	**915**	(4)	1,055
Options on money market instruments	AP	**-**	**-**	-	292
Convertible bonds	FM AFS	**309**	**279**	357	353
TBAs	FM AFS	**-**	**-**	60	56
		$ 320	**$ 4,574**	$ 427	$ 12,906
Other derivative instruments					
Futures contracts on equities[1]	AP	**$ (6)**	**$ 2,308**	$ (16)	$ 1,367
Options on equity market indices[1]	AP	**30**	**250**	54	250
Credit default swaps	AP	**-**	**-**	3	350
Other	AP	**-**	**-**	-	6
		$ 24	**$ 2,558**	$ 41	$ 1,973
GLB[2]	AP/FPB	**$ (1,352)**	**$ 1,100**	$ (1,505)	$ 1,378

(1) Related to GMDB and GLB blocks of business.

(2) Includes both future policy benefits reserves and fair value derivative adjustment. Refer to Note 5 c) for additional information. Note that the payment provision related to GLB is the net amount at risk. The concept of a notional value does not apply to the GLB reinsurance contracts.

The following table presents net realized gains (losses) related to derivative instrument activity in the consolidated statements of operations:

	Years Ended December 31		
(in millions of U.S. dollars)	**2012**	2011	2010
Investment and embedded derivative instruments			
Foreign currency forward contracts	**$ (9)**	$ 6	$ 21
All other futures contracts and options	**(22)**	(98)	29
Convertible bonds	**25**	(50)	7
TBAs	**-**	(1)	1
Total investment and embedded derivative instruments	**$ (6)**	$ (143)	$ 58
GLB and other derivative instruments			
GLB[1]	**$ 171**	$ (779)	$ (28)
Futures contracts on equities[2]	**(273)**	(12)	(140)
Options on equity market indices[2]	**(24)**	8	(10)
Interest rate swaps	**-**	-	(21)
Credit default swaps	**(4)**	(4)	1
Other	**-**	-	1
Total GLB and other derivative instruments	**$ (130)**	$ (787)	$ (197)
	$ (136)	$ (930)	$ (139)

(1) Excludes foreign exchange gains (losses) related to GLB.

(2) Related to GMDB and GLB blocks of business.

Derivative instrument objectives

(i) Foreign currency exposure management

A foreign currency forward contract (forward) is an agreement between participants to exchange specific foreign currencies at a future date. ACE uses forwards to minimize the effect of fluctuating foreign currencies.

(ii) Duration management and market exposure

Futures

Futures contracts give the holder the right and obligation to participate in market movements, determined by the index or underlying security on which the futures contract is based. Settlement is made daily in cash by an amount equal to the change in value of the futures contract times a multiplier that scales the size of the contract. Exchange-traded futures contracts on money market instruments, notes and bonds are used in fixed maturity portfolios to more efficiently manage duration as substitutes for ownership of the money market instruments, bonds and notes without significantly increasing the risk in the portfolio. Investments in futures contracts may be made only to the extent that there are assets under management not otherwise committed.

Exchange-traded equity futures contracts are used to limit exposure to a severe equity market decline, which would cause an increase in expected claims and therefore, reserves for GMDB and GLB reinsurance business.

Options

An option contract conveys to the holder the right, but not the obligation, to purchase or sell a specified amount or value of an underlying security at a fixed price. Option contracts are used in the investment portfolio as protection against unexpected shifts in interest rates, which would affect the duration of the fixed maturity portfolio. By using options in the portfolio, the overall interest rate sensitivity of the portfolio can be reduced. Option contracts may also be used as an alternative to futures contracts in the synthetic strategy as described above.

Another use for option contracts is to limit exposure to a severe equity market decline, which would cause an increase in expected claims and therefore, reserves for GMDB and GLB reinsurance business.

The price of an option is influenced by the underlying security, expected volatility, time to expiration, and supply and demand.

The credit risk associated with the above derivative financial instruments relates to the potential for non-performance by counterparties. Although non-performance is not anticipated, in order to minimize the risk of loss, management monitors the creditworthiness of its counterparties and obtains collateral. The performance of exchange-traded instruments is guaranteed by the exchange on which they trade. For non-exchange-traded instruments, the counterparties are principally banks which must meet certain criteria according to our investment guidelines.

Cross-currency swaps
Cross currency swaps are agreements under which two counterparties exchange interest payments and principal denominated in different currencies at a future date. We use cross-currency swaps to reduce the foreign currency and interest rate risk by converting cash flows back into local currency. We invest in foreign currency denominated investments to improve credit diversification and also to obtain better duration matching to our liabilities that is limited in the local currency market.

Interest rate swaps
We use interest rate swaps related to certain debt issuances for the purpose of either fixing and/or reducing borrowing costs.

Credit default swaps
A credit default swap is a bilateral contract under which two counterparties agree to isolate and separately trade the credit risk of at least one third-party reference entity. Under a credit default swap agreement, ACE as a protection buyer pays a periodic fee to a protection seller in exchange for a contingent payment by the seller upon a credit event (such as a default or failure to pay) related to the reference entity. When a credit event is triggered, the protection seller pays the protection buyer the difference between the fair value of assets and the principal amount.

(iii) Convertible security investments
A convertible bond is a debt instrument that can be converted into a predetermined amount of the issuer's equity at certain times prior to the bond's maturity. The convertible option is an embedded derivative within the fixed maturity host instruments which are classified in the investment portfolio as available for sale. ACE purchases convertible bonds for their total return and not specifically for the conversion feature.

(iv) TBA
By acquiring TBAs, we make a commitment to purchase a future issuance of mortgage-backed securities. For the period between purchase of the TBAs and issuance of the underlying security, we account for our position as a derivative in the consolidated financial statements. ACE purchases TBAs both for their total return and for the flexibility they provide related to our mortgage-backed security strategy.

(v) GLB
Under the GLB program, as the assuming entity, ACE is obligated to provide coverage until the expiration or maturity of the underlying deferred annuity contracts or the expiry of the reinsurance treaty. Premiums received under the reinsurance treaties are classified as premium. Expected losses allocated to premiums received are classified as Future policy benefits and valued similar to GMDB reinsurance. Other changes in fair value, principally arising from changes in expected losses allocated to expected future premiums, are classified as Net realized gains (losses). Fair value represents management's estimate of exit price and thus, includes a risk margin. We may recognize a realized loss for other changes in fair value due to adverse changes in the capital markets (e.g., declining interest rates and/or declining equity markets) and changes in actual or estimated future policyholder behavior (e.g., increased annuitization or decreased lapse rates) although we expect the business to be profitable. We believe this presentation provides the most meaningful disclosure of changes in the underlying risk within the GLB reinsurance programs for a given reporting period.

b) Concentrations of credit risk
Our investment portfolio is managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single issue and issuer. We believe that there are no significant concentrations of credit risk associated with our investments. Our three largest exposures by issuer at December 31, 2012, were JP Morgan Chase & Co., General Electric Company, and Goldman Sachs Group Inc. Our largest exposure by industry at December 31, 2012 was financial services.

We market our insurance and reinsurance worldwide primarily through insurance and reinsurance brokers. We assume a degree of credit risk associated with brokers with whom we transact business. During the years ended December 31, 2012, and both 2011 and 2010, approximately 11 percent and 12 percent, respectively, of our gross premiums written were generated from or placed by Marsh, Inc. This entity is a large, well established company and there are no indications that it is financially troubled at December 31, 2012. During the years ended December 31, 2011 and 2010, approximately 10 percent of our gross

premiums written were generated from or placed by Aon Corporation and its affiliates. No other broker and no one insured or reinsured accounted for more than 10 percent of gross premiums written in the years ended December 31, 2012, 2011, and 2010.

c) Other investments
At December 31, 2012, included in Other investments in the consolidated balance sheet are investments in limited partnerships and partially-owned investment companies with a carrying value of $1.7 billion. In connection with these investments, we have commitments that may require funding of up to $1.2 billion over the next several years.

d) Letters of credit
We have a $1.0 billion unsecured operational LOC facility (adjustable to $1.5 billion upon consent of the issuers) expiring in November 2017. We are allowed to utilize up to $300 million of this LOC facility as an unsecured revolving credit facility. This facility replaces the $1.0 billion syndicated letter of credit facility and $500 million unsecured revolving credit facility that expired in November 2012. At December 31, 2012, outstanding LOCs issued under this facility were $619 million. We also have a $500 million unsecured operational LOC facility expiring in June 2014. At December 31, 2012, this facility was fully utilized.

To satisfy funding requirements of ACE's Lloyd's Syndicate 2488 through 2013, we have a series of four bilateral uncollateralized LOC facilities totaling $425 million. LOCs issued under these facilities will expire no earlier than December 2017. At December 31, 2012, $400 million of this facility was utilized.

These facilities require that ACE Limited and/or certain of its subsidiaries continue to maintain certain covenants. ACE Limited is also required to maintain a minimum consolidated net worth covenant and a maximum leverage covenant, which have been met at December 31, 2012.

e) Legal proceedings
(i) Claims and other litigation
Our insurance subsidiaries are subject to claims litigation involving disputed interpretations of policy coverages and, in some jurisdictions, direct actions by allegedly-injured persons seeking damages from policyholders. These lawsuits, involving claims on policies issued by our subsidiaries which are typical to the insurance industry in general and in the normal course of business, are considered in our loss and loss expense reserves. In addition to claims litigation, we are subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance policies. This category of business litigation typically involves, among other things, allegations of underwriting errors or misconduct, employment claims, regulatory activity, or disputes arising from our business ventures. In the opinion of management, our ultimate liability for these matters could be, but we believe is not likely to be, material to our consolidated financial condition and results of operations.

(ii) Business practices litigation
ACE Limited, ACE INA Holdings Inc., and ACE USA, Inc., along with a number of other insurers and brokers, were named in a series of federal putative nationwide class actions brought by insurance policyholders. The Judicial Panel on Multidistrict Litigation (JPML) consolidated these cases in the District of New Jersey. On August 1, 2005, plaintiffs in the New Jersey consolidated proceedings filed two consolidated amended complaints - one concerning commercial insurance and the other concerning employee benefit plans. The employee benefit plans litigation against ACE Limited and certain subsidiaries has been dismissed.

In the commercial insurance complaint, the plaintiffs named ACE Limited, ACE INA Holdings Inc., ACE USA, Inc., ACE American Insurance Co., Illinois Union Insurance Co., and Indemnity Insurance Co. of North America. They allege that certain brokers and insurers, including certain ACE entities, conspired to increase premiums and allocate customers through the use of “B” quotes and contingent commissions. In addition, they allege that the broker defendants received additional income by improperly placing their clients’ business with insurers through related wholesale entities that acted as intermediaries between brokers and insurers. Plaintiffs also allege that broker defendants tied the purchase of primary insurance to the placement of such coverage with reinsurance carriers through the broker defendants’ reinsurance broker subsidiaries. The complaint asserts the following causes of action against the ACE defendants: Federal Racketeer Influenced and Corrupt Organizations Act (RICO), federal antitrust law, state antitrust law, aiding and abetting breach of fiduciary duty, and unjust enrichment.

In 2006 and 2007, the Court dismissed plaintiffs’ first two attempts to properly plead a case without prejudice and permitted plaintiffs one final opportunity to re-plead. The amended complaint, filed on May 22, 2007, purported to add several new ACE

defendants: ACE Group Holdings, Inc., ACE US Holdings, Inc., Westchester Fire Insurance Company, INA Corporation, INA Financial Corporation, INA Holdings Corporation, ACE Property and Casualty Insurance Company, and Pacific Employers Insurance Company. Plaintiffs also added a new antitrust claim against Marsh, the ACE defendants, and other insurers based on the same allegations as the other claims but limited to excess casualty insurance. In 2007, the Court granted defendants' motions to dismiss plaintiffs' antitrust and RICO claims with prejudice. The Court also declined to exercise supplemental jurisdiction over plaintiffs' state law claims and dismissed those claims without prejudice. Plaintiffs appealed to the United States Court of Appeals for the Third Circuit. On August 16, 2010, the Third Circuit affirmed, in part, and vacated, in part, the District Court's previous dismissals with instructions for further briefing at the District Court on remand. Defendants renewed their motions consistent with the Third Circuit's instructions. On June 28, 2011 the District Court administratively terminated defendants' motions without prejudice to re-file after adjudication of issues related to a proposed class settlement involving a number of other parties and stayed the case. On October 17, 2011, the Court lifted the stay and, shortly thereafter, entered an order permitting defendants to re-file their motions to dismiss. Defendants did so on October 21, 2011. On April 30, 2012 the Court entered a discovery scheduling order. On May 31, 2012, the Court once again administratively terminated defendants' motions to dismiss. On September 25, 2012, at defendants' urging, the Court ordered that the defendants' motions to dismiss would be reinstated.

On January 11, 2013, ACE reached a settlement in principle with the class action commercial plaintiffs for $4.2 million. If approved by the Court, this would end ACE's involvement in the class action lawsuit.

There are a number of additional federal actions brought by policyholders based on allegations similar to the allegations in the consolidated federal actions that were filed in, or transferred to, the United States District Court for the District of New Jersey for coordination ("tag-along cases"). On October 17, 2011 the Court lifted the stay in those matters, and on April 30, 2012 the Court entered a discovery scheduling order. On September 25, 2012, at defendants' urging, the Court ordered the tag-along plaintiffs to file their final complaints. The tag-along defendants served motions to dismiss or to compel arbitration on December 4, 2012 and December 21, 2012, respectively. The plaintiffs are required to file opposition briefs to the motions to dismiss on March 25, 2013 and to the motions to compel on March 3, 2013. The defendants reply briefs on the motions to dismiss are due on April 16, 2013 and for the motions to compel on March 23, 2013. Discovery is ongoing.

- New Cingular Wireless Headquarters LLC et al. v. Marsh & McLennan Companies, Inc. et al. (Case No. 06-5120; D.N.J.), was originally filed in the Northern District of Georgia on April 4, 2006. ACE Limited, ACE American Ins. Co., ACE USA, Inc., ACE Bermuda Insurance Ltd., Illinois Union Ins. Co., Pacific Employers Ins. Co., and Lloyd's of London Syndicate 2488 AGM, along with a number of other insurers and brokers, are named.
- Avery Dennison Corp. v. Marsh & McLennan Companies, Inc. et al. (Case No. 07-00757; D.N.J.) was filed on February 13, 2007. ACE Limited, ACE INA Holdings Inc., ACE USA, Inc., and ACE American Insurance Co., along with a number of other insurers and brokers, are named. On February 22, 2013, ACE reached a confidential settlement in principle with Avery Dennison Corp. Once the agreement is finalized, this lawsuit will be dismissed with prejudice.
- Henley Management Co., Inc. et al. v. Marsh, Inc. et al. (Case No. 07-2389; D.N.J.) was filed on May 27, 2007. ACE USA, Inc., along with a number of other insurers and Marsh, Inc., are named.
- Sears, Roebuck & Co. et al. v. Marsh & McLennan Companies, Inc. et al. (Case No. 07-2535; D.N.J.) was originally filed in the Northern District of Georgia on October 12, 2007. ACE American Insurance Co., ACE Bermuda Insurance Ltd., and Westchester Surplus Lines Insurance Co., along with a number of other insurers and brokers, are named.
- Lincoln Adventures LLC et al. v. Those Certain Underwriters at Lloyd's, London Members of Syndicates 0033 et al. (Case No. 07-60991; D.N.J.) was originally filed in the Southern District of Florida on July 13, 2007. Supreme Auto Transport LLC et al. v. Certain Underwriters of Lloyd's of London, et al. (Case No. 07-6703; D.N.J.) (Supreme Auto) was originally filed in the Southern District of New York on July 25, 2007. Lloyd's of London Syndicate 2488 AGM, along with a number of other Lloyd's of London Syndicates and various brokers, are named in both actions. The allegations in these putative class-action lawsuits are similar to the allegations in the consolidated federal actions identified above, although these lawsuits focus on alleged conduct within the London insurance market. On May 29, 2012 the Supreme Auto case was voluntarily dismissed without prejudice by the plaintiffs.

As of February 27, 2013, plaintiffs have not specified an amount of alleged damages in any of the remaining tag-along cases. The proceedings in the tag-along cases were stayed at a very early stage, before the ACE defendants could challenge the sufficiency of the claims with, for example, motions to dismiss. Also, the scope of the tag-along cases, in large part, will be affected by the outcome of the Court's decision on defendants' motions to dismiss. As a result, ACE is unable to reasonably estimate the potential loss or range of losses, if any, arising from these litigations.

In addition to the related federal cases, there is one pending state case with allegations similar to those in the consolidated federal actions described above:

- Van Emden Management Corporation v. Marsh & McLennan Companies, Inc., et al. (Case No. 05-0066A; Superior Court of Massachusetts), a class action in Massachusetts, was filed on January 13, 2005. Illinois Union Insurance Company is named. The Van Emden case has been stayed pending resolution of the consolidated proceedings in the District of New Jersey or until further order of the Court.

As of February 27, 2013, plaintiffs have not specified an amount of alleged damages in this case. The proceedings were stayed at a very early stage, before Illinois Union could challenge the sufficiency of the claims with, for example, a motion to dismiss. As a result, ACE is unable to reasonably estimate the potential loss or range of losses, if any, arising from this litigation.

In all of the lawsuits described above, except where specifically noted, plaintiffs seek compensatory and in some cases special damages without specifying an amount. As a result, ACE cannot at this time estimate its potential costs related to these legal matters and, accordingly, no liability for compensatory damages has been established in the consolidated financial statements.

In the opinion of management, our ultimate liability for these matters could be, but we believe is not likely to be, material to our consolidated financial condition and results of operations.

f) Lease commitments

We lease office space and equipment in the countries in which we operate under operating leases which expire at various dates through 2033. We renew and enter into new leases in the ordinary course of business as required. Total rent expense with respect to these operating leases was $112 million, $114 million, and $83 million for the years ended December 31, 2012, 2011, and 2010, respectively. Future minimum lease payments under the leases are expected to be as follows:

For the year ending December 31 (in millions of U.S. dollars)		
2013	$	91
2014		79
2015		69
2016		60
2017		51
Thereafter		151
Total minimum future lease commitments	$	501

11. Shareholders' equity

a) Common Shares

All of ACE's Common Shares are authorized under Swiss corporate law. Though the par value of Common Shares is stated in Swiss francs, ACE continues to use U.S. dollars as its reporting currency for preparing the consolidated financial statements. Under Swiss corporate law, we may not generally issue Common Shares below their par value. In the event there is a need to raise common equity at a time when the trading price of ACE's Common Shares is below par value, we will obtain shareholder approval to decrease the par value of the Common Shares.

Under Swiss corporate law, dividends, including distributions through a reduction in par value (par value reduction), must be stated in Swiss francs though dividend payments are made by ACE in U.S. dollars. Dividend distributions following ACE's redomestication to Switzerland in July 2008 through March 2011 were paid in the form of a par value reduction (under the methods approved by our shareholders at our Annual General Meetings) and had the effect of reducing par value per Common Share each time a dividend was distributed. In light of a January 1, 2011 Swiss tax law change, shareholders at our May 2011 Annual General Meeting approved a dividend for the following year from capital contribution reserves (Additional paid-in capital), a subaccount of legal reserves.

In November 2011, the Board recommended that our shareholders approve a resolution to increase our quarterly dividend from $0.35 per share to $0.47 per share for the payment made on January 31, 2012 and the payment made on April 20, 2012. This proposed increase was approved by our shareholders at the January 9, 2012 Extraordinary General Meeting.

At our May 2012 annual general meeting, our shareholders approved a dividend for the following year, payable in four quarterly installments after the May 2012 annual general meeting in the form of a distribution by way of a par value reduction. We have determined this procedure is more appropriate for us at this time due to current Swiss law.

b) Shares issued, outstanding, authorized, and conditional
The following table presents a roll-forward of changes in Common Shares issued and outstanding:

	Years Ended December 31		
	2012	2011	2010
Shares issued, beginning of year	**342,832,412**	341,094,559	337,841,616
Shares issued, net	**-**	-	2,268,000
Exercise of stock options	**-**	1,737,853	984,943
Shares issued, end of year	**342,832,412**	342,832,412	341,094,559
Common Shares in treasury, end of year	**(2,510,878)**	(5,905,136)	(6,151,707)
Shares issued and outstanding, end of year	**340,321,534**	336,927,276	334,942,852
Common Shares issued to employee trust			
Balance, beginning of year	**(9,467)**	(101,481)	(101,481)
Shares redeemed	**-**	92,014	-
Balance, end of year	**(9,467)**	(9,467)	(101,481)

Prior to August 2011, exercises of stock options were satisfied through newly issued shares. From August 2011 onward, exercises of stock options were satisfied through Common shares in treasury. Other decreases in Common Shares in treasury are principally due to grants of restricted stock, and purchases under the Employee Stock Purchase Plan (ESPP). Increases in Common Shares in treasury are due to open market repurchases of Common Shares and the surrender of Common Shares to satisfy tax withholding obligations in connection with the vesting of restricted stock and the forfeiture of unvested restricted stock.

For the years ended December 2012, 2011, and 2010, ACE repurchased 100,000 Common Shares, 2,058,860 Common Shares, and 4,926,082 Common Shares in a series of open market transactions, respectively. The cost of these shares, which were placed in treasury, totaled $7 million, $132 million, and $303 million for the years ended December 31, 2012, 2011, and 2010, respectively. ACE repurchased these Common Shares to partially offset potential dilution from the exercise of stock options and the granting of restricted stock under share-based compensation plans.

At December 31, 2012, and 2011, 2,510,878 Common Shares and 5,905,136 Common Shares, respectively, remain in treasury after net shares redeemed under employee share-based compensation plans. Common Shares held in treasury are accounted for at cost.

Common Shares issued to employee trust are issued by ACE to a rabbi trust for deferred compensation obligations as discussed in Note 11 f) below.

Authorized share capital for general purposes
The ACE Limited Board of Directors (Board) has shareholder-approved authority as set forth in the Articles of Association to increase for general purposes ACE's share capital from time to time through May 16, 2014, by the issuance of up to 140,000,000 fully paid up Common Shares, with a par value equal to the par value of ACE's Common Shares as set forth in the Articles of Association at the time of any such issuance.

Conditional share capital for bonds and similar debt instruments
The share capital of ACE may be increased through the issuance of a maximum of 33,000,000 fully paid up Common Shares with a par value of CHF 28.89 each 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, including convertible debt instruments.

Conditional share capital for employee benefit plans
The share capital of ACE may be increased through the issuance of a maximum of 25,410,929 fully paid up Common Shares with a par value of CHF 28.89 each in connection with the exercise of option rights granted to any employee of ACE, and any consultant, director, or other person providing services to ACE.

c) ACE Limited securities repurchase authorization
In August 2011, the Board of Directors authorized the repurchase of up to $303 million of ACE's Common Shares through December 31, 2012. The amount authorized in August 2011 was in addition to the $197 million balance remaining under a $600 million share repurchase program approved in November 2010. In November 2012, the Board of Directors authorized an extension through December 31, 2013. These authorizations were granted to allow ACE to repurchase Common Shares to partially offset potential dilution from the exercise of stock options and the granting of restricted stock under share-based compensation plans. 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, 2012, $461 million in share repurchase authorizations remained through December 31, 2013 pursuant to the November 2010, August 2011, and November 2012 Board authorizations. For the period January 1, 2013 through February 27, 2013, we repurchased 1,746,123 Common Shares for a total of $149 million in a series of open market transactions. As of February 27, 2013, $312 million in share repurchase authorizations remained through December 31, 2013.

d) General restrictions
The holders of the 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.

e) Dividends
As discussed above, dividend distributions on Common Shares following ACE's redomestication to Switzerland in July 2008 through March 31, 2011 were paid as a par value reduction while subsequent dividend distributions were funded from capital contribution reserves (Additional paid-in capital) and paid out of free reserves (Retained earnings) under the method approved by our shareholders at the May 2011 Annual General Meeting. At our May 2012 annual general meeting, our shareholders approved a dividend for the following year, payable in four quarterly installments after the May 2012 annual general meeting in the form of a distribution by way of a par value reduction. We have determined this procedure is more appropriate for us at this time due to current Swiss law. Dividend distributions on Common Shares amounted to CHF 1.91 ($2.06) per Common Share (including par value reductions of CHF 1.38 per Common Share), CHF 1.22 ($1.38) per Common Share (including a par value reduction of CHF 0.30 per Common Share), and CHF 1.31 ($1.30) per Common Share for the years ended December 31, 2012, 2011, and 2010, respectively. Par value reductions have been reflected as such through Common Shares in the consolidated statements of shareholders' equity. The par value per Common Share at December 31, 2012, stands at CHF 28.89.

f) Deferred compensation obligation
ACE maintains rabbi trusts for deferred compensation plans principally for employees and former directors. The shares issued by ACE to the rabbi trusts in connection with deferrals of share compensation are classified in shareholders' equity and accounted for at historical cost in a manner similar to Common Shares in treasury. These shares are recorded in Common Shares issued to employee trust and the obligations are recorded in Deferred compensation obligation in the consolidated balance sheets. Changes in the fair value of the shares underlying the obligations are recorded in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets and the related expense or income is recorded in Administrative expenses in the consolidated statements of operations.

The rabbi trusts also hold other assets, such as fixed maturities, equity securities, and life insurance policies. The assets of the rabbi trusts are consolidated with ACE's assets and reflected in Other investments in the consolidated balance sheets. Except for life insurance policies which are reflected at cash surrender value, these assets are classified as trading securities and reported at fair value with changes in fair value reflected in Other (income) expense in the consolidated statements of operations. Except for obligations related to life insurance policies which are carried at cash surrender value, the related deferred compensation obligation is carried at fair value and included in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets with changes reflected as a corresponding increase or decrease to Other (income) expense in the consolidated statements of operations.

12. Share-based compensation

ACE has share-based compensation plans which currently provide for awards of stock options, restricted stock, and restricted stock units to its employees and members of the Board.

ACE principally issues restricted stock grants and stock options on a graded vesting schedule. ACE recognizes compensation cost for restricted stock and stock option grants with only service conditions that have a graded vesting schedule on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. We incorporate an estimate of future forfeitures into the determination of compensation cost for both grants of restricted stock and stock options.

During 2004, we established the ACE Limited 2004 Long-Term Incentive Plan (the 2004 LTIP), which replaced our prior incentive plans except for outstanding awards. The 2004 LTIP will continue in effect until terminated by the Board. Under the 2004 LTIP, a total of 30,600,000 Common Shares of ACE are authorized to be issued pursuant to awards made as stock 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) 30,600,000 shares; and (ii) any shares that are represented by awards granted under the prior plans that are forfeited, expired, or are canceled after the effective date of the 2004 LTIP, 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. At December 31, 2012, a total of 6,593,991 shares remain available for future issuance under this plan.

The 2004 LTIP also provides for grants of restricted stock and restricted stock units. ACE generally grants restricted stock and restricted stock units with a 4-year vesting period, based on a graded vesting schedule. The restricted stock is granted at market close price on the day of grant. Each restricted stock unit represents our obligation to deliver to the holder one Common Share upon vesting.

At our May 2012 Annual General Meeting, our shareholders approved a 1,500,000 increase to the maximum number of authorized shares to be issued under the ESPP under the 2004 LTIP. At December 31, 2012, a total of 1,491,053 Common Shares remain available for issuance under the ESPP.

ACE generally issues Common Shares for the exercise of stock options, restricted stock, and purchases under the ESPP from un-issued reserved shares and Common Shares in treasury.

The following table presents pre-tax and after-tax share-based compensation expense:

	Years Ended December 31		
(in millions of U.S. dollars)	**2012**	2011	2010
Stock options and shares issued under ESPP:			
Pre-tax	**$ 22**	$ 23	$ 28
After-tax (1)	**$ 17**	$ 17	$ 20
Restricted stock:			
Pre-tax	**$ 109**	$ 108	$ 111
After-tax	**$ 64**	$ 70	$ 79

(1) Excludes windfall tax benefit (shortfall) for share-based compensation recognized as a direct adjustment to Additional paid-in capital of $18 million, $6 million and $(1) million for the years ended December 31, 2012, 2011 and 2010, respectively.

Unrecognized compensation expense related to the unvested portion of ACE's employee share-based awards was $119 million at December 31, 2012, and is expected to be recognized over a weighted-average period of approximately 1 year.

Stock options
ACE's 2004 LTIP provides for grants of both incentive and non-qualified stock options principally at an option price per share equal to the fair value of ACE's Common Shares on the date of grant. Stock options are generally granted with a 3-year vesting

period and a 10-year term. The stock options vest in equal annual installments over the respective vesting period, which is also the requisite service period.

Included in ACE's share-based compensation expense in the year ended December 31, 2012, is a portion of the cost related to the 2009-2012 stock option grants. The fair value of the stock options was estimated on the date of grant using the Black-Scholes option-pricing model that uses the weighted-average assumptions noted below. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life (estimated period of time from grant to exercise date) was estimated using the historical exercise behavior of employees. Expected volatility was calculated as a blend of (a) historical volatility based on daily closing prices over a period equal to the expected life assumption, (b) long-term historical volatility based on daily closing prices over the period from ACE's initial public trading date through the most recent quarter, and (c) implied volatility derived from ACE's publicly traded options.

The fair value of the options issued is estimated on the date of grant using the Black-Scholes option-pricing model. The following table presents the weighted-average model assumptions used for grants:

	Years Ended December 31		
	2012	2011	2010
Dividend yield	**2.7%**	2.2%	2.5%
Expected volatility	**29.8%**	28.8%	30.3%
Risk-free interest rate	**1.1%**	2.3%	2.5%
Forfeiture rate	**6.5%**	6.5%	7.5%
Expected life	**5.8 years**	5.4 years	5.4 years

The following table presents a roll-forward of ACE's stock options:

(Intrinsic Value in millions of U.S. dollars)	Number of Options	Weighted-Average Exercise Price	Weighted-Average Fair Value	Total Intrinsic Value
Options outstanding, December 31, 2009	11,483,104	$ 45.46		
Granted	2,094,227	$ 50.38	$ 12.09	
Exercised	(1,328,715)	$ 40.11		$ 22
Forfeited	(305,723)	$ 49.77		
Options outstanding, December 31, 2010	11,942,893	$ 46.80		
Granted	1,649,824	$ 62.68	$ 14.67	
Exercised	(2,741,238)	$ 44.45		$ 63
Forfeited	(271,972)	$ 51.33		
Options outstanding, December 31, 2011	10,579,507	$ 49.78		
Granted	1,462,103	$ 73.36	$ 15.58	
Exercised	(2,401,869)	$ 42.50		$ 78
Forfeited	(190,082)	$ 61.87		
Options outstanding, December 31, 2012	**9,449,659**	**$ 55.03**		**$ 234**
Options exercisable, December 31, 2012	**6,446,407**	**$ 50.26**		**$ 190**

The weighted-average remaining contractual term was 6.2 years for the stock options outstanding and 4.8 years for the stock options exercisable at December 31, 2012. The amount of cash received during the year ended December 31, 2012 from the exercise of stock options was $95 million.

Restricted stock and restricted stock units
ACE's 2004 LTIP provides for grants of restricted stock and restricted stock units with a 4-year vesting period, based on a graded vesting schedule. ACE also grants restricted stock awards to non-management directors which vest at the following year's annual general meeting. The restricted stock is granted at market close price on the date of grant. Each restricted stock

unit represents our obligation to deliver to the holder one Common Share upon vesting. Included in our share-based compensation expense for the year ended December 31, 2012, is a portion of the cost related to the restricted stock granted in the years 2008 - 2012.

The following table presents a roll-forward of our restricted stock awards. Included in the roll-forward below are 25,669 restricted stock awards, 32,660 restricted stock awards, and 36,248 restricted stock awards that were granted to non-management directors during the years ended December 31, 2012, 2011, and 2010 respectively:

	Number of Restricted Stock		Weighted-Average Grant-Date Fair Value
Unvested restricted stock, December 31, 2009	4,873,429	$	48.25
Granted	2,461,076	$	51.09
Vested	(1,771,423)	$	50.79
Forfeited	(257,350)	$	47.93
Unvested restricted stock, December 31, 2010	5,305,732	$	48.74
Granted	1,808,745	$	60.01
Vested	(1,929,189)	$	50.82
Forfeited	(333,798)	$	47.46
Unvested restricted stock, December 31, 2011	4,851,490	$	52.20
Granted	1,589,178	$	73.46
Vested	(1,923,385)	$	52.71
Forfeited	(262,436)	$	58.40
Unvested restricted stock, December 31, 2012	**4,254,847**	**$**	**59.53**

During the years ended December 31, 2012, 2011, and 2010, ACE awarded 262,549 restricted stock units, 261,214 restricted stock units, and 326,091 restricted stock units, respectively, to employees and officers of ACE and its subsidiaries each with a weighted-average grant date fair value per share of $73.41, $62.85, and $50.36, respectively. At December 31, 2012, there were 637,085 unvested restricted stock units.

Prior to 2009, ACE granted restricted stock units with a 1-year vesting period to non-management directors. Delivery of Common Shares on account of these restricted stock units to non-management directors is deferred until six months after the date of the non-management directors' termination from the Board. At December 31, 2012, there were 196,431 deferred restricted stock units.

ESPP

The ESPP gives participating employees the right to purchase Common Shares through payroll deductions during consecutive subscription periods at a purchase price of 85 percent of the fair value of a Common Share on the exercise date (Purchase Price). Annual purchases by participants are limited to the number of whole shares that can be purchased by an amount equal to ten percent of the participant's compensation or $25,000, whichever is less. The ESPP has two six-month subscription periods, the first of which runs between January 1 and June 30 and the second of which runs between July 1 and December 31 of each year. The amounts that have been collected from participants during a subscription period are used on the exercise date to purchase full shares of Common Shares. An exercise date is generally the last trading day of a subscription period. The number of shares purchased is equal to the total amount, at the exercise date, that has been collected from the participants through payroll deductions for that subscription period, divided by the Purchase Price, rounded down to the next full share. Participants may withdraw from an offering before the exercise date and obtain a refund of the amounts withheld through payroll deductions. Pursuant to the provisions of the ESPP, during the years ended December 31, 2012, 2011, and 2010, employees paid $13 million, $12 million, and $10 million to purchase 198,244 shares, 205,812 shares, and 240,979 shares, respectively.

13. Pension plans

ACE provides pension benefits to eligible employees and their dependents through various defined contribution plans and defined benefit plans sponsored by ACE. The defined contribution plans include a capital accumulation plan (401(k)) in the U.S. The defined benefit plans consist of various plans offered in certain jurisdictions outside of the U.S. and Bermuda.

Defined contribution plans (including 401(k))

Under these plans, employees' contributions may be supplemented by ACE matching contributions based on the level of employee contribution. These contributions are invested at the election of each employee in one or more of several investment portfolios offered by a third party investment advisor. Expenses for these plans totaled $99 million, $96 million, and $87 million for the years ended December 31, 2012, 2011, and 2010, respectively.

Defined benefit plans

We maintain non-contributory defined benefit plans that cover certain employees, principally located in Europe and Asia. We also provide a defined benefit plan to certain U.S.-based employees as a result of our acquisition of Penn Millers in November 2011. We account for pension benefits using the accrual method. Benefits under these plans are based on employees' years of service and compensation during final years of service. All underlying defined benefit plans are subject to periodic actuarial valuation by qualified local actuarial firms using actuarial models in calculating the pension expense and liability for each plan. We use December 31 as the measurement date for our defined benefit pension plans.

At December 31, 2012, the fair value of plan assets and the projected benefit obligation were $487 million and $531 million, respectively. The fair value of plan assets and the projected benefit obligation were $434 million and $508 million, respectively, at December 31, 2011. The accrued pension liability of $44 million and $74 million at December 31, 2012 and 2011, respectively is included in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets.

The defined benefit pension plan contribution for 2013 is expected to be $18 million. The estimated net actuarial loss for the defined benefit pension plans that will be amortized from AOCI into net benefit costs over the next year is $3 million.

Benefit payments were $37 million and $21 million for the years ended December 31, 2012 and 2011, respectively. Benefit payments for the year ended December 31, 2012 included $12 million related to the full settlement of a defined benefit plan. Expected future payments are as follows:

For the year ending December 31 (in millions of U.S dollars)		
2013	$	21
2014		21
2015		23
2016		24
2017		22
2018-2022		127

14. Other (income) expense

The following table presents the components of Other (income) expense as reflected in the consolidated statements of operations:

	Years Ended December 31		
(in millions of U.S. dollars)	**2012**	2011	2010
Equity in net (income) loss of partially-owned entities	**$ (80)**	$ (32)	$ (75)
Amortization of intangible assets	**51**	29	9
(Gains) losses from fair value changes in separate account assets	**(29)**	36	-
Federal excise and capital taxes	**22**	20	19
Acquisition-related costs	**11**	5	14
Other	**19**	23	23
Other (income) expense	**$ (6)**	$ 81	$ (10)

Other (income) expense includes (Gains) losses from fair value changes in separate account assets that do not qualify for separate account reporting under GAAP. The offsetting movement in the separate account liabilities is included in Policy benefits in the consolidated statements of operations. Refer to Note 1 i) for additional information. Equity in net (income) loss of partially-owned entities includes our share of net (income) loss related to investment funds, limited partnerships, partially-owned investment companies, and partially-owned insurance companies. Certain federal excise and capital taxes incurred as a result of capital management initiatives are included in Other (income) expense in the consolidated statements of operations. As these are considered capital transactions, they are excluded from underwriting results.

15. Segment information

ACE operates through the following business segments: Insurance - North American, Insurance - Overseas General, Global Reinsurance, and Life. These segments distribute their products through various forms of brokers, agencies, and direct marketing programs. All business segments have established relationships with reinsurance intermediaries.

The Insurance - North American segment comprises our operations in the U.S., Canada, and Bermuda. This segment includes the operations of ACE USA (including ACE Canada), ACE Commercial Risk Services, ACE Private Risk Services, ACE Westchester, ACE Agriculture, ACE Bermuda, and various run-off operations, including Brandywine. ACE USA is the North American retail operating division which provides a broad array of traditional and specialty P&C, A&H, and risk management products and services to a diverse group of commercial and non-commercial enterprises and consumers. ACE Commercial Risk Services addresses the insurance needs of small and mid-sized businesses in North America by delivering an array of specialty product solutions for targeted industries that lend themselves to technology-assisted underwriting. ACE Private Risk Services provides personal lines coverages for high net worth individuals and families in North America. ACE Westchester focuses on the North American wholesale distribution of excess and surplus lines property, casualty, environmental, professional liability and inland marine products. ACE Agriculture provides comprehensive Multiple Peril Crop Insurance, crop-hail and farm P&C insurance protection to customers in the U.S. and Canada through Rain and Hail as well as specialty P&C insurance coverages to Agribusiness customers through Penn Millers. ACE Bermuda provides commercial insurance products on an excess basis mainly to a global client base targeting Fortune 1000 companies and covering exposures that are generally low in frequency and high in severity. 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.

The Insurance - Overseas General segment comprises ACE International, our global retail insurance operations, the wholesale insurance business of ACE Global Markets (AGM), and the international A&H business of Combined Insurance. ACE International is our retail business serving territories outside the U.S., Bermuda, and Canada, and maintains a presence in every major insurance market in the world and is organized geographically along product lines that provide dedicated underwriting focus to customers. ACE International has four regions of operations: ACE Europe, ACE Asia Pacific, ACE Far East, and ACE Latin America. Companies within the Insurance - Overseas General segment write a variety of insurance products including P&C, professional lines (directors and officers and errors and omissions), marine, energy, aviation, political risk, specialty consumer-oriented products, and A&H (principally accident and supplemental health). AGM, our London-based international specialty and excess and surplus lines business, includes Syndicate 2488, a wholly-owned ACE syndicate. AGM offers products through its parallel distribution network via ACE European Group Limited (AEGL) and Syndicate 2488. ACE provides

funds at Lloyd's to support underwriting by Syndicate 2488, which is managed by ACE Underwriting Agencies Limited. 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. The reinsurance operation of AGM is included in the Global Reinsurance segment. Combined Insurance distributes a wide range of supplemental A&H products.

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. These divisions provide a broad range of traditional and specialty reinsurance products including property catastrophe, casualty, and property reinsurance coverages to a diverse array of primary P&C insurers.

The Life segment includes 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. ACE Life provides 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 through multiple distribution channels primarily in emerging markets, including Egypt, Hong Kong, Indonesia, South Korea, Taiwan, Thailand and Vietnam; also throughout Latin America, selectively in Europe, and China through a non-consolidated joint venture insurance company. ACE Life Re helps clients (ceding companies) manage mortality, morbidity, and lapse risks embedded in their books of business. 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. Combined Insurance distributes specialty supplemental A&H and life insurance products targeted to middle income consumers, businesses, and students through educational institutions in the U.S. and Canada.

Corporate and Other (Corporate) includes ACE Limited, ACE Group Management and Holdings Ltd., ACE INA Holdings, Inc., and intercompany eliminations. Losses and loss expenses arise in connection with the commutation of ceded reinsurance contracts that result from a differential between the consideration received from reinsurers and the related reduction of reinsurance recoverable, principally related to the time value of money. Due to our initiatives to reduce reinsurance recoverable balances and thereby encourage such commutations, losses recognized in connection with the commutation of ceded reinsurance contracts are generally not considered when assessing segment performance and, accordingly, are directly allocated to Corporate. ACE also eliminates the impact of intersegment loss portfolio transfer transactions which are not reflected in the results within the statements of operations by segment.

For segment reporting purposes, certain items have been presented in a different manner than in the consolidated financial statements. Management uses underwriting income as the main measure of segment performance. ACE calculates underwriting income by subtracting Losses and loss expenses, Policy benefits, Policy acquisition costs, and Administrative expenses from Net premiums earned. For the Life business, management also 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 as components of underwriting income. For example, for the year ended December 31, 2012, Life underwriting income of $402 million includes Net investment income of $251 million and gains from fair value changes in separate account assets of $29 million.

Effective January 1, 2012, we reclassified prior years segment operating results in order to conform to certain organizational realignments. These realignments resulted in a transfer of operating revenue and underwriting results of our international direct-marketed and credit life businesses from the Insurance - Overseas General segment to the Life segment. These realignments have no impact on consolidated operating results; however, prior years segment operating results contained in this report have been adjusted to conform to the current year presentation.

The following tables present the operations by segment:

Statement of Operations by Segment

For the Year Ended December 31, 2012 (in millions of U.S. dollars)	Insurance - North American	Insurance - Overseas General	Global Reinsurance	Life	Corporate and Other	ACE Consolidated
Net premiums written	$ 7,208	$ 5,863	$ 1,025	$ 1,979	$ -	$ 16,075
Net premiums earned	7,019	5,740	1,002	1,916	-	15,677
Losses and loss expenses	5,626	2,862	553	611	1	9,653
Policy benefits	-	-	-	521	-	521
Policy acquisition costs	586	1,353	172	334	1	2,446
Administrative expenses	601	935	51	328	181	2,096
Underwriting income (loss)	206	590	226	122	(183)	961
Net investment income	1,091	521	290	251	28	2,181
Net realized gains (losses) including OTTI	42	103	6	(72)	(1)	78
Interest expense	12	5	4	12	217	250
Other (income) expense:						
(Gains) losses from fair value changes in separate account assets	-	-	-	(29)	-	(29)
Other	(9)	3	(15)	25	19	23
Income tax expense (benefit)	200	133	15	58	(136)	270
Net income (loss)	$ 1,136	$ 1,073	$ 518	$ 235	$ (256)	$ 2,706

Statement of Operations by Segment

For the Year Ended December 31, 2011 (in millions of U.S. dollars)	Insurance - North American	Insurance - Overseas General	Global Reinsurance	Life	Corporate and Other	ACE Consolidated
Net premiums written	$ 6,851	$ 5,629	$ 979	$ 1,913	$ -	$ 15,372
Net premiums earned	6,911	5,614	1,003	1,859	-	15,387
Losses and loss expenses	5,276	3,029	621	593	1	9,520
Policy benefits	-	-	-	401	-	401
Policy acquisition costs	612	1,335	185	339	1	2,472
Administrative expenses	592	939	52	317	168	2,068
Underwriting income (loss)	431	311	145	209	(170)	926
Net investment income	1,170	546	287	226	13	2,242
Net realized gains (losses) including OTTI	34	33	(50)	(806)	(6)	(795)
Interest expense	15	5	2	11	217	250
Other (income) expense						
(Gains) losses from fair value changes in separate account assets	-	-	-	36	-	36
Other	5	-	(1)	26	15	45
Income tax expense (benefit)	395	164	30	50	(137)	502
Net income (loss)	$ 1,220	$ 721	$ 351	$ (494)	$ (258)	$ 1,540

Statement of Operations by Segment

For the Year Ended December 31, 2010 (in millions of U.S. dollars)	Insurance - North American	Insurance - Overseas General	Global Reinsurance	Life	Corporate and Other	ACE Consolidated
Net premiums written	$ 5,797	$ 5,189	$ 1,075	$ 1,647	$ -	$ 13,708
Net premiums earned	5,651	5,153	1,071	1,629	-	13,504
Losses and loss expenses	3,918	2,615	518	528	-	7,579
Policy benefits	-	-	-	357	-	357
Policy acquisition costs	626	1,209	204	306	-	2,345
Administrative expenses	561	837	55	246	174	1,873
Underwriting income (loss)	546	492	294	192	(174)	1,350
Net investment income	1,138	473	288	174	(3)	2,070
Net realized gains (losses) including OTTI	417	123	93	(192)	(9)	432
Interest expense	9	1	-	3	211	224
Other (income) expense	(22)	(13)	(23)	26	22	(10)
Income tax expense (benefit)	435	171	42	59	(154)	553
Net income (loss)	$ 1,679	$ 929	$ 656	$ 86	$ (265)	$ 3,085

Underwriting assets are reviewed in total by management for purposes of decision-making. Other than goodwill, ACE does not allocate assets to its segments.

The following table presents net premiums earned for each segment by product:

(in millions of U.S. dollars)	Property & All Other	Casualty	Life, Accident & Health	ACE Consolidated
For the Year Ended December 31, 2012				
Insurance - North American	**$ 3,242**	**$ 3,406**	**$ 371**	**$ 7,019**
Insurance - Overseas General	**2,236**	**1,379**	**2,125**	**5,740**
Global Reinsurance	**495**	**507**	**-**	**1,002**
Life	**-**	**-**	**1,916**	**1,916**
	$ 5,973	**$ 5,292**	**$ 4,412**	**$ 15,677**
For the Year Ended December 31, 2011				
Insurance - North American	$ 3,174	$ 3,380	$ 357	$ 6,911
Insurance - Overseas General	2,080	1,415	2,119	5,614
Global Reinsurance	458	545	-	1,003
Life	-	-	1,859	1,859
	$ 5,712	$ 5,340	$ 4,335	$ 15,387
For the Year Ended December 31, 2010				
Insurance - North American	$ 1,578	$ 3,777	$ 296	$ 5,651
Insurance - Overseas General	1,800	1,424	1,929	5,153
Global Reinsurance	520	551	-	1,071
Life	-	-	1,629	1,629
	$ 3,898	$ 5,752	$ 3,854	$ 13,504

The following table presents net premiums earned by geographic region. Allocations have been made on the basis of location of risk:

Years Ended	North America	Europe	Asia Pacific/Far East	Latin America
2012	**60%**	**17%**	**16%**	**7%**
2011	61%	18%	14%	7%
2010	61%	20%	13%	6%

16. Earnings per share

As discussed in Note 1, the following table presents the computation of basic and diluted earnings per share:

	Years Ended December 31		
(in millions of U.S. dollars, except share and per share data)	**2012**	2011	2010
Numerator:			
Net income	**$ 2,706**	$ 1,540	$ 3,085
Denominator:			
Denominator for basic earnings per share:			
Weighted-average shares outstanding	**339,843,438**	338,159,409	339,685,143
Denominator for diluted earnings per share:			
Share-based compensation plans	**2,903,512**	2,620,815	1,561,244
Adjusted weighted-average shares outstanding and assumed conversions	**342,746,950**	340,780,224	341,246,387
Basic earnings per share	**$ 7.96**	$ 4.55	$ 9.08
Diluted earnings per share	**$ 7.89**	$ 4.52	$ 9.04
Potential anti-dilutive share conversions	**896,591**	111,326	256,868

Excluded from adjusted weighted-average shares outstanding and assumed conversions is the impact of securities that would have been anti-dilutive during the respective years.

17. Related party transactions

The ACE Foundation - Bermuda is an unconsolidated not-for-profit organization whose primary purpose is to fund charitable causes in Bermuda. The Trustees are principally ACE management. ACE maintains a non-interest bearing demand note receivable from the ACE Foundation - Bermuda (Borrower), the balance of which was $27 million and $29 million, at December 31, 2012 and 2011, respectively. The receivable is included in Other assets in the consolidated balance sheets. The Borrower has used the related proceeds to finance investments in Bermuda real estate, some of which have been rented to ACE employees at rates established by independent, professional real estate appraisers. The Borrower uses income from the investments to both repay the note and to fund charitable activities. Accordingly, we report the demand note at the lower of its principal value or the fair value of assets held by the Borrower to repay the loan, including the real estate properties.

18. Statutory financial information

Our subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by insurance regulators. Statutory accounting differs from GAAP in the reporting of certain reinsurance contracts, investments, subsidiaries, acquisition expenses, fixed assets, deferred income taxes, and certain other items. Our international subsidiaries prepare statutory financial statements based on local laws and regulations. Some jurisdictions impose complex regulatory requirements on insurance companies while other jurisdictions impose fewer requirements. In some countries, we must obtain licenses issued by governmental authorities to conduct local insurance business. These licenses may be subject to reserves and minimum capital and solvency tests. Jurisdictions may impose fines, censure, and/or criminal sanctions for violation of regulatory requirements.

ACE's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate. These regulations include restrictions that limit the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the insurance regulatory authorities. The amount of dividends available to be paid in 2013 without prior approval for our U.S. and International subsidiaries totals $762 million and $2.1 billion, respectively.

The statutory capital and surplus of our insurance subsidiaries met regulatory requirements for 2012, 2011, and 2010.

The following tables present the combined statutory capital and surplus and statutory net income of the U.S. and International subsidiaries:

	December 31	
(in millions of U.S. dollars)	**2012**	2011
Statutory capital and surplus		
U.S. Subsidiaries	**$ 6,037**	$ 5,858
International Subsidiaries	**$ 18,317**	$ 15,565

	Years Ended December 31		
(in millions of U.S. dollars)	**2012**	2011	2010
Statutory net income			
U.S. Subsidiaries	**$ 619**	$ 702	$ 1,025
International Subsidiaries	**$ 2,118**	$ 1,214	$ 2,592

Several insurance subsidiaries follow accounting practices prescribed or permitted by the jurisdiction of domicile that differ from the applicable NAIC or local statutory practice. The application of prescribed or permitted accounting practices does not have a material impact on ACE's statutory surplus and income. As prescribed by the Restructuring discussed previously in Note 7, certain of our U.S. subsidiaries discount certain A&E liabilities, which increased statutory capital and surplus by approximately $161 million and $192 million at December 31, 2012 and 2011, respectively.

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19. Information provided in connection with outstanding debt of subsidiaries

The following tables present condensed consolidating financial information at December 31, 2012 and December 31, 2011, and for the years ended December 31, 2012, 2011, and 2010 for ACE Limited (the Parent Guarantor) and ACE INA Holdings, Inc. (the Subsidiary Issuer). The Subsidiary Issuer is an indirect 100 percent-owned subsidiary of the Parent Guarantor. Investments in subsidiaries are accounted for by the Parent Guarantor under the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are reflected in the Parent Guarantor's investment accounts and earnings. The Parent Guarantor fully and unconditionally guarantees certain of the debt of the Subsidiary Issuer. Condensed consolidating financial information of the Subsidiary Issuer is presented on a consolidated basis and consists principally of the net assets, results of operations, and cash flows of operating insurance company subsidiaries.

Condensed Consolidating Balance Sheet at December 31, 2012

(in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments[2]	ACE Limited Consolidated
Assets					
Investments	$ 31	$ 31,074	$ 29,159	$ -	$ 60,264
Cash[3]	103	515	(3)	-	615
Insurance and reinsurance balances receivable	-	3,654	493	-	4,147
Reinsurance recoverable on losses and loss expenses	-	17,232	(5,154)	-	12,078
Reinsurance recoverable on policy benefits	-	1,187	(946)	-	241
Value of business acquired	-	610	4	-	614
Goodwill and other intangible assets	-	4,419	556	-	4,975
Investments in subsidiaries	27,251	-	-	(27,251)	-
Due from subsidiaries and affiliates, net	204	-	-	(204)	-
Other assets	13	7,563	2,035	-	9,611
Total assets	$ 27,602	$ 66,254	$ 26,144	$ (27,455)	$ 92,545
Liabilities					
Unpaid losses and loss expenses	$ -	$ 31,356	$ 6,590	$ -	$ 37,946
Unearned premiums	-	5,872	992	-	6,864
Future policy benefits	-	3,876	594	-	4,470
Due to (from) subsidiaries and affiliates, net	-	384	(180)	(204)	-
Short-term debt	-	851	550	-	1,401
Long-term debt	-	3,360	-	-	3,360
Trust preferred securities	-	309	-	-	309
Other liabilities	71	8,272	2,321	-	10,664
Total liabilities	71	54,280	10,867	(204)	65,014
Total shareholders' equity	27,531	11,974	15,277	(27,251)	27,531
Total liabilities and shareholders' equity	$ 27,602	$ 66,254	$ 26,144	$ (27,455)	$ 92,545

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

(2) Includes ACE Limited parent company eliminations.

(3) ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. Refer to Note 1f) for additional information. At December 31, 2012, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

ACE Limited and Subsidiaries

Condensed Consolidating Balance Sheet at December 31, 2011

(in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments[2]	ACE Limited Consolidated
Assets					
Investments	$ 33	$ 28,848	$ 26,795	$ -	$ 55,676
Cash	106	382	126	-	614
Insurance and reinsurance balances receivable	-	3,944	443	-	4,387
Reinsurance recoverable on losses and loss expenses	-	17,146	(4,757)	-	12,389
Reinsurance recoverable on policy benefits	-	941	(692)	-	249
Value of business acquired	-	676	-	-	676
Goodwill and other intangible assets	-	4,248	551	-	4,799
Investments in subsidiaries	23,871	-	-	(23,871)	-
Due from subsidiaries and affiliates, net	498	-	-	(498)	-
Other assets	8	7,018	1,505	-	8,531
Total assets	$ 24,516	$ 63,203	$ 23,971	$ (24,369)	$ 87,321
Liabilities					
Unpaid losses and loss expenses	$ -	$ 30,837	$ 6,640	$ -	$ 37,477
Unearned premiums	-	5,416	918	-	6,334
Future policy benefits	-	3,673	601	-	4,274
Due to subsidiaries and affiliates, net	-	316	182	(498)	-
Short-term debt	-	850	401	-	1,251
Long-term debt	-	3,360	-	-	3,360
Trust preferred securities	-	309	-	-	309
Other liabilities	184	7,769	2,031	-	9,984
Total liabilities	184	52,530	10,773	(498)	62,989
Total shareholders' equity	24,332	10,673	13,198	(23,871)	24,332
Total liabilities and shareholders' equity	$ 24,516	$ 63,203	$ 23,971	$ (24,369)	$ 87,321

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

(2) Includes ACE Limited parent company eliminations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Statements of Operations and Comprehensive Income

For the Year Ended December 31, 2012 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net premiums written	$ -	$ 9,466	$ 6,609	$ -	$ 16,075
Net premiums earned	-	9,194	6,483	-	15,677
Net investment income	1	1,048	1,132	-	2,181
Equity in earnings of subsidiaries	2,590	-	-	(2,590)	-
Net realized gains (losses) including OTTI	17	121	(60)	-	78
Losses and loss expenses	-	6,211	3,442	-	9,653
Policy benefits	-	309	212	-	521
Policy acquisition costs and administrative expenses	62	2,564	1,916	-	4,542
Interest (income) expense	(33)	257	26	-	250
Other (income) expense	(137)	77	54	-	(6)
Income tax expense	10	193	67	-	270
Net income	$ 2,706	$ 752	$ 1,838	$ (2,590)	$ 2,706
Comprehensive income	$ 3,682	$ 1,209	$ 1,381	$ (2,590)	$ 3,682

Condensed Consolidating Statements of Operations and Comprehensive Income

For the Year Ended December 31, 2011 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net premiums written	$ -	$ 9,081	$ 6,291	$ -	$ 15,372
Net premiums earned	-	9,082	6,305	-	15,387
Net investment income	2	1,096	1,144	-	2,242
Equity in earnings of subsidiaries	1,459	-	-	(1,459)	-
Net realized gains (losses) including OTTI	(4)	62	(853)	-	(795)
Losses and loss expenses	-	5,889	3,631	-	9,520
Policy benefits	-	192	209	-	401
Policy acquisition costs and administrative expenses	69	2,561	1,910	-	4,540
Interest (income) expense	(37)	267	20	-	250
Other (income) expense	(125)	143	63	-	81
Income tax expense	10	418	74	-	502
Net income	$ 1,540	$ 770	$ 689	$ (1,459)	$ 1,540
Comprehensive income	$ 1,857	$ 1,077	$ 382	$ (1,459)	$ 1,857

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

Condensed Consolidating Statements of Operations and Comprehensive Income

For the Year Ended December 31, 2010 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net premiums written	$ -	$ 8,195	$ 5,513	$ -	$ 13,708
Net premiums earned	-	7,940	5,564	-	13,504
Net investment income	1	1,011	1,058	-	2,070
Equity in earnings of subsidiaries	3,043	-	-	(3,043)	-
Net realized gains (losses) including OTTI	(42)	303	171	-	432
Losses and loss expenses	-	4,910	2,669	-	7,579
Policy benefits	-	148	209	-	357
Policy acquisition costs and administrative expenses	70	2,395	1,753	-	4,218
Interest (income) expense	(37)	251	10	-	224
Other (income) expense	(123)	101	12	-	(10)
Income tax expense	7	441	105	-	553
Net income	$ 3,085	$ 1,008	$ 2,035	$ (3,043)	$ 3,085
Comprehensive income	$ 3,856	$ 1,271	$ 1,772	$ (3,043)	$ 3,856

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

Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2012 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net cash flows from operating activities	$ 781	$ 1,744	$ 1,920	$ (450)	$ 3,995
Cash flows from investing activities					
Purchases of fixed maturities available for sale	-	(11,843)	(12,001)	-	(23,844)
Purchases of fixed maturities held to maturity	-	(384)	(4)	-	(388)
Purchases of equity securities	-	(70)	(65)	-	(135)
Sales of fixed maturities available for sale	-	7,347	7,422	-	14,769
Sales of equity securities	-	59	60	-	119
Maturities and redemptions of fixed maturities available for sale	-	2,759	2,764	-	5,523
Maturities and redemptions of fixed maturities held to maturity	-	1,045	406	-	1,451
Net derivative instruments settlements	(1)	(6)	(274)	-	(281)
Capital contribution	-	-	(90)	90	-
Advances from (to) affiliates	(2)	-	-	2	-
Acquisition of subsidiaries (net of cash acquired of $8)	-	(111)	13	-	(98)
Other	-	(395)	(160)	-	(555)
Net cash flows used for investing activities	(3)	(1,599)	(1,929)	92	(3,439)
Cash flows from financing activities					
Dividends paid on Common Shares	(815)	-	-	-	(815)
Common Shares repurchased	-	-	(11)	-	(11)
Net proceeds from issuance of short-term debt	-	1	149	-	150
Proceeds from share-based compensation plans, including windfall tax benefits	34	13	79	-	126
Advances (to) from affiliates	-	(105)	107	(2)	-
Dividends to parent company	-	-	(450)	450	-
Capital contribution	-	90	-	(90)	-
Net cash flows used for financing activities	(781)	(1)	(126)	358	(550)
ffect of foreign currency rate changes on cash and cash equivalents	-	(11)	6	-	(5)
Net increase (decrease) in cash	(3)	133	(129)	-	1
Cash - beginning of period	106	382	126	-	614
Cash - end of period[3]	$ 103	$ 515	$ (3)	$ -	$ 615

(1) Includes all other subsidiaries of ACE Limited and intercompany eliminations.
(2) Includes ACE Limited parent company eliminations and certain consolidating adjustments.
(3) ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2012, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

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Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2011 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments (2)	ACE Limited Consolidated
Net cash flows from operating activities	$ 762	$ 1,053	$ 2,395	$ (740)	$ 3,470
Cash flows from investing activities					
Purchases of fixed maturities available for sale	-	(12,203)	(12,375)	-	(24,578)
Purchases of fixed maturities held to maturity	-	(338)	(2)	-	(340)
Purchases of equity securities	-	(157)	(152)	-	(309)
Sales of fixed maturities available for sale	9	9,718	8,244	-	17,971
Sales of equity securities	-	354	22	-	376
Maturities and redemptions of fixed maturities available for sale	-	1,784	1,936	-	3,720
Maturities and redemptions of fixed maturities held to maturity	-	933	346	-	1,279
Net derivative instruments settlements	(3)	(24)	(40)	-	(67)
Capital contribution	(385)	-	-	385	-
Advances from (to) affiliates	41	-	-	(41)	-
Acquisition of subsidiaries (net of cash acquired of $91)	-	(569)	(37)	-	(606)
Other	-	(420)	(62)	-	(482)
Net cash flows used for investing activities	(338)	(922)	(2,120)	344	(3,036)
Cash flows from financing activities					
Dividends paid on Common Shares	(459)	-	-	-	(459)
Common Shares repurchased	-	-	(195)	-	(195)
Net proceeds from (repayments) issuance of short-term debt	(300)	(150)	400	-	(50)
Proceeds from share-based compensation plans, including windfall tax benefits	133	3	3	-	139
Advances from (to) affiliates	-	(149)	108	41	-
Dividends to parent company	-	-	(740)	740	-
Capital contribution	-	-	385	(385)	-
Net cash flows used for financing activities	(626)	(296)	(39)	396	(565)
ffect of foreign currency rate changes on cash and cash equivalents	-	(26)	(1)	-	(27)
Net increase (decrease) in cash	(202)	(191)	235	-	(158)
Cash - beginning of period(3)	308	573	(109)	-	772
Cash - end of period	$ 106	$ 382	$ 126	$ -	$ 614

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

(2) Includes ACE Limited parent company eliminations and certain consolidating adjustments.

(3) ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2010, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

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Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2010 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments [2]	ACE Limited Consolidated
Net cash flows from operating activities	$ (176)	$ 1,798	$ 2,124	$ (200)	$ 3,546
Cash flows from investing activities					
Purchases of fixed maturities available for sale	(1)	(13,785)	(17,470)	-	(31,256)
Purchases of fixed maturities held to maturity	-	(615)	(1)	-	(616)
Purchases of equity securities	-	(107)	(687)	-	(794)
Sales of fixed maturities available for sale	-	10,225	14,054	-	24,279
Sales of equity securities	-	17	757	-	774
Maturities and redemptions of fixed maturities available for sale	-	1,845	1,815	-	3,660
Maturities and redemptions of fixed maturities held to maturity	-	1,142	211	-	1,353
Net derivative instruments settlements	(3)	(10)	(96)	-	(109)
Capital contribution	(290)	-	-	290	-
Advances from (to) affiliates	851	-	-	(851)	-
Acquisition of subsidiaries (net of cash acquired of $80)	-	(1,139)	-	-	(1,139)
Other	-	(253)	(80)	-	(333)
Net cash flows from (used for) investing activities	557	(2,680)	(1,497)	(561)	(4,181)
Cash flows from financing activities					
Dividends paid on Common Shares	(435)	-	-	-	(435)
Common Shares repurchased	-	-	(235)	-	(235)
Net proceeds from issuance of short-term debt	300	841	-	-	1,141
Net proceeds from issuance of long-term debt	-	199	-	-	199
Proceeds from share-based compensation plans, including windfall tax benefits	63	-	(1)	-	62
Advances from (to) affiliates	-	3	(854)	851	-
Dividends to parent company	-	-	(200)	200	-
Capital contribution	-	-	290	(290)	-
Net cash flows from (used for) financing activities	(72)	1,043	(1,000)	761	732
Effect of foreign currency rate changes on cash and cash equivalents	-	12	(6)	-	6
Net increase (decrease) in cash	309	173	(379)	-	103
Cash - beginning of period[3]	(1)	400	270	-	669
Cash - end of period[3]	$ 308	$ 573	$ (109)	$ -	$ 772

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

(2) Includes ACE Limited parent company eliminations and certain consolidating adjustments.

(3) ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. Refer to Note 1 f) for additional information. At December 31, 2010 and 2009, the cash balance of one or more entities was negative; however, the overall Pool balances were positive.

20. Condensed unaudited quarterly financial data

	Three Months Ended			
	March 31	June 30	September 30	December 31
(in millions of U.S. dollars, except per share data)	2012	2012	2012	2012
Net premiums earned	**$ 3,381**	**$ 3,783**	**$ 4,665**	**$ 3,848**
Net investment income	**544**	**537**	**533**	**567**
Net realized gains (losses) including OTTI	**260**	**(394)**	**(60)**	**272**
Total revenues	**$ 4,185**	**$ 3,926**	**$ 5,138**	**$ 4,687**
Losses and loss expenses	**$ 1,804**	**$ 2,119**	**$ 3,047**	**$ 2,683**
Policy benefits	**$ 147**	**$ 102**	**$ 130**	**$ 142**
Net income	**$ 973**	**$ 328**	**$ 640**	**$ 765**
Basic earnings per share	**$ 2.87**	**$ 0.96**	**$ 1.88**	**$ 2.24**
Diluted earnings per share	**$ 2.84**	**$ 0.96**	**$ 1.86**	**$ 2.22**

	Three Months Ended			
	March 31	June 30	September 30	December 31
(in millions of U.S. dollars, except per share data)	2011	2011	2011	2011
Net premiums earned	$ 3,309	$ 3,757	$ 4,490	$ 3,831
Net investment income	544	569	564	565
Net realized gains (losses) including OTTI	(45)	(73)	(760)	83
Total revenues	$ 3,808	$ 4,253	$ 4,294	$ 4,479
Losses and loss expenses	$ 2,263	$ 2,226	$ 2,745	$ 2,286
Policy benefits	$ 91	$ 108	$ 83	$ 119
Net income (loss)	$ 250	$ 594	$ (39)	$ 735
Basic earnings per share	$ 0.74	$ 1.75	$ (0.11)	$ 2.17
Diluted earnings per share	$ 0.73	$ 1.74	$ (0.11)	$ 2.15

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SCHEDULE I

ACE Limited and Subsidiaries

SUMMARY OF INVESTMENTS - OTHER THAN INVESTMENTS IN RELATED PARTIES

December 31, 2012 (in millions of U.S. dollars)	Cost or Amortized Cost	Fair Value	Amount at Which Shown in the Balance Sheet
Fixed maturities available for sale			
U.S. Treasury and agency	$ 3,553	$ 3,735	$ 3,735
Foreign	13,016	13,713	13,713
Corporate securities	15,529	16,708	16,708
Mortgage-backed securities	10,051	10,473	10,473
States, municipalities, and political subdivisions	2,517	2,677	2,677
Total fixed maturities available for sale	44,666	47,306	47,306
Fixed maturities held to maturity			
U.S. Treasury and agency	1,044	1,083	1,044
Foreign	910	964	910
Corporate securities	2,133	2,275	2,133
Mortgage-backed securities	2,028	2,116	2,028
States, municipalities, and political subdivisions	1,155	1,195	1,155
Total fixed maturities held to maturity	7,270	7,633	7,270
Equity securities			
Industrial, miscellaneous, and all other	707	744	744
Short-term investments	2,228	2,228	2,228
Other investments	2,465	2,716	2,716
	4,693	4,944	4,944
Total investments - other than investments in related parties	$ 57,336	$ 60,627	$ 60,264

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SCHEDULE II

ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS (Parent Company Only)

(in millions of U.S. dollars)	December 31 2012	December 31 2011
Assets		
Investments in subsidiaries and affiliates on equity basis	$ 27,251	$ 23,871
Short-term investments	1	1
Other investments, at cost	30	32
Total investments	27,282	23,904
Cash	103	106
Due from subsidiaries and affiliates, net	204	498
Other assets	13	8
Total assets	$ 27,602	$ 24,516
Liabilities		
Accounts payable, accrued expenses, and other liabilities	$ 71	$ 65
Dividends payable	-	119
Total liabilities	71	184
Shareholders' equity		
Common Shares	9,591	10,095
Common Shares in treasury	(159)	(327)
Additional paid-in capital	5,179	5,326
Retained earnings	10,033	7,327
Accumulated other comprehensive income	2,887	1,911
Total shareholders' equity	27,531	24,332
Total liabilities and shareholders' equity	$ 27,602	$ 24,516

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

SCHEDULE II (continued)
ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF OPERATIONS (Parent Company Only)

	Years Ended December 31		
(in millions of U.S. dollars)	**2012**	2011	2010
Revenues			
Investment income, including intercompany interest income	**$ 34**	$ 39	$ 38
Equity in net income of subsidiaries and affiliates	**2,590**	1,459	3,043
Net realized gains (losses)	**17**	(4)	(42)
	2,641	1,494	3,039
Expenses			
Administrative and other (income) expense	**(75)**	(56)	(53)
Income tax expense	**10**	10	7
	(65)	(46)	(46)
Net income	**$ 2,706**	$ 1,540	$ 3,085
Comprehensive income	**$ 3,682**	$ 1,857	$ 3,856

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

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SCHEDULE II (continued)
ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF CASH FLOWS (Parent Company Only)

(in millions of U.S. dollars)	Years Ended December 31 2012	2011	2010
Net cash flows from (used for) operating activities	**$ 781**	$ 762	$ (176)
Cash flows from investing activities			
Purchases of fixed maturities available for sale	**-**	-	(1)
Sales of fixed maturities available for sale	**-**	9	-
Net derivative instruments settlements	**(1)**	(3)	(3)
Capital contribution to subsidiary	**-**	(385)	(290)
Advances (to) from affiliates	**(2)**	41	851
Net cash flows from (used for) investing activities	**(3)**	(338)	557
Cash flows from financing activities			
Dividends paid on Common Shares	**(815)**	(459)	(435)
Net proceeds from issuance (repayment) of short-term debt	**-**	(300)	300
Proceeds from share-based compensation plans	**34**	133	63
Net cash flows used for financing activities	**(781)**	(626)	(72)
Net increase (decrease) in cash	**(3)**	(202)	309
Cash - beginning of year	**106**	308	(1)
Cash - end of year	**$ 103**	$ 106	$ 308

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

SCHEDULE IV

ACE Limited and Subsidiaries

SUPPLEMENTAL INFORMATION CONCERNING REINSURANCE

Premiums Earned

For the years ended December 31, 2012, 2011, and 2010 (in millions of U.S. dollars, except for percentages)	Direct Amount	Ceded To Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
2012	**$ 17,802**	**$ 5,427**	**$ 3,302**	**$ 15,677**	**21%**
2011	$ 17,534	$ 5,496	$ 3,349	$ 15,387	22%
2010	$ 15,780	$ 5,792	$ 3,516	$ 13,504	26%

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SCHEDULE VI

ACE Limited and Subsidiaries

SUPPLEMENTARY INFORMATION CONCERNING PROPERTY AND CASUALTY OPERATIONS

As of and for the years ended December 31, 2012, 2011, and 2010 (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			
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
2010	$ 1,435	$ 25,242	$ 6,330	$ 12,893	$ 1,994	$ 8,082	$ (503)	$ 2,216	$ 7,413	$ 13,075

ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Financial Statements

The consolidated financial statements of ACE Limited (ACE) were prepared by management, who are responsible for their reliability and objectivity. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management. Financial information elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Board of Directors, operating through its Audit Committee, which is composed entirely of directors who are not officers or employees of ACE, provides oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use or disposition. The Audit Committee annually recommends the appointment of an independent registered public accounting firm and submits its recommendation to the Board of Directors for approval.

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.

The consolidated financial statements have been audited by an independent registered public accounting firm, PricewaterhouseCoopers LLP, who were given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees of the Board. ACE believes that all representations made to our independent registered public accountants during their audits were valid and appropriate.

Internal Control over Financial Reporting

The management of ACE is responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2011, management has evaluated the effectiveness of ACE's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, we have concluded that ACE's internal control over financial reporting was effective as of December 31, 2011.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the consolidated financial statements of ACE included in this Annual Report, has issued a report on the effectiveness of ACE's internal controls over financial reporting as of December 31, 2011. The report, which expresses an unqualified opinion on the effectiveness of ACE's internal control over financial reporting as of December 31, 2011, is included in this Item under "Report of Independent Registered Public Accounting Firm" and follows this statement.

/S/ EVAN G. GREENBERG

Evan G. Greenberg
Chairman, President and Chief Executive Officer

/S/ PHILIP V. BANCROFT

Philip V. Bancroft
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of ACE Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of ACE Limited and its subsidiaries (the "Company") at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15 (2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Internal Control Over Financial Reporting, appearing in Management's Responsibility for Financial Statements and Internal Controls Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 24, 2012

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CONSOLIDATED BALANCE SHEETS

ACE Limited and Subsidiaries

(in millions of U.S. dollars, except share and per share data)	December 31 2011	December 31 2010
Assets		
Investments		
Fixed maturities available for sale, at fair value (amortized cost – $40,450 and $36,542) (includes hybrid financial instruments of $357 and $416)	$ 41,967	$ 37,539
Fixed maturities held to maturity, at amortized cost (fair value – $8,605 and $9,461)	8,447	9,501
Equity securities, at fair value (cost – $671 and $666)	647	692
Short-term investments, at fair value and amortized cost	2,301	1,983
Other investments (cost – $2,112 and $1,511)	2,314	1,692
Total investments	55,676	51,407
Cash	614	772
Securities lending collateral	1,375	1,495
Accrued investment income	547	521
Insurance and reinsurance balances receivable	4,387	4,233
Reinsurance recoverable on losses and loss expenses	12,389	12,871
Reinsurance recoverable on policy benefits	249	281
Deferred policy acquisition costs	1,761	1,641
Value of business acquired	648	634
Goodwill and other intangible assets	4,831	4,664
Prepaid reinsurance premiums	1,541	1,511
Deferred tax assets	612	769
Investments in partially-owned insurance companies (cost – $373 and $357)	380	360
Other assets	2,495	2,196
Total assets	$ 87,505	$ 83,355
Liabilities		
Unpaid losses and loss expenses	$ 37,477	$ 37,391
Unearned premiums	6,334	6,330
Future policy benefits	4,274	3,106
Insurance and reinsurance balances payable	3,542	3,282
Deposit liabilities	663	421
Securities lending payable	1,385	1,518
Payable for securities purchased	287	292
Accounts payable, accrued expenses, and other liabilities	3,948	2,958
Income taxes payable	159	116
Short-term debt	1,251	1,300
Long-term debt	3,360	3,358
Trust preferred securities	309	309
Total liabilities	62,989	60,381
Commitments and contingencies		
Shareholders' equity		
Common Shares (CHF 30.27 and CHF 30.57 par value, 342,832,412 and 341,094,559 shares issued, 336,927,276 and 334,942,852 shares outstanding)	10,095	10,161
Common Shares in treasury (5,905,136 and 6,151,707 shares)	(327)	(330)
Additional paid-in capital	5,326	5,623
Retained earnings	7,511	5,926
Deferred compensation obligation	–	2
Accumulated other comprehensive income (AOCI)	1,911	1,594
Common Shares issued to employee trust	–	(2)
Total shareholders' equity	24,516	22,974
Total liabilities and shareholders' equity	$ 87,505	$ 83,355

See accompanying notes to the consolidated financial statements

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
ACE Limited and Subsidiaries

For the years ended December 31, 2011, 2010 and 2009 (in millions of U.S. dollars, except per share data)	2011	2010	2009
Revenues			
Net premiums written	**$15,372**	$13,708	$13,299
Change in unearned premiums	**15**	(204)	(59)
Net premiums earned	**15,387**	13,504	13,240
Net investment income	**2,242**	2,070	2,031
Net realized gains (losses):			
Other-than-temporary impairment (OTTI) losses gross	**(65)**	(128)	(699)
Portion of OTTI losses recognized in other comprehensive income (OCI)	**15**	69	302
Net OTTI losses recognized in income	**(50)**	(59)	(397)
Net realized gains (losses) excluding OTTI losses	**(745)**	491	201
Total net realized gains (losses)	**(795)**	432	(196)
Total revenues	**16,834**	16,006	15,075
Expenses			
Losses and loss expenses	**9,520**	7,579	7,422&sbsp;
Policy benefits	**401**	357	325
Policy acquisition costs	**2,447**	2,337	2,130
Administrative expenses	**2,052**	1,858	1,811
Interest expense	**250**	224	225
Other (income) expense	**73**	(16)	85
Total expenses	**14,743**	12,339	11,998
Income before income tax	**2,091**	3,667	3,077
Income tax expense	**506**	559	528
Net income	**$ 1,585**	$ 3,108	$ 2,549
Other comprehensive income (loss)			
Unrealized appreciation	**$ 646**	$ 1,526	$ 2,712
Reclassification adjustment for net realized (gains) losses included in net income	**(173)**	(632)	75
	473	894	2,787
Change in:			
Cumulative translation adjustment	**(5)**	(7)	568
Pension liability	**8**	11	(48)
Other comprehensive income, before income tax	**476**	898	3,307
Income tax expense related to OCI items	**(159)**	(127)	(568)
Other comprehensive income	**317**	771	2,739
Comprehensive income	**$ 1,902**	$ 3,879	$ 5,288
Earnings per share			
Basic earnings per share	**$ 4.68**	$ 9.15	$ 7.57
Diluted earnings per share	**$ 4.65**	$ 9.11	$ 7.55

See accompanying notes to the consolidated financial statements

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
ACE Limited and Subsidiaries

For the years ended December 31, 2011, 2010 and 2009
(in millions of U.S. dollars)

	2011	2010	2009
Common Shares			
Balance – beginning of year	**$10,161**	$10,503	$10,827
Net shares issued under employee share-based compensation plans	**–**	71	73
Exercise of stock options	**47**	30	5
Dividends on Common Shares-par value reduction	**(113)**	(443)	(402)
Balance – end of year	**10,095**	10,161	10,503
Common Shares in treasury			
Balance – beginning of year	**(330)**	(3)	(3)
Common Shares repurchased	**(132)**	(303)	–
Other Common Shares issued in treasury, net of net shares redeemed under employee share-based compensation plans	**135**	(24)	–
Balance – end of year	**(327)**	(330)	(3)
Additional paid-in capital			
Balance – beginning of year	**5,623**	5,526	5,464
Net shares redeemed under employee share-based compensation plans	**(104)**	(64)	(77)
Exercise of stock options	**16**	23	10
Share-based compensation expense and other	**139**	139	121
Tax (expense) benefit on share-based compensation expense	**6**	(1)	8
Funding of dividends to Retained earnings	**(354)**	–	–
Balance – end of year	**5,326**	5,623	5,526
Retained earnings			
Balance – beginning of year	**5,926**	2,818	74
Effect of adoption of OTTI standard	**–**	–	195
Net income	**1,585**	3,108	2,549
Funding of dividends from Additional paid-in capital	**354**	–	–
Dividends on Common Shares	**(354)**	–	–
Balance – end of year	**7,511**	5,926	2,818
Deferred compensation obligation			
Balance – beginning of year	**2**	2	3
Decrease to obligation	**(2)**	–	(1)
Balance – end of year	**$ –**	$ 2	$ 2
Accumulated other comprehensive income			
Net unrealized appreciation (depreciation) on investments			
Balance – beginning of year	**$ 1,399**	$ 657	$ (1,712)
Effect of adoption of OTTI standard	**–**	–	(242)
Change in year, net of income tax expense of $(157), $(152), and $(481)	**316**	742	2,611
Balance – end of year	**1,715**	1,399	657
Cumulative translation adjustment			
Balance – beginning of year	**262**	240	(161)
Change in year, net of income tax (expense) benefit of $1, $29, and $(167)	**(4)**	22	401
Balance – end of year	**258**	262	240

See accompanying notes to the consolidated financial statements

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (continued)
ACE Limited and Subsidiaries

For the years ended December 31, 2011, 2010 and 2009 (in millions of U.S. dollars)	**2011**	2010	2009
Pension liability adjustment			
Balance – beginning of year	**(67)**	(74)	(43)
Change in year, net of income tax (expense) benefit of $(3), $(4), and $17	**5**	7	(31)
Balance – end of year	**(62)**	(67)	(74)
Accumulated other comprehensive income	**1,911**	1,594	823
Common Shares issued to employee trust			
Balance – beginning of year	**(2)**	(2)	(3)
Decrease in Common Shares	**2**	–	1
Balance – end of year	**–**	(2)	(2)
Total shareholders' equity	**$24,516**	$22,974	$19,667

See accompanying notes to the consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS
ACE Limited and Subsidiaries

For the years ended December 31, 2011, 2010 and 2009
(in millions of U.S. dollars)

	2011	2010	2009
Cash flows from operating activities			
Net income	**$ 1,585**	$ 3,108	$ 2,549
Adjustments to reconcile net income to net cash flows from operating activities			
Net realized losses (gains)	**795**	(432)	196
Amortization of premiums/discounts on fixed maturities	**152**	145	53
Deferred income taxes	**19**	116	(19)
Unpaid losses and loss expenses	**43**	(360)	298
Unearned premiums	**9**	262	102
Future policy benefits	**78**	48	67
Insurance and reinsurance balances payable	**216**	(172)	434
Accounts payable, accrued expenses, and other liabilities	**39**	130	(206)
Income taxes payable	**39**	10	13
Insurance and reinsurance balances receivable	**(217)**	50	(119)
Reinsurance recoverable on losses and loss expenses	**531**	626	518
Reinsurance recoverable on policy benefits	**25**	49	(51)
Deferred policy acquisition costs	**(160)**	(193)	(309)
Prepaid reinsurance premiums	**(34)**	(13)	24
Other	**350**	172	(215)
Net cash flows from operating activities	**3,470**	3,546	3,335
Cash flows from investing activities			
Purchases of fixed maturities available for sale	**(23,823)**	(29,985)	(31,789)
Purchases of to be announced mortgage-backed securities	**(755)**	(1,271)	(5,471)
Purchases of fixed maturities held to maturity	**(340)**	(616)	(472)
Purchases of equity securities	**(309)**	(794)	(354)
Sales of fixed maturities available for sale	**17,176**	23,096	23,693
Sales of to be announced mortgage-backed securities	**795**	1,183	5,961
Sales of fixed maturities held to maturity	**–**	–	11
Sales of equity securities	**376**	774	1,272
Maturities and redemptions of fixed maturities available for sale	**3,720**	3,660	3,404
Maturities and redemptions of fixed maturities held to maturity	**1,279**	1,353	514
Net derivative instruments settlements	**(67)**	(109)	(92)
Acquisition of subsidiaries (net of cash acquired of $91 in 2011 and $80 in 2010)	**(606)**	(1,139)	–
Other	**(482)**	(333)	99
Net cash flows used for investing activities	**(3,036)**	(4,181)	(3,224)
Cash flows from financing activities			
Dividends paid on Common Shares	**(459)**	(435)	(388)
Common Shares repurchased	**(195)**	(235)	–
Proceeds from issuance of short-term debt	**5,238**	1,300	–
Repayment of short-term debt	**(5,288)**	(159)	(466)
Proceeds from issuance of long-term debt	**–**	699	500
Repayment of long-term debt	**–**	(500)	–
Proceeds from share-based compensation plans	**133**	63	25
Tax benefit (expense) on share-based compensation expense	**6**	(1)	8
Net cash flows (used for) from financing activities	**(565)**	732	(321)
Effect of foreign currency rate changes on cash and cash equivalents	**(27)**	6	12
Net (decrease) increase in cash	**(158)**	103	(198)
Cash – beginning of year	**772**	669	867
Cash – end of year	**$ 614**	$ 772	$ 669
Supplemental cash flow information			
Taxes paid	**$ 460**	$ 434	$ 538
Interest paid	**$ 234**	$ 204	$ 228

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ACE Limited and Subsidiaries

1. Summary of significant accounting policies

a) Basis of presentation

ACE Limited is a holding company incorporated in Zurich, Switzerland. ACE Limited, through its various subsidiaries, provides a broad range of insurance and reinsurance products to insureds worldwide. ACE operates through the following business segments: Insurance – North American, Insurance – Overseas General, Global Reinsurance, and Life. Refer to Note 15 for additional information.

The accompanying consolidated financial statements, which include the accounts of ACE Limited and its subsidiaries (collectively, ACE, we, us, or our), have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and, in the opinion of management, reflect all adjustments (consisting of normally recurring accruals) necessary for a fair statement of the results and financial position for such periods. All significant intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Amounts included in the consolidated financial statements reflect our best estimates and assumptions; actual amounts could differ materially from these estimates. ACE's principal estimates include:

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

b) Premiums

Premiums are generally recognized as written upon inception of the policy. For multi-year policies for which premiums written are payable in annual installments, only the current annual premium is included as written at policy inception due to the ability of the insured/reinsured to commute or cancel coverage within the term of the policy. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term.

For property and casualty (P&C) insurance and reinsurance products, premiums written are primarily earned on a pro-rata basis over the terms of the policies to which they relate. Unearned premiums represent the portion of premiums written applicable to the unexpired portion of the policies in force. For retrospectively-rated policies, written premiums are adjusted to reflect expected ultimate premiums consistent with changes to reported losses, or other measures of exposure as stated in the policy, and earned over the coverage period of the policy. For retrospectively-rated multi-year policies, the amount of premiums recognized in the current period is computed, using a with-and-without method, as the difference between the ceding enterprise's total contract costs before and after the experience under the contract at the reporting date. Accordingly, for retrospectively-rated multi-year policies, additional premiums are generally written and earned when losses are incurred.

Mandatory reinstatement premiums assessed on reinsurance policies are earned in the period of the loss event that gave rise to the reinstatement premiums. All remaining unearned premiums are recognized over the remaining coverage period.

Premiums from long duration contracts such as certain traditional term life, whole life, endowment, and long duration personal accident and health (A&H) policies are generally recognized as revenue when due from policyholders. Traditional life policies include those contracts with fixed and guaranteed premiums and benefits. Benefits and expenses are matched with such income to result in the recognition of profit over the life of the contracts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Retroactive loss portfolio transfer (LPT) contracts in which the insured loss events occurred prior to the inception of the contract are evaluated to determine whether they meet the established criteria for reinsurance accounting. If reinsurance accounting is appropriate, written premiums are fully earned and corresponding losses and loss expenses recognized at the inception of the contract. The contracts can cause significant variances in gross premiums written, net premiums written, net premiums earned, and net incurred losses in the years in which they are written. Reinsurance contracts sold not meeting the established criteria for reinsurance accounting are recorded using the deposit method as described below in Note 1 k).

Reinsurance premiums assumed are based on information provided by ceding companies supplemented by our own estimates of premium when we have not received ceding company reports. The information used in establishing these estimates is reviewed and adjustments are recorded in the period in which they are determined. These premiums are earned over the coverage terms of the related reinsurance contracts and range from one to three years.

c) Deferred policy acquisition costs and value of business acquired

Policy acquisition costs consist of commissions, premium taxes, and underwriting and other costs that vary with, and are primarily related to, the production of premium. A VOBA intangible asset is established upon the acquisition of blocks of long duration contracts and represents the present value of estimated net cash flows for the contracts in force at the time of the acquisition. Acquisition costs and VOBA, collectively policy acquisition costs, are deferred and amortized. Policy acquisition costs on P&C contracts are generally amortized ratably over the period in which premiums are earned. Policy acquisition costs on long duration contracts are amortized over the estimated life of the contracts, generally in proportion to premium revenue recognized. Policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. Unrecoverable costs are expensed in the period identified.

Advertising costs are expensed as incurred except for direct-response campaigns, principally related to A&H business produced by the Insurance – Overseas General segment, which are deferred and recognized over the expected future benefit period. For individual direct-response marketing campaigns that we can demonstrate have specifically resulted in incremental sales to customers and such sales have probable future economic benefits, incremental costs directly related to the marketing campaigns are capitalized. Deferred marketing costs are reviewed regularly for recoverability and amortized over five years, the expected economic future benefit period. The expected future benefit period is evaluated periodically based on historical results and adjusted prospectively. The amount of deferred marketing costs reported in Deferred policy acquisition costs was $236 million and $253 million at December 31, 2011 and 2010, respectively. The amortization expense for deferred marketing costs was $128 million, $115 million, and $103 million for the years ended December 31, 2011, 2010, and 2009, respectively.

d) Reinsurance

ACE assumes and cedes reinsurance with other insurance companies to provide greater diversification of business and minimize the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve ACE of its primary obligation to its policyholders.

For both ceded and assumed reinsurance, risk transfer requirements must be met in order to obtain reinsurance status for accounting purposes, principally resulting in the recognition of cash flows under the contract as premiums and losses. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. To assess risk transfer for certain contracts, ACE generally develops expected discounted cash flow analyses at contract inception. Deposit accounting is used for contracts that do not meet risk transfer requirements. Deposit accounting requires that consideration received or paid be recorded in the balance sheet as opposed to recording premiums written or losses incurred in the statement of operations. Non-refundable fees on deposit contracts are earned based on the terms of the contract. Refer to Note 1 k).

Reinsurance recoverable includes the balances due from reinsurance companies for paid and unpaid losses and loss expenses and policy benefits that will be recovered from reinsurers, based on contracts in force. The method for determining the reinsurance recoverable on unpaid losses and loss expenses incurred but not reported (IBNR) involves actuarial estimates consistent with those used to establish the associated liability for unpaid losses and loss expenses as well as a determination of ACE's ability to cede unpaid losses and loss expenses.

Reinsurance recoverable is presented net of a provision for uncollectible reinsurance determined based upon a review of the financial condition of reinsurers and other factors. The provision for uncollectible reinsurance is based on an estimate of the amount of the reinsurance recoverable balance that will ultimately be unrecoverable due to reinsurer insolvency, a contractual

dispute, or any other reason. The valuation of this provision includes several judgments including certain aspects of the allocation of reinsurance recoverable on IBNR claims by reinsurer and 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 determine the portion of a reinsurer's balance deemed uncollectible. 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 with the same legal entity for which ACE believes there is a contractual right of offset. The determination of the default factor is principally based on the financial strength rating of the reinsurer. 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. The more significant considerations 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 financial rating is based on a published source and the default factor is based on published default statistics of a major rating agency applicable to the reinsurer's particular rating class. 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, affiliate, or peer company, we determine a rating equivalent based on an 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 the ceded reserve is below a certain threshold, we generally apply a default factor of 25 percent, consistent with published statistics of a major rating agency;

• 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 reinsurer-specific facts and circumstances. Upon initial notification of an insolvency, we generally recognize an 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 other recoverables, management determines the provision for uncollectible reinsurance based on the specific facts and circumstances.

The methods used to determine the reinsurance recoverable balance and related provision for uncollectible reinsurance are regularly reviewed and updated and any resulting adjustments are reflected in earnings in the period identified.

Prepaid reinsurance premiums represent the portion of premiums ceded to reinsurers applicable to the unexpired coverage terms of the reinsurance contracts in force.

The value of reinsurance business assumed of $35 million and $92 million at December 31, 2011 and 2010, respectively, included in Other assets in the accompanying consolidated balance sheets, represents the excess of estimated ultimate value of the liabilities assumed under retroactive reinsurance contracts over consideration received. The value of reinsurance business assumed is amortized and recorded to losses and loss expenses based on the payment pattern of the losses assumed and ranges between 7 and 40 years. The unamortized value is reviewed regularly to determine if it is recoverable based upon the terms of the contract, estimated losses and loss expenses, and anticipated investment income. Unrecoverable amounts are expensed in the period identified.

e) Investments

Fixed maturity investments are classified as either available for sale or held to maturity. The available for sale portfolio is reported at fair value. The held to maturity portfolio includes securities for which we have the ability and intent to hold to maturity or redemption and is reported at amortized cost. Equity securities are classified as available for sale and are recorded at fair value. Short-term investments comprise securities due to mature within one year of the date of purchase and are recorded at fair value which typically approximates cost. Short-term investments include certain cash and cash equivalents, which are part of investment portfolios under the management of external investment managers.

Other investments principally comprise life insurance policies, policy loans, trading securities, other direct equity investments, investment funds, and limited partnerships.

• Life insurance policies are carried at policy cash surrender value.

• Policy loans are carried at outstanding balance.

• Trading securities are recorded on a trade date basis and carried at fair value. Unrealized gains and losses on trading securities are reflected in net income.

• Other investments over which ACE can exercise significant influence are accounted for using the equity method.

• All other investments over which ACE cannot exercise significant influence are carried at fair value with changes in fair value recognized through OCI. For these investments, investment income and realized gains are recognized as related distributions are received.

• Partially-owned investment companies comprise entities in which we hold an ownership interest in excess of three percent. These investments as well as ACE's investments in investment funds where its ownership interest is in excess of three percent are accounted for under the equity method because ACE exerts significant influence. These investments apply investment company accounting to determine operating results, and ACE retains the investment company accounting in applying the equity method. This means that investment income, realized gains or losses, and unrealized gains or losses are included in the portion of equity earnings reflected in Other (income) expense.

Investments in partially-owned insurance companies primarily represent direct investments in which ACE has significant influence and, as such, meet the requirements for equity accounting. We report our share of the net income or loss of the partially-owned insurance companies in Other (income) expense. Investments in partially-owned insurance companies over which ACE does not exert significant influence are carried at fair value.

Realized gains or losses on sales of investments are determined on a first-in, first-out basis. Unrealized appreciation (depreciation) on investments is included as a separate component of AOCI in shareholders' equity. We regularly review our investments for OTTI. Refer to Note 3 for additional information.

With respect to securities where the decline in value is determined to be temporary and the security's value is not written down, a subsequent decision may be made to sell that security and realize a loss. Subsequent decisions on security sales are the result of changing or unforeseen facts and circumstances (i.e., arising from a large insured loss such as a catastrophe), deterioration of the creditworthiness of the issuer or its industry, or changes in regulatory requirements. We believe that subsequent decisions to sell such securities are consistent with the classification of the majority of the portfolio as available for sale.

We use derivative instruments including futures, options, swaps, and foreign currency forward contracts for the purpose of managing certain investment portfolio risks and exposures. Refer to Note 10 for additional information. Derivatives are reported at fair value and recorded in the accompanying consolidated balance sheets in Accounts payable, accrued expenses, and other liabilities with changes in fair value included in Net realized gains (losses) in the consolidated statements of operations. Collateral held by brokers equal to a percentage of the total value of open futures contracts is included in the investment portfolio.

Net investment income includes interest and dividend income and amortization of fixed maturity market premiums and discounts and is net of investment management and custody fees. For mortgage-backed securities, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognized prospectively. Prepayment fees or call premiums that are only payable when a security is called prior to its maturity are earned when received and reflected in Net investment income.

ACE participates in a securities lending program operated by a third party banking institution whereby certain assets are loaned to qualified borrowers and from which it earns an incremental return. Borrowers provide collateral, in the form of either cash or approved securities, of 102 percent of the fair value of the loaned securities. Each security loan is deemed to be an overnight transaction. Cash collateral is invested in a collateral pool which is managed by the banking institution. The collateral pool is subject to written investment guidelines with key objectives which include the safeguard of principal and adequate liquidity to meet anticipated redemptions. The fair value of the loaned securities is monitored on a daily basis, with additional collateral obtained or refunded as the fair value of the loaned securities changes. The collateral is held by the third party banking

institution, and the collateral can only be accessed in the event that the institution borrowing the securities is in default under the lending agreement. As a result of these restrictions, we consider our securities lending activities to be non-cash investing and financing activities. An indemnification agreement with the lending agent protects us in the event a borrower becomes insolvent or fails to return any of the securities on loan. The fair value of the securities on loan is included in fixed maturities and equity securities. The securities lending collateral is reported as a separate line in total assets with a related liability reflecting our obligation to return the collateral plus interest.

Similar to securities lending arrangements, securities sold under reverse repurchase agreements, whereby ACE sells securities and repurchases them at a future date for a predetermined price, are accounted for as collateralized investments and borrowings and are recorded at the contractual repurchase amounts plus accrued interest. Assets to be repurchased are the same, or substantially the same, as the assets transferred and the transferor, through right of substitution, maintains the right and ability to redeem the collateral on short notice. The fair value of the underlying securities is included in fixed maturities and equity securities. In contrast to securities lending programs, the use of cash received is not restricted. We report the obligation to return the cash as Short-term debt in the consolidated balance sheets.

Refer to Note 4 for a discussion on the determination of fair value for ACE’s various investment securities.

f) Cash

Cash includes cash on hand and deposits with an original maturity of three months or less at time of purchase. Cash held by external money managers is included in Short-term investments.

We have agreements with a third party bank provider which implemented two international multi-currency notional cash pooling programs. In each program, participating ACE 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 ACE 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 an ACE entity would be guaranteed by ACE Limited (up to $350 million in the aggregate). Our revolving credit facility allows for same day drawings to fund a net pool overdraft should participating ACE entities withdraw contributed funds from the pool.

g) Goodwill and other intangible assets

Goodwill represents the excess of the cost of acquisitions over the fair value of net assets acquired and is not amortized. Goodwill is assigned at acquisition to the applicable reporting unit of the acquired entities giving rise to the goodwill. Goodwill impairment tests are performed annually, or more frequently if circumstances indicate a possible impairment. For goodwill impairment testing, we use 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 our assessment indicates less than a 50 percent probability that fair value exceeds carrying value, we quantitatively estimate a reporting unit’s fair value using a consistently applied combination of the following models: an earnings multiple, a book value multiple, a discounted cash flow, or an allocated market capitalization model. The earnings and book value models apply multiples of comparable publicly traded companies to forecasted earnings or book value of each reporting unit and consider current market transactions. The discounted cash flow model applies a discount to estimated cash flows including a terminal value calculation. The market capitalization model allocates market capitalization to each reporting unit. Where appropriate, we consider the impact of a control premium. Goodwill recorded in connection with investments in partially-owned insurance companies is recorded in Investments in partially-owned insurance companies and is also measured for impairment annually.

Indefinite lived intangible assets are not subject to amortization. Finite lived intangible assets are amortized over their useful lives, generally ranging from 4 to 20 years. The carrying amounts of intangible assets are regularly reviewed for indicators of impairment. Impairment is recognized if the carrying amount is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value.

h) Unpaid losses and loss expenses

A liability is established for the estimated unpaid losses and loss expenses under the terms of, and with respect to, ACE’s policies and agreements. These amounts include provision for both reported claims (case reserves) and IBNR claims. The methods of determining such estimates and establishing the resulting liability are reviewed regularly and any adjustments are

reflected in operations in the period in which they become known. Future developments may result in losses and loss expenses materially greater or less than recorded amounts.

Except for net loss and loss expense reserves of $59 million net of discount held at December 31, 2011, representing structured settlements for which the timing and amount of future claim payments are reliably determinable, ACE does not discount its P&C loss reserves. Structured settlements represent contracts purchased from life insurance companies primarily to settle workers' compensation claims, where payments to the claimant by the life insurance company are expected to be made in the form of an annuity. ACE retains the liability to the claimant in the event that the life insurance company fails to pay. At December 31, 2011, the gross liability for the amount due to claimants was $644 million and reinsurance recoverables for amounts due from the life insurance companies was $585 million. For structured settlement contracts where payments are guaranteed regardless of claimant life expectancy, the amounts recoverable from the life insurance companies are included in Other assets, as they do not meet the requirements for reinsurance accounting. At December 31, 2011, there was $59 million included in Other assets in the consolidated balance sheets relating to structured settlements.

Included in unpaid losses and loss expenses are liabilities for asbestos and environmental (A&E) claims and expenses. These unpaid losses and loss expenses are principally related to claims arising from remediation costs associated with hazardous waste sites and bodily-injury claims related to asbestos products and environmental hazards. The estimation of these liabilities is particularly sensitive to changes in the legal environment, including specific settlements that may be used as precedents to settle future claims. However, ACE does not anticipate future changes in laws and regulations in setting its A&E reserve levels.

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 premiums from previous accident years. With respect to crop business, prior to the December 2010 acquisition of Rain and Hail Insurance Service, Inc. (Rain and Hail), reports relating to the previous crop year(s) were normally received in subsequent calendar years and this typically resulted in adjustments to the previously reported premiums, losses and loss expenses, and profit share commission. Following the acquisition, such information is available before the close of the calendar year. Commencing with the quarter ended September 30, 2009, prior period development for the crop business includes adjustments to both crop losses and loss expenses and the related crop profit share commission.

For purposes of analysis and disclosure, management views prior period development to be changes in the nominal value of loss estimates from period to period and excludes changes in loss estimates that do not arise from the emergence of claims, such as those related to uncollectible reinsurance, interest, unallocated loss adjustment expenses, or foreign currency. Accordingly, specific items excluded from prior period development include the following: gains/losses related to foreign currency remeasurement; losses recognized from the early termination or commutation of reinsurance agreements that principally relate to the time value of money; changes in the value of reinsurance business assumed reflected in losses incurred but principally related to the time value of money; and losses that arise from changes in estimates of earned premiums from prior accident years. Except for foreign currency remeasurement, which is disclosed separately, these items are included in current year losses.

i) Future policy benefits

The valuation of long duration contract reserves requires management to make estimates and assumptions regarding expenses, mortality, persistency, and investment yields. Such estimates are primarily based on historical experience and information provided by ceding companies and include a margin for adverse deviation. Interest rates used in calculating reserves range from less than one percent to six percent and one percent to seven percent at December 31, 2011 and 2010, respectively. Actual results could differ materially from these estimates. Management monitors actual experience, and where circumstances warrant, will revise assumptions and the related reserve estimates. Revisions are recorded in the period they are determined.

Certain of our long duration contracts have assets that do not qualify for separate account reporting under GAAP (failed separate accounts). The assets related to failed separate accounts are reported in Other investments and the offsetting liabilities are reported in Future policy benefits in the consolidated balance sheets. Changes in the fair value of failed separate account assets are reported in Other income (expense) and the offsetting movements in the failed separate account liabilities are included in Policy benefits in the consolidated statements of operations.

j) Assumed reinsurance programs involving minimum benefit guarantees under annuity contracts

ACE reinsures various death and living benefit guarantees associated with variable annuities issued primarily in the United States and Japan. Each reinsurance treaty covers variable annuities written during a limited period, typically not exceeding two

years. We generally receive a monthly premium during the accumulation phase of the covered annuities (in-force) based on a percentage of either the underlying accumulated account values or the underlying accumulated guaranteed values. Depending on an annuitant's age, the accumulation phase can last many years. To limit our exposure under these programs, all reinsurance treaties include aggregate claim limits and many include an aggregate deductible.

The guarantees which are payable on death, referred to as guaranteed minimum death benefits (GMDB), principally cover shortfalls between accumulated account value at the time of an annuitant's death and either i) an annuitant's total deposits; ii) an annuitant's total deposits plus a minimum annual return; or iii) the highest accumulated account value attained at any policy anniversary date. In addition, a death benefit may be based on a formula specified in the variable annuity contract that uses a percentage of the growth of the underlying contract value. Liabilities for GMDBs are based on cumulative assessments or premiums to date multiplied by a benefit ratio that is determined by estimating the present value of benefit payments and related adjustment expenses divided by the present value of cumulative assessment or expected fees during the contract period.

Under reinsurance programs covering GLBs, we assume the risk of guaranteed minimum income benefits (GMIB) and guaranteed minimum accumulation benefits (GMAB) associated with variable annuity contracts. The GMIB risk is triggered if, at the time the contract holder elects to convert the accumulated account value to a periodic payment stream (annuitize), the accumulated account value is not sufficient to provide a guaranteed minimum level of monthly income. The GMAB risk is triggered if, at contract maturity, the contract holder's account value is less than a guaranteed minimum value. Our GLB reinsurance product meets the definition of a derivative for accounting purposes and is carried at fair value with changes in fair value recognized in income and classified as described below. As the assuming entity, we are obligated to provide coverage until the earlier of the expiration of the underlying guaranteed benefit or the treaty expiration date. Premiums received under the reinsurance treaties are classified as premium. Expected losses allocated to premiums received are classified as policy benefits and valued similar to GMDB reinsurance. Other changes in fair value, principally arising from changes in expected losses allocated to expected future premiums, are classified as Net realized gains (losses). Fair value represents management's estimate of exit price and thus includes a risk margin. We may recognize a realized loss for other changes in fair value due to adverse changes in the capital markets (i.e., declining interest rates and/or declining equity markets) and changes in policyholder behavior (i.e., increased annuitization or decreased lapse rates) although we expect the business to be profitable. We believe this presentation provides the most meaningful disclosure of changes in the underlying risk within the GLB reinsurance programs for a given reporting period. Refer to Note 5 c) for additional information.

k) Deposit assets and liabilities

Deposit assets arise from ceded reinsurance contracts purchased that do not transfer significant underwriting or timing risk. Under deposit accounting, consideration received or paid, excluding non-refundable fees, is recorded as a deposit asset or liability in the balance sheet as opposed to recording ceded premiums and losses in the statement of operations. Interest income on deposits, representing the consideration received or to be received in excess of cash payments related to the deposit contract, is earned based on an effective yield calculation. The calculation of the effective yield is based on the amount and timing of actual cash flows at the balance sheet date and the estimated amount and timing of future cash flows. The effective yield is recalculated periodically to reflect revised estimates of cash flows. When a change in the actual or estimated cash flows occurs, the resulting change to the carrying amount of the deposit asset is reported as income or expense. Deposit assets of $133 million and $144 million at December 31, 2011 and 2010, respectively, are reflected in Other assets in the consolidated balance sheets and the accretion of deposit assets related to interest pursuant to the effective yield calculation is reflected in Net investment income in the consolidated statements of operations.

Non-refundable fees are earned based on contract terms. Non-refundable fees paid but unearned are reflected in Other assets in the consolidated balance sheets and earned fees are reflected in Other (income) expense in the consolidated statements of operations.

Deposit liabilities include reinsurance deposit liabilities of $318 million and $351 million and contract holder deposit funds of $345 million and $70 million at December 31, 2011 and 2010, respectively. The reinsurance deposit liabilities arise from contracts sold for which there is not a significant transfer of risk. At contract inception, the deposit liability equals net cash received. An accretion rate is established based on actuarial estimates whereby the deposit liability is increased to the estimated amount payable over the contract term. The deposit accretion rate is the rate of return required to fund expected future payment obligations. We periodically reassess the estimated ultimate liability and related expected rate of return. Changes to

the amount of the deposit liability are reflected through Interest expense to reflect the cumulative effect of the period the contract has been in force, and by an adjustment to the future accretion rate of the liability over the remaining estimated contract term.

Contract holder deposit funds represent a liability for investment contracts sold that do not meet the definition of an insurance contract and are sold with a guaranteed rate of return. The liability equals accumulated policy account values, which consist of the deposit payments plus credited interest, less withdrawals and amounts assessed through the end of the period.

l) Foreign currency remeasurement and translation

The functional currency for each of our foreign operations is generally the currency of the local operating environment. Transactions in currencies other than a foreign operation's functional currency are remeasured into the functional currency and the resulting foreign exchange gains and losses are reflected in Net realized gains (losses) in the consolidated statements of operations. Functional currency assets and liabilities are translated into the reporting currency, U.S. dollars, using period end rates of exchange and the related translation adjustments are recorded as a separate component of AOCI. Functional statement of operations amounts expressed in functional currencies are translated using average exchange rates. Gains and losses resulting from foreign currency transactions are recorded in Net realized gains (losses) in the consolidated statements of operations.

m) Administrative expenses

Administrative expenses generally include all operating costs other than policy acquisition costs. The Insurance – North American segment manages and uses an in-house third-party claims administrator, ESIS Inc. (ESIS). ESIS performs claims management and risk control services for domestic and international organizations that self-insure P&C exposures as well as internal P&C exposures. The net operating results of ESIS are included within Administrative expenses in the consolidated statements of operations and were $21 million, $85 million, and $26 million for the years ended December 31, 2011, 2010, and 2009, respectively.

n) Income taxes

Income taxes have been recorded related to those operations subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of our assets and liabilities. Refer to Note 8 for additional information. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. The valuation allowance assessment considers tax planning strategies, where applicable.

We recognize uncertain tax positions deemed more likely than not of being sustained upon examination. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

o) Earnings per share

Basic earnings per share is calculated using the weighted-average shares outstanding including participating securities with non-forfeitable rights to dividends such as unvested restricted stock. All potentially dilutive securities including stock options are excluded from the basic earnings per share calculation. In calculating diluted earnings per share, the weighted-average shares outstanding is increased to include all potentially dilutive securities. Basic and diluted earnings per share are calculated by dividing net income available to common shareholders by the applicable weighted-average number of shares outstanding during the year.

p) Cash flow information

Premiums received and losses paid associated with the GLB reinsurance products, which as discussed previously meet the definition of a derivative instrument for accounting purposes, are included within cash flows from operating activities in the consolidated statement of cash flows. Cash flows, such as settlements and collateral requirements, associated with all other derivative instruments are included on a net basis within cash flows from investing activities in the consolidated statement of cash flows. Purchases, sales, and maturities of short-term investments are recorded net for purposes of the consolidated statements of cash flows and are classified with cash flows related to fixed maturities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

q) Derivatives
ACE recognizes all derivatives at fair value in the consolidated balance sheets and participates in derivative instruments in two principal ways:

(i) To sell protection to customers as an insurance or reinsurance contract that meets the definition of a derivative for accounting purposes. For 2011 and 2010, the reinsurance of GLBs was our primary product falling into this category; and

(ii) To mitigate financial risks, principally arising from investment holdings, products sold, or assets and liabilities held in foreign currencies. For these instruments, changes in assets or liabilities measured at fair value are recorded as realized gains or losses in the consolidated statement of operations.

We did not designate any derivatives as accounting hedges during 2011, 2010, or 2009.

r) Share-based compensation
ACE measures and records compensation cost for all share-based payment awards at grant-date fair value. Compensation costs are recognized for share-based payment awards with only service conditions that have graded vesting schedules on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. Refer to Note 12 for additional information.

s) New accounting pronouncements
Adopted in 2011
Testing goodwill for impairment
In September 2011, the Financial Accounting Standards Board (FASB) issued new accounting guidance which eliminates the requirement to calculate the fair value of reporting units at least annually and replaces it with an optional qualitative assessment. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We adopted this guidance on October 1, 2011. The application of the new guidance resulted in a change in the procedures for assessing goodwill impairment, and did not impact our financial condition or results of operations.

Adopted in 2012
Accounting for costs associated with acquiring or renewing insurance contracts
In October 2010, the FASB issued new guidance related to the accounting for costs associated with acquiring or renewing insurance contracts. The guidance modifies the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. Additionally, this new guidance will require that direct-response advertising costs be accounted for as deferred acquisition costs for measurement and subsequent accounting. This guidance is effective for interim and annual reporting periods beginning on January 1, 2012. We adopted this guidance retrospectively effective January 1, 2012 and we will therefore adjust previously issued financial statements that are presented as comparative financial statements in future filings beginning with our March 31, 2012 Form 10-Q. Upon adoption in 2012, we recorded a decrease in Retained earnings of approximately $188 million as of December 31, 2011. We anticipate that the new standard will result in an immaterial decrease to Net income for the year ended December 31, 2012, principally in our Life segment.

Fair value measurements
In May 2011, the FASB issued new guidance on fair value measurements to revise the wording used to describe the requirements for measuring fair value and for disclosing information about fair value measurements. The guidance is not necessarily intended to result in a significant change in the application of the current requirements. Instead it is intended to clarify the application of existing fair value measurement requirements. It also changes certain principles or requirements for measuring fair value and disclosing information about fair value measurements. This guidance is effective for interim and annual reporting periods beginning on or after December 15, 2011. This guidance, which became effective for ACE on January 1, 2012, changed disclosure only and did not impact our financial condition or results of operations.

2. Acquisitions

ACE acquired New York Life's Korea operations on February 1, 2011 and New York Life's Hong Kong operations on April 1, 2011 for approximately $425 million in cash. These acquired businesses, now operating under our Life segment, expand our

presence in the North Asia market and complement our life insurance business established in that region. These acquisitions generated approximately $121 million of goodwill, none of which is expected to be deductible for income tax purposes, and approximately $130 million of intangible assets. The most significant intangible asset is VOBA.

We acquired Penn Millers Holding Corporation (PMHC) on November 30, 2011 for approximately $107 million in cash. PMHC's primary insurance subsidiary, Penn Millers Insurance Company, is a well-established underwriter in the agribusiness market since 1887 and currently operates in 34 states. PMHC operates under our Insurance – North American segment.

We acquired Rio Guayas Compania de Seguros y Reaseguros (Rio Guayas), a general insurance company in Ecuador on December 28, 2011. Rio Guayas sells a range of insurance products, including auto, life, property, and A&H. The acquisition of Rio Guayas will expand our capabilities in terms of geography, products, and distribution. Rio Guayas operates under our Insurance – Overseas General segment.

Prior year acquisitions

On December 28, 2010, ACE acquired all the outstanding common stock of Rain and Hail not previously owned by ACE for approximately $1.1 billion in cash. Rain and Hail has served America's farmers since 1919, providing comprehensive multiple peril crop and crop/hail insurance protection to customers in the U.S. and Canada. This acquisition is consistent with ACE's strategy to expand its specialty lines business and provides further diversification of ACE's global product mix.

Prior to the consummation of this business combination, ACE's 20.1 percent ownership in Rain and Hail was recorded in Investments in partially-owned insurance companies in the consolidated balance sheets. In accordance with GAAP, at the date of the business combination, ACE was deemed to have disposed of its 20.1 percent ownership interest and recognized 100 percent of the assets and liabilities of Rain and Hail at acquisition date fair value. In connection with this deemed disposition, ACE recognized a $175 million gain in Net realized gains (losses) in the consolidated statement of operations, which represents the excess of acquisition date fair value of the 20.1 percent ownership interest over the cost basis. Acquisition date fair value of the 20.1 percent ownership interest was determined by first calculating the implied fair value of 100 percent of Rain and Hail based on the purchase price for the net assets not previously owned by ACE at the acquisition date. The implied fair value of the 20.1 percent ownership interest was then reduced to reflect a noncontrolling interest discount. The consolidated financial statements include the results of Rain and Hail from December 28, 2010.

The acquisition generated $123 million of goodwill, none of which is expected to be deductible for income tax purposes, and $523 million of other intangible assets based on ACE's purchase price allocation. Goodwill and other intangible assets arising from this acquisition are included in our Insurance – North American segment. Legal and other expenses incurred to complete the acquisition amounted to $2 million and are included in Other (income) expense.

On December 1, 2010, ACE acquired Jerneh Insurance Berhad (Jerneh), a general insurance company in Malaysia, for approximately $218 million in cash. The acquisitions of Rain and Hail and Jerneh were financed with cash on hand and the use of reverse repurchase agreements of $1 billion.

3. Investments

a) Transfers of securities

As part of our fixed income diversification strategy, we hold certain securities to maturity. Because we have the intent to hold these securities to maturity, we transferred securities with a total fair value of $6.8 billion during 2010 from Fixed maturities available for sale to Fixed maturities held to maturity in the consolidated balance sheet. The net unrealized appreciation at the date of the transfer continues to be reported as a component of AOCI and is being amortized over the remaining life of the securities as an adjustment of yield in a manner consistent with the amortization of any premium or discount. There were no transfers in 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

b) Fixed maturities

The following tables present the amortized cost and fair value of fixed maturities and related OTTI recognized in AOCI:

December 31, 2011 (in millions of U.S. dollars)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	OTTI Recognized in AOCI
Available for sale					
U.S. Treasury and agency	$ 2,774	$ 186	$ –	$2,960	$ –
Foreign	12,025	475	(99)	12,401	(2)
Corporate securities	14,055	773	(135)	14,693	(22)
Mortgage-backed securities	9,979	397	(175)	10,201	(151)
States, municipalities, and political subdivisions	1,617	96	(1)	1,712	–
	$ 40,450	$ 1,927	$ (410)	$41,967	$ (175)
Held to maturity					
U.S. Treasury and agency	$ 1,078	$ 48	$ –	$ 1,126	$ –
Foreign	935	18	(23)	930	–
Corporate securities	2,338	44	(45)	2,337	–
Mortgage-backed securities	2,949	90	(3)	3,036	–
States, municipalities, and political subdivisions	1,147	32	(3)	1,176	–
	$ 8,447	$ 232	$ (74)	$ 8,605	$ –

December 31, 2010 (in millions of U.S. dollars)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	OTTI Recognized in AOCI
Available for sale					
U.S. Treasury and agency	$ 2,904	$ 74	$ (15)	$ 2,963	$ –
Foreign	10,926	340	(80)	11,186	(28)
Corporate securities	12,902	754	(69)	13,587	(29)
Mortgage-backed securities	8,508	213	(205)	8,516	(228)
States, municipalities, and political subdivisions	1,302	15	(30)	1,287	–
	$36,542	$ 1,396	$ (399)	$37,539	$ (285)
Held to maturity					
U.S. Treasury and agency	$ 1,105	$ 32	$ (10)	$ 1,127	$ –
Foreign	1,049	1	(37)	1,013	–
Corporate securities	2,361	12	(60)	2,313	–
Mortgage-backed securities	3,811	62	(27)	3,846	–
States, municipalities, and political subdivisions	1,175	5	(18)	1,162	–
	$ 9,501	$ 112	$ (152)	$ 9,461	$ –

As discussed in Note 3 d), if a credit loss is indicated on an impaired fixed maturity, an OTTI is considered to have occurred and the portion of the impairment not related to credit losses (non-credit OTTI) is recognized in OCI. Included in the "OTTI Recognized in AOCI" columns above are the cumulative amounts of non-credit OTTI recognized in OCI adjusted for subsequent sales, maturities, and redemptions. OTTI Recognized in AOCI does not include the impact of subsequent changes in fair value of the related securities. In periods subsequent to a recognition of OTTI in OCI, changes in the fair value of the related fixed maturities are reflected in Unrealized appreciation (depreciation) in the consolidated statement of shareholders' equity. For the years ended December 31, 2011 and 2010, $48 million of net unrealized depreciation and $193 million of net unrealized appreciation, respectively, related to such securities is included in OCI. At December 31, 2011 and 2010, AOCI includes net unrealized depreciation of $155 million and $99 million, respectively, related to securities remaining in the investment portfolio at those dates for which ACE has recognized a non-credit OTTI.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Mortgage-backed securities (MBS) issued by U.S. government agencies are combined with all other to be announced mortgage derivatives held (refer to Note 10 a) (iv)) and are included in the category, "Mortgage-backed securities". Approximately 84 percent and 79 percent of the total mortgage-backed securities at December 31, 2011 and December 31, 2010, respectively, are represented by investments in U.S. government agency bonds. The remainder of the mortgage exposure consists of collateralized mortgage obligations and non-government mortgage-backed securities, the majority of which provide a planned structure for principal and interest payments and carry a rating of AAA by the major credit rating agencies.

The following table presents the amortized cost and fair value of fixed maturities by contractual maturity:

	December 31 2011		December 31 2010	
(in millions of U.S. dollars)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
Due in 1 year or less	$ 2,321	$ 2,349	$ 1,846	$ 1,985
Due after 1 year through 5 years	12,325	12,722	13,094	13,444
Due after 5 years through 10 years	12,379	12,995	10,276	10,782
Due after 10 years	3,446	3,700	2,818	2,812
	30,471	31,766	28,034	29,023
Mortgage-backed securities	9,979	10,201	8,508	8,516
	$ 40,450	$ 41,967	$36,542	$37,539
Held to maturity				
Due in 1 year or less	$ 393	$ 396	$ 400	$ 404
Due after 1 year through 5 years	2,062	2,090	1,983	2,010
Due after 5 years through 10 years	2,376	2,399	2,613	2,524
Due after 10 years	667	684	694	677
	5,498	5,569	5,690	5,615
Mortgage-backed securities	2,949	3,036	3,811	3,846
	$ 8,447	$ 8,605	$ 9,501	$ 9,461

Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

c) Equity securities

The following table presents the cost and fair value of equity securities:

(in millions of U.S. dollars)	December 31 2011	December 31 2010
Cost	$ 671	$ 666
Gross unrealized appreciation	18	28
Gross unrealized depreciation	(42)	(2)
Fair value	$ 647	$ 692

d) Net realized gains (losses)

In accordance with guidance related to the recognition and presentation of OTTI adopted on April 1, 2009, when an impairment related to a fixed maturity has occurred, OTTI is required to be recorded in net income if management has the intent to sell the security or it is more likely than not that we will be required to sell the security before the recovery of its amortized cost. Further, in cases where we do not intend to sell the security and it is more likely than not that we will not be required to sell the security, ACE must evaluate the security to determine the portion of the impairment, if any, related to credit losses. If a credit loss is indicated, an OTTI is considered to have occurred and any portion of the OTTI related to credit losses must be reflected in net income while the portion of OTTI related to all other factors is recognized in OCI. For fixed maturities held to maturity, OTTI recognized in OCI is accreted from AOCI to the amortized cost of the fixed maturity prospectively over the remaining term of the securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Each quarter, securities in an unrealized loss position (impaired securities), including fixed maturities, securities lending collateral, equity securities, and other investments, are reviewed to identify impaired securities to be specifically evaluated for a potential OTTI.

For all non-fixed maturities, OTTI is evaluated based on the following:

• the amount of time a security has been in a loss position and the magnitude of the loss position;

• the period in which cost is expected to be recovered, if at all, based on various criteria including economic conditions and other issuer-specific developments; and

• ACE's ability and intent to hold the security to the expected recovery period.

As a general rule, we also consider that equity securities in an unrealized loss position for twelve consecutive months are impaired.

Evaluation of potential credit losses related to fixed maturities
We review each fixed maturity in an unrealized loss position to assess whether the security is a candidate for credit loss. Specifically, we consider credit rating, market price, and issuer-specific financial information, among other factors, to assess the likelihood of collection of all principal and interest as contractually due. Securities for which we determine that credit loss is likely are subjected to further analysis to estimate the credit loss recognized in net income, if any. In general, credit loss recognized in net income equals the difference between the security's amortized cost and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security. All significant assumptions used in determining credit losses are subject to change as market conditions evolve.

U.S. Treasury and agency obligations (including agency mortgage-backed securities), foreign government obligations, and states, municipalities, and political subdivisions obligations
U.S. Treasury and agency obligations (including agency mortgage-backed securities), foreign government obligations, and states, municipalities, and political subdivisions obligations represent less than $15 million of gross unrealized loss at December 31, 2011. These securities were evaluated for credit loss primarily using qualitative assessments of the likelihood of credit loss considering credit rating of the issuers and level of credit enhancement, if any. ACE concluded that the high level of creditworthiness of the issuers coupled with credit enhancement, where applicable, supports recognizing no credit loss in net income.

Corporate securities
Projected cash flows for corporate securities (principally senior unsecured bonds) are driven primarily by assumptions regarding probability of default and also the timing and amount of recoveries associated with defaults. We develop these estimates using information based on market observable data, issuer-specific information, and credit ratings. ACE developed its default assumption by using historical default data by Moody's Investors Service (Moody's) rating category to calculate a 1-in-100 year probability of default, which results in a default assumption in excess of the historical mean default rate. We believe that use of a default assumption in excess of the historical mean is reasonable in light of current market conditions.

The following table presents default assumptions by Moody's rating category (historical mean default rate provided for comparison):

Moody's Rating Category	1-in-100 Year Default Rate	Historical Mean Default Rate
Investment Grade:		
Aaa-Baa	0.0-1.4%	0.0-0.3%
Below Investment Grade:		
Ba	4.8%	1.1%
B	12.8%	3.4%
Caa-C	53.5%	13.9%

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Consistent with management's approach to developing default rate assumptions considering recent market conditions, ACE assumed a 25 percent recovery rate (the par value of a defaulted security that will be recovered) across all rating categories rather than using Moody's historical mean recovery rate of 41 percent. ACE believes that use of a recovery rate assumption lower than the historical mean is reasonable in light of recent market conditions.

Application of the methodology and assumptions described above resulted in credit losses recognized in net income for corporate securities for the years ended December 31, 2011 and 2010 of $9 million and $14 million, respectively. Credit losses recognized in net income for corporate securities from April 1, 2009 (the date of adoption) to December 31, 2009, were $59 million.

Mortgage-backed securities
For mortgage-backed securities, credit impairment is assessed using a cash flow model that estimates the cash flows on the underlying mortgages, using the security-specific collateral and transaction structure. The model estimates cash flows from the underlying mortgage loans and distributes those cash flows to various tranches of securities, considering the transaction structure and any subordination and credit enhancements that exist in that structure. The cash flow model incorporates actual cash flows on the mortgage-backed securities through the current period and then projects the remaining cash flows using a number of assumptions, including default rates, prepayment rates, and loss severity rates (the par value of a defaulted security that will not be recovered) on foreclosed properties.

ACE develops specific assumptions using market data, where available, and includes internal estimates as well as estimates published by rating agencies and other third-party sources. ACE projects default rates by mortgage sector considering current underlying mortgage loan performance, generally assuming:

• lower loss severity for Prime sector bonds versus ALT-A and Sub-prime bonds; and

• lower loss severity for older vintage securities versus more recent vintage securities, which reflects the decline in underwriting standards through 2007.

These estimates are extrapolated along a default timing curve to estimate the total lifetime pool default rate. Other assumptions used contemplate the actual collateral attributes, including geographic concentrations, rating agency loss projections, rating actions, and current market prices. If cash flow projections indicate that losses will exceed the credit enhancement for a given tranche, then we do not expect to recover our amortized cost basis and we recognize an estimated credit loss in net income.

The following table presents the significant assumptions used to estimate future cash flows for specific mortgage-backed securities evaluated for potential credit loss by sector and vintage:

Range of Significant Assumptions Used

Sector[1]	Vintage	Default Rate[2]	Loss Severity Rate[2]
Prime	2003 and prior	16%	29%
	2004	17-42%	31-49%
	2005	25-45%	44-58%
	2006-2007	26-53%	43-58%
ALT-A	2003 and prior	23%	48%
	2004	33%	53%
	2005	30-47%	54-67%
	2006-2007	57-66%	61-72%
Sub-prime	2003 and prior	45%	62%
	2004	49%	76%
	2005	58%	78%
	2006-2007	70-78%	70-86%

[1] Prime, ALT-A, and Sub-prime sector bonds are categorized based on creditworthiness of the borrower.

[2] Default rate and loss severity rate assumptions vary within a given sector and vintage depending upon the geographic concentration of the collateral underlying the bond and the level of serious delinquencies, among other factors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Application of the methodology and assumptions described above resulted in credit losses recognized in net income for mortgage-backed securities for the years ended December 31, 2011 and 2010, of $11 million and $32 million, respectively. Credit losses recognized in net income for mortgage-backed securities from April 1, 2009 (the date of adoption) to December 31, 2009, were $56 million.

The following table presents the Net realized gains (losses) and the losses included in Net realized gains (losses) and OCI as a result of conditions which caused us to conclude the decline in fair value of certain investments was "other-than-temporary" and the change in net unrealized appreciation (depreciation) on investments:

	Years Ended December 31		
(in millions of U.S. dollars)	**2011**	2010	2009
Fixed maturities:			
OTTI on fixed maturities, gross	**$ (61)**	$ (115)	$ (536)
OTTI on fixed maturities recognized in OCI (pre-tax)	**15**	69	302
OTTI on fixed maturities, net	**(46)**	(46)	(234)
Gross realized gains excluding OTTI	**410**	569	591
Gross realized losses excluding OTTI	**(200)**	(143)	(398)
Total fixed maturities	**164**	380	(41)
Equity securities:			
OTTI on equity securities	**(1)**	–	(26)
Gross realized gains excluding OTTI	**15**	86	105
Gross realized losses excluding OTTI	**(5)**	(2)	(224)
Total equity securities	**9**	84	(145)
OTTI on other investments	**(3)**	(13)	(137)
Foreign exchange losses	**(13)**	(54)	(21)
Investment and embedded derivative instruments	**(143)**	58	68
Fair value adjustments on insurance derivative	**(779)**	(28)	368
S&P put options and futures	**(4)**	(150)	(363)
Other derivative instruments	**(4)**	(19)	(93)
Other	**(22)**	174	168
Net realized gains (losses)	**(795)**	432	(196)
Change in net unrealized appreciation (depreciation) on investments:			
Fixed maturities available for sale	**569**	451	2,723
Fixed maturities held to maturity	**(89)**	522	(6)
Equity securities	**(47)**	(44)	213
Other	**40**	(35)	162
Income tax expense	**(157)**	(152)	(481)
Change in net unrealized appreciation on investments	**316**	742	2,611
Total net realized gains (losses) and change in net unrealized appreciation (depreciation) on investments	**$(479)**	$1,174	$2,415

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

The following table presents a roll-forward of pre-tax credit losses related to fixed maturities for which a portion of OTTI was recognized in OCI:

	Years Ended December 31		Nine Months Ended December 31
(in millions of U.S. dollars)	**2011**	2010	2009
Balance of credit losses related to securities still held-beginning of period	**$137**	$174	$ 130
Additions where no OTTI was previously recorded	**12**	34	104
Additions where an OTTI was previously recorded	**8**	12	11
Reductions reflecting amounts previously recorded in OCI but subsequently reflected in net income	**–**	–	(2)
Reductions for securities sold during the period	**(83)**	(83)	(69)
Balance of credit losses related to securities still held-end of period	**$ 74**	$137	$ 174

e) Other investments
The following table presents the fair value and cost of other investments:

	December 31 2011		December 31 2010	
(in millions of U.S. dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Investment funds	**$ 378**	**$ 277**	$ 329	$ 232
Limited partnerships	**531**	**429**	438	356
Partially-owned investment companies	**904**	**904**	688	688
Life insurance policies	**127**	**127**	118	118
Policy loans	**143**	**143**	54	54
Trading securities	**194**	**195**	37	35
Other	**37**	**37**	28	28
Total	**$2,314**	**$2,112**	$1,692	$1,511

Investment funds include one highly diversified fund investment as well as several direct funds that employ a variety of investment styles such as long/short equity and arbitrage/distressed. Included in limited partnerships and partially-owned investment companies are 59 individual limited partnerships covering a broad range of investment strategies including large cap buyouts, specialist buyouts, growth capital, distressed, mezzanine, real estate, and co-investments. The underlying portfolio consists of various public and private debt and equity securities of publicly traded and privately held companies and real estate assets. The underlying investments across various partnerships, geographies, industries, asset types, and investment strategies provide risk diversification within the limited partnership portfolio and the overall investment portfolio. Trading securities comprise $162 million of mutual funds related to failed separate accounts acquired in 2011. Trading securities also include $24 million of equity securities, and $8 million of fixed maturities in rabbi trusts at December 31, 2011, compared with $28 million of equity securities and $9 million of fixed maturities in rabbi trusts at December 31, 2010. In addition, rabbi trusts also include life insurance policies. Refer to Note 11 f) for additional information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

ACE Limited and Subsidiaries

f) Investments in partially-owned insurance companies

The following table presents Investments in partially-owned insurance companies:

(in millions of U.S. dollars, except percentages)	December 31 2011 Carrying Value	Issued Share Capital	Ownership Percentage	December 31 2010 Carrying Value	Issued Share Capital	Ownership Percentage	Domicile
Freisenbruch-Meyer	$ 8	$ 5	40.0%	$ 8	$ 5	40.0%	Bermuda
ACE Cooperative Ins. Co. – Saudi Arabia	7	27	30.0%	7	27	30.0%	Saudi Arabia
Huatai Insurance Company	241	457	20.0%	229	207	21.3%	China
Huatai Life Insurance Company	118	196	20.0%	112	179	20.0%	China
Russian Reinsurance Company	2	4	23.3%	–	–	–	Russia
Island Heritage	4	27	10.8%	4	27	10.8%	Cayman Islands
Total	$ 380	$ 716		$ 360	$ 445		

Huatai Insurance Company and Huatai Life Insurance Company are China-based entities which provide a range of P&C, life, and investment products.

g) Gross unrealized loss

At December 31, 2011, there were 3,873 fixed maturities out of a total of 22,198 fixed maturities in an unrealized loss position. The largest single unrealized loss in the fixed maturities was $9 million. There were approximately 77 equity securities out of a total of 179 equity securities in an unrealized loss position. The largest single unrealized loss in the equity securities was $32 million. Fixed maturities in an unrealized loss position at December 31, 2011 comprised both investment grade and below investment grade securities for which fair value declined primarily due to widening credit spreads since the date of purchase. Equity securities in an unrealized loss position include foreign fixed income securities held in a commingled fund structure for which fair value declined primarily due to widening credit spreads since the date of purchase.

The following tables present, for all securities in an unrealized loss position (including securities on loan), the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

December 31, 2011 (in millions of U.S. dollars)	0 – 12 Months Fair Value	0 – 12 Months Gross Unrealized Loss	Over 12 Months Fair Value	Over 12 Months Gross Unrealized Loss	Total Fair Value	Total Gross Unrealized Loss
Foreign	$1,801	$ (82.2)	$ 529	$ (40.0)	$2,330	$ (122.2)
Corporate securities	3,084	(148.2)	268	(32.2)	3,352	(180.4)
Mortgage-backed securities	440	(7.5)	586	(170.2)	1,026	(177.7)
States, municipalities, and political subdivisions	30	(0.4)	98	(3.5)	128	(3.9)
Total fixed maturities	5,355	(238.3)	1,481	(245.9)	6,836	(484.2)
Equity securities	484	(42.3)	–	–	484	(42.3)
Other investments	88	(8.3)	–	–	88	(8.3)
Total	$5,927	$ (288.9)	$1,481	$ (245.9)	$7,408	$ (534.8)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

December 31, 2010 (in millions of U.S. dollars)	0 – 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
U.S. Treasury and agency	$ 864	$ (24.6)	$ –	$ –	$ 864	$ (24.6)
Foreign	4,409	(79.0)	312	(37.6)	4,721	(116.6)
Corporate securities	3,553	(85.1)	273	(43.9)	3,826	(129.0)
Mortgage-backed securities	3,904	(67.3)	1,031	(165.1)	4,935	(232.4)
States, municipalities, and political subdivisions	1,115	(36.2)	79	(11.9)	1,194	(48.1)
Total fixed maturities	13,845	(292.2)	1,695	(258.5)	15,540	(550.7)
Equity securities	45	(1.9)	1	(0.3)	46	(2.2)
Other investments	66	(8.7)	–	–	66	(8.7)
Total	$13,956	$ (302.8)	$1,696	$ (258.8)	$15,652	$ (561.6)

h) Net investment income

The following table presents the sources of net investment income:

(in millions of U.S. dollars)	Years Ended December 31		
	2011	2010	2009
Fixed maturities	**$2,196**	$2,071	$1,985
Short-term investments	**43**	34	38
Equity securities	**36**	26	54
Other	**62**	44	48
Gross investment income	**2,337**	2,175	2,125
Investment expenses	**(95)**	(105)	(94)
Net investment income	**$2,242**	$2,070	$2,031

i) Restricted assets

ACE is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. The assets on deposit are available to settle insurance and reinsurance liabilities. ACE is required to restrict assets pledged under reverse repurchase agreements. We also use trust funds in certain large reinsurance transactions where the trust funds are set up for the benefit of the ceding companies and generally take the place of letter of credit (LOC) requirements. We also have investments in segregated portfolios primarily to provide collateral or guarantees for LOCs and derivative transactions. Included in restricted assets at December 31, 2011 and 2010, are fixed maturities and short-term investments totaling $14.9 billion and $13.0 billion, respectively, and cash of $179 million and $104 million, respectively.

The following table presents the components of restricted assets:

(in millions of U.S. dollars)	**December 31 2011**	December 31 2010
Trust funds	**$ 9,940**	$ 8,200
Deposits with non-U.S. regulatory authorities	**2,240**	2,289
Deposits with U.S. regulatory authorities	**1,307**	1,384
Other pledged assets(1)	**1,615**	1,190
	$ 15,102	$ 13,063

(1) Includes restricted assets of $1.3 billion and $1.0 billion at December 31, 2011 and 2010, respectively, pledged under reverse repurchase agreements.

4. Fair value measurements

a) Fair value hierarchy
Fair value of financial assets and financial liabilities is estimated based on the framework established in the fair value accounting guidance. The guidance defines fair value as the price to sell an asset or transfer a liability in an orderly transaction between market participants and establishes a three-level valuation hierarchy in which inputs into valuation techniques used to measure fair value are classified. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data.

The three levels of the hierarchy are as follows:

• Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets;

• Level 2 – Includes, among other items, inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves, quoted prices for similar assets and liabilities in active markets, and quoted prices for identical or similar assets and liabilities in markets that are not active; and

• Level 3 – Inputs that are unobservable and reflect management's 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.

We use one or more pricing services to obtain fair value measurements for the majority of the investment securities we hold. Based on management's understanding of the methodologies used, these 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 the pricing services, all applicable investments have been valued in accordance with GAAP. We do not typically adjust prices obtained from pricing services. The following is a description of the valuation techniques and inputs used to determine fair values for financial instruments carried at fair value, as well as the general classification of such financial instruments pursuant to the valuation hierarchy.

Fixed maturities
We use pricing services to estimate fair value measurements for the majority of our fixed maturities. The pricing services use market quotations for fixed maturities that have quoted prices in active markets; such securities are classified within Level 1. For fixed maturities other than U.S. Treasury securities that generally do not trade on a daily basis, the pricing services prepare estimates of fair value measurements using their pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additional valuation factors that can be taken into account are nominal spreads, dollar basis, and liquidity adjustments. The pricing services evaluate each asset class based on relevant market and credit information, perceived market movements, and sector news. The market inputs used in the pricing evaluation, listed in the approximate order of priority include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each input is dependent on the asset class and the market conditions. Given the asset class, the priority of the use of inputs may change or some market inputs may not be relevant. Additionally, the valuation of fixed maturity investments 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 the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur. The overwhelming majority of fixed maturities are classified within Level 2 because the most significant inputs used in the pricing techniques are observable. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Equity securities
Equity securities with active markets are classified within Level 1 as fair values are based on quoted market prices. For non-public equity securities, fair values are based on market valuations and are classified within Level 2. Equity securities for which pricing is unobservable are classified within Level 3.

Short-term investments
Short-term investments, which comprise securities due to mature within one year of the date of purchase that are traded in active markets, are classified within Level 1 as fair values are based on quoted market prices. Securities such as commercial paper and discount notes are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates fair value.

Other investments
Fair values for the majority of Other investments including investments in partially-owned investment companies, investment funds, and limited partnerships are based on their respective net asset values or equivalent (NAV). The majority of these investments, for which NAV was used as a practical expedient to measure fair value, are classified within Level 3 because either ACE will never have the contractual option to redeem the investment or will not have the contractual option to redeem the investments in the near term. The remainder of such investments is classified within Level 2. The underlying assets within failed separate accounts, as described in Note 1 i), comprise mutual funds classified within Level 1 in the valuation hierarchy on the same basis as other equity securities traded in active markets. Equity securities and fixed maturities held in rabbi trusts maintained by ACE for deferred compensation plans, and included in Other investments, are classified within the valuation hierarchy on the same basis as other equity securities and fixed maturities.

Securities lending collateral
The underlying assets included in Securities lending collateral are fixed maturities which are classified in the valuation hierarchy on the same basis as other fixed maturities. Excluded from the valuation hierarchy is the corresponding liability related to ACE's obligation to return the collateral plus interest as it is reported at contract value and not fair value on the consolidated balance sheets.

Investment derivative instruments
Actively traded investment derivative instruments, including futures, options, and exchange-traded forward contracts, are classified within Level 1 as fair values are based on quoted market prices. Investment derivative instruments are recorded in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets.

Other derivative instruments
We maintain positions in other derivative instruments including exchange-traded equity futures contracts and option contracts designed to limit exposure to a severe equity market decline, which would cause an increase in expected claims and, therefore, reserves for our GMDB and GLB reinsurance business. Our position in exchange-traded equity futures contracts is classified within Level 1. The fair value of the majority of the remaining positions in other derivative instruments is based on significant observable inputs including equity security and interest rate indices. Accordingly, these are classified within Level 2. Our position in credit default swaps is typically included within Level 3. Other derivative instruments are recorded in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets.

Separate account assets
Separate account assets represent segregated funds where investment risks are borne by the customers, except to the extent of certain guarantees made by ACE. Separate account assets comprise mutual funds classified in the valuation hierarchy on the same basis as other equity securities traded in active markets and are classified within Level 1. Separate account assets also include fixed maturities classified within Level 2 because the most significant inputs used in the pricing techniques are observable. Excluded from the valuation hierarchy are the corresponding liabilities as they are reported at contract value and not fair value on the consolidated balance sheets. Separate account assets are recorded in Other assets in the consolidated balance sheets.

Guaranteed living benefits
The GLB arises from life reinsurance programs covering living benefit guarantees whereby we assume the risk of GMIB and GMAB associated with variable annuity contracts. GLB's are recorded in Accounts payable, accrued expenses, and other liabilities and Future policy benefits in the consolidated balance sheets. For GLB reinsurance, ACE estimates fair value using an internal valuation model which includes current market information and estimates of policyholder behavior. All of the treaties contain claim limits, which are factored into the valuation model. The fair value depends on a number of inputs, including changes in interest rates, changes in equity markets, credit risk, current account value, changes in market volatility, expected annuitization rates, changes in policyholder behavior, and changes in policyholder mortality.

The most significant policyholder behavior assumptions include lapse rates and the GMIB annuitization rates. Assumptions regarding lapse rates and GMIB annuitization rates differ by treaty but the underlying methodologies to determine rates applied to each treaty are comparable. The assumptions regarding lapse and GMIB annuitization rates determined for each treaty are based on a dynamic calculation that uses several underlying factors.

A lapse rate is the percentage of in-force policies surrendered in a given calendar year. All else equal, as lapse rates increase, ultimate claim payments will decrease. In general, the base lapse function assumes low lapse rates (ranging from about 1 percent to 6 percent per annum) during the surrender charge period of the GMIB contract, followed by a "spike" lapse rate (ranging from about 10 percent to 30 percent per annum) in the year immediately following the surrender charge period, and then reverting to an ultimate lapse rate (generally around 10 percent per annum), typically over a 2-year period. This base rate is adjusted downward for policies with more valuable guarantees (policies with guaranteed values far in excess of their account values) by multiplying the base lapse rate by a factor ranging from 15 percent to 75 percent. Additional lapses due to partial withdrawals and older policyholders with tax-qualified contracts (due to required minimum distributions) are also included.

The GMIB annuitization rate is the percentage of policies for which the policyholder will elect to annuitize using the guaranteed benefit provided under the GMIB. All else equal, as GMIB annuitization rates increase, ultimate claim payments will increase, subject to treaty claim limits. In general ACE assumes that GMIB annuitization rates will be higher for policies with more valuable guarantees (policies with guaranteed values far in excess of their account values). In addition, we also assume that GMIB annuitization rates are higher in the first year immediately following the waiting period (the first year the policies are eligible to annuitize using the GMIB) in comparison to all subsequent years. We do not yet have a robust set of annuitization experience because most of our clients' policyholders are not yet eligible to annuitize using the GMIB. However, for certain clients there are several years of annuitization experience. For these clients the annuitization function reflects the actual experience and has a maximum annuitization rate per annum of 8 percent (a higher maximum applies in the first year a policy is eligible to annuitize using the GMIB – it is over 13 percent). For most clients, there is no currently observable relevant annuitization behavior data and so we use a weighted-average (with a heavier weighting on the observed experience noted previously) of three different annuitization functions with maximum annuitization rates per annum of 8 percent, 12 percent, and 30 percent, respectively (with significantly higher rates in the first year a policy is eligible to annuitize using the GMIB). The GMIB reinsurance treaties include claim limits to protect ACE in the event that actual annuitization behavior is significantly higher than expected.

The effect of changes in key market factors on assumed lapse and annuitization rates reflect emerging trends using data available from cedants. For treaties with limited experience, rates are established in line with data received from other ceding companies adjusted, as appropriate, with industry estimates. 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 information, such as market conditions, market participant assumptions, and demographics of in-force annuities. During 2011, no changes were made to actuarial or behavioral assumptions. We made minor technical refinements to the model with a favorable net income impact of approximately $14 million and $98 million for the years ended December 31, 2011 and 2010, respectively.

We view the variable annuity reinsurance business as having a similar risk profile to that of catastrophe reinsurance, with the probability of a cumulative long-term economic net loss relatively small at the time of pricing. However, adverse changes in market factors and policyholder behavior will have an adverse impact on net income, which may be material. Because of the significant use of unobservable inputs including policyholder behavior, GLB reinsurance is classified within Level 3.

The following tables present, by valuation hierarchy, the financial instruments measured at fair value on a recurring basis:

December 31, 2011 (in millions of U.S. dollars)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities available for sale				
U.S. Treasury and agency	$ 1,691	$ 1,264	$ 5	$ 2,960
Foreign	212	12,156	33	12,401
Corporate securities	20	14,539	134	14,693
Mortgage-backed securities	–	10,173	28	10,201
States, municipalities, and political subdivisions	–	1,711	1	1,712
	1,923	39,843	201	41,967
Equity securities	632	2	13	647
Short-term investments	1,246	1,055	–	2,301
Other investments	208	229	1,877	2,314
Securities lending collateral	–	1,375	–	1,375
Investment derivative instruments	10	–	–	10
Other derivative instruments	(16)	54	3	41
Separate account assets	607	53	–	660
Total assets measured at fair value	$ 4,610	$42,611	$2,094	$49,315
Liabilities:				
GLB[1]	$ –	$ –	$1,319	$ 1,319

[1] Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. Refer to Note 5 c) for additional information.

There were no significant gross transfers between Level 1 and Level 2 during the year ended December 31, 2011.

December 31, 2010 (in millions of U.S. dollars)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities available for sale				
U.S. Treasury and agency	$ 1,564	$ 1,399	$ –	$ 2,963
Foreign	187	10,973	26	11,186
Corporate securities	31	13,441	115	13,587
Mortgage-backed securities	–	8,477	39	8,516
States, municipalities, and political subdivisions	–	1,285	2	1,287
	1,782	35,575	182	37,539
Equity securities	676	3	13	692
Short-term investments	903	1,080	–	1,983
Other investments	39	221	1,432	1,692
Securities lending collateral	–	1,495	–	1,495
Investment derivative instruments	11	–	–	11
Other derivative instruments	(25)	46	4	25
Separate account assets	308	–	&1150;	308
Total assets measured at fair value	$ 3,694	$38,420	$ 1,631	$43,745
Liabilities:				
GLB[1]	$ –	$ –	$ 507	$ 507

[1] Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. Refer to Note 5 c) for additional information.

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ACE Limited and Subsidiaries

There were no significant gross transfers between Level 1 and Level 2 during the year ended December 31, 2010.

Fair value of alternative investments
Included in Other investments in the fair value hierarchy at December 31, 2011 and 2010 are investment funds, limited partnerships, and partially-owned investment companies measured at fair value using NAV as a practical expedient. At December 31, 2011 and 2010, there were no probable or pending sales related to any of the investments measured at fair value using NAV.

The following table presents, by investment category, the expected liquidation period, fair value, and maximum future funding commitments of alternative investments:

		December 31 2011		December 31 2010	
(in millions of U.S. dollars)	Expected Liquidation Period	Fair Value	Maximum Future Funding Commitments	Fair Value	Maximum Future Funding Commitments
Financial	5 to 9 Years	$ 205	$ 141	$ 192	$ 151
Real estate	3 to 9 Years	270	96	163	92
Distressed	6 to 9 Years	182	57	243	43
Mezzanine	6 to 9 Years	195	282	125	173
Traditional	3 to 8 Years	565	200	376	291
Vintage	1 to 3 Years	18	1	27	3
Investment funds	Not Applicable	378	–	329	–
		$ 1,813	$ 777	$ 1,455	$ 753

Included in all categories in the above table except for Investment funds are investments for which ACE will never have the contractual option to redeem but receives distributions based on the liquidation of the underlying assets. Included in the “Expected Liquidation Period” column above is the range in years over which ACE expects the majority of underlying assets in the respective categories to be liquidated. Further, for all categories except for Investment funds, ACE does not have the ability to sell or transfer the investments without the consent from the general partner of individual funds.

Financial
Financial consists of investments in private equity funds targeting financial services companies such as financial institutions and insurance services around the world.

Real estate
Real estate consists of investments in private equity funds targeting global distress opportunities, value added U.S. properties, and global mezzanine debt securities in the commercial real estate market.

Distressed
Distressed consists of investments in private equity funds targeting distressed debt/credit and equity opportunities in the U.S.

Mezzanine
Mezzanine consists of investments in private equity funds targeting private mezzanine debt of large-cap and mid-cap companies in the U.S. and worldwide.

Traditional
Traditional consists of investments in private equity funds employing traditional private equity investment strategies such as buyout and venture with different geographical focuses including Brazil, Asia, Europe, and the U.S.

Vintage
Vintage consists of investments in private equity funds made before 2002 and where the funds’ commitment periods had already expired.

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Investment funds

ACE's investment funds employ various investment strategies such as long/short equity and arbitrage/distressed. Included in this category are investments for which ACE has the option to redeem at agreed upon value as described in each investment fund's subscription agreement. Depending on the terms of the various subscription agreements, investment fund investments may be redeemed monthly, quarterly, semi-annually, or annually. If ACE wishes to redeem an investment fund investment, it must first determine if the investment fund is still in a lock-up period (a time when ACE cannot redeem its investment so that the investment fund manager has time to build the portfolio). If the investment fund is no longer in its lock-up period, ACE must then notify the investment fund manager of its intention to redeem by the notification date prescribed by the subscription agreement. Subsequent to notification, the investment fund can redeem ACE's investment within several months of the notification. Notice periods for redemption of the investment funds range between 5 and 120 days. ACE can redeem its investment funds without consent from the investment fund managers.

Level 3 financial instruments

The following tables present a reconciliation of the beginning and ending balances of financial instruments measured at fair value using significant unobservable inputs (Level 3):

								Assets	Liabilities
	Available-for-Sale Debt Securities								
Year Ended December 31, 2011 (in millions of U.S. dollars)	U.S. Treasury and agency	Foreign	Corporate securities	MBS	States, municipalities, and political subdivisions	Equity securities	Other investments	Other derivative instruments	GLB(1)
Balance-Beginning of year	$ –	$ 26	$ 115	$ 39	$ 2	$ 13	$ 1,432	$ 4	$ 507
Transfers into Level 3	–	9	42	4	–	–	–	–	–
Transfers out of Level 3	–	(18)	(4)	(48)	–	–	–	–	–
Change in Net Unrealized Gains (Losses) included in OCI	–	(1)	(2)	–	–	(1)	93	–	–
Net Realized Gains/Losses	–	–	(3)	–	–	4	(3)	2	812
Purchases	5	23	32	59	–	5	602	–	–
Sales	–	(3)	(27)	(17)	–	(8)	(55)	–	–
Settlements	–	(3)	(19)	(9)	(1)	–	(192)	(3)	–
Balance-End of year	$ 5	$ 33	$ 134	$ 28	$ 1	$ 13	$ 1,877	$ 3	$ 1,319
Net Realized Gains/Losses Attributable to Changes in Fair Value at the Balance Sheet Date	$ –	$ –	$ –	$ –	$ –	$ –	$ (3)	$ (1)	$ 812

(1) Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. Refer to Note 5c) for additional information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Year Ended December 31, 2010 (in millions of U.S. dollars)	Available-for-Sale Debt Securities						Assets	Liabilities
	Foreign	Corporate securities	MBS	States, municipalities, and political subdivisions	Equity securities	Other investments	Other derivative instruments	GLB[1]
Balance-Beginning of year	$ 59	$ 168	$ 21	$ 3	$ 12	$ 1,149	$ 14	$ 443
Transfers into (Out of) Level 3	(14)	(25)	(1)	–	1	–	–	–
Change in Net Unrealized Gains (Losses) included in OCI	1	9	–	–	–	53	–	–
Net Realized Gains/Losses	1	(3)	–	–	1	(7)	2	64
Purchases, Sales, Issuances, and Settlements, Net	(21)	(34)	19	(1)	(1)	237	(12)	–
Balance-End of year	$ 26	$ 115	$ 39	$ 2	$ 13	$ 1,432	$ 4	$ 507
Net Realized Gains/Losses Attributable to Changes in Fair Value at the Balance Sheet Date	$ –	$ –	$ –	$ –	$ –	$ (7)	$ 1	$ 64

[1] Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. The liability for GLB reinsurance was $648 million at December 31, 2010, and $559 million at December 31, 2009, which includes a fair value derivative adjustment of $507 million and $443 million, respectively.

Year Ended December 31, 2009 (in millions of U.S. dollars)	Available-for-Sale Debt Securities						Assets	Liabilities
	Foreign	Corporate securities	MBS	States, municipalities, and political subdivisions	Equity securities	Other investments	Other derivative instruments	GLB[1]
Balance-Beginning of year	$ 45	$ 117	$109	$ 3	$ 21	$ 1,099	$ 87	$ 811
Transfers into (Out of) Level 3	4	8	(37)	–	–	(30)	–	–
Change in Net Unrealized Gains (Losses) included in OCI	5	17	12	–	9	191	–	–
Net Realized Gains/Losses	(1)	1	(2)	–	–	(149)	(71)	(368)
Purchases, Sales, Issuances, and Settlements, Net	6	25	(61)	–	(18)	38	(2)	–
Balance-End of year	$ 59	$ 168	$ 21	$ 3	$ 12	$ 1,149	$ 14	$ 443
Net Realized Gains/Losses Attributable to Changes in Fair Value at the Balance Sheet Date	$ 2	$ 1	$ –	$ –	$ –	$ (149)	$ (71)	$ (368)

[1] Our GLB reinsurance product meets the definition of a derivative instrument for accounting purposes and is accordingly carried at fair value. Excluded from the table above is the portion of the GLB derivative liability classified as Future policy benefits in the consolidated balance sheets. The liability for GLB reinsurance was $559 million at December 31, 2009, and $910 million at December 31, 2008, which includes a fair value derivative adjustment of $443 million and $811 million, respectively.

c) Financial instruments disclosed, but not carried, at fair value

ACE uses various financial instruments in the normal course of its business. Our insurance contracts are excluded from fair value of financial instruments accounting guidance and, therefore, are not included in the amounts discussed below.

The carrying values of cash, other assets, other liabilities, and other financial instruments not included below approximated their fair values.

Investments in partially-owned insurance companies

Fair values for investments in partially-owned insurance companies are based on ACE's share of the net assets based on the financial statements provided by those companies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Short- and long-term debt and trust preferred securities
Where practical, fair values for short-term debt, long-term debt, and trust preferred securities are estimated using discounted cash flow calculations based principally on observable inputs including incremental borrowing rates, which reflect ACE's credit rating, for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

The following table presents carrying values and fair values of financial instruments not measured at fair value:

	December 31 2011		December 31 2010	
(in millions of U.S. dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Fixed maturities held to maturity				
U.S. Treasury and agency	$ 1,078	$1,126	$1,105	$1,127
Foreign	935	930	1,049	1,013
Corporate securities	2,338	2,337	2,361	2,313
Mortgage-backed securities	2,949	3,036	3,811	3,846
States, municipalities, and political subdivisions	1,147	1,176	1,175	1,162
Total fixed maturities held to maturity	8,447	8,605	9,501	9,461
Liabilities:				
Short-term debt	1,251	1,251	1,300	1,300
Long-term debt	3,360	3,823	3,358	3,690
Trust preferred securities	309	404	309	364
Total liabilities	$ 4,920	$ 5,478	$4,967	$5,354

5. Reinsurance

a) Consolidated reinsurance
ACE purchases reinsurance to manage various exposures including catastrophe risks. Although reinsurance agreements contractually obligate ACE's reinsurers to reimburse it for the agreed-upon portion of its gross paid losses, they do not discharge ACE's primary liability. The amounts for net premiums written and net premiums earned in the consolidated statements of operations are net of reinsurance. The following table presents direct, assumed, and ceded premiums:

	Years Ended December 31		
(in millions of U.S. dollars)	2011	2010	2009
Premiums written			
Direct	$17,626	$15,887	$15,467
Assumed	3,205	3,624	3,697
Ceded	(5,459)	(5,803)	(5,865)
Net	$15,372	$13,708	$13,299
Premiums earned			
Direct	$17,534	$15,780	$15,415
Assumed	3,349	3,516	3,768
Ceded	(5,496)	(5,792)	(5,943)
Net	$15,387	$13,504	$13,240

For the years ended December 31, 2011, 2010, and 2009, reinsurance recoveries on losses and loss expenses incurred were $3.3 billion, $3.3 billion, and $3.7 billion, respectively.

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b) Reinsurance recoverable on ceded reinsurance

The following table presents the composition of reinsurance recoverable on losses and loss expenses:

(in millions of U.S. dollars)	December 31 2011	December 31 2010
Reinsurance recoverable on unpaid losses and loss expenses, net of a provision for uncollectible reinsurance	$ 11,602	$ 12,149
Reinsurance recoverable on paid losses and loss expenses, net of a provision for uncollectible reinsurance	787	722
Net reinsurance recoverable on losses and loss expenses	$ 12,389	$ 12,871

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 ACE, primarily because of disputes under reinsurance contracts and insolvencies. We have established provisions for amounts estimated to be uncollectible. At December 31, 2011 and 2010, we recorded a provision for uncollectible reinsurance of $479 million and $530 million, respectively.

The following tables present a listing, at December 31, 2011, of the categories of ACE's reinsurers. The first category, largest reinsurers, represents all groups of reinsurers where the gross recoverable exceeds one percent of ACE's total shareholders' equity. The provision for uncollectible reinsurance for the largest reinsurers, other reinsurers rated A- or better, and other reinsurers with ratings lower than A- is principally based on an analysis of the credit quality of the reinsurer and collateral balances. Other pools and government agencies include amounts backed by certain state and federal agencies. In certain states, insurance companies are required by law to participate in these pools. Structured settlements include annuities purchased from life insurance companies to settle claims. Since we retain the ultimate liability in the event that the life company fails to pay, we reflect the amount as a liability and a recoverable/receivable for GAAP purposes. Other captives include companies established and owned by our insurance clients to assume a significant portion of their direct insurance risk from ACE (they are structured to allow clients to self-insure a portion of their insurance risk). It is generally our policy to obtain collateral equal to expected losses. Where appropriate, exceptions are granted but only with review and approval at a senior officer level. The final category, Other, includes amounts recoverable that are in dispute or are from companies that are in supervision, rehabilitation, or liquidation. We establish the provision for uncollectible reinsurance in this category based on a case by case analysis of individual situations including the merits of the underlying matter, credit and collateral analysis, and consideration of our collection experience in similar situations.

(in millions of U.S. dollars, except percentages)	2011	Provision	% of Gross
Categories			
Largest reinsurers	$ 6,230	$ 109	1.7%
Other reinsurers balances rated A- or better	3,109	57	1.8%
Other reinsurers balances with ratings lower than A- or not rated	667	108	16.2%
Other pools and government agencies	122	8	6.6%
Structured settlements	585	22	3.8%
Other captives	1,842	37	2.0%
Other	313	138	44.1%
Total	$12,868	$ 479	3.7%

Largest Reinsurers

Berkshire Hathaway Insurance Group
Everest Re Group
HDI Re Group (Hanover Re)
Lloyd's of London
Munich Re Group
National Workers Compensation Reinsurance Pool
Partner Re
Swiss Re Group
Transatlantic Holdings
XL Capital Group

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c) Assumed life reinsurance programs involving minimum benefit guarantees under annuity contracts

The following table presents income and expenses relating to GMDB and GLB reinsurance. GLBs include GMIBs as well as some GMABs originating in Japan.

	Years Ended December 31		
(in millions of U.S. dollars)	**2011**	2010	2009
GMDB			
Net premiums earned	**$ 98**	$109	$104
Policy benefits and other reserve adjustments	**$ 59**	$ 99	$ 111
GLB			
Net premiums earned	**$ 163**	&bbsp; $164	$159
Policy benefits and other reserve adjustments	**47**	29	20
Net realized gains (losses)	**(812)**	(64)	368
(Loss) gain recognized in income	**$(696)**	$ 71	$507
Net cash received	**$ 161**	$160	$156
Net (increase) decrease in liability	**$(857)**	$ (89)	$351

At December 31, 2011, reported liabilities for GMDB and GLB reinsurance were $138 million and $1.5 billion, respectively, compared with $185 million and $648 million, respectively, at December 31, 2010. The reported liability for GLB reinsurance of $1.5 billion at December 31, 2011, and $648 million at December 31, 2010, includes a fair value derivative adjustment of $1.3 billion and $507 million, respectively. Included in Net realized gains (losses) in the table above are gains (losses) related to foreign exchange and other fair value derivative adjustments. Reported liabilities for both GMDB and GLB reinsurance are determined using internal valuation models. Such valuations require considerable judgment and are subject to significant uncertainty. The valuation of these products is subject to fluctuations arising from, among other factors, changes in interest rates, changes in equity markets, changes in credit markets, changes in the allocation of the investments underlying annuitants' account values, and assumptions regarding future policyholder behavior. These models and the related assumptions are continually reviewed by management and enhanced, as appropriate, based upon improvements in modeling assumptions and availability of more information, such as market conditions and demographics of in-force annuities.

Variable Annuity Net Amount at Risk
(i) Reinsurance covering the GMDB risk only

At December 31, 2011 and 2010, the net amount at risk from reinsurance programs covering the GMDB risk only was $1.8 billion in both years.

For reinsurance programs covering the GMDB risk only, the net amount at risk is defined as the present value of future claim payments under the following assumptions:

• policy account values and guaranteed values are fixed at the valuation date (December 31, 2011 and 2010, respectively);

• there are no lapses or withdrawals;

• mortality according to 100 percent of the Annuity 2000 mortality table;

• future claims are discounted in line with the discounting assumption used in the calculation of the benefit reserve averaging between 1.5 and 2.5 percent; and

• reinsurance coverage ends at the earlier of the maturity of the underlying variable annuity policy or the reinsurance treaty.

The total claim amount payable on reinsurance programs covering the GMDB risk only, if all the cedants' policyholders were to die immediately at December 31, 2011 was approximately $400 million. This takes into account all applicable reinsurance treaty claim limits.

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).

(ii) Reinsurance covering the GLB risk only

At December 31, 2011 and 2010, the net amount at risk from reinsurance programs covering the GLB risk only was $380 million and $30 million, respectively.

For reinsurance programs covering the GLB risk only, the net amount at risk is defined as the present value of future claim payments under the following assumptions:

• policy account values and guaranteed values are fixed at the valuation date (December 31, 2011 and 2010, respectively);

• there are no deaths, lapses, or withdrawals;

• policyholders annuitize at a frequency most disadvantageous to ACE (in other words, annuitization at a level that maximizes claims taking into account the treaty limits) under the terms of the reinsurance contracts;

• for annuitizing policyholders, the GMIB claim is calculated using interest rates in line with those used in calculating the reserve;

•future claims are discounted in line with the discounting assumption used in the calculation of the benefit reserve averaging between 3.0 and 4.0 percent; and

•reinsurance coverage ends at the earlier of the maturity of the underlying variable annuity policy or the reinsurance treaty.

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

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

At December 31, 2011 and 2010, the GMDB net amount at risk from reinsurance programs covering both the GMDB and GLB risks on the same underlying policyholders was $182 million and $145 million, respectively.

At December 31, 2011 and 2010, the GLB net amount at risk from reinsurance programs covering both the GMDB and GLB risks on the same underlying policyholders was $998 million and $619 million, respectively.

These net amounts at risk reflect the interaction between the two types of benefits on any single policyholder (eliminating double-counting), and therefore the net amounts at risk should be considered additive.

For reinsurance programs covering both the GMDB and GLB risks on the same underlying policyholders, the net amount at risk is defined as the present value of future claim payments under the following assumptions:

• policy account values and guaranteed values are fixed at the valuation date (December 31, 2011 and 2010, respectively);

• there are no lapses, or withdrawals;

• mortality according to 100 percent of the Annuity 2000 mortality table;

• policyholders annuitize at a frequency most disadvantageous to ACE (in other words, annuitization at a level that maximizes claims taking into account the treaty limits) under the terms of the reinsurance contracts;

• for annuitizing policyholders, the GMIB claim is calculated using interest rates in line with those used in calculating the reserve;

• future claims are discounted in line with the discounting assumption used in the calculation of the benefit reserve averaging between 1.0 and 2.0 percent; and

• reinsurance coverage ends at the earlier of the maturity of the underlying variable annuity policy or the reinsurance treaty.

The total claim amount payable on reinsurance programs covering both the GMDB and GLB risks on the same underlying policyholders, if all of the cedants' policyholders were to die immediately at December 31, 2011 was approximately $1.1 billion. This takes into account all applicable reinsurance treaty claim limits. Although there would be an increase in death claims resulting from 100 percent immediate mortality of all policyholders, the GLB claims would be zero.

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.

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The average attained age of all policyholders under sections a), b), and c) above, weighted by the guaranteed value of each reinsured policy, is approximately 67 years.

6. Intangible assets

Included in Goodwill and other intangible assets in the consolidated balance sheets at December 31, 2011, are goodwill of $4.2 billion and other intangible assets of $651 million.

The following table presents a roll-forward of Goodwill by business segment:

(in millions of U.S. dollars)	Insurance - North American	Insurance - Overseas General	Global Reinsurance	Life	ACE Consolidated
Balance at December 31, 2009	$ 1,205	$ 1,497	$ 365	$747	$ 3,814
Acquisition of Rain and Hail	135	–	–	–	135
Acquisition of Jerneh	–	94	–	–	94
Purchase price allocation adjustment	–	–	–	3	3
Foreign exchange revaluation and other	11	(27)	–	–	(16)
Balance at December 31, 2010	$ 1,351	$ 1,564	$ 365	$750	$ 4,030
Purchase price allocation adjustment	(12)	5	–	–	(7)
Acquisition of New York Life's Korea operations and Hong Kong operations	–	–	–	121	121
Acquisition of PMHC	11	–	–	–	11
Acquisition of Rio Guayas	–	31	–	–	31
Foreign exchange revaluation and other	–	3	–	(9)	(6)
Balance at December 31, 2011	**$ 1,350**	**$ 1,603**	**$ 365**	**$862**	**$ 4,180**

Included in the other intangible assets balance at December 31, 2011, are intangible assets subject to amortization of $558 million and intangible assets not subject to amortization of $93 million. Intangible assets subject to amortization include agency relationships, software, client lists, renewal rights, and trademarks, primarily attributable to the acquisitions of Rain and Hail and Combined Insurance. The majority of the balance of intangible assets not subject to amortization relates to Lloyd's of London (Lloyd's) Syndicate 2488 capacity. Amortization expense related to other intangible assets amounted to $29 million, $9 million, and $11 million for the years ended December 31, 2011, 2010, and 2009, respectively. Amortization expense related to other intangible assets is estimated to be between approximately $31 million and $43 million for each of the next five fiscal years.

The following table presents a roll-forward of VOBA:

(in millions of U.S. dollars)	**2011**	2010	2009
Balance, beginning of year	**$ 634**	$ 748	$ 823
Acquisition of New York Life's Korea operations and Hong Kong operations	**120**	–	–
Amortization expense	**(105)**	(111)	(130)
Foreign exchange revaluation	**(1)**	(3)	55
Balance, end of year	**$ 648**	$ 634	$ 748

The following table presents the estimated amortization expense related to VOBA for the next five years:

For the Year Ending December 31 (in millions of U.S. dollars)	
2012	$ 96
2013	86
2014	77
2015	70
2016	65
Total	$394

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ACE Limited and Subsidiaries

7. Unpaid losses and loss expenses

Property and casualty

ACE establishes reserves for the estimated unpaid ultimate liability for losses and loss expenses under the terms of its policies and agreements. These reserves include estimates for both claims that have been reported and for IBNR, and include estimates of expenses associated with processing and settling these claims. The process of establishing reserves for P&C claims can be complex and is subject to considerable variability as it requires the use of informed estimates and judgments. Our estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed, or as current laws change. We continually evaluate our estimate of reserves in light of developing information and in light of discussions and negotiations with our insureds. While we believe that our reserves for unpaid losses and loss expenses at December 31, 2011 are adequate, new information or trends may lead to future developments in ultimate losses and loss expenses significantly greater or less than the reserves provided. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable and would be reflected in our results of operations in the period in which the estimates are changed.

The following table presents a reconciliation of unpaid losses and loss expenses:

	Years Ended December 31		
(in millions of U.S. dollars)	**2011**	2010	2009
Gross unpaid losses and loss expenses, beginning of year	**$ 37,391**	$ 37,783	$ 37,176
Reinsurance recoverable on unpaid losses[1]	**(12,149)**	(12,745)	(12,935)
Net unpaid losses and loss expenses, beginning of year	**25,242**	25,038	24,241
Acquisition of subsidiaries	**92**	145	–
Total	**25,334**	25,183	24,241
Net losses and loss expenses incurred in respect of losses occurring in:			
Current year	**10,076**	8,082	7,998
Prior years	**(556)**	(503)	(576)
Total	**9,520**	7,579	7,422
Net losses and loss expenses paid in respect of losses occurring in:			
Current year	**4,209**	2,689	2,493
Prior years	**4,657**	4,724	4,455
Total	**8,866**	7,413	6,948
Foreign currency revaluation and other	**(113)**	(107)	323
Net unpaid losses and loss expenses, end of year	**25,875**	25,242	25,038
Reinsurance recoverable on unpaid losses[1]	**11,602**	12,149	12,745
Gross unpaid losses and loss expenses, end of year	**$ 37,477**	$ 37,391	$ 37,783

(1) Net of provision for uncollectible reinsurance.

Net losses and loss expenses incurred includes $556 million, $503 million, and $576 million, of net favorable prior period development in the years ended December 31, 2011, 2010, and 2009, respectively. The following is a summary of prior period development for the periods indicated. The remaining net development for long-tail and short-tail business for each segment comprises numerous favorable and adverse movements across lines and accident years.

Insurance – North American

Insurance – North American's active operations experienced net favorable prior period development of $297 million in 2011, representing 1.9 percent of net unpaid reserves at December 31, 2010. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $186 million on long-tail business included favorable development of $82 million in the directors and officers (D&O) portfolio affecting the 2006 and prior accident years; $54 million in the excess casualty business affecting the 2005 and prior accident years; $43 million on medical risk operations; $28 million on the national accounts portfolio (commercial auto liability, general liability, and workers' compensation lines of business); and $26 million within the financial solutions business relating to a single account on the 2002 through 2010 accident years. Additional favorable development included $26 million in the foreign casualty product affecting

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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the 2007 and prior accident years; and $21 million on surety business primarily impacting the 2009 year. Partially offsetting this favorable development was adverse development of $40 million on errors and omissions coverage primarily affecting the 2007 and 2008 accident years and adverse development of $29 million within the environmental liability product line concentrated in the 2005 through 2007 accident years. Net prior period development also included adverse development of $25 million on other lines across a number of accident years, none of which was significant. Net favorable development of $111 million on short-tail business included favorable development of $48 million in the property portfolios primarily affecting the 2009 and 2010 accident years and favorable development of $63 million on other lines across a number of accident years, primarily following better than expected loss emergence.

Insurance – North American's runoff operations experienced net adverse prior period development of $102 million in the Westchester and Brandywine runoff operations during 2011, which was the net result of adverse movements impacting the accident years 2000 and prior, representing 0.6 percent of net unpaid reserves at December 31, 2010. Net adverse prior period development was driven by adverse development of $82 million related to the completion of the reserve review during 2011 and $17 million of unallocated loss adjustment expenses due to operating expenses reserved and paid during the current year. Net prior period development also included $3 million of adverse development on other lines across a number of accident years, none of which was significant.

Insurance – North American's active operations experienced net favorable prior period development of $239 million in 2010, representing 1.5 percent of net unpaid reserves at December 31, 2009. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $102 million on long-tail business included $49 million within the financial solutions business, primarily in the 2000 and prior accident years; favorable development of $105 million in the D&O and E&O portfolios, primarily in the 2006 and prior accident years partially offset by adverse movements in the 2007-2009 years; and favorable development of $54 million on the national accounts portfolio primarily in the 2005, 2006, and 2009 accident years. Partially offsetting this favorable development was adverse development of $91 million in excess casualty businesses principally arising in the 2007 accident year and adverse development of $30 million in small and middle market guaranteed cost workers' compensation portfolios on accident years 2008 and subsequent. Net prior period development also included favorable development of $15 million on other lines across a number of accident years, due primarily to better than expected loss emergence. Net favorable development of $137 million on short-tail business included favorable development of $41 million in the crop/hail business associated with recording the most recent bordereaux for the 2009 and prior crop years and favorable development of $96 million in property, aviation, inland and recreational marine, political risk, and other short-tailed exposures principally in accident years 2007-2009.

Insurance – North American's runoff operations experienced net adverse prior period development of $132 million in 2010, representing 0.8 percent of net unpaid reserves at December 31, 2009. Net prior period development was the net result of several underlying favorable and adverse movements, including adverse development of $114 million in the Westchester and Brandywine runoff operations, impacting accident years 1999 and prior, including $89 million related to the completion of the reserve review during 2010, and adverse development of $18 million on runoff CIS workers' compensation following emergence of higher than expected medical costs impacting accident years 2000 and prior.

Insurance – North American experienced net favorable prior period development of $179 million in 2009, representing 1.2 percent of the segment's net unpaid reserves at December 31, 2008.

Insurance – Overseas General

Insurance – Overseas General experienced net favorable prior period development of $290 million in 2011 representing 4.2 percent of net unpaid reserves at December 31, 2010. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $154 million on long-tail business included favorable development of $337 million in casualty (primary and excess) and financial lines for accident years 2007 and prior, and adverse development of $183 million in the casualty (primary and excess) and financial lines book for accident years 2008-2010. Net favorable development of $136 million on short-tail business included property, marine, A&H, and energy lines across multiple geographical regions, and within both retail and wholesale operations, principally on accident years 2008-2009.

Insurance – Overseas General experienced net favorable prior period development of $290 million in 2010 representing 4.3 percent of net unpaid reserves at December 31, 2009. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $159 million on long-tail business included favorable development of $241 million in casualty (primary and excess) and financial lines for accident years 2006 and prior, and adverse

development of $82 million in the casualty (primary and excess) and financial lines book for accident years 2007-2009. Net favorable development of $131 million on short-tail business included property, marine, A&H, and energy lines across multiple geographical regions, and within both retail and wholesale operations, principally on accident years 2007-2009.

Insurance – Overseas General experienced net favorable prior period development of $255 million in 2009, representing 4.2 percent of the segment's net unpaid reserves at December 31, 2008.

Global Reinsurance

Global Reinsurance experienced net favorable prior period development of $71 million in 2011 representing 3.1 percent of net unpaid reserves at December 31, 2010. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $58 million on long-tail business included net favorable development of $79 million principally in treaty years 2007 and prior across a number of portfolios (professional liability, D&O, casualty, and medical malpractice). Net favorable development of $13 million on short-tail business, primarily in treaty years 2009 and prior across property lines, included property catastrophe, trade credit, and surety.

Global Reinsurance experienced net favorable prior period development of $106 million in 2010 representing 4.7 percent of net unpaid reserves at December 31, 2009. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $72 million on long-tail business included net favorable development of $96 million principally in treaty years 2003-2006 across a number of portfolios (professional liability, D&O, casualty, and medical malpractice). Net favorable development of $34 million on short-tail business, primarily in treaty years 2003-2008 across property lines, included property catastrophe, trade credit, and surety.

Global Reinsurance experienced net favorable prior period development of $142 million in 2009, representing 5.6 percent of the segment's net unpaid reserves at December 31, 2008.

Asbestos and environmental (A&E) and other run-off liabilities

Included in 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 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 its A&E reserves, which include provisions for both reported and IBNR claims.

ACE's exposure to A&E claims principally arises out of liabilities acquired when it purchased Westchester Specialty in 1998 and CIGNA's P&C business in 1999, with the larger exposure contained within the liabilities acquired in the CIGNA transaction. In 1996, prior to ACE's acquisition of CIGNA's P&C business, the Pennsylvania Insurance Commissioner approved a plan to restructure INA Financial Corporation and its subsidiaries (the Restructuring) which included the division of Insurance Company of North America (INA) into two separate corporations:

(1) An active insurance company that retained the INA name and continued to write P&C business; and

(2) An inactive run-off company, now called Century Indemnity Company (Century).

As a result of the division, predominantly all A&E and certain other liabilities of INA were allocated to Century and extinguished, as a matter of Pennsylvania law, as liabilities of INA.

As part of the Restructuring, most A&E liabilities of various U.S. affiliates of INA were reinsured to Century. Century and certain other run-off companies having A&E and other liabilities were contributed to Brandywine Holdings. ACE acquired Brandywine Holdings and its various subsidiaries as part of the 1999 acquisition of CIGNA's P&C business. For more information, refer to "Brandywine Run-Off Entities" below.

During 2011, we conducted our annual internal, ground-up review of our consolidated A&E liabilities as of December 31, 2010. As a result of the internal review, we increased our net loss reserves in 2011 for the Brandywine operations, including A&E, by $76 million, while the gross loss reserves increased by $241 million. In addition, we decreased gross loss reserves for Westchester Specialty's A&E and other liabilities by $29 million, while the net loss reserves increased by $6 million. An internal review was also conducted during 2010 of consolidated A&E liabilities as of December 31, 2009. As a result of that internal review, we increased net loss reserves in 2010 for the Brandywine operations, including A&E, by $84 million, while the gross loss reserves increased by $247 million.

In 2010, in addition to our annual internal review, a team of external actuaries performed an evaluation as to the adequacy of Century's reserves. This external review was conducted in accordance with the Brandywine Restructuring Order, which requires that an independent actuarial review of Century's reserves be completed every two years. Management takes full responsibility for the estimation of its A&E liabilities. The difference between the conclusions of the internal and external reviews is an immaterial amount to reserves on a net basis after giving effect to the reserve increases for the Brandywine operations described above.

ACE's A&E reserves are not discounted for GAAP reporting and do not reflect any anticipated future changes in the legal, social, or economic environment, or any benefit from future legislative reforms.

The table below presents a roll-forward of consolidated A&E loss reserves (excluding other run-off liabilities), allocated loss expense reserves for A&E exposures, and the provision for uncollectible paid and unpaid reinsurance recoverables:

	Asbestos		Environmental		Total	
(in millions of U.S. dollars)	Gross	Net	Gross	Net	Gross	Net
Balance at December 31, 2010	$2,130	$1,120	$316	$215	$2,446	$1,335
Incurred activity	148	67	66	37	214	104
Payment activity	(311)	(168)	(99)	(75)	(410)	(243)
Balance at December 31, 2011	**$1,967**	**$1,019**	**$283**	**$177**	**$2,250**	**$1,196**

The A&E net loss reserves including allocated loss expense reserves and provision for uncollectible reinsurance at December 31, 2011, of $1.2 billion shown in the table above comprise $909 million in reserves in respect of Brandywine operations, $143 million of reserves held by Westchester Specialty, $61 million of reserves held by ACE Bermuda, and $83 million of reserves held by Insurance – Overseas General. The incurred activity of $104 million is the result of adverse activity in Brandywine and Westchester of $59 million and $48 million, respectively, offset by favorable activity in Insurance – Overseas General of $3 million on the provision for uncollectible reinsurance.

The net figures in the above table reflect third-party reinsurance other than reinsurance provided by NICO under two aggregate excess of loss contracts described below (collectively, the NICO contracts). ACE excludes the NICO contracts as they cover non-A&E liabilities as well as A&E liabilities. The split of coverage provided under the NICO contracts for A&E liabilities as compared to non-A&E liabilities is entirely dependent on the timing of the payment of the related claims. ACE's ability to make an estimate of this split is not practicable. ACE believes, instead, that the A&E discussion is best provided excluding the NICO contracts, while separately discussing the NICO contracts in relation to the total subject business, both A&E and non-A&E, covered by those contracts. With certain exceptions, the NICO contracts provide coverage for the net A&E incurred losses and allocated loss expenses within the limits of coverage and above ACE's retention levels. These exceptions include losses arising from certain operations of Insurance – Overseas General and participation by ACE Bermuda as a co-reinsurer or retrocessionaire in the NICO contracts.

Brandywine run-off – impact of NICO contracts on ACE's run-off liabilities

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

The following table presents a roll-forward of net loss reserves, allocated loss expense reserves, and provision for uncollectible paid and unpaid reinsurance recoverables in respect of Brandywine operations only, including the impact of the Brandywine NICO Agreement for the year ended December 31, 2011:

	Brandywine				
(in millions of U.S. dollars)	A&E	Other[1]	Total	NICO Coverage	Net of NICO Coverage
Balance at December 31, 2010	$1,044	$ 881	$1,925	$ 928	$ 997
Incurred activity	59	9	68	–	68
Paid activity	(194)	(98)	(292)	(304)	12
Balance at December 31, 2011	**$ 909**	**$ 792**	**$1,701**	**$ 624**	**$ 1,077**

[1] Other consists primarily of workers' compensation, non-A&E general liability losses, and provision for uncollectible reinsurance on non-A&E business.

The incurred activity of $68 million primarily relates to the internal review of consolidated A&E liabilities as discussed above.

Westchester Specialty – impact of NICO contracts on ACE's run-off liabilities
As part of the Westchester Specialty acquisition in 1998, NICO provided a 75 percent pro-rata share of $1 billion of reinsurance protection on losses and loss adjustment expenses incurred on or before December 31, 1996, in excess of a retention of $721 million (the 1998 NICO Agreement). NICO has also provided an 85 percent pro-rata share of $150 million of reinsurance protection on losses and allocated loss adjustment expenses incurred on or before December 31, 1992, in excess of a retention of $755 million (the 1992 NICO Agreement). At December 31, 2011, the remaining unused incurred limit under the 1998 NICO Agreement was $504 million, which is only available for losses and loss adjustment expenses. The 1992 NICO Agreement was exhausted on a paid basis in 2009.

The following table presents a roll-forward of net loss reserves, allocated loss expense reserves, and provision for uncollectible paid and unpaid reinsurance recoverables in respect of 1996 and prior Westchester Specialty operations that are the subject business of the NICO covers for the year ended December 31, 2011:

	Westchester Specialty				
(in millions of U.S. dollars)	A&E	Other	Total	NICO Coverage	Net of NICO Coverage
Balance at December 31, 2010	$122	$ 87	$209	$ 186	$ 23
Incurred activity	48	(29)	19&bbsp;	14	5
Paid activity	(27)	(4)	(31)	(35)	4
Balance at December 31, 2011	**$143**	**$ 54**	**$ 197**	**$ 165**	**$ 32**

Brandywine run-off entities
In addition to housing a significant portion of ACE's A&E exposure, the Brandywine operations include run-off liabilities related to various insurance and reinsurance businesses. ACE's Brandywine operations comprise Century (a Pennsylvania insurer) and Century International Reinsurance Company Ltd., a Bermuda insurer (CIRC). The Brandywine companies are direct or indirect subsidiaries of Brandywine Holdings.

During the three months ended June 30, 2010, in order to better align assets and liabilities, Brandywine Holdings Corporation transferred its ownership of CIRC stock to Century. Thus, Century (which reinsures substantially all of CIRC's liabilities) became the direct parent of CIRC and Century's statutory surplus rose above the $25 million required by the 1996 Pennsylvania Insurance Department Restructuring Order. The realignment of CIRC as a subsidiary of Century increased Century's surplus and strengthened its ability to meet its future obligations, including its obligations as a reinsurer of the ACE active companies. The transfer of CIRC stock increased Century's assets by $169 million and resulted in (a) the elimination of Century's reserve cession to the aggregate excess of loss agreement, described below (the XOL) and (b) an increase in Century's surplus by $26 million to $51 million as of June 30, 2010. Century's increased statutory surplus position allowed it to satisfy certain balances payable to ACE active companies under another affiliate reinsurance agreement. Due to a contractual provision, these balances were prohibited from being paid to ACE active companies while Century was ceding statutory reserves under the XOL.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

The U.S.-based ACE INA companies assumed two contractual obligations in respect of the Brandywine operations in connection with the Restructuring: a dividend retention fund obligation and a surplus maintenance obligation in the form of the XOL.

INA Financial Corporation established and funded a dividend retention fund (the Dividend Retention Fund) consisting of $50 million plus investment earnings. Pursuant to an interpretation of the Brandywine Restructuring Order, the full balance of the Dividend Retention Fund was contributed to Century as of December 31, 2002. Under the Restructuring Order, while any obligation to maintain the Dividend Retention Fund is in effect, to the extent dividends are paid by INA Holdings Corporation to its parent, INA Financial Corporation, and to the extent INA Financial Corporation then pays such dividends to INA Corporation, a portion of those dividends must be withheld to replenish the principal of the Dividend Retention Fund to $50 million. During 2011 and 2010, $35 million and $15 million, respectively, were withheld from such dividends and deposited in the Dividend Retention Fund by INA Financial Corporation. Effective January 28, 2011, the Pennsylvania Insurance Department clarified the scope of the Dividend Retention Fund that capital contributions from the Dividend Retention Fund to Century shall not be required until the XOL Agreement has less than $200 million of capacity remaining on an incurred basis for statutory reporting purposes. The amount of the capital contribution shall be the lesser of the amount necessary to restore the XOL Agreement capacity to $200 million or the Dividend Retention Fund balance. The Dividend Retention Fund may not be terminated without prior written approval from the Pennsylvania Insurance Commissioner.

In addition, an ACE INA insurance subsidiary provided reinsurance coverage to Century in the amount of $800 million under an XOL, triggered if the statutory capital and surplus of Century falls below $25 million or if Century lacks liquid assets with which to pay claims as they become due.

Effective December 31, 2004, ACE INA Holdings contributed $100 million to Century in exchange for a surplus note. After giving effect to the contribution and issuance of the surplus note, the statutory surplus of Century at December 31, 2011 was $25 million and approximately $146 million in statutory-basis losses have been ceded to the XOL on an inception-to-date basis. Century reports the amount ceded under the XOL in accordance with statutory accounting principles, which differ from GAAP by, among other things, allowing Century to discount its liabilities, including certain asbestos related and environmental pollution liabilities. For GAAP reporting purposes, intercompany reinsurance recoverables related to the XOL are eliminated upon consolidation. To estimate ACE's remaining claim exposure under the XOL on an undiscounted basis, ACE adjusts the statutory cession to exclude the discount embedded in statutory loss reserves. At December 31, 2011, approximately $440 million in undiscounted losses were ceded under the XOL, leaving a remaining limit of coverage under that agreement of approximately $360 million. At December 31, 2010, the remaining limit of coverage under the agreement was $410 million on an undiscounted basis.

While ACE believes it has no legal obligation to fund losses above the XOL limit of coverage, ACE's consolidated results would nevertheless continue to include any losses above the limit of coverage for so long as the Brandywine companies remain consolidated subsidiaries of ACE.

Uncertainties relating to ACE's ultimate Brandywine exposure

In addition to the Dividend Retention Fund and XOL commitments described above, certain ACE entities are primarily liable for asbestos, environmental, and other exposures that they have reinsured to Century. Accordingly, if Century were to become insolvent and ACE were to lose control of Century, some or all of the recoverables due to these ACE companies from Century could become uncollectible, yet those ACE entities would continue to be responsible to pay claims to their insureds or reinsureds. At December 31, 2011 and 2010, the aggregate reinsurance balances ceded by the active ACE companies to Century were approximately $877 million and $881 million, respectively. At December 31, 2011 and 2010, Century's carried gross reserves (including reserves ceded by the active ACE companies to Century) were $2.4 billion and $2.7 billion, respectively. ACE believes the intercompany reinsurance recoverables, which relate to liabilities payable over many years (i.e., 25 years or more), are not impaired. A substantial portion of the liabilities ceded to Century by its affiliates have, in turn, been ceded by Century to NICO and, at December 31, 2011 and 2010, remaining cover on a paid loss basis was approximately $624 million and $928 million, respectively. 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. Losses ceded by Century to the active ACE companies and other amounts owed to Century by the active ACE companies were, in the aggregate, approximately $526 million and $453 million at December 31, 2011 and 2010, respectively.

8. Taxation

Under Swiss law, a resident company is subject to income tax at the federal, cantonal, and communal levels that is levied on net worldwide income. Income attributable to permanent establishments or real estate located abroad is excluded from the Swiss tax base. ACE Limited is a holding company and, therefore, is exempt from cantonal and communal income tax. As a result, ACE Limited is subject to Swiss income tax only at the federal level. Furthermore, participation relief (i.e., tax relief) is granted to ACE Limited at the federal level for qualifying dividend income and capital gains related to the sale of qualifying participations (i.e., subsidiaries). It is expected that the participation relief will result in a full exemption of participation income from federal income tax. ACE Limited is resident in the Canton and City of Zurich and, as such, is subject to an annual cantonal and communal capital tax on the taxable equity of ACE Limited in Switzerland.

ACE has two Swiss operating subsidiaries resident in the Canton and City of Zurich, an insurance company, ACE Insurance (Switzerland) Limited, which, in turn, owns a reinsurance company, ACE Reinsurance (Switzerland) Limited. Both are subject to federal, cantonal, and communal income tax and to annual cantonal and communal capital tax.

Under current Bermuda law, ACE Limited and its Bermuda subsidiaries are not required to pay any taxes on income or capital gains. If a Bermuda law were enacted that would impose taxes on income or capital gains, ACE Limited and the Bermuda subsidiaries have received an undertaking from the Minister of Finance in Bermuda that would exempt such companies from Bermudian taxation until March 2035.

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

ACE Group Holdings and its respective subsidiaries are subject to income taxes imposed by U.S. authorities and file a consolidated U.S. tax return. Combined Insurance and its subsidiaries will file a separate consolidated U.S. tax return for tax years prior to 2014. Should ACE Group Holdings pay a dividend to ACE, withholding taxes would apply. Currently, however, no withholding taxes are accrued with respect to such un-remitted earnings as management has no intention of remitting these earnings. The cumulative amount that would be subject to withholding tax, if distributed, as well as the determination of the associated tax liability are not practicable to compute; however, such amount would be material to ACE. Certain international operations of ACE are also subject to income taxes imposed by the jurisdictions in which they operate.

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

ACE's domestic operations are in Switzerland, the jurisdiction where we are legally organized, incorporated, and registered. Domestic operations for the years ended December 31, 2011, 2010, and 2009 are not considered significant to the consolidated income before income taxes for the respective periods.

The following table presents the provision for income taxes:

	Years Ended December 31		
(in millions of U.S. dollars)	**2011**	2010	2009
Current tax expense	**$485**	$443	$547
Deferred tax expense (benefit)	**21**	116	(19)
Provision for income taxes	**$506**	$559	$528

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

The most significant jurisdictions contributing to the overall taxation of ACE are calculated using the following rates: Switzerland 7.83 percent, Bermuda 0.0 percent, U.S. 35.0 percent, and U.K. 26.0 percent. The following table presents a reconciliation of the difference between the provision for income taxes and the expected tax provision at the Swiss statutory income tax rate:

	Years Ended December 31		
(in millions of U.S. dollars)	**2011**	2010	2009
Expected tax provision at Swiss statutory tax rate	**$164**	$287	$241
Permanent differences:			
Taxes on earnings subject to rate other than Swiss statutory tax rate	**323**	327	319
Tax-exempt interest and dividends received deduction, net of proration	**(21)**	(20)	(25)
Net withholding taxes	**19**	15	14
Change in valuation allowance	**(2)**	(3)	(48)
Non-taxable acquisition gain	**–**	(61)	–
Other	**23**	14	27
Total provision for income taxes	**$506**	$559	$528

The following table presents the components of the net deferred tax assets:

(in millions of U.S. dollars)	**December 31 2011**	December 31 2010
Deferred tax assets:		
Loss reserve discount	**$ 933**	$ 852
Unearned premiums reserve	**85**	87
Foreign tax credits	**1,074**	952
Investments	**67**	51
Provision for uncollectible balances	**113**	132
Loss carry-forwards	**43**	57
Other, net	**31**	114
Cumulative translation adjustment	**5**	2
Total deferred tax assets	**2,351**	2,247
Deferred tax liabilities:		
Deferred policy acquisition costs	**107**	100
VOBA and other intangible assets	**373**	367
Un-remitted foreign earnings	**810**	718
Unrealized appreciation on investments	**392**	262
Total deferred tax liabilities	**1,682**	1,447
Valuation allowance	**57**	31
Net deferred tax assets	**$ 612**	$ 769

The valuation allowance of $57 million at December 31, 2011, and $31 million at December 31, 2010, reflects management's assessment, based on available information, that it is more likely than not that a portion of the deferred tax assets 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 utilize foreign tax credits. Adjustments to the valuation allowance are made when there is a change in management's assessment of the amount of deferred tax assets that are realizable.

At December 31, 2011, ACE has net operating loss carry-forwards of $172 million which, if unutilized, will expire in the years 2012-2031, and a foreign tax credit carry-forward in the amount of $42 million which, if unutilized, will expire in the years 2015-2019.

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The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits:

(in millions of U.S. dollars)	**December 31 2011**	December 31 2010
Balance, beginning of year	**$ 139**	$ 155
Additions based on tax positions related to the current year	**1**	1
Reductions for tax positions of prior years	**(6)**	(17)
Balance, end of year	**$ 134**	$ 139

Included in the balance at December 31, 2011 and 2010, is $1 million of unrecognized tax benefits for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, an unfavorable resolution of these temporary items would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. Consequently, the total amount of unrecognized tax benefits at December 31, 2011, that would affect the effective tax rate, if recognized, is $133 million.

ACE recognizes accruals for interest and penalties, if any, related to unrecognized tax benefits in income tax expense in the consolidated statements of operations. Tax-related interest and penalties reported in the consolidated statements of operations for the years ended December 31, 2011, 2010, and 2009 were $3 million, $(1) million, and $6 million, respectively. At December 31, 2011 and 2010, ACE recorded $22 million and $19 million, respectively, in liabilities for tax-related interest in our consolidated balance sheets.

In 2010, ACE reached final settlement with the IRS Appeals Division (Appeals) regarding its federal tax returns for 2002, 2003, and 2004. As a result of the settlement, the amount of unrecognized tax benefits including interest was reduced by approximately $21 million. Additionally, in June 2010, the IRS completed its field examination of ACE’s federal tax returns for 2005, 2006, and 2007 and has proposed several adjustments principally involving transfer pricing and other insurance-related matters. In July 2010, we filed a written protest with the IRS, and the case is currently being reviewed by Appeals. ACE believes that it is reasonably likely that a settlement will be reached with Appeals on these tax years during 2012. The IRS commenced its field examination of ACE’s federal tax returns for 2008 and 2009 during January 2011. It is reasonably possible that over the next twelve months, the amount of unrecognized tax benefits may change resulting from the re-evaluation of unrecognized tax benefits arising from examinations of taxing authorities and from the closing of tax statutes of limitations. In particular, the resolution of appeals and negotiations with taxing authorities cannot be predicted with reasonable precision in advance of final resolution although favorable settlements have been reached in prior periods. With few exceptions, ACE is no longer subject to state and local or non-U.S. income tax examinations for years before 2005.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

ACE Limited and Subsidiaries

9. Debt

Debt outstanding consisted of the following:

(in millions of U.S. dollars)	December 31 2011	December 31 2010
Short-term debt		
ACE Limited revolving credit facility	$ –	$ 300
Reverse repurchase agreements	1,251	1,000
	$ 1,251	$ 1,300
Long-term debt		
ACE INA senior notes due 2014	$ 500	$ 500
ACE INA senior notes due 2015	449	447
ACE INA senior notes due 2015	699	699
ACE INA senior notes due 2017	500	500
ACE INA senior notes due 2018	300	300
ACE INA senior notes due 2019	500	500
ACE INA debentures due 2029	100	100
ACE INA senior notes due 2036	299	299
Other	13	13
	$ 3,360	$ 3,358
Trust Preferred Securities		
ACE INA capital securities due 2030	$ 309	$ 309

a) Short-term debt

ACE has executed reverse repurchase agreements with certain counterparties under which ACE agreed to sell securities and repurchase them at a future date for a predetermined price. At December 31, 2011, there were $1.3 billion of reverse repurchase agreements outstanding with a weighted average interest rate of 0.32 percent.

b) ACE INA notes and debentures

In June 2004, ACE INA issued $500 million of 5.875 percent senior notes due June 2014. These notes are redeemable at any time at ACE INA's option subject to a "make-whole" premium plus 0.20 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitation on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In May 2008, ACE INA issued $450 million of 5.6 percent senior notes due May 2015. These notes are redeemable at any time at ACE INA's option subject to a "make-whole" premium plus 0.35 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In November 2010, ACE INA issued $700 million of 2.6 percent senior notes due November 2015. These notes are redeemable at any time at ACE INA's option subject to a "make-whole" premium plus 0.20 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In February 2007, ACE INA issued $500 million of 5.7 percent senior notes due February 2017. These notes are redeemable at any time at ACE INA's option subject to a "make-whole" premium plus 0.20 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. These notes do not have the benefit of any sinking

fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitation on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In February 2008, as part of the financing of the Combined Insurance acquisition, ACE INA issued $300 million of 5.8 percent senior notes due March 2018. These notes are redeemable at any time at ACE INA's option subject to a "make-whole" premium plus 0.35 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. These notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In June 2009, ACE INA issued $500 million of 5.9 percent senior notes due June 2019. These notes are redeemable at any time at ACE INA's option subject to a "make-whole" premium plus 0.40 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In August 1999, ACE INA issued $100 million of 8.875 percent debentures due August 2029. Subject to certain exceptions, the debentures are not redeemable before maturity and do not have the benefit of any sinking fund. These unsecured debentures are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE INA's other senior indebtedness.

In May 2006, ACE INA issued $300 million of 6.7 percent notes due May 2036. These notes are redeemable at any time at ACE INA's option subject to a "make-whole" premium plus 0.20 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. These notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by ACE Limited and they rank equally with all of ACE's other senior obligations. They also contain customary limitation on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

c) Other long-term debt

In August 2005, ACE American borrowed $10 million from the Pennsylvania Industrial Development Authority (PIDA) at a rate of 2.75 percent due September 2020. The proceeds from PIDA were restricted for purposes of defraying construction costs of a new office building. Principal and interest are payable on a monthly basis. The current balance outstanding is $6 million.

In addition, in 1999, ACE American assumed a CIGNA loan of $8 million borrowed from the City of Philadelphia under the Urban Development Action Grant with an imputed rate of 7.1 percent due December 2019. The current amount outstanding is $7 million.

d) ACE INA capital securities

In March 2000, ACE Capital Trust II, a Delaware statutory business trust, publicly issued $300 million of 9.7 percent Capital Securities (the Capital Securities). At the same time, ACE INA purchased $9.2 million of common securities of ACE Capital Trust II.

The Capital Securities mature in April 2030. Distributions on the Capital Securities are payable semi-annually. ACE Capital Trust II may defer these payments for up to ten consecutive semi-annual periods (but no later than April 1, 2030). Any deferred payments would accrue interest compounded semi-annually if ACE INA defers interest on the Subordinated Debentures due 2030 (as defined below).

The sole assets of ACE Capital Trust II consist of $309 million principal amount of 9.7 percent Junior Subordinated Deferrable Interest Debentures (the Subordinated Debentures) issued by ACE INA. The Subordinated Debentures mature in April 2030. Interest on the Subordinated Debentures is payable semi-annually. ACE INA may defer such interest payments (but no later than April 1, 2030), with such deferred payments accruing interest compounded semi-annually. ACE INA may redeem the Subordinated Debentures in the event certain changes in tax or investment company law occur at a redemption price equal to accrued and unpaid interest to the redemption date plus the greater of (i) 100 percent of the principal amount thereof, or

(ii) the sum of the present value of scheduled payments of principal and interest on the debentures from the redemption date to April 1, 2030. The Capital Securities and the ACE Capital Trust II Common Securities will be redeemed upon repayment of the Subordinated Debentures.

ACE Limited has guaranteed, on a subordinated basis, ACE INA's obligations under the Subordinated Debentures, and distributions and other payments due on the Capital Securities. These guarantees, when taken together with ACE's obligations under expense agreements entered into with ACE Capital Trust II, provide a full and unconditional guarantee of amounts due on the Capital Securities.

10. Commitments, contingencies, and guarantees

a) Derivative instruments

Derivative instruments employed

ACE maintains positions in derivative instruments such as futures, options, swaps, and foreign currency forward contracts for which the primary purposes are to manage duration and foreign currency exposure, yield enhancement, or to obtain an exposure to a particular financial market. Along with convertible bonds and to be announced mortgage-backed securities (TBA), discussed below, these are the most numerous and frequent derivative transactions.

ACE maintains positions in convertible bond investments that contain embedded derivatives. In addition, we purchase TBAs as part of our investing activities. These securities are included within the fixed maturities available for sale (FM AFS) portfolio.

Under reinsurance programs covering GLBs, ACE assumes the risk of GLBs, including GMIB and GMAB, associated with variable annuity contracts. The GMIB risk is triggered if, at the time the contract holder elects to convert the accumulated account value to a periodic payment stream (annuitize), the accumulated account value is not sufficient to provide a guaranteed minimum level of monthly income. The GMAB risk is triggered if, at contract maturity, the contract holder's account value is less than a guaranteed minimum value. The GLB reinsurance product meets the definition of a derivative instrument. Benefit reserves in respect of GLBs are classified as Future policy benefits (FPB) while the fair value derivative adjustment is classified within Accounts payable, accrued expenses, and other liabilities (AP). ACE also maintains positions in exchange-traded equity futures contracts and options on equity market indices to limit equity exposure in the GMDB and GLB blocks of business.

In relation to certain debt issuances, ACE, from time to time, has entered into interest rate swap transactions for the purpose of either fixing or reducing borrowing costs. Although the use of these interest rate swaps has the economic effect of fixing or reducing borrowing costs on a net basis, gross interest expense on the related debt issuances is included in Interest expense while the settlements related to the interest rate swaps are reflected in Net realized gains (losses) in the consolidated statements of operations. At December 31, 2011, ACE had no in-force interest rate swaps, having exited such positions upon the repayment of related debt issuances during the fourth quarter of 2010.

ACE buys credit default swaps to mitigate global credit risk exposure, primarily related to reinsurance recoverables.

All derivative instruments are carried at fair value with changes in fair value recorded in Net realized gains (losses) in the consolidated statements of operations. None of the derivative instruments are designated as hedges for accounting purposes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

The following table presents the balance sheet locations, fair values in an asset or (liability) position, and notional values/payment provisions of our derivative instruments:

(in millions of U.S. dollars)	Consolidated Balance Sheet Location	December 31 2011 Fair Value	December 31 2011 Notional Value/ Payment Provision	December 31 2010 Fair Value	December 31 2010 Notional Value/ Payment Provision
Investment and embedded derivative instruments					
Foreign currency forward contracts	AP	$ 7	$ 674	$ 3	$ 729
Futures contracts on money market instruments	AP	7	10,476	3	4,297
Futures contracts on notes and bonds	AP	(4)	1,055	5	676
Options on money market instruments	AP	–	292	–	1
Convertible bonds	FM AFS	357	353	416	382
TBAs	FM AFS	60	56	101	98
		$ 427	$ 12,906	$ 528	$ 6,183
Other derivative instruments					
Futures contracts on equities[1]	AP	$ (16)	$ 1,367	$ (25)	$ 1,069
Options on equity market indices[1]	AP	54	250	46	250
Credit default swaps	AP	3	350	4	350
Other	AP	–	6	–	17
		$ 41	$ 1,973	$ 25	$ 1,686
GLB[2]	AP/FPB	$(1,505)	$ 1,378	$(648)	$ 649

[1] Related to GMDB and GLB blocks of business.

[2] Includes both future policy benefits reserves and fair value derivative adjustment. Refer to Note 5 c) for additional information. Note that the payment provision related to GLB is the net amount at risk. The concept of a notional value does not apply to the GLB reinsurance contracts.

The following table presents net realized gains (losses) related to derivative instrument activity in the consolidated statements of operations:

(in millions of U.S. dollars)	Years Ended December 31 2011	2010
Investment and embedded derivative instruments		
Foreign currency forward contracts	$ 6	$ 21
All other futures contracts and options	(98)	29
Convertible bonds	(50)	7
TBAs	(1)	1
Total investment and embedded derivative instruments	$(143)	$ 58
GLB and other derivative instruments		
GLB[1]	$(779)	$ (28)
Futures contracts on equities[2]	(12)	(140)
Options on equity market indices[2]	8	(10)
Interest rate swaps	–	(21)
Credit default swaps	(4)	1
Other	–	1
Total GLB and other derivative instruments	$(787)	$(197)
	$(930)	$(139)

[1] Excludes foreign exchange gains (losses) related to GLB.

[2] Related to GMDB and GLB blocks of business.

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Derivative instrument objectives

(i) Foreign currency exposure management

A foreign currency forward contract (forward) is an agreement between participants to exchange specific foreign currencies at a future date. ACE uses forwards to minimize the effect of fluctuating foreign currencies.

(ii) Duration management and market exposure

Futures

Futures contracts give the holder the right and obligation to participate in market movements, determined by the index or underlying security on which the futures contract is based. Settlement is made daily in cash by an amount equal to the change in value of the futures contract times a multiplier that scales the size of the contract. Exchange-traded futures contracts on money market instruments, notes and bonds are used in fixed maturity portfolios to more efficiently manage duration, as substitutes for ownership of the money market instruments, bonds and notes without significantly increasing the risk in the portfolio. Investments in futures contracts may be made only to the extent that there are assets under management not otherwise committed.

Exchange-traded equity futures contracts are used to limit exposure to a severe equity market decline, which would cause an increase in expected claims and therefore, reserves for GMDB and GLB reinsurance business.

Options

An option contract conveys to the holder the right, but not the obligation, to purchase or sell a specified amount or value of an underlying security at a fixed price. Option contracts are used in the investment portfolio as protection against unexpected shifts in interest rates, which would affect the duration of the fixed maturity portfolio. By using options in the portfolio, the overall interest rate sensitivity of the portfolio can be reduced. Option contracts may also be used as an alternative to futures contracts in the synthetic strategy as described above.

Another use for option contracts is to limit exposure to a severe equity market decline, which would cause an increase in expected claims and therefore, reserves for GMDB and GLB reinsurance business.

The price of an option is influenced by the underlying security, expected volatility, time to expiration, and supply and demand.

The credit risk associated with the above derivative financial instruments relates to the potential for non-performance by counterparties. Although non-performance is not anticipated, in order to minimize the risk of loss, management monitors the creditworthiness of its counterparties and obtains collateral. The performance of exchange-traded instruments is guaranteed by the exchange on which they trade. For non-exchange-traded instruments, the counterparties are principally banks which must meet certain criteria according to our investment guidelines.

Interest rate swaps

We use interest rate swaps related to certain debt issuances for the purpose of either fixing and/or reducing borrowing costs.

Credit default swaps

A credit default swap is a bilateral contract under which two counterparties agree to isolate and separately trade the credit risk of at least one third-party reference entity. Under a credit default swap agreement, a protection buyer pays a periodic fee to a protection seller in exchange for a contingent payment by the seller upon a credit event (such as a default or failure to pay) related to the reference entity. When a credit event is triggered, the protection seller pays the protection buyer the difference between the fair value of assets and the principal amount. We have purchased a credit default swap to mitigate our global credit risk exposure to one of our reinsurers.

(iii) Convertible security investments

A convertible bond is a debt instrument that can be converted into a predetermined amount of the issuer's equity at certain times prior to the bond's maturity. The convertible option is an embedded derivative within the fixed maturity host instruments which are classified in the investment portfolio as available for sale. ACE purchases convertible bonds for their total return and not specifically for the conversion feature.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

(iv) TBA
By acquiring a TBA, we make a commitment to purchase a future issuance of mortgage-backed securities. For the period between purchase of the TBA and issuance of the underlying security, we account for our position as a derivative in the consolidated financial statements. ACE purchases TBAs both for their total return and for the flexibility they provide related to our mortgage-backed security strategy.

(v) GLB
Under the GLB program, as the assuming entity, ACE is obligated to provide coverage until the expiration or maturity of the underlying annuities. Premiums received under the reinsurance treaties are classified as premium. Expected losses allocated to premiums received are classified as future policy benefits and valued similar to GMDB reinsurance. Other changes in fair value, principally arising from changes in expected losses allocated to expected future premiums, are classified as Net realized gains (losses). Fair value represents management's estimate of exit price and thus, includes a risk margin. We may recognize a realized loss for other changes in fair value due to adverse changes in the capital markets (e.g., declining interest rates and/or declining equity markets) and changes in actual or estimated future policyholder behavior (e.g., increased annuitization or decreased lapse rates) although we expect the business to be profitable. We believe this presentation provides the most meaningful disclosure of changes in the underlying risk within the GLB reinsurance programs for a given reporting period.

b) Concentrations of credit risk
Our investment portfolio is managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single issue and issuer. We believe that there are no significant concentrations of credit risk associated with our investments. Our three largest exposures by issuer at December 31, 2011, were General Electric Company, JP Morgan Chase & Co., and Citigroup Inc. Our largest exposure by industry at December 31, 2011, was financial services.

We market our insurance and reinsurance worldwide primarily through insurance and reinsurance brokers. We assume a degree of credit risk associated with brokers with whom we transact business. During the year ended December 31, 2011, approximately 12 percent of our gross premiums written were generated from or placed by Marsh, Inc. and its affiliates and 10 percent by Aon Corporation and its affiliates. Both of these entities are large, well established companies and there are no indications that either of them is financially troubled at December 31, 2011. No other broker and no one insured or reinsured accounted for more than ten percent of gross premiums written in the three years ended December 31, 2011, 2010, and 2009.

c) Other investments
At December 31, 2011, included in Other investments in the consolidated balance sheet are investments in limited partnerships and partially-owned investment companies with a carrying value of $1,435 million. In connection with these investments, we have commitments that may require funding of up to $777 million over the next several years.

d) Credit facilities
We have a $500 million unsecured revolving credit facility expiring in November 2012 available for general corporate purposes and the issuance of LOCs. Outstanding LOCs issued under this facility were $55 million at December 31, 2011. This facility requires that ACE Limited and/or certain of its subsidiaries continue to maintain certain covenants, including a minimum consolidated net worth covenant and a maximum leverage covenant, which have been met at December 31, 2011.

e) Letters of credit
We have a $1 billion unsecured operational LOC facility expiring in November 2012. At December 31, 2011, $948 million of this facility was utilized. We also have a $500 million unsecured operational LOC facility expiring in September 2014. At December 31, 2011, this facility was fully utilized.

To satisfy funding requirements of ACE's Lloyd's Syndicate 2488 through 2012, we have a series of four bilateral uncollateralized LOC facilities totaling $400 million. LOCs issued under these facilities will expire no earlier than December 2015. At December 31, 2011, $392 million of this facility was utilized.

These facilities require that ACE Limited and/or certain of its subsidiaries continue to maintain certain covenants, including a minimum consolidated net worth covenant and a maximum leverage covenant, which have been met at December 31, 2011.

f) Legal proceedings

(i) Claims and other litigation

Our insurance subsidiaries are subject to claims litigation involving disputed interpretations of policy coverages and, in some jurisdictions, direct actions by allegedly-injured persons seeking damages from policyholders. These lawsuits, involving claims on policies issued by our subsidiaries which are typical to the insurance industry in general and in the normal course of business, are considered in our loss and loss expense reserves. In addition to claims litigation, we are subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance policies. This category of business litigation typically involves, among other things, allegations of underwriting errors or misconduct, employment claims, regulatory activity, or disputes arising from our business ventures. In the opinion of management, our ultimate liability for these matters is not likely to have a material adverse effect on our consolidated financial condition, although it is possible that the effect could be material to our consolidated results of operations for an individual reporting period.

(ii) Business practices litigation

ACE Limited, ACE INA Holdings Inc., and ACE USA, Inc., along with a number of other insurers and brokers, were named in a series of federal putative nationwide class actions brought by insurance policyholders. The Judicial Panel on Multidistrict Litigation (JPML) consolidated these cases in the District of New Jersey. On August 1, 2005, plaintiffs in the New Jersey consolidated proceedings filed two consolidated amended complaints – one concerning commercial insurance and the other concerning employee benefit plans. The employee benefit plans litigation against ACE Limited has been dismissed.

In the commercial insurance complaint, the plaintiffs named ACE Limited, ACE INA Holdings Inc., ACE USA, Inc., ACE American Insurance Co., Illinois Union Insurance Co., and Indemnity Insurance Co. of North America. They allege that certain brokers and insurers, including certain ACE entities, conspired to increase premiums and allocate customers through the use of "B" quotes and contingent commissions. In addition, they allege that the broker defendants received additional income by improperly placing their clients' business with insurers through related wholesale entities that acted as intermediaries between brokers and insurers. Plaintiffs also allege that broker defendants tied the purchase of primary insurance to the placement of such coverage with reinsurance carriers through the broker defendants' reinsurance broker subsidiaries. The complaint asserts the following causes of action against the ACE defendants: Federal Racketeer Influenced and Corrupt Organizations Act (RICO), federal antitrust law, state antitrust law, aiding and abetting breach of fiduciary duty, and unjust enrichment.

In 2006 and 2007, the Court dismissed plaintiffs' first two attempts to properly plead a case without prejudice and permitted plaintiffs one final opportunity to re-plead. The amended complaint, filed on May 22, 2007, purported to add several new ACE defendants: ACE Group Holdings, Inc., ACE US Holdings, Inc., Westchester Fire Insurance Company, INA Corporation, INA Financial Corporation, INA Holdings Corporation, ACE Property and Casualty Insurance Company, and Pacific Employers Insurance Company. Plaintiffs also added a new antitrust claim against Marsh, the ACE defendants, and other insurers based on the same allegations as the other claims but limited to excess casualty insurance. In 2007, the Court granted defendants' motions to dismiss plaintiffs' antitrust and RICO claims with prejudice. The Court also declined to exercise supplemental jurisdiction over plaintiffs' state law claims and dismissed those claims without prejudice. Plaintiffs appealed to the United States Court of Appeals for the Third Circuit. On August 16, 2010, the Third Circuit affirmed, in part, and vacated, in part, the District Court's previous dismissals with instructions for further briefing at the District Court on remand. Defendants renewed their motions consistent with the Third Circuit's instructions. On June 28, 2011, the District Court administratively terminated defendants' motions without prejudice to re-file after adjudication of issues related to a proposed class settlement involving a number of other parties and stayed the case. On October 17, 2011 the Court lifted the stay and indicated that it will issue a new scheduling order in the coming months. The Court has not yet finally approved the proposed class settlement, and has not yet indicated when it will finally resolve all issues such that the ACE defendants may re-file their motions to dismiss.

As of February 23, 2012, plaintiffs have not specified an amount of alleged damages and the Court has not decided defendants' renewed motions to dismiss. The Court has also not determined if this case may proceed as a class action and has, therefore, not determined the size or scope of any class. As a result, ACE is unable to reasonably estimate the potential loss or range of losses, if any, arising from this litigation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

There are a number of federal actions brought by policyholders based on allegations similar to the allegations in the consolidated federal actions that were filed in, or transferred to, the United States District Court for the District of New Jersey for coordination ("tag-along cases"). On October 17, 2011 the Court lifted the stay and indicated that it will issue a new scheduling order in the coming months.

• New Cingular Wireless Headquarters LLC et al. v. Marsh & McLennan Companies, Inc. et al. (Case No. 06-5120; D.N.J.), was originally filed in the Northern District of Georgia on April 4, 2006. ACE Limited, ACE American Ins. Co., ACE USA, Inc., ACE Bermuda Insurance Ltd., Illinois Union Ins. Co., Pacific Employers Ins. Co., and Lloyd's of London Syndicate 2488 AGM, along with a number of other insurers and brokers, are named.

• Avery Dennison Corp. v. Marsh & McLennan Companies, Inc. et al. (Case No. 07-00757; D.N.J.) was filed on February 13, 2007. ACE Limited, ACE INA Holdings Inc., ACE USA, Inc., and ACE American Insurance Co., along with a number of other insurers and brokers, are named.

• Henley Management Co., Inc. et al. v. Marsh, Inc. et al. (Case No. 07-2389; D.N.J.) was filed on May 27, 2007. ACE USA, Inc., along with a number of other insurers and Marsh, Inc., are named.

• Lincoln Adventures LLC et al. v. Those Certain Underwriters at Lloyd's, London Members of Syndicates 0033 et al. (Case No. 07-60991; D.N.J.) was originally filed in the Southern District of Florida on July 13, 2007. Supreme Auto Transport LLC et al. v. Certain Underwriters of Lloyd's of London, et al. (Case No. 07-6703; D.N.J.) was originally filed in the Southern District of New York on July 25, 2007. Lloyd's of London Syndicate 2488 AGM, along with a number of other Lloyd's of London Syndicates and various brokers, are named in both actions. The allegations in these putative class-action lawsuits are similar to the allegations in the consolidated federal actions identified above, although these lawsuits focus on alleged conduct within the London insurance market.

• Sears, Roebuck & Co. et al. v. Marsh & McLennan Companies, Inc. et al. (Case No. 07-2535; D.N.J.) was originally filed in the Northern District of Georgia on October 12, 2007. ACE American Insurance Co., ACE Bermuda Insurance Ltd., and Westchester Surplus Lines Insurance Co., along with a number of other insurers and brokers, are named.

As of February 23, 2012, plaintiffs have not specified an amount of alleged damages in any of the tag-along cases. The proceedings in the tag-along cases were stayed at a very early stage, before the ACE defendants could challenge the sufficiency of the claims with, for example, motions to dismiss. Also, the scope of the tag-along cases, in large part, will be affected by the outcome of the Multidistrict Litigation Court's decision on defendants' renewed motions to dismiss. As a result, ACE is unable to reasonably estimate the potential loss or range of losses, if any, arising from these litigations.

In addition to the related federal cases, there are two pending state cases with allegations similar to those in the consolidated federal actions described above:

• Van Emden Management Corporation v. Marsh & McLennan Companies, Inc., et al. (Case No. 05-0066A; Superior Court of Massachusetts), a class action in Massachusetts, was filed on January 13, 2005. Illinois Union Insurance Company is named. The Van Emden case has been stayed pending resolution of the consolidated proceedings in the District of New Jersey or until further order of the Court.

As of February 23, 2012, plaintiffs have not specified an amount of alleged damages in this case. The proceedings were stayed at a very early stage, before Illinois Union could challenge the sufficiency of the claims with, for example, a motion to dismiss. As a result, ACE is unable to reasonably estimate the potential loss or range of losses, if any, arising from this litigation.

• State of Ohio, ex. rel. Marc E. Dann, Attorney General v. American Int'l Group, Inc. et al. (Case No. 07-633857; Court of Common Pleas in Cuyahoga County, Ohio) is an Ohio state action filed by the Ohio Attorney General on August 24, 2007. ACE INA Holdings Inc., ACE American Insurance Co., ACE Property & Casualty Insurance Co., Insurance Company of North America, and Westchester Fire Insurance Co., along with a number of other insurance companies and Marsh, are named. In December 2011 the ACE parties agreed to settle the case for $1.97 million. On December 27, 2011 the case was voluntarily dismissed with prejudice.

In all of the lawsuits described above, except where specifically noted, plaintiffs seek compensatory and in some cases special damages without specifying an amount. As a result, ACE cannot at this time estimate its potential costs related to these legal matters and, accordingly, no liability for compensatory damages has been established in the consolidated financial statements.

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ACE's ultimate liability for these matters is not likely to have a material adverse effect on ACE's consolidated financial condition, although it is possible that the effect could be material to ACE's consolidated results of operations for an individual reporting period.

g) Lease commitments

We lease office space and equipment in the countries in which we operate under operating leases which expire at various dates through 2033. We renew and enter into new leases in the ordinary course of business as required. Total rent expense with respect to these operating leases was $114 million, $83 million, and $84 million for the years ended December 31, 2011, 2010, and 2009, respectively. Future minimum lease payments under the leases are expected to be as follows:

For the year ending December 31 (in millions of U.S. dollars)	
2012	$ 93
2013	72
2014	60
2015	54
2016	52
Thereafter	166
Total minimum future lease commitments	$497

11. Shareholders' equity

a) Common Shares

All Common Shares of ACE are authorized under Swiss corporate law. Though the par value of Common Shares is stated in Swiss francs, we continue to use U.S. dollars as our reporting currency for preparing the consolidated financial statements. Under Swiss corporate law, we may not generally issue Common Shares below their par value. In the event there is a need to raise common equity at a time when the trading price of ACE's Common Shares is below par value, we will obtain shareholder approval to decrease the par value of the Common Shares.

Under Swiss corporate law, dividends, including distributions through a reduction in par value (par value reduction), must be stated in Swiss francs though dividend payments are made by ACE in U.S. dollars. Dividend distributions following ACE's redomestication to Switzerland in July 2008 through March 2011 were paid in the form of a par value reduction (under the methods approved by our shareholders at our Annual General Meetings) and had the effect of reducing par value per Common Share each time a dividend was distributed. In light of a January 1, 2011 Swiss tax law change, shareholders at our May 2011 Annual General Meeting approved a dividend for the following year from capital contribution reserves (additional paid in capital), a subaccount of legal reserves.

In November 2011, the Board recommended that our shareholders approve a resolution to increase our quarterly dividend from $0.35 per share to $0.47 per share for the payment made on January 31, 2012 and the payment to be made by the end of April 2012. This proposed increase was approved by our shareholders at the January 9, 2012 Extraordinary General Meeting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

b) Shares issued, outstanding, authorized, and conditional

The following table presents a roll-forward of changes in Common Shares issued and outstanding:

	Years Ended December 31		
	2011	2010	2009
Shares issued, beginning of year	**341,094,559**	337,841,616	335,413,501
Shares issued, net	**–**	2,268,000	2,000,000
Exercise of stock options	**1,737,853**	984,943	168,720
Shares issued under ESPP	**–**	–	259,395
Shares issued, end of year	**342,832,412**	341,094,559	337,841,616
Common Shares in treasury, end of year	**(5,905,136)**	(6,151,707)	(1,316,959)
Shares issued and outstanding, end of year	**336,927,276**	334,942,852	336,524,657
Common Shares issued to employee trust			
Balance, beginning of year	**(101,481)**	(101,481)	(108,981)
Shares redeemed	**92,014**	–	7,500
Balance, end of year	**(9,467)**	(101,481)	(101,481)

Decreases in Common Shares in treasury 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 Common Shares in treasury are due to open market repurchases of Common Shares and the surrender of Common Shares to satisfy tax withholding obligations in connection with the vesting of restricted stock and the forfeiture of unvested restricted stock.

For the years ended December 2011, and 2010, ACE repurchased 2,058,860 and 4,926,082 Common Shares in a series of open market transactions, respectively. The cost of these shares, which were placed in treasury, totaled $132 million and $303 million for the years ended December 31, 2011 and 2010, respectively. ACE repurchased these Common Shares to partially offset potential dilution from the exercise of stock options and the granting of restricted stock under share-based compensation plans.

At December 31, 2011 and 2010, 5,905,136 and 6,151,707 Common Shares, respectively, remain in treasury after net shares redeemed under employee share-based compensation plans. Common Shares held in treasury are accounted for at cost.

Common Shares issued to employee trust are issued by ACE to a rabbi trust for deferred compensation obligations as discussed in Note 11 f) below.

Authorized share capital for general purposes

The ACE Limited Board of Directors (Board) has shareholder-approved authority as set forth in the Articles of Association to increase for general purposes ACE's share capital from time to time through May 19, 2012, by the issuance of up to 140,000,000 fully paid up Common Shares, with a par value equal to the par value of ACE's Common Shares as set forth in the Articles of Association at the time of any such issuance. ACE is seeking shareholder approval at its 2012 annual general meeting for a new pool of authorized share capital for general purposes to replace the existing 140,000,000 share pool when it expires.

Conditional share capital for bonds and similar debt instruments

The share capital of ACE may be increased through the issuance of a maximum of 33,000,000 fully paid up Common Shares with a par value of CHF 30.27 each 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, including convertible debt instruments.

Conditional share capital for employee benefit plans

The share capital of ACE may be increased through the issuance of a maximum of 25,410,929 fully paid up Common Shares with a par value of CHF 30.27 each in connection with the exercise of option rights granted to any employee of ACE, and any consultant, director, or other person providing services to ACE.

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c) ACE Limited securities repurchase authorization

In August 2011, the Board authorized the repurchase of up to $303 million of ACE's Common Shares through December 31, 2012. The amount authorized in August 2011 was in addition to the $197 million balance remaining under a $600 million share repurchase program approved in November 2010. These authorizations were granted to allow ACE to repurchase Common Shares to partially offset potential dilution from the exercise of stock options and the granting of restricted stock under share-based compensation plans. 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, 2011, $468 million in share repurchase authorization remained through December 31, 2012, pursuant to the November 2010 and August 2011 Board authorizations.

d) General restrictions

The holders of the 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.

e) Dividends

As discussed above, dividend distributions on Common Shares following ACE's redomestication to Switzerland in July 2008 through March 31, 2011 were paid as a par value reduction while subsequent dividend distributions were funded from capital contribution reserves (Additional paid-in capital) and paid out of free reserves (Retained earnings) under the method approved by our shareholders at the May 2011 Annual General Meeting. Dividend distributions on Common Shares amounted to CHF 1.22 ($1.38) per Common Share (including a par value reduction of CHF 0.30 per Common Share), CHF 1.31 ($1.30) per Common Share, and CHF 1.26 ($1.19) per Common Share for the years ended December 31, 2011, 2010, and 2009, respectively. Par value reductions have been reflected as such through Common Shares in the consolidated statements of shareholders' equity. The par value per Common Share at December 31, 2011, stands at CHF 30.27.

f) Deferred compensation obligation

ACE maintains rabbi trusts for deferred compensation plans principally for employees and former directors. The shares issued by ACE to the rabbi trusts in connection with deferrals of share compensation are classified in shareholders' equity and accounted for at historical cost in a manner similar to Common Shares in treasury. These shares are recorded in Common Shares issued to employee trust and the obligations are recorded in Deferred compensation obligation in the consolidated balance sheets. Changes in the fair value of the shares underlying the obligations are recorded in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets and the related expense or income is recorded in Administrative expenses in the consolidated statements of operations.

The rabbi trusts also hold other assets, such as fixed maturities, equity securities, and life insurance policies. The assets of the rabbi trusts are consolidated with ACE's assets and reflected in Other investments in the consolidated balance sheets. Except for life insurance policies which are reflected at cash surrender value, these assets are classified as trading securities and reported at fair value with changes in fair value reflected in Other (income) expense in the consolidated statements of operations. Except for obligations related to life insurance policies which are carried at cash surrender value, the related deferred compensation obligation is carried at fair value and included in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets with changes reflected as a corresponding increase or decrease to Other (income) expense in the consolidated statements of operations.

12. Share-based compensation

ACE has share-based compensation plans which currently provide for awards of stock options, restricted stock, and restricted stock units to its employees and members of the Board.

ACE principally issues restricted stock grants and stock options on a graded vesting schedule. ACE recognizes compensation cost for restricted stock and stock option grants with only service conditions that have a graded vesting schedule on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance,

multiple awards. We incorporate an estimate of future forfeitures into the determination of compensation cost for both grants of restricted stock and stock options.

During 2004, we established the ACE Limited 2004 Long-Term Incentive Plan (the 2004 LTIP), which replaced our prior incentive plans except for outstanding awards. The 2004 LTIP will continue in effect until terminated by the Board. Under the 2004 LTIP, a total of 30,600,000 Common Shares of ACE are authorized to be issued pursuant to awards made as stock 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) 30,600,000 shares; and (ii) any shares that are represented by awards granted under the prior plans that are forfeited, expired, or are canceled after the effective date of the 2004 LTIP, 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. At December 31, 2011, a total of 9,411,758 shares remain available for future issuance under this plan.

Under the 2004 LTIP, 3,000,000 Common Shares are authorized to be issued under the ESPP. At December 31, 2011, a total of 189,297 Common Shares remain available for issuance under the ESPP.

ACE generally issues Common Shares for the exercise of stock options, restricted stock, and purchases under the ESPP from un-issued reserved shares and Common Shares in treasury.

Share-based compensation expense for stock options and shares issued under the ESPP amounted to $27 million ($15 million after tax), $28 million ($21 million after tax), and $27 million ($11 million after tax) for the years ended December 31, 2011, 2010, and 2009, respectively. For the years ended December 31, 2011, 2010, and 2009, restricted stock expense was $112 million ($73 million after tax), $111 million ($79 million after tax), and $94 million ($75 million after tax), respectively. Unrecognized compensation expense related to the unvested portion of ACE's employee share-based awards was $120 million at December 31, 2011, and is expected to be recognized over a weighted-average period of approximately 1 year.

Stock options
ACE's 2004 LTIP provides for grants of both incentive and non-qualified stock options principally at an option price per share of 100 percent of the fair value of ACE's Common Shares on the date of grant. Stock options are generally granted with a 3-year vesting period and a 10-year term. The stock options vest in equal annual installments over the respective vesting period, which is also the requisite service period.

Included in ACE's share-based compensation expense in the year ended December 31, 2011, is a portion of the cost related to the 2008-2011 stock option grants. The fair value of the stock options was estimated on the date of grant using the Black-Scholes option-pricing model that uses the weighted-average assumptions noted below. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life (estimated period of time from grant to exercise date) was estimated using the historical exercise behavior of employees. Expected volatility was calculated as a blend of (a) historical volatility based on daily closing prices over a period equal to the expected life assumption, (b) long-term historical volatility based on daily closing prices over the period from ACE's initial public trading date through the most recent quarter, and (c) implied volatility derived from ACE's publicly traded options.

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

	Years Ended December 31		
	2011	2010	2009
Dividend yield	**2.2%**	2.5%	2.8%
Expected volatility	**28.8%**	30.3%	45.4%
Risk-free interest rate	**2.3%**	2.5%	2.2%
Forfeiture rate	**6.5%**	7.5%	7.5%
Expected life	**5.4 years**	5.4 years	5.4 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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The following table presents a roll-forward of ACE's stock options:

	Number of Options	Weighted-Average Exercise Price
Options outstanding, December 31, 2008	9,923,563	$ 46.24
Granted	2,339,036	$ 38.60
Exercised	(537,556)	$ 27.71
Forfeited	(241,939)	$ 50.48
Options outstanding, December 31, 2009	11,483,104	$ 45.46
Granted	2,094,227	$ 50.38
Exercised	(1,328,715)	$ 40.11
Forfeited	(305,723)	$ 49.77
Options outstanding, December 31, 2010	11,942,893	$ 46.80
Granted	1,649,824	$ 62.68
Exercised	(2,741,238)	$ 44.45
Forfeited	(271,972)	$ 51.33
Options outstanding, December 31, 2011	10,579,507	$ 49.78
Options exercisable, December 31, 2011	7,044,330	$ 47.80

The weighted-average remaining contractual term was 6.1 years for the stock options outstanding and 4.7 years for the stock options exercisable at December 31, 2011. The total intrinsic value was $215 million for stock options outstanding and $157 million for stock options exercisable at December 31, 2011. The weighted-average fair value for the stock options granted for the years ended December 31, 2011, 2010, and 2009, was $14.67, $12.09, and $12.95, respectively. The total intrinsic value for stock options exercised during the years ended December 31, 2011, 2010, and 2009, was $63 million, $22 million, and $12 million, respectively.

The amount of cash received during the year ended December 31, 2011 from the exercise of stock options was $121 million.

Restricted stock and restricted stock units

ACE's 2004 LTIP provides for grants of restricted stock and restricted stock units with a 4-year vesting period, based on a graded vesting schedule. ACE also grants restricted stock awards to non-management directors which vest at the following year's annual general meeting. The restricted stock is granted at market close price on the date of grant. Each restricted stock unit represents our obligation to deliver to the holder one Common Share upon vesting. Included in our share-based compensation expense for the year ended December 31, 2011, is a portion of the cost related to the restricted stock granted in the years 2007 – 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

The following table presents a roll-forward of our restricted stock. Included in the roll-forward below are 32,660 and 36,248 restricted stock awards that were granted to non-management directors during 2011 and 2010, respectively:

	Number of Restricted Stock	Weighted-Average Grant-Date Fair Value
Unvested restricted stock, December 31, 2008	3,883,230	$ 57.01
Granted	2,603,344	$ 39.05
Vested and issued	(1,447,676)	$ 54.85
Forfeited	(165,469)	$ 51.45
Unvested restricted stock, December 31, 2009	4,873,429	$ 48.25
Granted	2,461,076	$ 51.09
Vested and issued	(1,771,423)	$ 50.79
Forfeited	(257,350)	$ 47.93
Unvested restricted stock, December 31, 2010	5,305,732	$ 48.74
Granted	1,808,745	$ 60.01
Vested and issued	(1,929,189)	$ 50.82
Forfeited	(333,798)	$ 47.46
Unvested restricted stock, December 31, 2011	**4,851,490**	**$ 52.20**

During the years ended December 31, 2011, 2010, and 2009, ACE awarded 261,214 restricted stock units, 326,091 restricted stock units, and 333,104 restricted stock units, respectively, to employees and officers of ACE and its subsidiaries each with a weighted-average grant date fair value of $62.85, $50.36, and $38.75, respectively. At December 31, 2011, the number of unvested restricted stock units was 656,837.

Prior to 2009, ACE granted restricted stock units with a 1-year vesting period to non-management directors. Delivery of Common Shares on account of these restricted stock units to non-management directors is deferred until six months after the date of the non-management directors' termination from the Board. At December 31, 2011, the number of deferred restricted stock units was 226,503.

ESPP

The ESPP gives participating employees the right to purchase Common Shares through payroll deductions during consecutive "Subscription Periods" at a purchase price of 85 percent of the fair value of a Common Share on the Exercise Date ("Purchase Price"). Annual purchases by participants are limited to the number of whole shares that can be purchased by an amount equal to ten percent of the participant's compensation or $25,000, whichever is less. The ESPP has two six-month Subscription Periods, the first of which runs between January 1 and June 30 and the second of which runs between July 1 and December 31 of each year. The amounts that have been collected from participants during a Subscription Period are used on the "Exercise Date" to purchase full shares of Common Shares. An Exercise Date is generally the last trading day of a Subscription Period. The number of shares purchased is equal to the total amount, at the Exercise Date, that has been collected from the participants through payroll deductions for that Subscription Period, divided by the "Purchase Price", rounded down to the next full share. Participants may withdraw from an offering before the exercise date and obtain a refund of the amounts withheld through payroll deductions. Pursuant to the provisions of the ESPP, during 2011, employees paid $11.8 million to purchase 205,812 shares.

13. Pension plans

ACE provides pension benefits to eligible employees and their dependents through various defined contribution plans and defined benefit plans sponsored by ACE. The defined contribution plans include a capital accumulation plan (401(k)) in the U.S. The defined benefit plans consist of various plans offered in certain jurisdictions outside of the U.S. and Bermuda.

Defined contribution plans (including 401(k))

Under these plans, employees' contributions may be supplemented by ACE matching contributions based on the level of employee contribution. These contributions are invested at the election of each employee in one or more of several investment

portfolios offered by a third party investment advisor. Expenses for these plans totaled $96 million, $87 million, and $84 million for the years ended December 31, 2011, 2010, and 2009, respectively.

Defined benefit plans

We maintain non-contributory defined benefit plans that cover certain employees, principally located in Europe and Asia. We do not provide any such plans to U.S.-based employees. We account for pension benefits using the accrual method. Benefits under these plans are based on employees' years of service and compensation during final years of service. All underlying defined benefit plans are subject to periodic actuarial valuation by qualified local actuarial firms using actuarial models in calculating the pension expense and liability for each plan. We use December 31 as the measurement date for our defined benefit pension plans.

At December 31, 2011, the fair value of plan assets and the projected benefit obligation were $434 million and $508 million, respectively. The fair value of plan assets and the projected benefit obligation were $394 million and $487 million, respectively, at December 31, 2010. The accrued pension liability of $74 million at December 31, 2011, and $93 million at December 31, 2010, is included in Accounts payable, accrued expenses, and other liabilities in the consolidated balance sheets.

The defined benefit pension plan contribution for 2012 is expected to be $17 million. The estimated net actuarial loss for the defined benefit pension plans that will be amortized from AOCI into net benefit costs over the next year is $2 million.
Benefit payments were $16 million and $15 million in 2011 and 2010, respectively. Expected future payments are as follows:

For the year ending December 31 (in millions of U.S. dollars)	
2012	$ 22
2013	23
2014	22
2015	24
2016	25
2017-2021	131

14. Other (income) expense

The following table presents the components of Other (income) expense as reflected in the consolidated statements of operations:

	Years Ended December 31		
(in millions of U.S. dollars)	**2011**	2010	2009
Losses from separate account assets	**$ 36**	$ –	$ –
Equity in net (income) loss of partially-owned entities	**(40)**	(81)	39
Federal excise and capital taxes	**20**	19	16
Amortization of intangible assets	**29**	9	11
Noncontrolling interest expense	**2**	14	3
Other[1]	**26**	23	16
Other (income) expense	**$ 73**	$(16)	$ 85

[1] Included in Other are acquisition-related costs of $5 million and $14 million in 2011 and 2010, respectively. Acquisition-related costs were immaterial in 2009.

Other (income) expense includes losses from separate account assets that do not qualify for separate account reporting under GAAP (failed separate accounts). The offsetting movement in the separate account liabilities is included in Policy benefits. Refer to Note 1 i) for additional information. Equity in net (income) loss of partially-owned entities includes our share of net (income) loss related to investment funds, limited partnerships, partially-owned investment companies, and partially-owned insurance companies. Certain federal excise and capital taxes incurred as a result of capital management initiatives are included in Other (income) expense in the consolidated statements of operations. As these are considered capital transactions, they are excluded from underwriting results.

15. Segment information

ACE operates through the following business segments, certain of which represent the aggregation of distinct operating segments: Insurance – North American, Insurance – Overseas General, Global Reinsurance, and Life. These segments distribute their products through various forms of brokers, agencies, and direct marketing programs. All business segments have established relationships with reinsurance intermediaries.

The Insurance – North American segment comprises the operations in the U.S., Canada, and Bermuda. This segment includes the operations of ACE USA (including ACE Canada), ACE Bermuda, ACE Commercial Risk Services, ACE Private Risk Services, ACE Westchester, ACE Agriculture, and various run-off operations. ACE USA is the North American retail operating division which provides a broad array of P&C, A&H, and risk management products and services to a diverse group of commercial and non-commercial enterprises and consumers. ACE Bermuda provides commercial insurance products on an excess basis mainly to a global client base targeting Fortune 1000 companies, covering exposures that are generally low in frequency and high in severity. ACE Commercial Risk Services addresses the insurance needs of small to mid-sized businesses in North America by delivering an array of specialty product solutions for targeted industries that lend themselves to technology-assisted underwriting. ACE Private Risk Services provides personal lines coverages for high net worth individuals and families in North America. ACE Westchester specializes in the North American wholesale distribution of excess and surplus P&C, environmental, professional and inland marine products. ACE Agriculture provides comprehensive Multi-Peril Crop Insurance and crop/hail insurance protection to customers throughout the U.S. and Canada through Rain and Hail and Agribusiness insurance through Penn Millers Insurance Company. The run-off operations include Brandywine, Commercial Insurance Services, residual market workers' compensation business, pools and syndicates not attributable to a single business group, and other exited lines of business. Run-off operations do not actively sell insurance products, but are responsible for the management of existing policies and settlement of related claims.

The Insurance – Overseas General segment comprises ACE International, our global retail insurance operations, the wholesale insurance business of ACE Global Markets, and the international A&H and life business of Combined Insurance. ACE International is our retail business serving territories outside the U.S., Bermuda, and Canada, and maintains a presence in every major insurance market in the world and is organized geographically along product lines that provide dedicated underwriting focus to customers. ACE International has four regions of operations: ACE Europe, ACE Asia Pacific, ACE Far East, and ACE Latin America. Companies within the Insurance – Overseas General segment write a variety of insurance products including P&C, professional lines (D&O and E&O), marine, energy, aviation, political risk, specialty consumer-oriented products, and A&H (principally accident and supplemental health). ACE Global Markets, our London-based excess and surplus lines business, includes Lloyd's Syndicate 2488, offers products through its parallel distribution network via ACE European Group Limited (AEGL) and Lloyd's Syndicate 2488. ACE provides funds at Lloyd's to support underwriting by Syndicate 2488, which is managed by ACE Underwriting Agencies Limited. ACE Global Markets utilizes Syndicate 2488 to underwrite P&C business on a global basis through Lloyd's worldwide licenses. ACE Global Markets utilizes 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. The reinsurance operation of ACE Global Markets is included in the Global Reinsurance segment. Combined Insurance distributes a wide range of supplemental accident and health products.

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. These divisions provide a broad range of property catastrophe, casualty, and property reinsurance coverages to a diverse array of primary P&C insurers. The Global Reinsurance segment also includes ACE Global Markets' reinsurance operations.

The Life segment includes 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. ACE Life provides a broad portfolio of protection and savings products including whole life, endowment plans, individual term life, group term life, group medical, personal accident, universal life and unit linked contracts through multiple distribution channels primarily in emerging markets, including Egypt, Indonesia, Taiwan, Thailand, Vietnam, the United Arab Emirates, throughout Latin America, selectively in Europe, as well as China through a partially-owned insurance company. ACE Life also includes the newly acquired business of New York Life's Korea operations and Hong Kong operations which expands our presence in the North Asia market and complements our life insurance business established in that region. ACE Life Re helps clients (ceding companies) manage mortality, morbidity, and lapse risks embedded in their books of business. 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

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. Combined Insurance distributes specialty individual accident and supplemental health and life insurance products targeted to middle income consumers in the U.S. and Canada.

Corporate and Other (Corporate) includes ACE Limited, ACE Group Management and Holdings Ltd., ACE INA Holdings, Inc., and intercompany eliminations. Losses and loss expenses arise in connection with the commutation of ceded reinsurance contracts that result from a differential between the consideration received from reinsurers and the related reduction of reinsurance recoverable, principally related to the time value of money. Due to our initiatives to reduce reinsurance recoverable balances and thereby encourage such commutations, losses recognized in connection with the commutation of ceded reinsurance contracts are generally not considered when assessing segment performance and, accordingly, are directly allocated to Corporate. ACE also eliminates the impact of intersegment loss portfolio transfer transactions which are not reflected in the results within the statements of operations by segment.

For segment reporting purposes, certain items have been presented in a different manner than in the consolidated financial statements. Management uses underwriting income as the main measure of segment performance. ACE calculates underwriting income by subtracting Losses and loss expenses, Policy benefits, Policy acquisition costs, and Administrative expenses from Net premiums earned. For the Life business, management also includes Net investment income and gains (losses) from separate account assets that do not qualify for separate account reporting as components of underwriting income. For the year ended December 31, 2011, Life underwriting income of $424 million includes net investment income of $224 million and Losses from separate account assets of $36 million.

The following tables present the operations by segment:

Statement of Operations by Segment

For the year ended December 31, 2011 (in millions of U.S. dollars)	Insurance – North American	Insurance – Overseas General	Global Reinsurance	Life	Corporate and Other	ACE Consolidated
Net premiums written	$ 6,851	$ 5,756	$ 979	$1,786	$ –	$ 15,372
Net premiums earned	6,911	5,737	1,003	1,736	–	15,387
Losses and loss expenses	5,276	3,073	621	549	1	9,520
Policy benefits	–	–	–	401	–	401
Policy acquisition costs	613	1,393	185	255	1	2,447
Administrative expenses	592	945	52	295	168	2,052
Underwriting income (loss)	430	326	145	236	(170)	967
Net investment income	1,170	548	287	224	13	2,242
Net realized gains (losses) including OTTI	34	33	(50)	(806)	(6)	(795)
Interest expense	15	5	2	11	217	250
Other (income) expense:						
Losses from separate account assets	–	–	–	36	–	36
Other	5	–	(1)	18	15	37
Income tax expense (benefit)	394	169	30	50	(137)	506
Net income (loss)	$ 1,220	$ 733	$ 351	$ (461)	$ (258)	$ 1,585

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

ACE Limited and Subsidiaries

Statement of Operations by Segment

For the year ended December 31, 2010 (in millions of U.S. dollars)	Insurance – North American	Insurance – Overseas General	Global Reinsurance	Life	Corporate and Other	ACE Consolidated
Net premiums written	$ 5,797	$ 5,280	$ 1,075	$1,556	$ –	$ 13,708
Net premiums earned	5,651	5,240	1,071	1,542	–	13,504
Losses and loss expenses	3,918	2,647	518	496	–	7,579
Policy benefits	–	4	–	353	–	357
Policy acquisition costs	625	1,251	204	257	–	2,337
Administrative expenses	561	840	55	228	174	1,858
Underwriting income (loss)	547	498	294	208	(174)	1,373
Net investment income	1,138	475	288	172	(3)	2,070
Net realized gains (losses) including OTTI	417	123	93	(192)	(9)	432
Interest expense	9	1	–	3	211	224
Other (income) expense	(22)	(13)	(23)	20	22	(16)
Income tax expense (benefit)	436	173	42	62	(154)	559
Net income (loss)	$ 1,679	$ 935	$ 656	$ 103	$ (265)	$ 3,108

Statement of Operations by Segment

For the year ended December 31, 2009 (in millions of U.S. dollars)	Insurance – North American	Insurance – Overseas General	Global Reinsurance	Life	Corporate and Other	ACE Consolidated
Net premiums written	$ 5,641	$ 5,145	$ 1,038	$1,475	$ –	$ 13,299
Net premiums earned	5,684	5,147	979	1,430	–	13,240
Losses and loss expenses	4,013	2,597	330	482	–	7,422
Policy benefits	–	4	–	321	–	325
Policy acquisition costs	517	1,202	195	216	–	2,130
Administrative expenses	572	783	55	243	158	1,811
Underwriting income (loss)	582	561	399	168	(158)	1,552
Net investment income	1,094	479	278	176	4	2,031
Net realized gains (losses) including OTTI	10	(20)	(17)	(15)	(154)	(196)
Interest expense	1	–	–	–	224	225
Other (income) expense	36	20	2	2	25	85
Income tax expense (benefit)	384	186	46	48	(136)	528
Net income (loss)	$ 1,265	$ 814	$ 612	$ 279	$ (421)	$ 2,549

Underwriting assets are reviewed in total by management for purpose of decision-making. Other than goodwill, ACE does not allocate assets to its segments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

The following table presents the net premiums earned for each segment by product:

For the year ended December 31, 2011 (in millions of U.S. dollars)	Property & All Other	Casualty	Life, Accident & Health	ACE Consolidated
Insurance – North American	**$ 3,174**	**$ 3,380**	**$ 357**	**$ 6,911**
Insurance – Overseas General	**2,080**	**1,415**	**2,242**	**5,737**
Global Reinsurance	**458**	**545**	**–**	**1,003**
Life	**–**	**–**	**1,736**	**1,736**
	$ 5,712	**$ 5,340**	**$ 4,335**	**$ 15,387**
For the year ended December 31, 2010				
Insurance – North American	$ 1,578	$ 3,777	$ 296	$ 5,651
Insurance – Overseas General	1,800	1,424	2,016	5,240
Global Reinsurance	520	551	–	1,071
Life	–	–	1,542	1,542
	$ 3,898	$ 5,752	$ 3,854	$ 13,504
For the year ended December 31, 2009				
Insurance – North American	$ 1,690	$ 3,734	$ 260	$ 5,684
Insurance – Overseas General	1,787	1,420	1,940	5,147
Global Reinsurance	546	433	–	979
Life	–	–	1,430	1,430
	$ 4,023	$ 5,587	$ 3,630	$ 13,240

The following table presents ACE's net premiums earned by geographic region. Allocations have been made on the basis of location of risk:

Year ended	North America	Europe	Asia Pacific/Far East	Latin America
2011	**61%**	**18%**	**14%**	**7%**
2010	61%	20%	13%	6%
2009	63%	20%	12%	5%

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16. Earnings per share

As discussed in Note 1, the following table presents the computation of basic and diluted earnings per share:

	Years Ended December 31		
(in millions of U.S. dollars, except share and per share data)	**2011**	2010	2009
Numerator:			
Net Income	**$ 1,585**	$ 3,108	$ 2,549
Denominator:			
Denominator for basic earnings per share:			
Weighted-average shares outstanding	**338,159,409**	339,685,143	336,725,625
Denominator for diluted earnings per share:			
Share-based compensation plans	**2,620,815**	1,561,244	813,669
Adjusted weighted-average shares outstanding and assumed conversions	**340,780,224**	341,246,387	337,539,294
Basic earnings per share	**$ 4.68**	$ 9.15	$ 7.57
Diluted earnings per share	**$ 4.65**	$ 9.11	$ 7.55

Excluded from adjusted weighted-average shares outstanding and assumed conversions is the impact of securities that would have been anti-dilutive during the respective years. For the years ended December 31, 2011, 2010, and 2009, the potential anti-dilutive share conversions were 111,326 shares, 256,868 shares, and 1,230,881 shares, respectively.

17. Related party transactions

The ACE Foundation – Bermuda is an unconsolidated not-for-profit organization whose primary purpose is to fund charitable causes in Bermuda. The Trustees are principally ACE management. ACE maintains a non-interest bearing demand note receivable from the ACE Foundation – Bermuda, the balance of which was $29 million and $30 million, at December 31, 2011 and 2010, respectively. The receivable is included in Other assets in the consolidated balance sheets. The borrower has used the related proceeds to finance investments in Bermuda real estate, some of which have been rented to ACE employees at rates established by independent, professional real estate appraisers. The borrower uses income from the investments to both repay the note and to fund charitable activities. Accordingly, we report the demand note at the lower of its principal value or the fair value of assets held by the borrower to repay the loan, including the real estate properties.

18. Statutory financial information

ACE's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate. These regulations include restrictions that limit the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the insurance regulatory authorities.

There are no statutory restrictions on the payment of dividends from retained earnings by any of the Bermuda subsidiaries as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid-in capital of each of the Bermuda subsidiaries.

Our U.S. subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by insurance regulators.

Statutory accounting differs from GAAP in the reporting of certain reinsurance contracts, investments, subsidiaries, acquisition expenses, fixed assets, deferred income taxes, and certain other items. The statutory capital and surplus of the U.S. subsidiaries met regulatory requirements for 2011, 2010, and 2009. The amount of dividends available to be paid in 2012, without prior approval from the state insurance departments, totals $653 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

The following table presents the combined statutory capital and surplus and statutory net income (loss) of the Bermuda, U.S., and Swiss subsidiaries at and for the years ended December 31, 2011, 2010, and 2009:

(in millions of U.S. dollars)	Bermuda Subsidiaries		
	2011	2010	2009
Statutory capital and surplus	**$11,786**	$11,484	$9,164
Statutory net income	**$ 713**	$ 2,175	$2,369
	U.S. Subsidiaries		
	2011	2010	2009
Statutory capital and surplus	**$ 5,851**	$ 6,279	$5,885
Statutory net income	**$ 693**	$ 1,025	$ 904
	Swiss Subsidiaries		
	2011	2010	2009
Statutory capital and surplus	**$ 578**	$ 518	$ 468
Statutory net income (loss)	**$ 20**	$ 35	$ (12)

As permitted by the Restructuring discussed previously in Note 7, certain of our U.S. subsidiaries discount certain A&E liabilities, which increased statutory capital and surplus by approximately $192 million, $206 million, and $215 million at December 31, 2011, 2010, and 2009, respectively.

Our international subsidiaries prepare statutory financial statements based on local laws and regulations. Some jurisdictions impose complex regulatory requirements on insurance companies while other jurisdictions impose fewer requirements. In some countries, we must obtain licenses issued by governmental authorities to conduct local insurance business. These licenses may be subject to reserves and minimum capital and solvency tests. Jurisdictions may impose fines, censure, and/or criminal sanctions for violation of regulatory requirements.

19. Information provided in connection with outstanding debt of subsidiaries

The following tables present condensed consolidating financial information at December 31, 2011 and December 31, 2010, and for the years ended December 31, 2011, 2010, and 2009 for ACE Limited (the Parent Guarantor) and ACE INA Holdings, Inc. (the Subsidiary Issuer). The Subsidiary Issuer is an indirect 100 percent-owned subsidiary of the Parent Guarantor. Investments in subsidiaries are accounted for by the Parent Guarantor under the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are reflected in the Parent Guarantor's investment accounts and earnings. The Parent Guarantor fully and unconditionally guarantees certain of the debt of the Subsidiary Issuer. Condensed consolidating financial information of the Subsidiary Issuer is presented on a consolidated basis and consists principally of the net assets, results of operations, and cash flows of operating insurance company subsidiaries.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

ACE Limited and Subsidiaries

Condensed Consolidating Balance Sheet at December 31, 2011

(in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments[2]	ACE Limited Consolidated
Assets					
Investments	$ 33	$ 28,848	$ 26,795	$ –	$ 55,676
Cash	106	382	126	–	614
Insurance and reinsurance balances receivable	–	3,944	443	–	4,387
Reinsurance recoverable on losses and loss expenses	–	17,146	(4,757)	–	12,389
Reinsurance recoverable on policy benefits	–	941	(692)	–	249
Value of business acquired	–	648	–	–	648
Goodwill and other intangible assets	–	4,280	551	–	4,831
Investments in subsidiaries	24,055	–	–	(24,055)	–
Due from subsidiaries and affiliates, net	498	–	–	(498)	–
Other assets	8	7,181	1,522	–	8,711
Total assets	$ 24,700	$ 63,370	$ 23,988	$ (24,553)	$ 87,505
Liabilities					
Unpaid losses and loss expenses	$ –	$ 30,837	$ 6,640	$ –	$ 37,477
Unearned premiums	–	5,416	918	–	6,334
Future policy benefits	–	3,673	601	–	4,274
Due to subsidiaries and affiliates, net	–	316	182	(498)	–
Short-term debt	–	850	401	–	1,251
Long-term debt	–	3,360	–	–	3,360
Trust preferred securities	–	309	–	–	309
Other liabilities	184	7,769	2,031	–	9,984
Total liabilities	184	52,530	10,773	(498)	62,989
Total shareholders’ equity	24,516	10,840	13,215	(24,055)	24,516
Total liabilities and shareholders’ equity	$ 24,700	$ 63,370	$ 23,988	$ (24,553)	$ 87,505

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

(2) Includes ACE Limited parent company eliminations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Balance Sheet at December 31, 2010

(in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments[2]	ACE Limited Consolidated
Assets					
Investments	$ 47	$ 26,718	$ 24,642	$ –	$ 51,407
Cash[3]	308	573	(109)	–	772
Insurance and reinsurance balances receivable	–	3,710	523	–	4,233
Reinsurance recoverable on losses and loss expenses	–	16,877	(4,006)	–	12,871
Reinsurance recoverable on policy benefits	–	959	(678)	–	281
Value of business acquired	–	634	–	–	634
Goodwill and other intangible assets	–	4,113	551	–	4,664
Investments in subsidiaries	22,529	–	–	(22,529)	–
Due from subsidiaries and affiliates, net	564	–	–	(564)	–
Other assets	14	7,045	1,434	–	8,493
Total assets	$ 23,462	$ 60,629	$ 22,357	$ (23,093)	$ 83,355
Liabilities					
Unpaid losses and loss expenses	$ –	$ 30,430	$ 6,961	$ –	$ 37,391
Unearned premiums	–	5,379	951	–	6,330
Future policy benefits	–	2,495	611	–	3,106
Due to subsidiaries and affiliates, net	–	555	9	(564)	–
Short-term debt	300	1,000	–	–	1,300
Long-term debt	–	3,358	–	–	3,358
Trust preferred securities	–	309	–	–	309
Other liabilities	188	7,394	1,005	–	8,587
Total liabilities	488	50,920	9,537	(564)	60,381
Total shareholders' equity	22,974	9,709	12,820	(22,529)	22,974
Total liabilities and shareholders' equity	$ 23,462	$ 60,629	$ 22,357	$ (23,093)	$ 83,355

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

(2) Includes ACE Limited parent company eliminations.

(3) ACE maintains two notional multi-currency cash pools (Pools) with a third-party bank. At December 31, 2010, the cash balance of one or more entities was negative; however, the overall Pool balances were positive. Refer to Note 1 f) for additional information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

ACE Limited and Subsidiaries

Condensed Consolidating Statement of Operations

For the year ended December 31, 2011 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments[2]	ACE Limited Consolidated
Net premiums written	$ –	$ 9,081	$ 6,291	$ –	$ 15,372
Net premiums earned	–	9,082	6,305	–	15,387
Net investment income	2	1,096	1,144	–	2,242
Equity in earnings of subsidiaries	1,504	–	–	(1,504)	–
Net realized gains (losses) including OTTI	(4)	62	(853)	–	(795)
Losses and loss expenses	–	5,889	3,631	–	9,520
Policy benefits	–	192	209	–	401
Policy acquisition costs and administrative expenses	69	2,520	1,910	–	4,499
Interest (income) expense	(37)	267	20	–	250
Other (income) expense	(125)	135	63	–	73
Income tax expense	10	422	74	–	506
Net income	$ 1,585	$ 815	$ 689	$ (1,504)	$ 1,585

Condensed Consolidating Statement of Operations

For the year ended December 31, 2010 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments[2]	ACE Limited Consolidated
Net premiums written	$ –	$ 8,195	$ 5,513	$ –	$ 13,708
Net premiums earned	–	7,940	5,564	–	13,504
Net investment income	1	1,011	1,058	–	2,070
Equity in earnings of subsidiaries	3,066	–	–	(3,066)	–
Net realized gains (losses) including OTTI	(42)	303	171	–	432
Losses and loss expenses	–	4,910	2,669	–	7,579
Policy benefits	–	148	209	–	357
Policy acquisition costs and administrative expenses	70	2,372	1,753	–	4,195
Interest (income) expense	(37)	251	10	–	224
Other (income) expense	(123)	95	12	–	(16)
Income tax expense	7	447	105	–	559
Net income	$ 3,108	$ 1,031	$ 2,035	$ (3,066)	$ 3,108

[1] Includes all other subsidiaries of ACE Limited and intercompany eliminations.

[2] Includes ACE Limited parent company eliminations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Statement of Operations

For the year ended December 31, 2009 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	Consolidating Adjustments[2]	ACE Limited Consolidated
Net premiums written	$ –	$ 7,407	$ 5,892	$ –	$ 13,299
Net premiums earned	–	7,411	5,829	–	13,240
Net investment income	1	1,003	1,027	–	2,031
Equity in earnings of subsidiaries	2,636	–	–	(2,636)	–
Net realized gains (losses) including OTTI	(75)	75	(196)	–	(196)
Losses and loss expenses	–	4,620	2,802	–	7,422
Policy benefits	–	84	241	–	325
Policy acquisition costs and administrative expenses	54	2,180	1,707	–	3,941
Interest (income) expense	(43)	261	7	–	225
Other (income) expense	7	44	34	–	85
Income tax expense (benefit)	(5)	395	138	–	528
Net income	$ 2,549	$ 905	$ 1,731	$ (2,636)	$ 2,549

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

(2) Includes ACE Limited parent company eliminations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2011 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Net cash flows from operating activities	$ 762	$ 1,053	$ 2,395	$ (740)	$ 3,470
Cash flows from investing activities					
Purchases of fixed maturities available for sale	–	(12,203)	(12,375)	–	(24,578)
Purchases of fixed maturities held to maturity	–	(338)	(2)	–	(340)
Purchases of equity securities	–	(157)	(152)	–	(309)
Sales of fixed maturities available for sale	9	9,718	8,244	–	17,971
Sales of equity securities	–	354	22	–	376
Maturities and redemptions of fixed maturities available for sale	–	1,784	1,936	–	3,720
Maturities and redemptions of fixed maturities held to maturity	–	933	346	–	1,279
Net derivative instruments settlements	(3)	(24)	(40)	–	(67)
Capital contribution to subsidiaries	(385)	–	–	385	–
Advances (to) from affiliates	41	–	–	(41)	–
Acquisition of subsidiaries (net of cash acquired of $91)	–	(569)	(37)	–	(606)
Other	–	(420)	(62)	–	(482)
Net cash flows used for investing activities	(338)	(922)	(2,120)	344	(3,036)
Cash flows from financing activities					
Dividends paid on Common Shares	(459)	–	–	–	(459)
Common Shares repurchased	–	–	(195)	–	(195)
Net proceeds from issuance (repayment) of short-term debt	(300)	(150)	400	–	(50)
Proceeds from share-based compensation plans	133	–	–	–	133
Advances (to) from affiliates	–	(149)	108	41	–
Dividends to parent company	–	–	(740)	740	–
Capital contribution from parent	–	–	385	(385)	–
Tax benefit on share-based compensation expense	–	3	3	–	6
Net cash flows used for financing activities	(626)	(296)	(39)	396	(565)
Effect of foreign currency rate changes on cash and cash equivalents	–	(26)	(1)	–	(27)
Net increase (decrease) in cash	(202)	(191)	235	–	(158)
Cash – beginning of period(3)	308	573	(109)	–	772
Cash – end of period	$ 106	$ 382	$ 126	$ –	$ 614

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

(2) Includes ACE Limited parent company eliminations.

(3) ACE maintains two notional multi-currency cash pools with a third-party bank. At December 31, 2010, the cash balance of one or more entities was negative; however, the overall notional multi-currency cash pool balances were positive. Refer to Note 1 f) for additional information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2010 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Net cash flows from operating activities	$ (176)	$ 1,798	$ 2,124	$ (200)	$ 3,546
Cash flows from investing activities					
Purchases of fixed maturities available for sale	(1)	(13,785)	(17,470)	–	(31,256)
Purchases of fixed maturities held to maturity	–	(615)	(1)	–	(616)
Purchases of equity securities	–	(107)	(687)	–	(794)
Sales of fixed maturities available for sale	–	10,225	14,054	–	24,279
Sales of equity securities	–	17	757	–	774
Maturities and redemptions of fixed maturities available for sale	–	1,845	1,815	–	3,660
Maturities and redemptions of fixed maturities held to maturity	–	1,142	211	–	1,353
Net derivative instruments settlements	(3)	(10)	(96)	–	(109)
Capital contribution to subsidiaries	(290)	–	–	290	–
Advances (to) from affiliates	851	–	–	(851)	–
Acquisition of subsidiaries (net of cash acquired of $80)	–	(1,139)	–	–	(1,139)
Other	–	(253)	(80)	–	(333)
Net cash flows from (used for) investing activities	557	(2,680)	(1,497)	(561)	(4,181)
Cash flows from financing activities					
Dividends paid on Common Shares	(435)	–	–	–	(435)
Common shares repurchased	–	–	(235)	–	(235)
Proceeds from share-based compensation plans	63	–	–	–	63
Net proceeds from issuance of short-term debt	300	841	–	–	1,141
Net proceeds from issuance of long-term debt	–	199	–	–	199
Advances (to) from affiliates	–	3	(854)	851	–
Dividends to parent company	–	–	(200)	200	–
Capital contribution from parent	–	–	290	(290)	–
Tax expense on share-based compensation expense	–	–	(1)	–	(1)
Net cash flows from (used for) financing activities	(72)	1,043	(1,000)	761	732
Effect of foreign currency rate changes on cash and cash equivalents	–	12	(6)	–	6
Net increase (decrease) in cash	309	173	(379)	–	103
Cash – beginning of period(3)	(1)	400	270	–	669
Cash – end of period(3)	$ 308	$ 573	$ (109)	$ –	$ 772

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

(2) Includes ACE Limited parent company eliminations.

(3) ACE maintains two notional multi-currency cash pools with a third-party bank. At December 31, 2010 and 2009, the cash balance of one or more entities was negative; however, the overall notional multi-currency cash pool balances were positive. Refer to Note 1 f) for additional information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
ACE Limited and Subsidiaries

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2009 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Net cash flows from operating activities	$ 594	$ 1,888	$ 1,203	$ (350)	$ 3,335
Cash flows from investing activities					
Purchases of fixed maturities available for sale	–	(16,877)	(20,383)	–	(37,260)
Purchases of fixed maturities held to maturity	–	(457)	(15)	–	(472)
Purchases of equity securities	–	(186)	(168)	–	(354)
Sales of fixed maturities available for sale	88	12,650	16,916	–	29,654
Sales of fixed maturities held to maturity	–	10	1	–	11
Sales of equity securities	–	544	728	–	1,272
Maturities and redemptions of fixed maturities available for sale	–	1,792	1,612	–	3,404
Maturities and redemptions of fixed maturities held to maturity	–	410	104	–	514
Net derivative instruments settlements	–	(6)	(86)	–	(92)
Capital contribution to subsidiaries	(90)	–	–	90	–
Advances (to) from affiliates	(174)	–	–	174	–
Other	(4)	(14)	117	–	99
Net cash flows used for investing activities	(180)	(2,134)	(1,174)	264	(3,224)
Cash flows from financing activities					
Dividends paid on Common Shares	(388)	–	–	–	(388)
Net repayment of short-term debt	–	(466)	–	–	(466)
Net proceeds from issuance of long-term debt	–	500	–	–	500
Proceeds from share-based compensation plans	25	–	–	–	25
Advances from (to) affiliates	–	156	18	(174)	–
Dividends to parent company	–	–	(350)	350	–
Capital contribution from parent	–	–	90	(90)	–
Tax benefit on share-based compensation expense	–	6	2	–	8
Net cash flows from (used for) financing activities	(363)	196	(240)	86	(321)
Effect of foreign currency rate changes on cash and cash equivalents	–	8	4	–	12
Net increase (decrease) in cash	51	(42)	(207)	–	(198)
Cash – beginning of year(3)	(52)	442	477	–	867
Cash – end of year(3)	$ (1)	$ 400	$ 270	$ –	$ 669

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

(2) Includes ACE Limited parent company eliminations.

(3) ACE maintains two notional multi-currency cash pools with a third-party bank. At December 31, 2009, and 2008, the cash balance of one or more entities was negative; however, the overall notional multi-currency cash pool balances were positive. Refer to Note 1 f) for additional information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

ACE Limited and Subsidiaries

20. Condensed unaudited quarterly financial data

(in millions of U.S. dollars, except per share data)	Three Months Ended March 31 2011	June 30 2011	September 30 2011	December 31 2011
Net premiums earned	$ 3,309	$ 3,757	$ 4,490	$ 3,831
Net investment income	544	569	564	565
Net realized gains (losses) including OTTI	(45)	(73)	(760)	83
Total revenues	$ 3,808	$ 4,253	$ 4,294	$ 4,479
Losses and loss expenses	$ 2,263	$ 2,226	$ 2,745	$ 2,286
Policy benefits	$ 91	$ 108	$ 83	$ 119
Net income (loss)	$ 259	$ 607	$ (31)	$ 750
Basic earnings per share	$ 0.77	$ 1.79	$ (0.09)	$ 2.22
Diluted earnings per share	$ 0.76	$ 1.77	$ (0.09)	$ 2.20

(in millions of U.S. dollars, except per share data)	Three Months Ended March 31 2010	June 30 2010	September 30 2010	December 31 2010
Net premiums earned	$3,277	$3,233	$ 3,422	$ 3,572
Net investment income	504	518	516	532
Net realized gains (losses) including OTTI	168	9	(50)	305
Total revenues	$3,949	$3,760	$ 3,888	$ 4,409
Losses and loss expenses	$1,921	$1,800	$ 1,887	$ 1,971
Policy benefits	$ 87	$ 87	$ 93	$ 90
Net income	$ 755	$ 677	$ 675	$ 1,001
Basic earnings per share	$ 2.23	$ 1.99	$ 1.98	$ 2.94
Diluted earnings per share	$ 2.22	$ 1.98	$ 1.97	$ 2.92

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SCHEDULE I
ACE Limited and Subsidiaries

SUMMARY OF INVESTMENTS – OTHER THAN INVESTMENTS IN RELATED PARTIES

December 31, 2011 (in millions of U.S. dollars)	Cost or Amortized Cost	Fair Value	Amount at Which Shown in the Balance Sheet
Fixed maturities available for sale			
U.S. Treasury and agency	$ 2,774	$ 2,960	$ 2,960
Foreign	12,025	12,401	12,401
Corporate securities	14,055	14,693	14,693
Mortgage-backed securities	9,979	10,201	10,201
States, municipalities, and political subdivisions	1,617	1,712	1,712
Total fixed maturities available for sale	40,450	41,967	41,967
Fixed maturities held to maturity			
U.S. Treasury and agency	1,078	1,126	1,078
Foreign	935	930	935
Corporate securities	2,338	2,337	2,338
Mortgage-backed securities	2,949	3,036	2,949
States, municipalities, and political subdivisions	1,147	1,176	1,147
Total fixed maturities held to maturity	8,447	8,605	8,447
Equity securities			
Industrial, miscellaneous, and all other	671	647	647
Short-term investments	2,301	2,301	2,301
Other investments	2,112	2,314	2,314
	4,413	4,615	4,615
Total investments – other than investments in related parties	$ 53,981	$ 55,834	$ 55,676

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SCHEDULE II
ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS (Parent Company Only)

(in millions of U.S. dollars)	December 31 2011	December 31 2010
Assets		
Investments in subsidiaries and affiliates on equity basis	$ 24,055	$ 22,529
Short-term investments	1	10
Other investments, at cost	32	37
Total investments	24,088	22,576
Cash	106	308
Due from subsidiaries and affiliates, net	498	564
Other assets	8	14
Total assets	$ 24,700	$ 23,462
Liabilities		
Accounts payable, accrued expenses, and other liabilities	$ 65	$ 76
Dividends payable	119	112
Short-term debt	–	300
Total liabilities	184	488
Shareholders' equity		
Common Shares	10,095	10,161
Common Shares in treasury	(327)	(330)
Additional paid-in capital	5,326	5,623
Retained earnings	7,511	5,926
Deferred compensation obligation	–	2
Accumulated other comprehensive income	1,911	1,594
Common Shares issued to employee trust	–	(2)
Total shareholders' equity	24,516	22,974
Total liabilities and shareholders' equity	$ 24,700	$ 23,462

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

SCHEDULE II (continued)
ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF OPERATIONS (Parent Company Only)

	Years Ended December 31		
(in millions of U.S. dollars)	**2011**	2010	2009
Revenues			
Investment income, including intercompany interest income	**$ 39**	$ 38	$ 44
Equity in net income of subsidiaries and affiliates	**1,504**	3,066	2,636
Net realized gains (losses)	**(4)**	(42)	(75)
	1,539	3,062	2,605
Expenses			
Administrative and other (income) expense	**(56)**	(53)	61
Income tax expense (benefit)	**10**	7	(5)
	(46)	(46)	56
Net income	**$1,585**	$3,108	$2,549

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

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SCHEDULE II (continued)
ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF CASH FLOWS (Parent Company Only)

(in millions of U.S. dollars)	Years Ended December 31 2011	2010	2009
Net cash flows from operating activities	**$ 762**	$(176)	$ 594
Cash flows from investing activities			
Purchases of fixed maturities available for sale	**–**	(1)	–
Sales of fixed maturities available for sale	**9**	–	88
Net derivative instruments settlements	**(3)**	(3)	–
Capital contribution to subsidiaries	**(385)**	(290)	(90)
Advances (to) from affiliates	**41**	851	(174)
Other	**–**	–	(4)
Net cash flows from (used for) investing activities	**(338)**	557	(180)
Cash flows from financing activities			
Dividends paid on Common Shares	**(459)**	(435)	(388)
Net proceeds from issuance (repayment) of short-term debt	**(300)**	300	–
Proceeds from share-based compensation plans	**133**	63	25
Net cash flows used for financing activities	**(626)**	(72)	(363)
Net increase (decrease) in cash	**(202)**	309	51
Cash – beginning of year	**308**	(1)	(52)
Cash – end of year	**$ 106**	$ 308	$ (1)

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

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SCHEDULE IV
ACE Limited and Subsidiaries

SUPPLEMENTAL INFORMATION CONCERNING REINSURANCE

Premiums Earned

For the years ended December 31, 2011, 2010, and 2009 (in millions of U.S. dollars, except for percentages)	Direct Amount	Ceded To Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
2011	**$17,534**	**$ 5,496**	**$ 3,349**	**$ 15,387**	**22%**
2010	$15,780	$ 5,792	$ 3,516	$13,504	26%
2009	$15,415	$ 5,943	$ 3,768	$13,240	28%

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SCHEDULE VI

ACE Limited and Subsidiaries

SUPPLEMENTARY INFORMATION CONCERNING PROPERTY AND CASUALTY OPERATIONS

As of and for the years ended December 31, 2011, 2010, and 2009
(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 Current Year	Net Losses and Loss Expenses Incurred Related to Prior Year	Amortization of Deferred Policy Acquisition Costs	Net Paid Losses and Loss Expenses	Net Premiums Written
2011	**$ 1,668**	**$ 25,875**	**$ 6,334**	**$14,645**	**$ 2,108**	**$10,076**	**$ (556)**	**$ 2,347**	**$ 8,866**	**$14,582**
2010	$ 1,581	$ 25,242	$ 6,330	$12,981	$ 1,996	$ 8,082	$ (503)	$ 2,252	$ 7,413	$13,166
2009	$ 1,396	$ 25,038	$ 6,067	$12,713	$ 1,940	$ 7,998	$ (576)	$ 2,076	$ 6,948	$12,735

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ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Financial Statements

The consolidated financial statements of ACE Limited were prepared by management, who are responsible for their reliability and objectivity. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management. Financial information elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Board of Directors, operating through its Audit Committee, which is composed entirely of directors who are not officers or employees of the Company, provides oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use or disposition. The Audit Committee annually recommends the appointment of an independent registered public accounting firm and submits its recommendation to the Board of Directors for approval.

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 the Company's internal control; the quality of its financial reporting; and the safeguarding of assets against unauthorized acquisition, use or disposition.

The consolidated financial statements have been audited by an independent registered public accounting firm, PricewaterhouseCoopers LLP, who were given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees of the Board. The Company believes that all representations made to our independent registered public accountants during their audits were valid and appropriate.

Internal Control over Financial Reporting

The management of ACE Limited (ACE) is responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2010, management has evaluated the effectiveness of ACE's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, we have concluded that ACE's internal control over financial reporting was effective as of December 31, 2010.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the consolidated financial statements of ACE included in this Annual Report, has issued a report on the effectiveness of the Company's internal controls over financial reporting as of December 31, 2010. The report, which expresses an unqualified opinion on the effectiveness of ACE's internal control over financial reporting as of December 31, 2010, is included in this Item under "Report of Independent Registered Public Accounting Firm" and follows this statement.

/s/ EVAN G. GREENBERG	/s/ PHILIP V. BANCROFT
Evan G. Greenberg Chairman, President and Chief Executive Officer	Philip V. Bancroft Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of ACE Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of ACE Limited and its subsidiaries (the "Company") at December 31, 2010 and December 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15 (2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Responsibility for Financial Statements and Internal Controls Over Financial Reporting appearing under Item 15 (1). Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 25, 2011

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CONSOLIDATED BALANCE SHEETS
ACE LIMITED AND SUBSIDIARIES

December 31, 2010 and 2009 (in millions of U.S. dollars, except share and per share data)	2010	2009
Assets		
Investments		
Fixed maturities available for sale, at fair value (amortized cost – $36,542 and $38,985) (includes hybrid financial instruments of $416 and $354)	**$37,539**	$39,525
Fixed maturities held to maturity, at amortized cost (fair value – $9,461 and $3,561)	**9,501**	3,481
Equity securities, at fair value (cost – $666 and $398)	**692**	467
Short-term investments, at fair value and amortized cost	**1,983**	1,667
Other investments (cost – $1,511 and $1,258)	**1,692**	1,375
Total investments	**51,407**	46,515
Cash	**772**	669
Securities lending collateral	**1,495**	1,544
Accrued investment income	**521**	502
Insurance and reinsurance balances receivable	**4,233**	3,671
Reinsurance recoverable on losses and loss expenses	**12,871**	13,595
Reinsurance recoverable on policy benefits	**281**	298
Deferred policy acquisition costs	**1,641**	1,445
Value of business acquired	**634**	748
Goodwill and other intangible assets	**4,664**	3,931
Prepaid reinsurance premiums	**1,511**	1,521
Deferred tax assets	**769**	1,154
Investments in partially-owned insurance companies (cost – $357 and $314)	**360**	433
Other assets	**2,196**	1,954
Total assets	**$83,355**	$77,980
Liabilities		
Unpaid losses and loss expenses	**$37,391**	$37,783
Unearned premiums	**6,330**	6,067
Future policy benefits	**3,106**	3,008
Insurance and reinsurance balances payable	**3,282**	3,295
Deposit liabilities	**421**	332
Securities lending payable	**1,518**	1,586
Payable for securities purchased	**292**	154
Accounts payable, accrued expenses, and other liabilities	**2,958**	2,349
Income taxes payable	**116**	111
Short-term debt	**1,300**	161
Long-term debt	**3,358**	3,158
Trust preferred securities	**309**	309
Total liabilities	**60,381**	58,313
Commitments and contingencies		
Shareholders' equity		
Common Shares (CHF 30.57 and CHF 31.88 par value, 341,094,559 and 337,841,616 shares issued, 334,942,852 and 336,524,657 shares outstanding)	**10,161**	10,503
Common Shares in treasury (6,151,707 and 1,316,959 shares)	**(330)**	(3)
Additional paid-in capital	**5,623**	5,526
Retained earnings	**5,926**	2,818
Deferred compensation obligation	**2**	2
Accumulated other comprehensive income (AOCI)	**1,594**	823
Common Shares issued to employee trust	**(2)**	(2)
Total shareholders' equity	**22,974**	19,667
Total liabilities and shareholders' equity	**$83,355**	$77,980

See accompanying notes to the consolidated financial statements

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
ACE LIMITED AND SUBSIDIARIES

For the years ended December 31, 2010, 2009, and 2008 (in millions of U.S. dollars, except per share data)	**2010**	2009	2008
Revenues			
Net premiums written	**$13,708**	$13,299	$13,080
Change in unearned premiums	**(204)**	(59)	123
Net premiums earned	**13,504**	13,240	13,203
Net investment income	**2,070**	2,031	2,062
Net realized gains (losses):			
Other-than-temporary impairment (OTTI) losses gross	**(128)**	(699)	(1,064)
Portion of OTTI losses recognized in other comprehensive income (OCI)	**69**	302	–
Net OTTI losses recognized in income	**(59)**	(397)	(1,064)
Net realized gains (losses) excluding OTTI losses	**491**	201	(569)
Total net realized gains (losses)	**432**	(196)	(1,633)
Total revenues	**16,006**	15,075	13,632
Expenses			
Losses and loss expenses	**7,579**	7,422	7,603
Policy benefits	**357**	325	399
Policy acquisition costs	**2,337**	2,130	2,135
Administrative expenses	**1,858**	1,811	1,737
Interest expense	**224**	225	230
Other (income) expense	**(16)**	85	(39)
Total expenses	**12,339**	11,998	12,065
Income before income tax	**3,667**	3,077	1,567
Income tax expense	**559**	528	370
Net income	**$ 3,108**	$ 2,549	$ 1,197
Other comprehensive income (loss)			
Unrealized appreciation (depreciation)	**$ 1,526**	$ 2,712	$ (3,948)
Reclassification adjustment for net realized (gains) losses included in net income	**(632)**	75	1,189
	894	2,787	(2,759)
Change in:			
Cumulative translation adjustment	**(7)**	568	(590)
Pension liability	**11**	(48)	23
Other comprehensive income, before income tax	**898**	3,307	(3,326)
Income tax expense (benefit) related to other comprehensive income items	**(127)**	(568)	647
Other comprehensive income (loss)	**771**	2,739	(2,679)
Comprehensive income (loss)	**$ 3,879**	$ 5,288	$ (1,482)
Basic earnings per share	**$ 9.15**	$ 7.57	$ 3.52
Diluted earnings per share	**$ 9.11**	$ 7.55	$ 3.50

See accompanying notes to the consolidated financial statements

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
ACE LIMITED AND SUBSIDIARIES

For the years ended December 31, 2010, 2009, and 2008 (in millions of U.S. dollars)	2010	2009	2008
Preferred Shares			
Balance – beginning of year	**$ –**	$ –	$ 2
Preferred Shares redeemed	**–**	–	(2)
Balance – end of year	**–**	–	–
Common Shares			
Balance – beginning of year	**10,503**	10,827	14
Net shares issued under employee share-based compensation plans	**71**	73	–
Exercise of stock options	**30**	5	6
Dividends declared on Common Shares-par value reduction	**(443)**	(402)	(178)
Common Shares stock dividend	**–**	–	10,985
Balance – end of year	**10,161**	10,503	10,827
Common Shares in treasury			
Balance – beginning of year	**(3)**	(3)	–
Common Shares repurchased	**(303)**	–	–
Other Common Shares issued in treasury, net of net shares redeemed under employee share-based compensation plans	**(24)**	–	(3)
Balance – end of year	**(330)**	(3)	(3)
Additional paid-in capital			
Balance – beginning of year	**5,526**	5,464	6,812
Net shares redeemed under employee share-based compensation plans	**(64)**	(77)	(14)
Exercise of stock options	**23**	10	91
Share-based compensation expense	**139**	121	126
Preferred Shares redeemed	**–**	–	(573)
Common Shares stock dividend	**–**	–	(990)
Tax (expense) benefit on share-based compensation expense	**(1)**	8	12
Balance – end of year	**5,623**	5,526	5,464
Retained earnings			
Balance – beginning of year	**2,818**	74	9,080
Effect of partial adoption of fair value measurements standard	**–**	–	(4)
Effect of adoption of fair value option standard	**–**	–	6
Balance – beginning of year, adjusted for effect of adoption of new accounting principles	**2,818**	74	9,082
Effect of adoption of OTTI standard	**–**	195	–
Net income	**3,108**	2,549	1,197
Dividends declared on Common Shares	**–**	–	(186)
Dividends declared on Preferred Shares	**–**	–	(24)
Common Shares stock dividend	**–**	–	(9,995)
Balance – end of year	**5,926**	2,818	74
Deferred compensation obligation			
Balance – beginning of year	**2**	3	3
Decrease to obligation	**–**	(1)	–
Balance – end of year	**$ 2**	$ 2	$ 3

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (continued)
ACE LIMITED AND SUBSIDIARIES

For the years ended December 31, 2010, 2009, and 2008
(in millions of U.S. dollars)

	2010	2009	2008
Accumulated other comprehensive income (loss)			
Net unrealized appreciation (depreciation) on investments			
Balance – beginning of year	**$ 657**	$ (1,712)	$ 596
Effect of adoption of fair value option standard	–	–	(6)
Balance – beginning of year, adjusted for effect of adoption of new accounting principle	**657**	(1,712)	590
Effect of adoption of OTTI standard	**–**	(242)	–
Change in year, net of income tax (expense) benefit of $(152), $(481), and $457	**742**	2,611	(2,302)
Balance – end of year	**1,399**	657	(1,712)
Cumulative translation adjustment			
Balance – beginning of year	**240**	(161)	231
Change in year, net of income tax (expense) benefit of $29, $(167), and $198	**22**	401	(392)
Balance – end of year	**262**	240	(161)
Pension liability adjustment			
Balance – beginning of year	**(74)**	(43)	(58)
Change in year, net of income tax (expense) benefit of $(4), $17, and $(8)	**7**	(31)	15
Balance – end of year	**(67)**	(74)	(43)
Accumulated other comprehensive income (loss)	**1,594**	823	(1,916)
Common Shares issued to employee trust			
Balance – beginning of year	**(2)**	(3)	(3)
Decrease in Common Shares	**–**	1	–
Balance – end of year	**(2)**	(2)	(3)
Total shareholders' equity	**$22,974**	$19,667	$14,446

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
ACE LIMITED AND SUBSIDIARIES

For the years ended December 31, 2010, 2009, and 2008 (in millions of U.S. dollars)	2010	2009	2008
Cash flows from operating activities			
Net income	**$ 3,108**	$ 2,549	$ 1,197
Adjustments to reconcile net income to net cash flows from operating activities			
Net realized (gains) losses	**(432)**	196	1,633
Amortization of premiums/discounts on fixed maturities	**145**	53	(1)
Deferred income taxes	**116**	(19)	(141)
Unpaid losses and loss expenses	**(360)**	298	1,300
Unearned premiums	**262**	102	(128)
Future policy benefits	**48**	67	212
Insurance and reinsurance balances payable	**(172)**	434	(26)
Accounts payable, accrued expenses, and other liabilities	**130**	(206)	638
Income taxes payable	**10**	13	46
Insurance and reinsurance balances receivable	**50**	(119)	(6)
Reinsurance recoverable on losses and loss expenses	**626**	518	(224)
Reinsurance recoverable on policy benefits	**49**	(51)	(9)
Deferred policy acquisition costs	**(193)**	(309)	(185)
Prepaid reinsurance premiums	**(13)**	24	(15)
Other	**172**	(215)	(190)
Net cash flows from operating activities	**3,546**	3,335	4,101
Cash flows used for investing activities			
Purchases of fixed maturities available for sale	**(29,985)**	(31,789)	(24,537)
Purchases of to be announced mortgage-backed securities	**(1,271)**	(5,471)	(18,969)
Purchases of fixed maturities held to maturity	**(616)**	(472)	(366)
Purchases of equity securities	**(794)**	(354)	(971)
Sales of fixed maturities available for sale	**23,096**	23,693	21,087
Sales of to be announced mortgage-backed securities	**1,183**	5,961	18,340
Sales of fixed maturities held to maturity	**–**	11	–
Sales of equity securities	**774**	1,272	1,164
Maturities and redemptions of fixed maturities available for sale	**3,660**	3,404	2,780
Maturities and redemptions of fixed maturities held to maturity	**1,353**	514	445
Net derivative instruments settlements	**(109)**	(92)	32
Acquisition of subsidiaries (net of cash acquired of $80 in 2010 and $19 in 2008)	**(1,139)**	–	(2,521)
Other	**(333)**	99	(608)
Net cash flows used for investing activities	**(4,181)**	(3,224)	(4,124)
Cash flows from (used for) financing activities			
Dividends paid on Common Shares	**(435)**	(388)	(362)
Common Shares repurchased	**(235)**	–	–
Proceeds from issuance of short-term debt	**1,300**	&1150;	266
Repayment of short-term debt	**(159)**	(466)	(355)
Proceeds from issuance of long-term debt	**699**	500	1,245
Repayment of long-term debt	**(500)**	–	–
Proceeds from exercise of options for Common Shares	**53**	15	97
Proceeds from Common Shares issued under Employee Stock Purchase Plan (ESPP)	**10**	10	10
Tax (expense) benefit on share-based compensation expense	**(1)**	8	12
Dividends paid on Preferred Shares	**–**	–	(24)
Redemption of Preferred Shares	**–**	–	(575)
Net cash flows from (used for) financing activities	**732**	(321)	314
Effect of foreign currency rate changes on cash and cash equivalents	**6**	12	66
Net increase (decrease) in cash	**103**	(198)	357
Cash – beginning of year	**669**	867	510
Cash – end of year	**$ 772**	$ 669	$ 867
Supplemental cash flow information			
Taxes paid	**$ 434**	$ 538	$ 403
Interest paid	**$ 204**	$ 228	$ 226

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACE LIMITED AND SUBSIDIARIES

1. General

ACE Limited (ACE or the Company) is a holding company incorporated in Zurich, Switzerland. The Company, through its various subsidiaries, provides a broad range of insurance and reinsurance products to insureds worldwide. ACE operates through the following business segments: Insurance – North American, Insurance – Overseas General, Global Reinsurance, and Life. Refer to Note 17.

On December 28, 2010, ACE acquired all the outstanding common stock of Rain and Hail Insurance Services, Inc. (Rain and Hail) not previously owned by ACE for approximately $1.1 billion. Headquartered in Johnston, Iowa, Rain and Hail has served America's farmers since 1919, providing comprehensive multiple peril crop and crop/hail insurance protection to customers in the U.S. and Canada. Prior to this transaction, ACE's 20.1 percent share in Rain and Hail was recorded in Investments in partially-owned insurance companies.

On December 1, 2010, ACE acquired all of the net assets of Jerneh Insurance Berhad (Jerneh), a general insurance company in Malaysia, for approximately $218 million. Refer to Note 3.

2. Significant accounting policies

a) Basis of presentation

The accompanying consolidated financial statements, which include the accounts of the Company and its subsidiaries, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and, in the opinion of management, reflect all adjustments (consisting of normally recurring accruals) necessary for a fair statement of the results and financial position for such periods. All significant intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include:

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

Amounts included in the consolidated financial statements reflect the Company's best estimates and assumptions; actual amounts could differ materially from these estimates.

b) Premiums

Premiums are generally recognized as written upon inception of the policy. For multi-year policies for which premiums written are payable in annual installments, only the current annual premium is included as written at policy inception due to the ability of the insured/reinsured to commute or cancel coverage within the term of the policy. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term.

For property and casualty (P&C) insurance and reinsurance products, premiums written are primarily earned on a pro-rata basis over the terms of the policies to which they relate. Unearned premiums represent the portion of premiums written applicable to the unexpired portion of the policies in force. For retrospectively-rated policies, written premiums are adjusted to reflect expected ultimate premiums consistent with changes to reported losses, or other measures of exposure as stated in the policy, and earned over the coverage period of the policy. For retrospectively-rated multi-year policies, the amount of premiums recognized in the current period is computed, using a with-and-without method, as the difference between the ceding enterprise's total contract costs before and after the experience under the contract at the reporting date. Accordingly, for retrospectively-rated multi-year policies, additional premiums are generally written and earned when losses are incurred.

Mandatory reinstatement premiums assessed on reinsurance policies are earned in the period of the loss event that gave rise to the reinstatement premiums. All remaining unearned premiums are recognized over the remaining coverage period.

Premiums from long duration contracts such as certain traditional term life, whole life, endowment, and long duration personal accident and health (A&H) policies are generally recognized as revenue when due from policyholders. Traditional life policies include those contracts with fixed and guaranteed premiums and benefits. Benefits and expenses are matched with such income to result in the recognition of profit over the life of the contracts.

Retroactive loss portfolio transfer (LPT) contracts in which the insured loss events occurred prior to the inception of the contract are evaluated to determine whether they meet the established criteria for reinsurance accounting. If reinsurance accounting is appropriate, written premiums are fully earned and corresponding losses and loss expenses recognized at the inception of the contract. The contracts can cause significant variances in gross premiums written, net premiums written, net premiums earned, and net incurred losses in the years in which they are written. Reinsurance contracts sold not meeting the established criteria for reinsurance accounting are recorded using the deposit method as described below in Note 2 k).

Reinsurance premiums assumed are based on information provided by ceding companies supplemented by the Company's own estimates of premium when the Company has not received ceding company reports. The information used in establishing these estimates is reviewed and adjustments are recorded in the period in which they are determined. These premiums are earned over the coverage terms of the related reinsurance contracts and range from one to three years.

c) Policy acquisition costs

Policy acquisition costs consist of commissions, premium taxes, and underwriting and other costs that vary with, and are primarily related to, the production of premium. A VOBA intangible asset is established upon the acquisition of blocks of long duration contracts and represents the present value of estimated net cash flows for the contracts in force at the time of the acquisition. Acquisition costs and VOBA, collectively policy acquisition costs, are deferred and amortized. Policy acquisition costs on P&C contracts are generally amortized ratably over the period in which premiums are earned. Policy acquisition costs on long duration contracts are amortized over the estimated life of the contracts in proportion to premium revenue recognized. Policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. Unrecoverable costs are expensed in the period identified.

Advertising costs are expensed as incurred except for direct-response campaigns, principally related to A&H business produced by the Insurance – Overseas General segment, which are deferred and recognized over the expected future benefit period. For individual direct-response marketing campaigns that the Company can demonstrate have specifically resulted in incremental sales to customers and such sales have probable future economic benefits, incremental costs directly related to the marketing campaigns are capitalized. Deferred marketing costs are reviewed regularly for recoverability and amortized over five years, the expected economic future benefit period. The expected future benefit period is evaluated periodically based on historical results and adjusted prospectively. The amount of deferred marketing costs reported in deferred policy acquisition costs was $327 million, $333 million, and $300 million at December 31, 2010, 2009, and 2008, respectively. The amortization expense for deferred marketing costs was $152 million, $135 million, and $124 million for the years ended December 31, 2010, 2009, and 2008, respectively.

d) Reinsurance

The Company assumes and cedes reinsurance with other insurance companies to provide greater diversification of business and minimize the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve the Company of its primary obligation to its policyholders.

For both ceded and assumed reinsurance, risk transfer requirements must be met in order to obtain reinsurance status for accounting purposes, principally resulting in the recognition of cash flows under the contract as premiums and losses. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. To assess risk transfer for certain contracts, ACE generally develops expected discounted cash flow analyses at contract inception. Deposit accounting is used for contracts that do not meet risk transfer requirements. Deposit accounting requires that consideration received or paid be recorded in the balance sheet as opposed to recording premiums written or losses incurred in the statement of operations. Non-refundable fees on deposit contracts are earned based on the terms of the contract. Refer to Note 2 k).

Reinsurance recoverable includes the balances due from reinsurance companies for paid and unpaid losses and loss expenses and policy benefits that will be recovered from reinsurers, based on contracts in force. The method for determining the reinsurance recoverable on unpaid losses and loss expenses incurred but not reported (IBNR) involves actuarial estimates consistent with those used to establish the associated liability for unpaid losses and loss expenses as well as a determination of the Company's ability to cede unpaid losses and loss expenses under its existing reinsurance contracts.

Reinsurance recoverable is presented net of a provision for uncollectible reinsurance determined based upon a review of the financial condition of the reinsurers and other factors. The provision for uncollectible reinsurance is based on an estimate of the amount of the reinsurance recoverable balance that the Company will ultimately be unable to recover due to reinsurer insolvency, a contractual dispute, or any other reason. The valuation of this provision includes several judgments including certain aspects of the allocation of reinsurance recoverable on IBNR claims by reinsurer and 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 determine the portion of a reinsurer's balance deemed uncollectible. 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 with the same legal entity for which ACE believes there is a contractual right of offset. The determination of the default factor is principally based on the financial strength rating of the reinsurer. 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. The more significant considerations 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 financial rating is based on a published source and the default factor is based on published default statistics of a major rating agency applicable to the reinsurer's particular rating class. 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, affiliate, or peer company, the Company determines a rating equivalent based on an analysis of the reinsurer that considers an assessment of the creditworthiness of the particular entity, industry benchmarks, or other factors as considered appropriate. The Company then applies the applicable default factor for that rating class. For balances recoverable from unrated reinsurers for which the ceded reserve is below a certain threshold, the Company generally applies a default factor of 25 percent, consistent with published statistics of a major rating agency;
- For balances recoverable from reinsurers that are either insolvent or under regulatory supervision, the Company establishes a default factor and resulting provision for uncollectible reinsurance based on reinsurer-specific facts and circumstances. Upon initial notification of an insolvency, the Company generally recognizes 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, the Company generally recognizes a default factor by estimating an expected recovery on all balances outstanding, net of collateral. When sufficient credible information becomes available, the Company adjusts the provision for uncollectible reinsurance by establishing a default factor pursuant to information received; and
- For other recoverables, management determines the provision for uncollectible reinsurance based on the specific facts and circumstances of that dispute.

The methods used to determine the reinsurance recoverable balance and related provision for uncollectible reinsurance are regularly reviewed and updated and any resulting adjustments are reflected in earnings in the period identified.

Prepaid reinsurance premiums represent the portion of premiums ceded to reinsurers applicable to the unexpired coverage terms of the reinsurance contracts in force.

The value of reinsurance business assumed of $92 million and $111 million at December 31, 2010 and 2009, respectively, included in Other assets in the accompanying consolidated balance sheets, represents the excess of estimated ultimate value of the liabilities assumed under retroactive reinsurance contracts over consideration received. The value of reinsurance business assumed is amortized and recorded to losses and loss expenses based on the payment pattern of the losses assumed and ranges between 5 and 40 years. The unamortized value is reviewed regularly to determine if it is recoverable based upon the terms of the contract, estimated losses and loss expenses, and anticipated investment income. Unrecoverable amounts are expensed in the period identified.

e) Investments

Fixed maturity investments are classified as either available for sale or held to maturity. The available for sale portfolio is reported at fair value. The held to maturity portfolio includes securities for which the Company has the ability and intent to hold to maturity or redemption and is reported at amortized cost. Equity securities are classified as available for sale and are recorded at fair value. Short-term investments comprise securities due to mature within one year of the date of purchase and are recorded at fair value which typically approximates cost. Short-term investments include certain cash and cash equivalents, which are part of investment portfolios under the management of external investment managers.

Other investments principally comprise life insurance policies, policy loans, trading securities, other direct equity investments, investment funds, and limited partnerships.

- Life insurance policies are carried at policy cash surrender value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

• Policy loans are carried at outstanding balance.
• Trading securities are recorded on a trade date basis and carried at fair value. Unrealized gains and losses on trading securities are reflected in net income.
• Other investments over which ACE can exercise significant influence are accounted for using the equity method.
• All other investments over which ACE cannot exercise significant influence are carried at fair value with changes in fair value recognized through OCI. For these investments, investment income and realized gains are recognized as related distributions are received.
• Partially-owned investment companies comprise entities in which the Company holds an ownership interest in excess of three percent. These investments as well as ACE's investments in investment funds where its ownership interest is in excess of three percent are accounted for under the equity method because ACE exerts significant influence. These investments apply investment company accounting to determine operating results, and ACE retains the investment company accounting in applying the equity method. This means that investment income, realized gains or losses, and unrealized gains or losses are included in the portion of equity earnings reflected in Other (income) expense.

Investments in partially-owned insurance companies primarily represent direct investments in which the Company has significant influence and, as such, meet the requirements for equity accounting. The Company reports its share of the net income or loss of the partially-owned insurance companies in Other (income) expense. Investments in partially-owned insurance companies over which the Company does not exert significant influence are carried at fair value.

Realized gains or losses on sales of investments are determined on a first-in, first-out basis. Unrealized appreciation (depreciation) on investments is included as a separate component of AOCI in shareholders' equity. The Company regularly reviews its investments for OTTI. Refer to Note 4.

With respect to securities where the decline in value is determined to be temporary and the security's value is not written down, a subsequent decision may be made to sell that security and realize a loss. Subsequent decisions on security sales are the result of changing or unforeseen facts and circumstances (i.e., arising from a large insured loss such as a catastrophe), deterioration of the credit-worthiness of the issuer or its industry, or changes in regulatory requirements. The Company believes that subsequent decisions to sell such securities are consistent with the classification of the majority of the portfolio as available for sale.

The Company uses derivative instruments including futures, options, swaps, and foreign currency forward contracts for the purpose of managing certain investment portfolio risks and exposures. Refer to Note 10. Derivatives are reported at fair value and recorded in the accompanying consolidated balance sheets in Accounts payable, accrued expenses, and other liabilities with changes in fair value included in Net realized gains (losses) in the consolidated statements of operations. Collateral held by brokers equal to a percentage of the total value of open futures contracts is included in the investment portfolio.

Net investment income includes interest and dividend income and amortization of fixed maturity market premiums and discounts and is net of investment management and custody fees. For mortgage-backed securities, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognized prospectively. Prepayment fees or call premiums that are only payable when a security is called prior to its maturity are earned when received and reflected in Net investment income.

The Company participates in a securities lending program operated by a third party banking institution whereby certain assets are loaned to qualified borrowers and from which the Company earns an incremental return. Borrowers provide collateral, in the form of either cash or approved securities, of 102 percent of the fair value of the loaned securities. Each security loan is deemed to be an overnight transaction. Cash collateral is invested in a collateral pool which is managed by the banking institution. The collateral pool is subject to written investment guidelines with key objectives which include the safeguard of principal and adequate liquidity to meet anticipated redemptions. The fair value of the loaned securities is monitored on a daily basis, with additional collateral obtained or refunded as the fair value of the loaned securities changes. The collateral is held by the third party banking institution, and the collateral can only be accessed in the event that the institution borrowing the securities is in default under the lending agreement. As a result of these restrictions, the Company considers its securities lending activities to be non-cash investing and financing activities. An indemnification agreement with the lending agent protects the Company in the event a borrower becomes insolvent or fails to return any of the securities on loan. The fair value of the securities on loan is included in fixed maturities and equity securities. The securities lending collateral is reported as a separate line in total assets with a related liability reflecting the Company's obligation to return the collateral plus interest.

Similar to securities lending arrangements, securities sold under reverse repurchase agreements, whereby the Company sells securities and repurchases them at a future date for a predetermined price, are accounted for as collateralized investments and borrowings and are recorded at the contractual repurchase amounts plus accrued interest. Assets to be repurchased

are the same, or substantially the same, as the assets transferred and the transferor, through right of substitution, maintains the right and ability to redeem the collateral on short notice. The fair value of the underlying securities is included in fixed maturities and equity securities. In contrast to securities lending programs, the use of cash received is not restricted. The Company reports its obligation to return the cash as short-term debt.

Refer to Note 15 for a discussion on the determination of fair value for the Company's various investment securities.

f) Cash

Cash includes cash on hand and deposits with an original maturity of three months or less at time of purchase. Cash held by external money managers is included in Short-term investments.

g) Goodwill and other intangible assets

Goodwill represents the excess of the cost of acquisitions over the fair value of net assets acquired and is not amortized. Goodwill is assigned at acquisition to the applicable reporting unit of the acquired entities giving rise to the goodwill. Goodwill impairment tests are performed annually, or more frequently if circumstances indicate a possible impairment. The Company estimates a reporting unit's fair value using a consistently applied combination of the following models: an earnings multiple, a book value multiple, a discounted cash flow or an allocated market capitalization model. The Company's earnings and book value models apply multiples of comparable publicly traded companies to forecasted earnings or book value of each reporting unit and consider current market transactions. The discounted cash flow model applies a discount to estimated cash flows including a terminal value calculation. The market capitalization model allocates the Company's market capitalization to each reporting unit. Where appropriate, the Company considers the impact of a control premium. Goodwill recorded in connection with investments in partially-owned insurance companies is recorded in Investments in partially-owned insurance companies and is also measured for impairment annually.

Indefinite lived intangible assets are not subject to amortization. Finite lived intangible assets are amortized over their useful lives, generally ranging from 4 to 20 years. The carrying amounts of intangible assets are regularly reviewed for indicators of impairment. Impairment is recognized if the carrying amount is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value.

h) Unpaid losses and loss expenses

A liability is established for the estimated unpaid losses and loss expenses under the terms of, and with respect to, the Company's policies and agreements. These amounts include provision for both reported claims (case reserves) and IBNR claims. The methods of determining such estimates and establishing the resulting liability are reviewed regularly and any adjustments are reflected in operations in the period in which they become known. Future developments may result in losses and loss expenses materially greater or less than recorded amounts.

Except for net loss and loss expense reserves of $69 million net of discount held at December 31, 2010, representing structured settlements for which the timing and amount of future claim payments are reliably determinable, the Company does not discount its P&C loss reserves. Structured settlements represent contracts purchased from life insurance companies primarily to settle workers' compensation claims, where payments to the claimant by the life insurance company are expected to be made in the form of an annuity. The Company retains the liability to the claimant in the event that the life insurance company fails to pay. At December 31, 2010, the Company has a gross liability of $654 million for the amount due to claimants and reinsurance recoverables of $585 million for amounts due from the life insurance companies. For structured settlement contracts where payments are guaranteed regardless of claimant life expectancy, the amounts recoverable from the life insurance companies are included in Other Assets, as they do not meet the requirements for reinsurance accounting. At December 31, 2010, there was $69 million included in Other Assets relating to structured settlements.

Included in unpaid losses and loss expenses are liabilities for asbestos and environmental (A&E) claims and expenses. These unpaid losses and loss expenses are principally related to claims arising from remediation costs associated with hazardous waste sites and bodily-injury claims related to asbestos products and environmental hazards. The estimation of these liabilities is particularly sensitive to changes in the legal environment, including specific settlements that may be used as precedents to settle future claims. However, ACE does not anticipate future changes in laws and regulations in setting its A&E reserve levels.

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 premiums from previous accident years. With respect to crop business, prior to the acquisition of Rain and Hail, reports relating to the previous crop year(s) were normally received in subsequent calendar years and this typically resulted in adjustments to the previously

reported premiums, losses and loss expenses, and profit share commission. Following the acquisition, such information is available before the close of the calendar year. Commencing with the quarter ended September 30, 2009, prior period development for the crop business includes adjustments to both crop losses and loss expenses and the related crop profit share commission.

For purposes of analysis and disclosure, management views prior period development to be changes in the nominal value of loss estimates from period to period and excludes changes in loss estimates that do not arise from the emergence of claims, such as those related to uncollectible reinsurance, interest, unallocated loss adjustment expenses, or foreign currency. Accordingly, specific items excluded from prior period development include the following: gains/losses related to foreign currency remeasurement; losses recognized from the early termination or commutation of reinsurance agreements that principally relate to the time value of money; changes in the value of reinsurance business assumed reflected in losses incurred but principally related to the time value of money; and losses that arise from changes in estimates of earned premiums from prior accident years. Except for foreign currency revaluation, which is disclosed separately, these items are included in current year losses.

i) Future policy benefits

The development of long duration contract reserves requires management to make estimates and assumptions regarding expenses, mortality, persistency, and investment yields. Such estimates are primarily based on historical experience and information provided by ceding companies and include a margin for adverse deviation. Interest rates used in calculating reserves range from one percent to seven percent at December 31, 2010 and 2009. Actual results could differ materially from these estimates. Management monitors actual experience, and where circumstances warrant, will revise its assumptions and the related reserve estimates. Revisions are recorded in the period they are determined.

j) Assumed reinsurance programs involving minimum benefit guarantees under annuity contracts

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

The guarantees which are payable on death, referred to as guaranteed minimum death benefits (GMDB), principally cover shortfalls between accumulated account value at the time of an annuitant's death and either i) an annuitant's total deposits; ii) an annuitant's total deposits plus a minimum annual return; or iii) the highest accumulated account value attained at any policy anniversary date. In addition, a death benefit may be based on a formula specified in the variable annuity contract that uses a percentage of the growth of the underlying contract value. Liabilities for GMDBs are based on cumulative assessments or premiums to date multiplied by a benefit ratio that is determined by estimating the present value of benefit payments and related adjustment expenses divided by the present value of cumulative assessment or expected fees during the contract period.

Under reinsurance programs covering GLBs, the Company assumes the risk of guaranteed minimum income benefits (GMIB) and Guaranteed Minimum Accumulation Benefits (GMAB) associated with variable annuity contracts. The GMIB risk is triggered if, at the time the contract holder elects to convert the accumulated account value to a periodic payment stream (annuitize), the accumulated account value is not sufficient to provide a guaranteed minimum level of monthly income. The GMAB risk is triggered if, at contract maturity, the contract holder's account value is less than a guaranteed minimum value. The Company's GLB reinsurance product meets the definition of a derivative for accounting purposes and is carried at fair value with changes in fair value recognized in income and classified as described below. As the assuming entity, the Company is obligated to provide coverage until the earlier of the expiration of the underlying guaranteed benefit or the treaty expiration date. Premiums received under the reinsurance treaties are classified as premium. Expected losses allocated to premiums received are classified as policy benefits and valued similar to GMDB reinsurance. Other changes in fair value, principally arising from changes in expected losses allocated to expected future premiums, are classified as Net realized gains (losses). Fair value represents management's estimate of exit price and thus includes a risk margin. The Company may recognize a realized loss for other changes in fair value due to adverse changes in the capital markets (i.e., declining interest rates and/or declining equity markets) and changes in policyholder behavior (i.e., increased annuitization or decreased lapse rates) although the Company expects the business to be profitable. The Company believes this presentation provides the most meaningful disclosure of changes in the underlying risk within the GLB reinsurance programs for a given reporting period. Refer to Note 5 c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

k) Deposit assets and liabilities

Deposit assets arise from ceded reinsurance contracts purchased that do not transfer significant underwriting or timing risk. Under deposit accounting, consideration received or paid, excluding non-refundable fees, is recorded as a deposit asset or liability in the balance sheet as opposed to recording ceded premiums and losses in the statement of operations. Interest income on deposits, representing the consideration received or to be received in excess of cash payments related to the deposit contract, is earned based on an effective yield calculation. The calculation of the effective yield is based on the amount and timing of actual cash flows at the balance sheet date and the estimated amount and timing of future cash flows. The effective yield is recalculated periodically to reflect revised estimates of cash flows. When a change in the actual or estimated cash flows occurs, the resulting change to the carrying amount of the deposit asset is reported as income or expense. Deposit assets of $144 million and $55 million at December 31, 2010 and 2009, respectively, are reflected in Other assets in the balance sheets and the accretion of deposit assets related to interest pursuant to the effective yield calculation is reflected in Net investment income in the statement of operations.

Non-refundable fees are earned based on contract terms. Non-refundable fees paid but unearned are reflected in Other assets in the balance sheet and earned fees are reflected in Other (income) expense in the statement of operations.

Deposit liabilities include reinsurance deposit liabilities of $351 million and $281 million and contract holder deposit funds of $70 million and $51 million at December 31, 2010 and 2009, respectively. The reinsurance deposit liabilities arise from contracts sold for which there is not a significant transfer of risk. At contract inception, the deposit liability equals net cash received. An accretion rate is established based on actuarial estimates whereby the deposit liability is increased to the estimated amount payable over the contract term. The deposit accretion rate is the rate of return required to fund expected future payment obligations. The Company periodically reassesses the estimated ultimate liability and related expected rate of return. Changes to the amount of the deposit liability are reflected through Net investment income to reflect the cumulative effect of the period the contract has been in force, and by an adjustment to the future accretion rate of the liability over the remaining estimated contract term.

Contract holder deposit funds represent a liability for investment contracts sold that do not meet the definition of an insurance contract and are sold with a guaranteed rate of return. The liability equals accumulated policy account values, which consist of the deposit payments plus credited interest, less withdrawals and amounts assessed through the end of the period.

l) Foreign currency remeasurement and translation

The Company determines the functional currency for each of its foreign operations, which are generally the currency of the local operating environment. Transactions in currencies other than a foreign operation's functional currency are remeasured into the functional currency and the resulting foreign exchange gains and losses are reflected in Net realized gains (losses) in the consolidated statements of operations. Functional currency assets and liabilities are translated into the reporting currency, U.S. dollars, using period end rates of exchange and the related translation adjustments are recorded as a separate component of AOCI. Functional statement of operations amounts expressed in functional currencies are translated using average exchange rates. Gains and losses resulting from foreign currency transactions are recorded in Net realized gains (losses).

m) Administrative expenses

Administrative expenses generally include all operating costs other than policy acquisition costs. The Insurance – North American segment manages and utilizes an in-house third-party claims administrator, ESIS Inc. (ESIS). ESIS performs claims management and risk control services for domestic and international organizations that self-insure P&C exposures as well as internal P&C exposures. The net operating results of ESIS are included within administrative expenses and were $85 million, $26 million, and $34 million for the years ended December 31, 2010, 2009, and 2008, respectively.

n) Income taxes

Income taxes have been recorded related to those operations subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Company's assets and liabilities. Refer to Note 8. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. The valuation allowance assessment considers tax planning strategies, where applicable.

The Company recognizes uncertain tax positions deemed more likely than not of being sustained upon examination. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

o) Earnings per share
Basic earnings per share is calculated using the weighted-average shares outstanding including participating securities with non-forfeitable rights to dividends such as unvested restricted stock. All potentially dilutive securities including stock options are excluded from the basic earnings per share calculation. In calculating diluted earnings per share, the weighted-average shares outstanding is increased to include all potentially dilutive securities. Basic and diluted earnings per share are calculated by dividing net income available to common shareholders by the applicable weighted-average number of shares outstanding during the year.

p) Cash flow information
Premiums received and losses paid associated with the GLB reinsurance products, which as discussed previously meet the definition of a derivative instrument for accounting purposes, are included within cash flows from operating activities in the consolidated statement of cash flows. Cash flows, such as settlements and collateral requirements, associated with all other derivative instruments are included on a net basis within cash flows from investing activities in the consolidated statement of cash flows. Purchases, sales, and maturities of short-term investments are recorded net for purposes of the consolidated statements of cash flows and are classified with cash flows related to fixed maturities.

q) Derivatives
The Company recognizes all derivatives at fair value in the consolidated balance sheets. The Company participates in derivative instruments in two principal ways:
(i) To sell protection to customers as an insurance or reinsurance contract that meets the definition of a derivative for accounting purposes. For 2010 and 2009, the reinsurance of GLBs was the Company's primary product falling into this category; and
(ii) To mitigate financial risks, principally arising from investment holdings, products sold, or assets and liabilities held in foreign currencies. For these instruments, changes in assets or liabilities measured at fair value are recorded as realized gains or losses in the consolidated statement of operations.
The Company did not designate any derivatives as accounting hedges during 2010, 2009, or 2008.

r) Share-based compensation
The Company measures and records compensation cost for all share-based payment awards at grant-date fair value. Compensation costs are recognized for share-based payment awards with only service conditions that have graded vesting schedules on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. Refer to Note 13.

s) New accounting pronouncements
Adopted in 2010
Fair value measurements and disclosures
Accounting Standard Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06) includes provisions that amend Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, (Topic 820) to require reporting entities to make new disclosures about recurring and nonrecurring fair value measurements including the amounts of and reasons for significant transfers into and out of Level 1 and Level 2 fair value measurements and separate disclosure of purchases, sales, issuances, and settlements in the reconciliation of Level 3 fair value measurements. ASU 2010-6 was effective for interim and annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for interim and annual periods beginning after December 15, 2010.

Consolidation of variable interest entities and accounting for transfers of financial assets
ASU No. 2009-16, *Accounting for Transfers of Financial Assets* (ASU 2009-16) and ASU No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved With Variable Interest Entities* (ASU 2009-17) include provisions effective for interim and annual reporting periods beginning on January 1, 2010. ASU 2009-16 amends ASC Topic 860, *Transfers and Servicing*, by removing the exemption from consolidation for qualifying special purpose entities. This statement also limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. ASU 2009-17 amends ASC Topic 810, *Consolidation,* to eliminate the quantitative approach previously required for determining the primary

beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. The adoption of these provisions did not have a material impact on ACE's financial condition or results of operations.

Embedded credit derivatives

ASU No. 2010-11, *Scope Exception Related to Embedded Credit Derivatives* (ASU 2010-11) includes provisions effective for interim and annual reporting periods beginning on July 1, 2010. The provisions of ASU 2010-11 amend ASC Topic 815, *Derivatives and Hedging*, to provide clarification on the bifurcation scope exception for embedded credit derivative features. The adoption of these provisions did not have a material impact on ACE's financial condition or results of operations.

To be adopted after 2010

Accounting for costs associated with acquiring or renewing insurance contracts

In October 2010, the Financial Accounting Standards Board (FASB) issued ASU No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* (ASU 2010-26). The provisions of ASU 2010-26 modify the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. This guidance is effective for interim and annual reporting periods beginning on January 1, 2012, and may be applied prospectively or retrospectively. ACE is in the process of assessing the impact that the implementation of ASU 2010-26 will have on its financial condition and results of operations.

3. Acquisitions

On December 28, 2010, ACE acquired all the outstanding common stock of Rain and Hail not previously owned by ACE for approximately $1.1 billion in cash. Rain and Hail has served America's farmers since 1919, providing comprehensive multiple peril crop and crop/hail insurance protection to customers in the U.S. and Canada. This acquisition is consistent with ACE's strategy to expand its specialty lines business and provides further diversification of ACE's global product mix.

Prior to the consummation of this business combination, ACE's 20.1 percent ownership in Rain and Hail was recorded in Investments in partially-owned insurance companies. In accordance with GAAP, at the date of the business combination, ACE was deemed to have disposed of its 20.1 percent ownership interest and recognized 100 percent of the assets and liabilities of Rain and Hail at acquisition date fair value. In connection with this deemed disposition, ACE recognized a $175 million gain in Net realized gains (losses) in the consolidated statement of operations, which represents the excess of acquisition date fair value of the 20.1 percent ownership interest over the cost basis. Acquisition date fair value of the 20.1 percent ownership interest was determined by first calculating the implied fair value of 100 percent of Rain and Hail based on the purchase price for the net assets not previously owned by ACE at the acquisition date. The implied fair value of the 20.1 percent ownership interest was then reduced to reflect a noncontrolling interest discount. The consolidated financial statements include the results of Rain and Hail from December 28, 2010.

The acquisition generated $135 million of goodwill, none of which is expected to be deductible for income tax purposes and $523 million of other intangible assets based on ACE's purchase price allocation. Goodwill and other intangible assets arising from this acquisition are included in the Insurance – North American segment. Legal and other expenses incurred to complete the acquisition amounted to $2 million and are included in Other (income) expense.

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The following table presents ACE's best estimate of fair value of the assets and liabilities of Rain and Hail at December 28, 2010.

Condensed Balance Sheet of Rain and Hail at December 28, 2010
(in millions of U.S. dollars)

Assets	
Investments and cash	$ 630
Insurance and reinsurance balances receivable	538
Goodwill and other intangible assets	658
Other assets	101
Total assets	$1,927
Liabilities and Shareholder's Equity	
Unpaid losses and loss expenses	$ 124
Unearned premiums	55
Deferred tax liabilities	179
Other liabilities	298
Total liabilities	656
Total shareholder's equity	1,271
Total liabilities and shareholder's equity	$1,927

The following table presents unaudited pro forma information for the years ended December 31, 2010 and 2009, assuming the acquisition of Rain and Hail occurred on January 1, 2009. The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the acquisition been consummated on January 1, 2009, nor is it necessarily indicative of future operating results. Significant assumptions used to determine pro forma operating results include amortization of acquired intangible assets and the investment income opportunity cost related to the purchase price. Further, for pro forma information purposes, the gain recorded in connection with the deemed disposition discussed above is included in the year ended December 31, 2009.

(in millions of U.S. dollars, except per share data) (unaudited)	**2010**	2009
Pro forma:		
Net premiums earned	**$14,208**	$14,040
Total revenues	**$16,525**	$16,056
Net income	**$ 2,983**	$ 2,891
Basic earnings per share	**$ 8.78**	$ 8.58
Diluted earnings per share	**$ 8.74**	$ 8.56

On December 1, 2010, ACE acquired the net assets of Jerneh, a general insurance company in Malaysia, for approximately $218 million in cash. The acquisitions of Rain and Hail and Jerneh were financed with cash on hand and the use of reverse repurchase agreements of $1 billion. Refer to Note 9.

4. Investments

a) Transfers of securities

As part of the Company's fixed income diversification strategy, ACE has decided to hold certain additional securities to maturity. Because the Company has the intent to hold these securities to maturity, transfers of such securities with a total fair value of $6.8 billion were made during the third and fourth quarters of 2010 from Fixed maturities available for sale to Fixed maturities held to maturity. The net unrealized appreciation at the date of the transfer continues to be reported as a component of AOCI and is being amortized over the remaining life of the securities as an adjustment of yield in a manner consistent with the amortization of any premium or discount.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

b) Fixed maturities

The following tables present the fair values and amortized costs of and the gross unrealized appreciation (depreciation) related to fixed maturities as well as related OTTI recognized in AOCI.

	December 31, 2010				
(in millions of U.S. dollars)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	OTTI Recognized in AOCI
Available for sale					
U.S. Treasury and agency	$ 2,904	$ 74	$ (15)	$ 2,963	$ –
Foreign	10,926	340	(80)	11,186	(28)
Corporate securities	12,902	754	(69)	13,587	(29)
Mortgage-backed securities	8,508	213	(205)	8,516	(228)
States, municipalities, and political subdivisions	1,302	15	(30)	1,287	–
	$ 36,542	$ 1,396	$ (399)	$37,539	$ (285)
Held to maturity					
U.S. Treasury and agency	$ 1,105	$ 32	$ (10)	$ 1,127	$ –
Foreign	1,049	1	(37)	1,013	–
Corporate securities	2,361	12	(60)	2,313	–
Mortgage-backed securities	3,811	62	(27)	3,846	–
States, municipalities, and political subdivisions	1,175	5	(18)	1,162	–
	$ 9,501	$ 112	$ (152)	$ 9,461	$ –

	December 31, 2009				
(in millions of U.S. dollars)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	OTTI Recognized in AOCI
Available for sale					
U.S. Treasury and agency	$ 3,680	$ 48	$ (19)	$ 3,709	$ –
Foreign	10,960	345	(160)	11,145	(37)
Corporate securities	12,707	658	(150)	13,215	(41)
Mortgage-backed securities	10,058	239	(455)	9,842	(227)
States, municipalities, and political subdivisions	1,580	52	(18)	1,614	–
	$ 38,985	$ 1,342	$ (802)	$39,525	$ (305)
Held to maturity					
U.S. Treasury and agency	$ 1,026	$ 33	$ (2)	$ 1,057	$ –
Foreign	26	1	–	27	–
Corporate securities	313	10	(1)	322	–
Mortgage-backed securities	1,440	39	(10)	1,469	–
States, municipalities, and political subdivisions	676	11	(1)	686	–
	$ 3,481	$ 94	$ (14)	$ 3,561	$ –

As discussed in Note 4 d), if a credit loss is indicated on an impaired fixed maturity, an OTTI is considered to have occurred and the portion of the impairment not related to credit losses (non-credit OTTI) is recognized in OCI. Included in the "OTTI Recognized in AOCI" columns above is the cumulative amount of non-credit OTTI recognized in OCI adjusted for subsequent sales, maturities, and redemptions. OTTI Recognized in AOCI does not include the impact of subsequent changes in fair value of the related securities. In periods subsequent to a recognition of OTTI in OCI, changes in the fair value of the related fixed maturities are reflected in Unrealized appreciation (depreciation) in the consolidated statement of shareholders' equity. For the years ended December 31, 2010 and 2009, $193 million and $196 million, respectively, of net unrealized appreciation related to such securities is included in OCI. At December 31, 2010 and 2009, AOCI includes net unrealized depreciation of $99 million and $162 million, respectively, related to securities remaining in the investment portfolio at those dates for which ACE has recognized a non-credit OTTI.

Mortgage-backed securities issued by U.S. government agencies are combined with all other to be announced mortgage derivatives held (refer to Note 10 a) (iv)) and are included in the category, “Mortgage-backed securities”. Approximately 79 percent and 69 percent of the total mortgage-backed securities at December 31, 2010 and 2009, respectively, are represented by investments in U.S. government agency bonds. The remainder of the mortgage exposure consists of collateralized mortgage obligations and nongovernment mortgage-backed securities, the majority of which provide a planned structure for principal and interest payments and carry a rating of AAA by the major credit rating agencies.

The following table presents fixed maturities at December 31, 2010 and 2009, by contractual maturity. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

	2010		2009	
(in millions of U.S. dollars)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Available for sale; maturity period				
Due in 1 year or less	**$ 1,846**	**$ 1,985**	$ 1,354	$ 1,352
Due after 1 year through 5 years	**13,094**	**13,444**	14,457	14,905
Due after 5 years through 10 years	**10,276**	**10,782**	9,642	10,067
Due after 10 years	**2,818**	**2,812**	3,474	3,359
	28,034	**29,023**	28,927	29,683
Mortgage-backed securities	**8,508**	**8,516**	10,058	9,842
	$ 36,542	**$37,539**	$ 38,985	$39,525
Held to maturity; maturity period				
Due in 1 year or less	**$ 400**	**$ 404**	$ 755	$ 766
Due after 1 year through 5 years	**1,983**	**2,010**	1,096	1,129
Due after 5 years through 10 years	**2,613**	**2,524**	108	115
Due after 10 years	**694**	**677**	82	82
	5,690	**5,615**	2,041	2,092
Mortgage-backed securities	**3,811**	**3,846**	1,440	1,469
	$ 9,501	**$ 9,461**	$ 3,481	$ 3,561

c) Equity securities

The following table presents the fair value and cost of and gross unrealized appreciation (depreciation) related to equity securities at December 31, 2010 and 2009.

(in millions of U.S. dollars)	**December 31 2010**	December 31 2009
Cost	**$ 666**	$ 398
Gross unrealized appreciation	**28**	70
Gross unrealized depreciation	**(2)**	(1)
Fair value	**$ 692**	$ 467

d) Net realized gains (losses)

The Company adopted provisions included in ASC Topic 320, *Investments-Debt and Equity Securities*, (Topic 320) related to the recognition and presentation of OTTI on April 1, 2009. Under these provisions, when an OTTI related to a fixed maturity has occurred, ACE is required to record the OTTI in net income if the Company has the intent to sell the security or it is more likely than not that it will be required to sell the security before the recovery of its amortized cost. Further, in cases where the Company does not intend to sell the security and it is more likely than not that it will not be required to sell the security, ACE must evaluate the security to determine the portion of the impairment, if any, related to credit losses. If a credit loss is indicated, an OTTI is considered to have occurred and any portion of the OTTI related to credit losses must be reflected in net income while the portion of OTTI related to all other factors is recognized in OCI. For fixed maturities held to maturity, OTTI recognized in OCI is accreted from AOCI to the amortized cost of the fixed maturity prospectively over the remaining term of the

securities. For fixed maturities, prior to this adoption, ACE was required to record OTTI in net income unless the Company had the intent and ability to hold the impaired security to recovery. These provisions do not have any impact on the accounting for OTTI for any other type of investment.

The cumulative effect of the adoption resulted in a reduction to AOCI and an increase to Retained earnings of $242 million. These adjustments reflect the net of tax amount ($305 million pre-tax) of OTTI recognized in net income prior to the adoption related to fixed maturities held at the adoption date that had not suffered a credit loss, the Company did not intend to sell, and it was more likely than not that ACE would not be required to sell before the recovery of their amortized cost. Retained earnings and Deferred tax assets at the adoption date were also reduced by $47 million as a result of an increase in the Company's valuation allowance against deferred tax assets, which was a direct effect of the adoption.

Each quarter, the Company reviews its securities in an unrealized loss position (impaired securities), including fixed maturities, securities lending collateral, equity securities, and other investments, to identify those impaired securities to be specifically evaluated for a potential OTTI.

For impaired fixed maturities, the Company assesses OTTI based on the provisions of Topic 320 as described above. The factors that the Company considers when determining if a credit loss exists related to a fixed maturity are discussed in "Evaluation of potential credit losses related to fixed maturities" below. Prior to the adoption, when evaluating fixed maturities for OTTI, the Company principally considered its ability and intent to hold the impaired security to the expected recovery period, the issuer's financial condition, and the Company's assessment (using available market information such as credit ratings) of the issuer's ability to make future scheduled principal and interest payments on a timely basis.

The Company reviews all non-fixed maturities for OTTI based on the following:

- the amount of time a security has been in a loss position and the magnitude of the loss position;
- the period in which cost is expected to be recovered, if at all, based on various criteria including economic conditions and other issuer-specific developments; and
- the Company's ability and intent to hold the security to the expected recovery period.

ACE, as a general rule, also considers that equity securities in an unrealized loss position for twelve consecutive months are impaired.

Evaluation of potential credit losses related to fixed maturities

ACE reviews each fixed maturity in an unrealized loss position to assess whether the security is a candidate for credit loss. Specifically, ACE considers credit rating, market price, and issuer-specific financial information, among other factors, to assess the likelihood of collection of all principal and interest as contractually due. Securities for which ACE determines that credit loss is likely are subjected to further analysis to estimate the credit loss recognized in net income, if any. In general, credit loss recognized in net income equals the difference between the security's amortized cost and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security. The specific methodologies and significant assumptions used by asset class are discussed below. All significant assumptions used in determining credit losses are subject to change as market conditions evolve.

U.S. Treasury and agency obligations (including agency mortgage-backed securities), foreign government obligations, and states, municipalities, and political subdivisions obligations

U.S. Treasury and agency obligations (including agency mortgage-backed securities), foreign government obligations, and states, municipalities, and political subdivisions obligations represent less than $160 million of gross unrealized loss at December 31, 2010. These securities were evaluated for credit loss primarily using qualitative assessments of the likelihood of credit loss considering credit rating of the issuers and level of credit enhancement, if any. ACE concluded that the high level of creditworthiness of the issuers coupled with credit enhancement, where applicable, supports recognizing no credit loss in net income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

Corporate securities
Projected cash flows for corporate securities (principally senior unsecured bonds) are driven primarily by assumptions regarding probability of default and also the timing and amount of recoveries associated with defaults. ACE develops these estimates using information based on market observable data, issuer-specific information, and credit ratings. ACE developed its default assumption by using historical default data by Moody's Investors Service (Moody's) rating category to calculate a 1-in-100 year probability of default, which results in a default assumption in excess of the historical mean default rate. ACE believes that use of a default assumption in excess of the historical mean is reasonable in light of recent market conditions. The following table presents default assumptions by Moody's rating category (historical mean default rate provided for comparison).

Moody's Rating Category	1-in-100 Year Default Rate	Historical Mean Default Rate
Investment Grade:		
Aaa-Baa	0.0%-1.4%	0.0%-0.3%
Below Investment Grade:		
Ba	4.8%	1.1%
B	12.9%	3.4%
Caa-C	53.6%	13.8%

Consistent with management's approach to developing default rate assumptions considering recent market conditions, ACE assumed a 25 percent recovery rate (the par value of a defaulted security that will be recovered) across all rating categories rather than using Moody's historical mean recovery rate of 40 percent. ACE believes that use of a recovery rate assumption lower than the historical mean is reasonable in light of recent market conditions.

Application of the methodology and assumptions described above resulted in credit losses recognized in net income for corporate securities for the year ended December 31, 2010, of $14 million. Credit losses recognized in net income for corporate securities from the date of adoption to December 31, 2009 amounted to $59 million.

Mortgage-backed securities
For mortgage-backed securities, credit impairment is assessed using a cash flow model that estimates the cash flows on the underlying mortgages, using the security-specific collateral and transaction structure. The model estimates cash flows from the underlying mortgage loans and distributes those cash flows to various tranches of securities, considering the transaction structure and any subordination and credit enhancements that exist in that structure. The cash flow model incorporates actual cash flows on the mortgage-backed securities through the current period and then projects the remaining cash flows using a number of assumptions, including default rates, prepayment rates, and loss severity rates (the par value of a defaulted security that will not be recovered) on foreclosed properties.

ACE develops specific assumptions using market data, where available, and includes internal estimates as well as estimates published by rating agencies and other third-party sources. ACE projects default rates by mortgage sector considering current underlying mortgage loan performance, generally assuming:
• lower loss severity for Prime sector bonds versus ALT-A, Sub-prime, and Option ARM sector bonds; and
• lower loss severity for older vintage securities versus more recent vintage securities, which reflects the recent decline in underwriting standards.

These estimates are extrapolated along a default timing curve to estimate the total lifetime pool default rate. Other assumptions used contemplate the actual collateral attributes, including geographic concentrations, rating agency loss projections, rating actions, and current market prices. If cash flow projections indicate that losses will exceed the credit enhancement for a given tranche, then the Company does not expect to recover its amortized cost basis and recognizes an estimated credit loss in net income.

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The following table presents the significant assumptions used to estimate future cash flows for specific mortgage-backed securities evaluated for potential credit loss at December 31, 2010, by sector and vintage.

Range of Significant Assumptions Used

Sector(1)	Vintage	Default Rate(2)	Loss Severity Rate(2)
Prime	2003 and prior	11%	22%
	2004	18-38%	37-59%
	2005	3-42%	48-80%
	2006-2007	11-65%	39-62%
ALT-A	2003 and prior	25%	41%
	2004	35%	48%
	2005	13-47%	49-62%
	2006-2007	32-59%	55-67%
Option ARM	2003 and prior	25%	37%
	2004	52%	45%
	2005	64-75%	57-66%
	2006-2007	69-78%	65-66%
Sub-prime	2003 and prior	48%	73%
	2004	50%	70%
	2005	65%	78%
	2006-2007	58-75%	72-86%

(1) Prime, ALT-A, and Sub-prime sector bonds are categorized based on creditworthiness of the borrower. Option ARM sector bonds are categorized based on the type of mortgage product, rather than creditworthiness of the borrower.
(2) Default rate and loss severity rate assumptions vary within a given sector and vintage depending upon the geographic concentration of the collateral underlying the bond and the level of serious delinquencies, among other factors.

Application of the methodology and assumptions described above resulted in credit losses recognized in net income for mortgage-backed securities for the year ended December 31, 2010, of $32 million. Credit losses recognized in net income for mortgage-backed securities from the date of adoption to December 31, 2009, were $56 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
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The following table presents, for the years ended December 31, 2010, 2009, and 2008, the Net realized gains (losses) and the losses included in Net realized gains (losses) and OCI as a result of conditions which caused the Company to conclude the decline in fair value of certain investments was "other-than-temporary" and the change in net unrealized appreciation (depreciation) on investments.

(in millions of U.S. dollars)	2010	2009	2008
Fixed maturities:			
OTTI on fixed maturities, gross	$ (115)	$ (536)	$ (760)
OTTI on fixed maturities recognized in OCI (pre-tax)	69	302	–
OTTI on fixed maturities, net	(46)	(234)	(760)
Gross realized gains excluding OTTI	569	591	654
Gross realized losses excluding OTTI	(143)	(398)	(740)
Total fixed maturities	380	(41)	(846)
Equity securities:			
OTTI on equity securities	–	(26)	(248)
Gross realized gains excluding OTTI	86	105	140
Gross realized losses excluding OTTI	(2)	(224)	(241)
Total equity securities	84	(145)	(349)
OTTI on other investments	(13)	(137)	(56)
Foreign exchange gains (losses)	(54)	(21)	23
Investment and embedded derivative instruments	58	68	(3)
Fair value adjustments on insurance derivative	(28)	368	(650)
S&P put options and futures	(150)	(363)	164
Other derivative instruments	(19)	(93)	83
Other	174	168	1
Net realized gains (losses)	432	(196)	(1,633)
Change in net unrealized appreciation (depreciation) on investments:			
Fixed maturities available for sale	451	2,723	(2,089)
Fixed maturities held to maturity	522	(6)	(2)
Equity securities	(44)	213	(363)
Other	(35)	162	(305)
Income tax (expense) benefit	(152)	(481)	457
Change in net unrealized appreciation (depreciation) on investments	742	2,611	(2,302)
Total net realized gains (losses) and change in net unrealized appreciation (depreciation) on investments	$1,174	$2,415	$(3,935)

The following table presents, for the year ended December 31, 2010, and for the nine month period from the date of adoption of the then new OTTI standard to December 31, 2009, a roll-forward of pre-tax credit losses related to fixed maturities for which a portion of OTTI was recognized in OCI.

(in millions of U.S. dollars)	Year Ended December 31, 2010	Nine Months Ended December 31, 2009
Balance of credit losses related to securities still held-beginning of period	$ 174	$ 130
Additions where no OTTI was previously recorded	34	104
Additions where an OTTI was previously recorded	12	11
Reductions reflecting amounts previously recorded in OCI but subsequently reflected in net income	–	(2)
Reductions for securities sold during the period	(83)	(69)
Balance of credit losses related to securities still held-end of period	$ 137	$ 174

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

e) Other investments
The following table presents the fair value and cost of other investments at December 31, 2010 and 2009.

	2010		2009	
(in millions of U.S. dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Investment funds	**$ 329**	**$ 232**	$ 310	$ 240
Limited partnerships	**438**	**356**	396	349
Partially-owned investment companies	**703**	**703**	475	475
Life insurance policies	**118**	**118**	97	97
Policy loans	**54**	**54**	52	52
Trading securities	**37**	**35**	42	42
Other	**13**	**13**	3	3
Total	**$1,692**	**$1,511**	$1,375	$1,258

Investment funds include one highly diversified funds investment as well as several direct funds that employ a variety of investment styles such as long/short equity and arbitrage/distressed. Included in limited partnerships and partially-owned investment companies are 53 individual limited partnerships covering a broad range of investment strategies including large cap buyouts, specialist buyouts, growth capital, distressed, mezzanine, real estate, and co-investments. The underlying portfolio consists of various public and private debt and equity securities of publicly traded and privately held companies and real estate assets. The underlying investments across various partnerships, geographies, industries, asset types, and investment strategies provide risk diversification within the limited partnership portfolio and the overall investment portfolio. Trading securities are comprised of $28 million of equity securities and $9 million of fixed maturities at December 31, 2010, compared with $31 million and $11 million, respectively, at December 31, 2009. The Company maintains rabbi trusts, the holdings of which include all of these trading securities in addition to life insurance policies. Refer to Note 12 f).

f) Investments in partially-owned insurance companies
The following table presents Investments in partially-owned insurance companies at December 31, 2010 and 2009.

	2010			2009			
(in millions of U.S. dollars, except percentages)	**Carrying Value**	**Issued Share Capital**	**Ownership Percentage**	Carrying Value	Issued Share Capital	Ownership Percentage	Domicile
Freisenbruch-Meyer	**$ 8**	**$ 5**	**40.0%**	$ 9	$ 5	40.0%	Bermuda
ACE Cooperative Ins. Co. – Saudi Arabia	**7**	**27**	**30.0%**	–	–	N/A	Saudi Arabia
Huatai Insurance Company	**229**	**207**	**21.3%**	220	202	21.3%	China
Huatai Life Insurance Company	**112**	**179**	**20.0%**	74	125	20.0%	China
Island Heritage	**4**	**27**	**10.8%**	4	27	10.8%	Cayman Islands
Intrepid Re Holdings Limited	**–**	**–**	**N/A**	–	0.2	38.5%	Bermuda
Rain and Hail	**–**	**–**	**N/A**	126	613	20.7%	United States
Total	**$ 360**	**$ 445**		$ 433	&bbsp; $972.2		

Huatai Insurance Company and Huatai Life Insurance Company are China-based entities which provide a range of P&C, life, and investment products.

g) Gross unrealized loss
At December 31, 2010, there were 4,682 fixed maturities out of a total of 19,998 fixed maturities in an unrealized loss position. The largest single unrealized loss in the fixed maturities was $5 million. Fixed maturities in an unrealized loss position at December 31, 2010, were comprised of both investment grade and below investment grade securities for which fair value declined primarily due to widening credit spreads since the date of purchase and included mortgage-backed securities that suffered a decline in value since their original date of purchase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
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The following tables present, for all securities in an unrealized loss position at December 31, 2010, and December 31, 2009 (including securities on loan), the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position.

December 31, 2010 (in millions of U.S. dollars)	0 – 12 Months		Over 12 Months		Total	
	Fair Value	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**
U.S. Treasury and agency	**$ 864**	**$ (24.6)**	**$ –**	**$ –**	**$ 864**	**$ (24.6)**
Foreign	**4,409**	**(79.0)**	**312**	**(37.6)**	**4,721**	**(116.6)**
Corporate securities	**3,553**	**(85.1)**	**273**	**(43.9)**	**3,826**	**(129.0)**
Mortgage-backed securities	**3,904**	**(67.3)**	**1,031**	**(165.1)**	**4,935**	**(232.4)**
States, municipalities, and political subdivisions	**1,115**	**(36.2)**	**79**	**(11.9)**	**1,194**	**(48.1)**
Total fixed maturities	**13,845**	**(292.2)**	**1,695**	**(258.5)**	**15,540**	**(550.7)**
Equity securities	**45**	**(1.9)**	**1**	**(0.3)**	**46**	**(2.2)**
Other investments	**66**	**(8.7)**	**–**	**–**	**66**	**(8.7)**
Total	**$13,956**	**$ (302.8)**	**$1,696**	**$ (258.8)**	**$15,652**	**$ (561.6)**

December 31, 2009 (in millions of U.S. dollars)	0 – 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
U.S. Treasury and agency	$1,952	$ (19.4)	$ 21	$ (1.1)	$ 1,973	$ (20.5)
Foreign	2,568	(124.0)	363	(36.4)	2,931	(160.4)
Corporate securities	1,222	(52.3)	865	(99.1)	2,087	(151.4)
Mortgage-backed securities	1,731	(54.8)	1,704	(409.7)	3,435	(464.5)
States, municipalities, and political subdivisions	455	(13.9)	60	(5.0)	515	(18.9)
Total fixed maturities	7,928	(264.4)	3,013	(551.3)	10,941	(815.7)
Equity securities	111	(1.3)	–	–	111	(1.3)
Other investments	81	(16.4)	–	–	81	(16.4)
Total	$8,120	$ (282.1)	$3,013	$ (551.3)	$11,133	$ (833.4)

h) Net investment income

The following table presents the source of net investment income for the years ended December 31, 2010, 2009, and 2008.

(in millions of U.S. dollars)	**2010**	2009	2008
Fixed maturities	**$2,071**	$1,985	$1,972
Short-term investments	**34**	38	109
Equity securities	**26**	54	93
Other	**44**	48	(20)
Gross investment income	**2,175**	2,125	2,154
Investment expenses	**(105)**	(94)	(92)
Net investment income	**$2,070**	$2,031	$2,062

i) Restricted assets

The Company is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. The assets on deposit are available to settle insurance and reinsurance liabilities. The Company also utilizes trust funds in certain large reinsurance transactions where the trust funds are set up for the benefit of the ceding companies and generally take the place of letter of credit (LOC) requirements. The Company also has investments in segregated portfolios primarily to provide collateral or guarantees for LOCs and derivative transactions. Included in restricted assets at December 31, 2010, are fixed maturities and short-term investments totaling $12 billion and cash of $104 million. The following table presents the components of the restricted assets at December 31, 2010 and 2009.

(in millions of U.S. dollars)	**December 31 2010**	December 31 2009
Trust funds	**$ 8,200**	$ 8,402
Deposits with non-U.S. regulatory authorities	**2,289**	2,475
Deposits with U.S. regulatory authorities	**1,384**	1,199
Other pledged assets	**190**	245
	$ 12,063	$ 12,321

5. Reinsurance

a) Consolidated reinsurance

The Company purchases reinsurance to manage various exposures including catastrophe risks. Although reinsurance agreements contractually obligate the Company's reinsurers to reimburse it for the agreed-upon portion of its gross paid losses, they do not discharge the primary liability of the Company. The amounts for net premiums written and net premiums earned in the consolidated statements of operations are net of reinsurance. The following table presents direct, assumed, and ceded premiums for the years ended December 31, 2010, 2009, and 2008.

(in millions of U.S. dollars)	**2010**	2009	2008
Premiums written			
Direct	**$15,887**	$15,467	$15,815
Assumed	**3,624**	3,697	3,427
Ceded	**(5,803)**	(5,865)	(6,162)
Net	**$13,708**	$13,299	$13,080
Premiums earned			
Direct	**$15,780**	$15,415	$16,087
Assumed	**3,516**	3,768	3,260
Ceded	**(5,792)**	(5,943)	(6,144)
Net	**$13,504**	$13,240	$13,203

For the years ended December 31, 2010, 2009, and 2008, the Company recorded reinsurance recoveries on losses and loss expenses incurred of $3.3 billion, $3.7 billion, and $3.3 billion, respectively.

b) Reinsurance recoverable on ceded reinsurance

The following table presents the composition of the Company's reinsurance recoverable on losses and loss expenses at December 31, 2010 and 2009.

(in millions of U.S. dollars)	**2010**	2009
Reinsurance recoverable on unpaid losses and loss expenses, net of a provision for uncollectible reinsurance	**$12,149**	$12,745
Reinsurance recoverable on paid losses and loss expenses, net of a provision for uncollectible reinsurance	**722**	850
Net reinsurance recoverable on losses and loss expenses	**$12,871**	$13,595

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The Company evaluates the financial condition of its reinsurers and potential reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. The provision for uncollectible reinsurance is required principally due to the failure of reinsurers to indemnify ACE, primarily because of disputes under reinsurance contracts and insolvencies. Provisions have been established for amounts estimated to be uncollectible. At December 31, 2010 and 2009, the Company recorded a provision for uncollectible reinsurance of $530 million and $582 million, respectively.

The following tables present a listing, at December 31, 2010, of the categories of the Company's reinsurers. The first category, largest reinsurers, represents all reinsurers where the gross recoverable exceeds one percent of ACE's total shareholders' equity. The provision for uncollectible reinsurance for the largest reinsurers, other reinsurers rated A- or better, and other reinsurers with ratings lower than A- is principally based on an analysis of the credit quality of the reinsurer and collateral balances. Other pools and government agencies include amounts backed by certain state and federal agencies. In certain states, insurance companies are required by law to participate in these pools. Structured settlements include annuities purchased from life insurance companies to settle claims. Since the Company retains the ultimate liability in the event that the life company fails to pay, it reflects the amount as a liability and a recoverable/receivable for GAAP purposes. Other captives include companies established and owned by the Company's insurance clients to assume a significant portion of their direct insurance risk from the Company (they are structured to allow clients to self-insure a portion of their insurance risk). It is generally the Company's policy to obtain collateral equal to expected losses. Where appropriate, exceptions are granted but only with review and approval at a senior officer level. The final category, Other, includes amounts recoverable that are in dispute or are from companies that are in supervision, rehabilitation, or liquidation. The Company establishes its provision for uncollectible reinsurance in this category based on a case by case analysis of individual situations including the merits of the underlying matter, credit and collateral analysis, and consideration of the Company's collection experience in similar situations.

(in millions of U.S. dollars, except percentages)	2010	Provision	% of Gross
Categories			
Largest reinsurers	**$ 6,789**	**$ 111**	**1.6%**
Other reinsurers balances rated A- or better	**2,931**	**46**	**1.6%**
Other reinsurers balances with ratings lower than A- or not rated	**715**	**115**	**16.1%**
Other pools and government agencies	**147**	**8**	**5.4%**
Structured settlements	**585**	**21**	**3.6%**
Other captives	**1,838**	**41**	**2.2%**
Other	**396**	**188**	**47.5%**
Total	**$13,401**	**$ 530**	**4.0%**

Largest Reinsurers

Berkshire Hathaway Insurance Group
Everest Re Group
HDI Re Group (Hanover Re)
Lloyd's of London
Munich Re Group
National Workers Compensation Reinsurance Pool
Partner Re
Swiss Re Group
Transatlantic Holdings
XL Capital Group

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c) Assumed life reinsurance programs involving minimum benefit guarantees under annuity contracts
The following table presents income and expenses relating to GMDB and GLB reinsurance for the periods indicated. GLBs include GMIBs as well as some GMABs originating in Japan.

(in millions of U.S. dollars)	2010	2009	2008
GMDB			
Net premiums earned	**$109**	$104	$ 124
Policy benefits and other reserve adjustments	**$ 99**	$ 111	$ 183
GLB			
Net premiums earned	**$164**	$159	$ 150
Policy benefits and other reserve adjustments	**29**	20	31
Realized gains (losses)	**(64)**	368	(650)
Gain (loss) recognized in income	**$ 71**	$507	$(531)
Effect of partial adoption of fair value measurements standard	**$ –**	$ –	$ 4
Net cash received	**$160**	$156	$ 150
Net (increase) decrease in liability	**$ (89)**	$351	$(685)

At December 31, 2010, reported liabilities for GMDB and GLB reinsurance were $185 million and $648 million, respectively, compared with $212 million and $559 million, respectively, at December 31, 2009. The reported liability for GLB reinsurance of $648 million at December 31, 2010, and $559 million at December 31, 2009, includes a fair value derivative adjustment of $507 million and $443 million, respectively. Included in "Net realized gains (losses)" in the table above are gains (losses) related to foreign exchange and other fair value derivative adjustments; the gains (losses) related to foreign exchange for the years ended December 31, 2010, 2009, and 2008, were $(36) million, $8 million, and $(51) million, respectively. Reported liabilities for both GMDB and GLB reinsurance are determined using internal valuation models. Such valuations require considerable judgment and are subject to significant uncertainty. The valuation of these products is subject to fluctuations arising from, among other factors, changes in interest rates, changes in equity markets, changes in credit markets, changes in the allocation of the investments underlying annuitant's account values, and assumptions regarding future policyholder behavior. These models and the related assumptions are continually reviewed by management and enhanced, as appropriate, based upon improvements in modeling assumptions and availability of more information, such as market conditions and demographics of in-force annuities.

GMDB reinsurance
At December 31, 2010 and 2009, the Company's net amount at risk from its GMDB reinsurance programs was $2.9 billion and $3.8 billion, respectively. For GMDB reinsurance programs, the net amount at risk is defined as the present value of future claim payments under the following assumptions:
- policy account values and guaranteed values are fixed at the valuation date (December 31, 2010, and December 31, 2009, respectively);
- there are no lapses or withdrawals;
- mortality according to 100 percent of the Annuity 2000 mortality table; and
- future claims are discounted in line with the discounting assumption used in the calculation of the benefit reserve averaging between 2 to 3 percent.

At December 31, 2010, if all of the Company's cedants' policyholders covered under GMDB reinsurance agreements were to die immediately, the total claim amount payable by the Company, taking into account all appropriate claims limits, would be approximately $1.4 billion. As a result of the annual claim limits on the GMDB reinsurance agreements, the claims payable are lower in this case than if all the policyholders were to die over time, all else equal.

GLB reinsurance
At December 31, 2010 and 2009, the Company's net amount at risk from its GLB reinsurance programs was $719 million and $683 million, respectively. For GLB reinsurance programs, the net amount at risk is defined as the present value of future claim payments under the following assumptions:
- policy account values and guaranteed values are fixed at the valuation date (December 31, 2010, and December 31, 2009, respectively);
- there are no deaths, lapses, or withdrawals;

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• policyholders annuitize at a frequency most disadvantageous to ACE (in other words, annuitization at a level that maximizes claims taking into account the treaty limits) under the terms of the Company's reinsurance contracts;
• for annuitizing policyholders, the GMIB claim is calculated using interest rates in line with those used in calculating the reserve; and
• future claims are discounted in line with the discounting assumption used in the calculation of the benefit reserve averaging between 1 to 2 percent.

The average attained age of all policyholders under all benefits reinsured, weighted by the guaranteed value of each reinsured policy, is approximately 66.

6. Intangible assets

Included in Goodwill and other intangible assets at December 31, 2010, are goodwill of $4 billion and other intangible assets of $634 million.

The following table presents a roll-forward of Goodwill by business segment for the years ended December 31, 2010 and 2009. On April 1, 2008, ACE acquired all outstanding shares of Combined Insurance Company of America and certain of its subsidiaries (Combined Insurance), generating $882 million of goodwill. The purchase price allocation adjustments in the following table reflect the final allocation of goodwill generated on the Combined Insurance acquisition to reporting segments.

(in millions of U.S. dollars)	Insurance - North American	Insurance - Overseas General	Global Reinsurance	Life	ACE Consolidated
Balance at December 31, 2008	$ 1,205	$ 1,366	$ 365	$686	$ 3,622
Purchase price allocation adjustments	–	(65)	–	61	(4)
Foreign exchange revaluation and other	–	196	–	–	196
Balance at December 31, 2009	$ 1,205	$ 1,497	$ 365	$747	$ 3,814
Purchase price allocation adjustment	–	–	–	3	3
Acquisition of Rain and Hail	135	–	–	–	135
Acquisition of Jerneh	–	94	–	–	94
Foreign exchange revaluation and other	11	(27)	–	–	(16)
Balance at December 31, 2010	**$ 1,351**	**$ 1,564**	**$ 365**	**$750**	**$ 4,030**

Included in the other intangible assets balance at December 31, 2010, are intangible assets subject to amortization of $541 million and intangible assets not subject to amortization of $93 million. Intangible assets subject to amortization include agency relationships, software, client lists, and renewal rights, primarily attributable to the acquisitions of Rain and Hail and Combined Insurance. The majority of the balance of intangible assets not subject to amortization relates to Lloyd's of London (Lloyd's) Syndicate 2488 capacity. Amortization expense related to other intangible assets amounted to $9 million, $11 million, and $12 million for the years ended December 31, 2010, 2009, and 2008, respectively. Amortization expense related to other intangible assets is estimated to be between approximately $26 million and $37 million for each of the next five fiscal years.

The following table presents a roll-forward of VOBA, which was generated from the Combined Insurance acquisition, for the years ended December 31, 2010, 2009, and 2008.

(in millions of U.S. dollars)	**2010**	2009	2008
Balance, beginning of year	**$ 748**	$ 823	$ –
Acquisition of Combined Insurance	**–**	–	1,040
Amortization expense	**(111)**	(130)	(84)
Foreign exchange revaluation	**(3)**	55	(133)
Balance, end of year	**$ 634**	$ 748	$ 823

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The following table presents the estimated amortization expense related to VOBA for the next five years.

(in millions of U.S. dollars)	Year ending December 31
2011	$ 93
2012	67
2013	56
2014	49
2015	43
Total	$ 308

7. Unpaid losses and loss expenses

Property and casualty

The Company establishes reserves for the estimated unpaid ultimate liability for losses and loss expenses under the terms of its policies and agreements. These reserves include estimates for both claims that have been reported and for IBNR, and include estimates of expenses associated with processing and settling these claims. The process of establishing reserves for P&C claims can be complex and is subject to considerable variability as it requires the use of informed estimates and judgments. The Company's estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed, or as current laws change. The Company continually evaluates its estimates of reserves in light of developing information and in light of discussions and negotiations with its insureds. While the Company believes that its reserves for unpaid losses and loss expenses at December 31, 2010, are adequate, new information or trends may lead to future developments in ultimate losses and loss expenses significantly greater or less than the reserves provided. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable, and would be reflected in the Company's results of operations in the period in which the estimates are changed.

The following table presents a reconciliation of unpaid losses and loss expenses for the years ended December 31, 2010, 2009, and 2008.

(in millions of U.S. dollars)	**2010**	2009	2008
Gross unpaid losses and loss expenses, beginning of year	**$ 37,783**	$ 37,176	$ 37,112
Reinsurance recoverable on unpaid losses(1)	**(12,745)**	(12,935)	(13,520)
Net unpaid losses and loss expenses, beginning of year	**25,038**	24,241	23,592
Acquisition of subsidiaries	**145**	–	353
Total	**25,183**	24,241	23,945
Net losses and loss expenses incurred in respect of losses occurring in:			
Current year	**8,091**	8,001	8,417
Prior years	**(512)**	(579)	(814)
Total	**7,579**	7,422	7,603
Net losses and loss expenses paid in respect of losses occurring in:			
Current year	**2,689**	2,493	2,699
Prior years	**4,724**	4,455	3,628
Total	**7,413**	6,948	6,327
Foreign currency revaluation and other	**(107)**	323	(980)
Net unpaid losses and loss expenses, end of year	**25,242**	25,038	24,241
Reinsurance recoverable on unpaid losses(1)	**12,149**	12,745	12,935
Gross unpaid losses and loss expenses, end of year	**$ 37,391**	$ 37,783	$ 37,176

(1) Net of provision for uncollectible reinsurance

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Net losses and loss expenses incurred includes $512 million, $579 million, and $814 million, of net favorable prior period development in the years ended December 31, 2010, 2009, and 2008, respectively. The following is a summary of prior period development for the periods indicated. The remaining net development for long-tail and short-tail business for each segment was comprised of numerous favorable and adverse movements across lines and accident years.

Insurance – North American

Insurance – North American's active operations experienced net favorable prior period development of $239 million in 2010, representing 1.5 percent of net unpaid reserves at December 31, 2009. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $102 million on long-tail business included $49 million within the financial solutions business, primarily in the 2000 and prior accident years; favorable development of $105 million in the portfolios of D&O and E&O, primarily in the 2006 and prior accident years partially offset by adverse movements in the 2007-2009 years; and favorable development of $54 million on the national accounts portfolio primarily in the 2005, 2006, and 2009 accident years. Partially offsetting this favorable development was adverse development of $91 million in excess casualty businesses principally arising in the 2007 accident year; and adverse development of $30 million in small and middle market guaranteed cost workers' compensation portfolios on accident years 2008 and subsequent. Net prior period development also included favorable development of $15 million on other lines across a number of accident years, due primarily to following better than expected loss emergence. Net favorable development of $137 million on short-tail business included favorable development of $41 million in the crop/hail business associated with recording the most recent bordereaux for the 2009 and prior crop years; and favorable development of $96 million in property, aviation, inland and recreational marine, political risk, and other short-tailed exposures principally in accident years 2007-2009.

Insurance – North American's runoff operations experienced net adverse prior period development of $132 million in 2010, representing 0.8 percent of net unpaid reserves at December 31, 2009. Net prior period development was the net result of several underlying favorable and adverse movements, including adverse development of $114 million in the Westchester and Brandywine runoff operations, impacting accident years 1999 and prior, including $89 million related to the completion of the reserve review during 2010, and adverse development of $18 million on runoff CIS workers' compensation following emergence of higher than expected medical costs impacting accident years 2000 and prior.

Insurance – North American's active operations experienced net favorable prior period development of $267 million in 2009, representing 1.7 percent of net unpaid reserves at December 31, 2008. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $162 million on long-tail business included favorable development of $42 million in foreign casualty product lines primarily impacting accident years 2004-2006; favorable development of $52 million on national accounts loss sensitive accounts unit impacting the 2005-2007 accident years; favorable development of $33 million on ACE Financial Solutions business unit concentrated in policies issued in the 2004-2006 years; and favorable development of $35 million on all other long-tail lines, including the programs division and medical risk business, concentrated within the 2006 and prior accident years. Net favorable development of $105 million on short-tail business included favorable development of $49 million mainly on political risk business, short-tail lines in the programs division, and recreational marine business, primarily relating to the 2004-2008 accident years; and favorable development of $56 million in other lines including property, crop, A&H, and other lines principally in accident years 2005-2007.

Insurance – North American's runoff operations experienced net adverse prior period development of $88 million in 2009, representing 0.5 percent of net unpaid reserves at December 31, 2008. Net prior period development was the net result of several underlying favorable and adverse movements, including adverse development of $80 million in the Brandywine operations impacting accident years 1999 and prior.

Insurance – North American experienced net favorable prior period development of $351 million in 2008, representing 2.4 percent of the segment's net unpaid loss and loss expense reserves at December 31, 2007.

Insurance – Overseas General

Insurance – Overseas General experienced net favorable prior period development of $290 million in 2010 representing 4.3 percent of net unpaid reserves at December 31, 2009. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $159 million on long-tail business included favorable development of $241 million in casualty (primary and excess) and financial lines for accident years 2006 and prior, and adverse development of $82 million in the casualty (primary and excess) and financial lines book for accident years 2007-2009. Net favorable development of $131 million on short-tail business included property, marine, A&H, and energy lines across multiple geographical regions, and within both retail and wholesale operations, principally on accident years 2007-2009.

Insurance – Overseas General experienced net favorable prior period development of $255 million in 2009, representing 4.2 percent of net unpaid reserves at December 31, 2008. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $140 million on long-tail business included favorable development of $201 million on the 2005 and prior accident years in casualty and financial lines, partially offset by $70 million of adverse development primarily relating to the 2008 accident year for financial lines. Net favorable development of $115 million on short-tail business included favorable development of $94 million in the property and energy, A&H, and marine lines of business mainly in accident years 2003-2008; and favorable development of $21 million on other lines including aviation relating to the 2005 and prior accident years.

Insurance – Overseas General experienced net favorable prior period development of $304 million in 2008, representing 4.7 percent of the segment's net unpaid loss and loss expense reserves at December 31, 2007.

Global Reinsurance

Global Reinsurance experienced net favorable prior period development of $106 million in 2010 representing 4.7 percent of net unpaid reserves at December 31, 2009. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $72 million on long-tail business included net favorable development of $96 million principally in treaty years 2003-2006 across a number of portfolios (professional liability, D&O, casualty, and medical malpractice). Net favorable development of $34 million on short-tail business, primarily in treaty years 2003-2008 across property lines, included property catastrophe, trade credit, and surety.

Global Reinsurance experienced net favorable prior period development of $142 million in 2009, representing 5.6 percent of net unpaid reserves at December 31, 2008. Net prior period development was the net result of several underlying favorable and adverse movements. Net favorable development of $93 million on long-tail business was principally related to treaty years 2003-2005 across a number of portfolios (professional liability, D&O, casualty and medical malpractice). Net favorable development of $49 million on short-tail business included property and trade credit-related lines.

Global Reinsurance experienced net favorable prior period development of $159 million in 2008, representing 5.9 percent of the segment's net unpaid loss and loss expense reserves at December 31, 2007.

Life

Life experienced net favorable prior period development of $9 million in 2010 representing 4.0 percent of net unpaid reserves at December 31, 2009. Net prior period development was the net result of several underlying favorable and adverse movements. The favorable development was mainly related to accident year 2009 in short-tail A&H.

Life experienced net favorable prior period development of $3 million on short-tail A&H business in 2009, representing 1.4 percent of net unpaid reserves at December 31, 2008. Life experienced no net prior period development in 2008.

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 (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 its A&E reserves, which include provisions for both reported and IBNR claims.

ACE's exposure to A&E claims principally arises out of liabilities acquired when it purchased Westchester Specialty in 1998 and the P&C business of CIGNA in 1999, with the larger exposure contained within the liabilities acquired in the CIGNA transaction. In 1996, prior to ACE's acquisition of the P&C business of CIGNA, the Pennsylvania Insurance Commissioner approved a plan to restructure INA Financial Corporation and its subsidiaries (the Restructuring) which included the division of Insurance Company of North America (INA) into two separate corporations:

(1) an active insurance company that retained the INA name and continued to write P&C business and
(2) an inactive run-off company, now called Century Indemnity Company (Century).

As a result of the division, predominantly all A&E and certain other liabilities of INA were allocated to Century and extinguished, as a matter of Pennsylvania law, as liabilities of INA.

As part of the Restructuring, most A&E liabilities of various U.S. affiliates of INA were reinsured to Century. Century and certain other run-off companies having A&E and other liabilities were contributed to Brandywine Holdings. As part of the 1999 acquisition of the P&C business of CIGNA, ACE acquired Brandywine Holdings and its various subsidiaries. For more information refer to "Brandywine Run-Off Entities" below.

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During 2010, ACE conducted its annual internal, ground-up review of its consolidated A&E liabilities as at December 31, 2009. As a result of the internal review, the Company increased its net loss reserves for the Brandywine operations, including A&E, by $84 million (net of reinsurance provided by NICO), while the gross loss reserves increased by $247 million. In addition, the Company increased gross loss reserves for Westchester Specialty's A&E and other liabilities by $23 million, while the net loss reserves increased by $5 million. An internal review was also conducted during 2009 of consolidated A&E liabilities as at December 31, 2008. As a result of that internal review, the Company increased net loss reserves for the Brandywine operations, including A&E, by $44 million (net of reinsurance provided by NICO), while the gross loss reserves increased by $198 million. This review also resulted in the Company decreasing gross loss reserves for Westchester Specialty's A&E and other liabilities by $64 million, while the net loss reserves did not change.

In 2010, in addition to ACE's annual internal review, a team of external actuaries performed an evaluation as to the adequacy of the reserves of Century. This external review was conducted in accordance with the Brandywine Restructuring Order, which requires that an independent actuarial review of Century's reserves be completed every two years. Management takes full responsibility for the estimation of its A&E liabilities. The difference between the conclusions of the internal and external reviews is an immaterial amount on a net basis after giving effect to the reserve increases for the Brandywine operations described above.

ACE's A&E reserves are not discounted for GAAP reporting and do not reflect any anticipated future changes in the legal, social, or economic environment, or any benefit from future legislative reforms.

The table below presents a roll forward of ACE's consolidated A&E loss reserves (excluding other run-off liabilities), allocated loss expense reserves for A&E exposures, and the provision for uncollectible paid and unpaid reinsurance recoverables for the year ended December 31, 2010.

	Asbestos		Environmental		Total	
(in millions of U.S. dollars)	Gross	Net	Gross	Net	Gross	Net
Balance at December 31, 2009 (1)	$2,229	$1,123	$246	$234	$2,475	$1,357
Incurred activity	223	103	34	4	257	107
Payment activity	(323)	(147)	(74)	(40)	(397)	(187)
Foreign currency revaluation	1	(1)	(1)	–	–	(1)
Balance at December 31, 2010	**$2,130**	**$1,078**	**$205**	**$198**	**$2,335**	**$1,276**

(1) Unallocated loss expense reserves have been removed from December 31, 2009 balances, resulting in reductions to asbestos gross and net reserves of $64 million and $52 million, respectively, and Environmental gross and net reserves of $6 million and $5 million, respectively. Prior disclosures have included an estimated allocation of reserves for unallocated loss expenses.

The A&E net loss reserves including allocated loss expense reserves and provision for uncollectible reinsurance at December 31, 2010, of $1.276 billion shown in the table above are comprised of $957 million in reserves in respect of Brandywine operations, $122 million of reserves held by Westchester Specialty, $101 million of reserves held by ACE Bermuda and $96 million of reserves held by Insurance – Overseas General. The incurred activity of $107 million is the result of adverse activity in Brandywine and Westchester of $94 million and $26 million, respectively, offset by favorable activity in Insurance – Overseas General of $13 million on the provision for uncollectible reinsurance. A portion of the Brandywine incurred activity reflects the allocation of reserve balances for assumed reinsurance and bad debt between A&E and other reserves.

The net figures in the above table reflect third-party reinsurance other than reinsurance provided by NICO under two aggregate excess of loss contracts described below (collectively, the NICO contracts). ACE excludes the NICO contracts as they cover non-A&E liabilities as well as A&E liabilities. The split of coverage provided under the NICO contracts for A&E liabilities as compared to non-A&E liabilities is entirely dependent on the timing of the payment of the related claims. ACE's ability to make an estimate of this split is not practicable. ACE believes, instead, that the A&E discussion is best provided excluding the NICO contracts, while separately discussing the NICO contracts in relation to the total subject business, both A&E and non-A&E, covered by those contracts. With certain exceptions, the NICO contracts provide coverage for the net A&E incurred losses and allocated loss expenses within the limits of coverage and above ACE's retention levels. These exceptions include losses arising from certain operations of Insurance – Overseas General and participation by ACE Bermuda as a co-reinsurer or retrocessionaire in the NICO contracts.

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

The following table presents a roll-forward of net loss reserves, allocated loss expense reserves, and provision for uncollectible paid and unpaid reinsurance recoverables in respect of Brandywine operations only, including the impact of the Brandywine NICO Agreement. The table presents Brandywine activity for the year ended December 31, 2010.

	Brandywine				Net of NICO
(in millions of U.S. dollars)	A&E	Other[1]	Total	NICO Coverage	Coverage
Balance at December 31, 2009[2]	$1,022	$ 953	$1,975	$ 1,140	$ 835
Incurred activity	94	(13)	81	–	81
Paid activity	(159)	(59)	(218)	(212)	(6)
Balance at December 31, 2010	**$ 957**	**$ 881**	**$1,838**	**$ 928**	**$ 910**

[1] Other consists primarily of workers' compensation, non-A&E general liability losses, and provision for uncollectible reinsurance on non-A&E business. The Other balance was increased by $22 million at December 31, 2009, to more properly reflect bad debt reserves as part of Brandywine.
[2] Unallocated loss expense reserves have been removed from the December 31, 2009 balances, resulting in reductions to A&E reserves of $49 million, and Other reserves of $16 million.

The incurred activity of $81 million was primarily related to the internal review of consolidated A&E liabilities as discussed above. As part of the internal review, the allocation of reserve balances for assumed reinsurance and bad debt was updated resulting in an increase to reserves allocated to A&E offset by a corresponding reduction to Other reserves.

Westchester Specialty – impact of NICO contracts on ACE's run-off liabilities
As part of the acquisition of Westchester Specialty in 1998, NICO provided a 75 percent pro-rata share of $1 billion of reinsurance protection on losses and loss adjustment expenses incurred on or before December 31, 1996, in excess of a retention of $721 million (the 1998 NICO Agreement). NICO has also provided an 85 percent pro-rata share of $150 million of reinsurance protection on losses and allocated loss adjustment expenses incurred on or before December 31, 1992, in excess of a retention of $755 million (the 1992 NICO Agreement). At December 31, 2010, the remaining unused incurred limit under the 1998 NICO Agreement was $518 million, which is only available for losses and loss adjustment expenses. The 1992 NICO Agreement was exhausted on a paid basis in the third quarter of 2009.

The following table presents a roll-forward of net loss reserves, allocated loss expense reserves, and provision for uncollectible paid and unpaid reinsurance recoverables in respect of 1996 and prior Westchester Specialty operations that are the subject business of the NICO covers. The table presents activity for the year ended December 31, 2010.

	Westchester Specialty				Net of NICO
(in millions of U.S. dollars)	A&E	Other	Total	NICO Coverage	Coverage
Balance at December 31, 2009[1]	$100	$104	$204	$ 188	$ 16
Incurred activity	26	(12)	14	11	3
Paid activity	(4)	(5)	(9)	(13)	4
Balance at December 31, 2010	**$122**	**$ 87**	**$209**	**$ 186**	**$ 23**

[1]Unallocated loss expense reserves have been removed from the December 31, 2009 balances, resulting in reductions to A&E reserves of $10 million, and Other reserves of $3 million.

Brandywine run-off entities
In addition to housing a significant portion of ACE's A&E exposure, the Brandywine operations include run-off liabilities related to various insurance and reinsurance businesses. ACE's Brandywine operations are comprised of Century (a Pennsylvania insurer) and Century International Reinsurance Company Ltd., a Bermuda insurer (CIRC). The Brandywine companies are direct or indirect subsidiaries of Brandywine Holdings.

During the quarter ended June 30, 2010, in order to better align assets and liabilities, Brandywine Holdings Corporation transferred its ownership of CIRC stock to Century. Thus, Century (which reinsures substantially all of CIRC's liabilities) became the direct parent of CIRC and Century's statutory surplus rose above the $25 million required by the 1996 Pennsylvania Insurance Department Restructuring Order. The realignment of CIRC as a subsidiary of Century increased Century's surplus and strengthened its ability to meet its future obligations, including its obligations as a reinsurer of the ACE active companies. The transfer of CIRC stock increased Century's assets by $169 million and resulted in (a) the elimination of Century's reserve cession to the aggregate excess of loss agreement, described below (the XOL) and (b) an increase in Century's surplus by $26 million to $51 million as of June 30, 2010. Century's increased statutory surplus position allowed it to satisfy certain balances payable to ACE active companies under another affiliate reinsurance agreement. Due to a contractual provision, these balances were prohibited from being paid to ACE active companies while Century was ceding statutory reserves under the XOL.

The U.S.-based ACE INA companies assumed two contractual obligations in respect of the Brandywine operations in connection with the Restructuring: a dividend retention fund obligation and a surplus maintenance obligation in the form of the XOL.

INA Financial Corporation established and funded a dividend retention fund (the Dividend Retention Fund) consisting of $50 million plus investment earnings. Pursuant to an interpretation of the Brandywine Restructuring Order, the full balance of the Dividend Retention Fund was contributed to Century as at December 31, 2002. Under the Restructuring Order, while any obligation to maintain the Dividend Retention Fund is in effect, to the extent dividends are paid by INA Holdings Corporation to its parent, INA Financial Corporation, and to the extent INA Financial Corporation then pays such dividends to INA Corporation, a portion of those dividends must be withheld to replenish the principal of the Dividend Retention Fund to $50 million. During 2010, $15 million was withheld from such dividends and deposited in the Dividend Retention Fund by INA Financial Corporation. The Dividend Retention Fund may not be terminated without prior written approval from the Pennsylvania Insurance Commissioner.

In addition, an ACE INA insurance subsidiary provided reinsurance coverage to Century in the amount of $800 million under an XOL, triggered if the statutory capital and surplus of Century falls below $25 million or if Century lacks liquid assets with which to pay claims as they become due.

Effective December 31, 2004, ACE INA Holdings contributed $100 million to Century in exchange for a surplus note. After giving effect to the contribution and issuance of the surplus note, the statutory surplus of Century at December 31, 2010, was $25 million and approximately $88 million in statutory-basis losses have been ceded to the XOL on an inception-to-date basis. Century reports the amount ceded under the XOL in accordance with statutory accounting principles, which differ from GAAP by, among other things, allowing Century to discount its liabilities, including certain asbestos related and environmental pollution liabilities. For GAAP reporting purposes, intercompany reinsurance recoverables related to the XOL are eliminated upon consolidation. To estimate ACE's remaining claim exposure under the XOL on an undiscounted basis, ACE adjusts the statutory cession to exclude the discount embedded in statutory loss reserves. At December 31, 2010, approximately $390 million in undiscounted losses were ceded under the XOL, leaving a remaining limit of coverage under that agreement of approximately $410 million. At December 31, 2009, the remaining limit of coverage under the agreement was $298 million on an undiscounted basis.

While ACE believes it has no legal obligation to fund losses above the XOL limit of coverage, ACE's consolidated results would nevertheless continue to include any losses above the limit of coverage for so long as the Brandywine companies remain consolidated subsidiaries of ACE.

Uncertainties relating to ACE's ultimate Brandywine exposure

In addition to the Dividend Retention Fund and XOL commitments described above, certain ACE entities are primarily liable for asbestos, environmental, and other exposures that they have reinsured to Century. Accordingly, if Century were to become insolvent and ACE were to lose control of Century, some or all of the recoverables due to these ACE companies from Century could become uncollectible, yet those ACE entities would continue to be responsible to pay claims to their insureds or reinsureds. At December 31, 2010 and 2009, the aggregate reinsurance balances ceded by the active ACE companies to Century were approximately $758 million and $1.2 billion, respectively. At December 31, 2010 and 2009, Century's carried gross reserves (including reserves ceded by the active ACE companies to Century) were $2.7 billion and $2.8 billion, respectively. ACE believes the intercompany reinsurance recoverables, which relate to liabilities payable over many years (i.e., 25 years or more), are not impaired at this time. A substantial portion of the liabilities ceded to Century by its affiliates have, in turn, been ceded by Century to NICO and, at December 31, 2010 and 2009, remaining cover on a paid loss basis was approximately $927 million and $1.14 billion, respectively. 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. Losses ceded by Century to the active ACE companies and other amounts owed to Century by the active ACE companies were, in the aggregate, approximately $453 million and $629 million at December 31, 2010 and 2009, respectively.

8. Taxation

Under Swiss law, a resident company is subject to income tax at the federal, cantonal, and communal levels that is levied on net worldwide income. Income attributable to permanent establishments or real estate located abroad is excluded from the Swiss tax base. ACE Limited is a holding company and, therefore, is exempt from cantonal and communal income tax. As a result, ACE Limited is subject to Swiss income tax only at the federal level. Furthermore, participation relief is granted to ACE Limited at the federal level for qualifying dividend income and capital gains related to the sale of qualifying participations. It is expected that the participation relief will result in a full exemption of participation income from federal income tax. ACE Limited is resident in the Canton and City of Zurich and, as such, is subject to an annual cantonal and communal capital tax on the taxable equity of ACE Limited in Switzerland.

The Company has two Swiss operating subsidiaries resident in the Canton and City of Zurich, an insurance company, ACE Insurance (Switzerland) Limited, which, in turn, owns a reinsurance company, ACE Reinsurance (Switzerland) Limited. Both are subject to federal, cantonal, and communal income tax and to annual cantonal and communal capital tax.

Under current Bermuda law, ACE Limited and its Bermuda subsidiaries are not required to pay any taxes on its income or capital gains. If a Bermuda law were to be enacted that would impose taxes on income or capital gains, ACE Limited and the Bermuda subsidiaries have received an undertaking from the Minister of Finance in Bermuda that would exempt such companies from Bermudian taxation until March 2016.

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

ACE Group Holdings and its respective subsidiaries are subject to income taxes imposed by U.S. authorities and file a consolidated U.S. tax return. Combined Insurance and its subsidiaries will file a separate consolidated U.S. tax return for tax years prior to 2014. Should ACE Group Holdings pay a dividend to the Company, withholding taxes would apply. Currently, however, no withholding taxes are accrued with respect to such un-remitted earnings as management has no intention of remitting these earnings. The cumulative amount that would be subject to withholding tax, if distributed, as well as the determination of the associated tax liability are not practicable to compute; however, such amount would be material to the Company. Certain international operations of the Company are also subject to income taxes imposed by the jurisdictions in which they operate.

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

The following table presents the income tax provision for the years ended December 31, 2010, 2009, and 2008.

(in millions of U.S. dollars)	**2010**	2009	2008
Current tax expense	**$443**	$547	$ 511
Deferred tax expense (benefit)	**116**	(19)	(141)
Provision for income taxes	**$559**	$528	$ 370

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The weighted-average expected tax provision has been calculated using pre-tax accounting income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. The following table presents a reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted-average tax rate for the years ended December 31, 2010, 2009, and 2008.

(in millions of U.S. dollars)	**2010**	2009	2008
Expected tax provision at weighted-average rate	**$614**	$560	$353
Permanent differences:			
Tax-exempt interest and DRD, net of proration	**(20)**	(25)	(25)
Non-taxable acquisition gain	**(61)**	–	–
Net withholding taxes	**15**	14	16
Change in valuation allowance	**(3)**	(48)	1
Other	**14**	27	25
Total provision for income taxes	**$559**	$528	$370

The following table presents the components of the net deferred tax assets at December 31, 2010 and 2009.

(in millions of U.S. dollars)	**2010**	2009
Deferred tax assets:		
Loss reserve discount	**$ 852&sbsp;**	$ 877
Unearned premiums reserve	**87**	83
Foreign tax credits	**952**	855
Investments	**51**	35
Provision for uncollectible balances	**132**	145
Loss carry-forwards	**57**	102
Other, net	**114**	146
Cumulative translation adjustment	**2**	–
Total deferred tax assets	**2,247**	2,243
Deferred tax liabilities:		
Deferred policy acquisition costs	**100**	73
VOBA and other intangible assets	**367**	188
Un-remitted foreign earnings	**718**	657
Unrealized appreciation on investments	**262**	110
Cumulative translation adjustment	**–**	27
Total deferred tax liabilities	**1,447**	1,055
Valuation allowance	**31**	34
Net deferred tax assets	**$ 769**	$1,154

The valuation allowance of $31 million at December 31, 2010, and $34 million at December 31, 2009, reflects management's assessment, based on available information, that it is more likely than not that a portion of the deferred tax assets 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 utilize foreign tax credits. Adjustments to the valuation allowance are made when there is a change in management's assessment of the amount of deferred tax assets that are realizable.

At December 31, 2010, the Company has a U.S. capital loss carry-forward of $131 million which, if unutilized, will expire in the years 2013-2014, a U.S. net operating loss carry-forward of $30 million, which, if unutilized, will expire in the years 2021-2029, and a foreign tax credit carry-forward in the amount of $105 million which, if unutilized, will expire in the years 2014 -2020.

The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2010 and 2009.

(in millions of U.S. dollars)	2010	2009
Balance, beginning of year	**$155**	$150
Additions based on tax positions related to the current year	**1**	1
Additions (reductions) for tax positions of prior years	**(17)**	4
Balance, end of year	**$139**	$155

Included in the balance at December 31, 2010 and 2009, is $1 million of unrecognized tax benefits for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, an unfavorable resolution of these temporary items would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. Consequently, the total amount of unrecognized tax benefits as at December 31, 2010, that would affect the effective tax rate, if recognized, is $138 million.

The Company recognizes accruals for interest and penalties, if any, related to unrecognized tax benefits in income tax expense. At December 31, 2010 and 2009, the Company has recorded $19 million and $20 million, respectively, in liabilities for tax-related interest in its consolidated balance sheet.

In June 2010, the Company reached final settlement with the IRS Appeals Division regarding the Company's federal tax returns for 2002, 2003, and 2004. As a result of the settlement, the Company reduced the amount of its unrecognized tax benefits including interest by approximately $21 million. During the quarter ended June 30, 2010, the IRS completed its field examination of the Company's federal tax returns for 2005, 2006, and 2007 and has proposed several adjustments principally involving transfer pricing and other insurance-related matters. In July 2010, the Company filed a written protest with the IRS seeking review by the IRS Appeals Division. While it is reasonably possible that a significant change in the Company's unrecognized tax benefits could occur in the next 12 months, the Company believes that the outcome of the appeal will not have a material impact on the Company's financial condition or results of operations. The IRS commenced its field examination of the Company's federal tax returns for 2008 and 2009 during January, 2011. With few exceptions, the Company's significant U.K. subsidiaries remain subject to examination for tax years 2007 and later.

9. Debt

The following table presents the Company's debt at December 31, 2010 and 2009.

(in millions of U.S. dollars)	2010	2009
Short-term debt		
ACE Limited revolving credit facility	**$ 300**	$ –
Reverse repurchase agreements	**1,000**	–
ACE European Holdings due 2010	**–**	161
	$1,300	$ 161
Long-term debt		
ACE INA senior notes due 2014	**500**	500
ACE INA senior notes due 2015	**447**	446
ACE INA senior notes due 2015	**699**	–
ACE INA senior notes due 2017	**500**	500
ACE INA senior notes due 2018	**300**	300
ACE INA senior notes due 2019	**500**	500
ACE INA debentures due 2029	**100**	100
ACE INA senior notes due 2036	**299**	298
Other	**13**	14
ACE INA term loan due 2011	**–**	50
ACE INA term loan due 2013	**–**	450
	$3,358	$3,158
Trust Preferred Securities		
ACE INA capital securities due 2030	**$ 309**	$ 309

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a) Short-term debt

At December 31, 2010, in connection with the financing of the acquisition of Rain and Hail, short-term debt includes reverse repurchase agreements totaling $1 billion. In addition, $300 million in borrowings against ACE's revolving credit facility were outstanding at December 31, 2010. Refer to Note 10 d).

b) ACE European Holdings notes

In December 2010, ACE European Holdings No. 2 Ltd. repaid a £100 million syndicated five-year term loan that was due. This term loan agreement was entered into in December 2005. At the date of repayment, the U.S. dollar equivalent of the amount repaid was $159 million. The interest rate on this unsecured loan was 5.25 percent.

c) ACE INA term loans, notes, and debentures

In December 2008, ACE INA entered into a $66 million dual tranche floating interest rate term loan agreement. The first tranche, a $50 million three-year term loan due December 2011, had a floating interest rate based on LIBOR. Simultaneously, the Company entered into a swap transaction that had the economic effect of fixing the interest rate, excluding fees and expenses, at 5.61 percent for the full term of the loan. In December 2010, ACE repaid this loan and exited the swap. The second tranche, a $16 million nine-month term loan, due and repaid in September 2009, had a floating interest rate based on LIBOR. Simultaneously, the Company entered into a swap transaction that had the economic effect of fixing the interest rate, excluding fees and expenses, at 3.02 percent for the full term of the loan. The obligation of the borrower under this unsecured loan agreement was guaranteed by ACE Limited.

In April 2008, as part of the financing of the Combined Insurance acquisition, ACE INA entered into a $450 million floating interest rate syndicated term loan agreement due April 2013. The floating interest rate was based on LIBOR plus 0.65 percent. Simultaneously, the Company entered into a $450 million swap transaction that had the economic effect of fixing the interest rate at 4.15 percent for the term of the loan. In December 2010, ACE repaid this loan and exited the swap. The obligation of the borrower under this unsecured loan agreement was guaranteed by ACE Limited.

In June 2004, ACE INA issued $500 million of 5.875 percent notes due June 2014. These notes are redeemable at any time at ACE INA's option subject to a “make-whole” premium plus 0.20 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by the Company and they rank equally with all of the Company's other senior obligations. They also contain customary limitation on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In May 2008, ACE INA issued $450 million of 5.6 percent senior notes due May 2015. These notes are redeemable at any time at ACE INA's option subject to a “make-whole” premium plus 0.35 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by the Company and they rank equally with all of the Company's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In November 2010, ACE INA issued $700 million of 2.6 percent senior notes due November 2015. These notes are redeemable at any time at ACE INA's option subject to a “make-whole” premium plus 0.20 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by the Company and they rank equally with all of the Company's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In February 2007, ACE INA issued $500 million of 5.7 percent notes due February 2017. These notes are redeemable at any time at ACE INA's option subject to a “make-whole” premium plus 0.20 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. These notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by the Company and they rank equally with all of the Company's other senior obligations. They also contain customary limitation on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In February 2008, as part of the financing of the Combined Insurance acquisition, ACE INA issued $300 million of 5.8 percent senior notes due March 2018. These notes are redeemable at any time at ACE INA's option subject to a “make-whole” premium plus 0.35 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. These notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by the Company and they rank equally with all of the Company's other senior obligations. They also contain

customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In June 2009, ACE INA issued $500 million of 5.9 percent senior notes due June 2019. These notes are redeemable at any time at ACE INA's option subject to a "make-whole" premium plus 0.40 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. The notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by the Company and they rank equally with all of the Company's other senior obligations. They also contain customary limitations on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

In August 1999, ACE INA issued $100 million of 8.875 percent debentures due August 2029. Subject to certain exceptions, the debentures are not redeemable before maturity and do not have the benefit of any sinking fund. These unsecured debentures are guaranteed on a senior basis by the Company and they rank equally with all of ACE INA's other senior indebtedness.

In May 2006, ACE INA issued $300 million of 6.7 percent notes due May 2036. These notes are redeemable at any time at ACE INA's option subject to a "make-whole" premium plus 0.20 percent. The notes are also redeemable at par plus accrued and unpaid interest in the event of certain changes in tax law. These notes do not have the benefit of any sinking fund. These senior unsecured notes are guaranteed on a senior basis by the Company and they rank equally with all of the Company's other senior obligations. They also contain customary limitation on lien provisions as well as customary events of default provisions which, if breached, could result in the accelerated maturity of such senior debt.

d) ACE INA capital securities

In March 2000, ACE Capital Trust II, a Delaware statutory business trust, publicly issued $300 million of 9.7 percent Capital Securities (the Capital Securities). At the same time, ACE INA purchased $9.2 million of common securities of ACE Capital Trust II.

The Capital Securities mature in April 2030. Distributions on the Capital Securities are payable semi-annually. ACE Capital Trust II may defer these payments for up to ten consecutive semi-annual periods (but no later than April 1, 2030). Any deferred payments would accrue interest compounded semi-annually if ACE INA defers interest on the Subordinated Debentures due 2030 (as defined below).

The sole assets of ACE Capital Trust II consist of $309 million principal amount of 9.7 percent Junior Subordinated Deferrable Interest Debentures (the Subordinated Debentures) issued by ACE INA. The Subordinated Debentures mature in April 2030. Interest on the Subordinated Debentures is payable semi-annually. ACE INA may defer such interest payments (but no later than April 1, 2030), with such deferred payments accruing interest compounded semi-annually. ACE INA may redeem the Subordinated Debentures in the event certain changes in tax or investment company law occur at a redemption price equal to accrued and unpaid interest to the redemption date plus the greater of (i) 100 percent of the principal amount thereof, or (ii) the sum of the present value of scheduled payments of principal and interest on the debentures from the redemption date to April 1, 2030. The Capital Securities and the ACE Capital Trust II Common Securities will be redeemed upon repayment of the Subordinated Debentures.

The Company has guaranteed, on a subordinated basis, ACE INA's obligations under the Subordinated Debentures, and distributions and other payments due on the Capital Securities. These guarantees, when taken together with the Company's obligations under expense agreements entered into with ACE Capital Trust II, provide a full and unconditional guarantee of amounts due on the Capital Securities.

e) Other long-term debt

In August 2005, ACE American borrowed $10 million from the Pennsylvania Industrial Development Authority (PIDA) at a rate of 2.75 percent due September 2020. The proceeds from PIDA were restricted for purposes of defraying construction costs of a new office building. Principal and interest are payable on a monthly basis. The current balance outstanding is $7 million.

In addition, in 1999, ACE American assumed a CIGNA loan of $8 million borrowed from the City of Philadelphia under the Urban Development Action Grant with an imputed rate of 7.1 percent due December 2019. The current amount outstanding is $6 million.

10. Commitments, contingencies, and guarantees

a) Derivative instruments

Derivative instruments employed

The Company maintains positions in derivative instruments such as futures, options, swaps, and foreign currency forward contracts for which the primary purposes are to manage duration and foreign currency exposure, yield enhancement, or to

obtain an exposure to a particular financial market. Along with convertible bonds and to be announced mortgage-backed securities (TBA), discussed below, these are the most numerous and frequent derivative transactions.

ACE maintains positions in convertible bond investments that contain embedded derivatives. In addition, the Company purchases TBAs as part of its investing activities. These securities are included within the Company's fixed maturities available for sale (FM AFS) portfolio.

Under reinsurance programs covering GLBs, the Company assumes the risk of GLBs, including GMIB and GMAB, associated with variable annuity contracts. The GMIB risk is triggered if, at the time the contract holder elects to convert the accumulated account value to a periodic payment stream (annuitize), the accumulated account value is not sufficient to provide a guaranteed minimum level of monthly income. The GMAB risk is triggered if, at contract maturity, the contract holder's account value is less than a guaranteed minimum value. The Company's GLB reinsurance product meets the definition of a derivative instrument. Benefit reserves in respect of GLBs are classified as Future policy benefits (FPB) while the fair value derivative adjustment is classified within Accounts payable, accrued expenses, and other liabilities (AP). The Company also maintains positions in exchange-traded equity futures contracts and options on equity market indices to limit equity exposure in the GMDB and GLB blocks of business.

In relation to certain debt issuances, the Company has entered into interest rate swap transactions for the purpose of either fixing or reducing borrowing costs. Although the use of these interest rate swaps has the economic effect of fixing or reducing borrowing costs on a net basis, gross interest expense on the related debt issuances is included in Interest expense while the settlements related to the interest rate swaps are reflected in Net realized gains (losses) in the consolidated statements of operations. At December 31, 2010, ACE had no in force interest rate swaps having exited such positions upon the repayment of related debt issuances during the fourth quarter of 2010.

ACE buys credit default swaps to mitigate global credit risk exposure, primarily related to reinsurance recoverable.

The Company carries all derivative instruments at fair value with changes in fair value recorded in Net realized gains (losses) in the consolidated statements of operations. None of the derivative instruments are used as hedges for accounting purposes.

The following table presents the balance sheet locations, fair values in an asset or (liability) position, and notional values/payment provisions of the Company's derivative instruments at December 31, 2010 and 2009.

		2010		2009	
(in millions of U.S. dollars)	Consolidated Balance Sheet Location	**Fair Value**	**Notional Value/ Payment Provision**	Fair Value	Notional Value/ Payment Provision
Investment and embedded derivative instruments					
Foreign currency forward contracts	AP	**$ 3**	**$ 729**	$ 6	$ 393
Futures contracts on money market instruments	AP	**3**	**4,297**	4	4,711
Futures contracts on notes and bonds	AP	**5**	**676**	(2)	500
Options on money market instruments	AP	**–**	**1**	–	200
Options on notes and bonds futures	AP	**–**	**–**	(1)	200
Convertible bonds	FM AFS	**416**	**382**	354	354
TBAs	FM AFS	**101**	**98**	11	10
		$ 528	**$ 6,183**	$ 372	$ 6,368
Other derivative instruments					
Futures contracts on equities	AP	**$ (25)**	**$ 1,069**	$ (9)	$ 960
Options on equity market indices	AP	**46**	**250**	56	250
Interest rate swaps	AP	**–**	**–**	(24)	500
Credit default swaps	AP	**4**	**350**	2	350
Other	AP	**–**	**17**	12	37
		$ 25	**$ 1,686**	$ 37	$ 2,097
GLB(1)	AP/FPB	**$(648)**	**$ 719**	$(559)	$ 683

(1) Note that the payment provision related to GLB is the net amount at risk. The concept of a notional value does not apply to the GLB reinsurance contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
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The following table presents net realized gains (losses) related to derivative instrument activity in the consolidated statement of operations for the years ended December 31, 2010 and 2009.

(in millions of U.S. dollars)	2010	2009
Investment and embedded derivative instruments		
Foreign currency forward contracts	**$ 21**	$ (14)
All other futures contracts and options	**29**	6
Convertible bonds	**7**	82
TBAs	**1**	(6)
	$ 58	$ 68
GLB and other derivative instruments		
GLB	**$ (28)**	$ 368
Futures contracts on equities	**(140)**	(268)
Options on equity market indices	**(10)**	(95)
Interest rate swaps	**(21)**	(22)
Credit default swaps	**1**	(75)
Other	**1**	4
	$(197)	$ (88)
	$(139)	$ (20)

Derivative instrument objectives

(i) Foreign currency exposure management

A foreign currency forward contract (forward) is an agreement between participants to exchange specific foreign currencies at a future date. The Company uses forwards to minimize the effect of fluctuating foreign currencies.

(ii) Duration management and market exposure

Futures

Futures contracts give the holder the right and obligation to participate in market movements, determined by the index or underlying security on which the futures contract is based. Settlement is made daily in cash by an amount equal to the change in value of the futures contract times a multiplier that scales the size of the contract. Exchange-traded bond and note futures contracts are used in fixed maturity portfolios as substitutes for ownership of the bonds and notes without significantly increasing the risk in the portfolio. Investments in futures contracts may be made only to the extent that there are assets under management not otherwise committed. Exchange-traded equity futures contracts are used to limit exposure to a severe equity market decline, which would cause an increase in expected claims and therefore, reserves for GMDB and GLB reinsurance business.

Options

An option contract conveys to the holder the right, but not the obligation, to purchase or sell a specified amount or value of an underlying security at a fixed price. Option contracts are used in the investment portfolio as protection against unexpected shifts in interest rates, which would affect the duration of the fixed maturity portfolio. By using options in the portfolio, the overall interest rate sensitivity of the portfolio can be reduced. Option contracts may also be used as an alternative to futures contracts in the Company's synthetic strategy as described above. Another use for option contracts is to limit exposure to a severe equity market decline, which would cause an increase in expected claims and therefore, reserves for GMDB and GLB reinsurance business. The price of an option is influenced by the underlying security, expected volatility, time to expiration, and supply and demand.

The credit risk associated with the above derivative financial instruments relates to the potential for non-performance by counterparties. Although non-performance is not anticipated, in order to minimize the risk of loss, management monitors the creditworthiness of its counterparties and obtains collateral. The performance of exchange-traded instruments is guaranteed by the exchange on which they trade. For non-exchange-traded instruments, the counterparties are principally banks which must meet certain criteria according to the Company's investment guidelines.

Interest rate swaps

An interest rate swap is a contract between two counterparties in which interest payments are made based on a notional principal amount, which itself is never paid or received. Under the terms of an interest rate swap, one counterparty makes interest payments based on a fixed interest rate and the other counterparty's payments are based on a floating rate. Interest rate swap contracts are used occasionally in the investment portfolio as protection against unexpected shifts in interest rates, which would affect the fair value of the fixed maturity portfolio. By using interest rate swaps in the portfolio, the overall duration or interest rate sensitivity of the portfolio can be reduced. The Company also employs interest rate swaps related to certain debt issuances for the purpose of either fixing and/or reducing borrowing costs.

Credit default swaps

A credit default swap is a bilateral contract under which two counterparties agree to isolate and separately trade the credit risk of at least one third-party reference entity. Under a credit default swap agreement, a protection buyer pays a periodic fee to a protection seller in exchange for a contingent payment by the seller upon a credit event (such as a default or failure to pay) related to the reference entity. When a credit event is triggered, the protection seller pays the protection buyer the difference between the fair value of assets and the principal amount. The Company has purchased a credit default swap to mitigate its global credit risk exposure to one of its reinsurers.

(iii) Convertible security investments

A convertible bond is a debt instrument that can be converted into a predetermined amount of the issuer's equity at certain times prior to the bond's maturity. The convertible option is an embedded derivative within the fixed maturity host instruments which are classified in the investment portfolio as available for sale. The Company purchases convertible bonds for their total return and not specifically for the conversion feature.

(iv) TBA

By acquiring a TBA, the Company makes a commitment to purchase a future issuance of mortgage-backed securities. For the period between purchase of the TBA and issuance of the underlying security, the Company's position is accounted for as a derivative in the consolidated financial statements. The Company purchases TBAs both for their total return and for the flexibility they provide related to ACE's mortgage-backed security strategy.

(v) GLB

Under the GLB program, as the assuming entity, the Company is obligated to provide coverage until the expiration or maturity of the underlying annuities. Premiums received under the reinsurance treaties are classified as premium. Expected losses allocated to premiums received are classified as future policy benefits and valued similar to GMDB reinsurance. Other changes in fair value, principally arising from changes in expected losses allocated to expected future premiums, are classified as Net realized gains (losses). Fair value represents management's estimate of exit price and thus, includes a risk margin. The Company may recognize a realized loss for other changes in fair value due to adverse changes in the capital markets (i.e., declining interest rates and/or declining equity markets) and changes in actual or estimated future policyholder behavior (i.e., increased annuitization or decreased lapse rates) although the Company expects the business to be profitable. The Company believes this presentation provides the most meaningful disclosure of changes in the underlying risk within the GLB reinsurance programs for a given reporting period.

b) Concentrations of credit risk

The investment portfolio is managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single issue and issuer. The Company believes that there are no significant concentrations of credit risk associated with its investments. The Company's three largest exposures by issuer at December 31, 2010, were General Electric Company, JP Morgan Chase & Co., and Bank of America Corp. The Company's largest exposure by industry at December 31, 2010, was financial services.

The Company markets its insurance and reinsurance worldwide primarily through insurance and reinsurance brokers. The Company assumes a degree of credit risk associated with brokers with whom it transacts business. During the year ended December 31, 2010, approximately 12 percent of the Company's gross premiums written were generated from or placed by Marsh, Inc. and its affiliates and 10 percent by Aon Corporation and its affiliates. Both of these entities are large, well established companies and there are no indications that either of them is financially troubled at December 31, 2010. No other broker and no one insured or reinsured accounted for more than ten percent of gross premiums written in the three years ended December 31, 2010, 2009, and 2008.

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c) Other investments
Included in Other investments are investments in limited partnerships and partially-owned investment companies with a carrying value of $1.1 billion. In connection with these investments, the Company has commitments that may require funding of up to $753 million over the next several years.

d) Credit facilities
The Company has a $500 million unsecured revolving credit facility expiring in November 2012 available for general corporate purposes and the issuance of LOCs. At December 31, 2010, ACE had outstanding borrowings against this facility included in Short-term debt totaling $300 million. Outstanding LOCs issued under this facility were $70 million at December 31, 2010. This facility requires that the Company and/or certain of its subsidiaries continue to maintain certain covenants, including a minimum consolidated net worth covenant and a maximum leverage covenant, which have been met at December 31, 2010.

e) Letters of credit
The Company has a $1 billion unsecured operational LOC facility expiring in November 2012. At December 31, 2010, $574 million of this facility was utilized. The Company also has a $500 million unsecured operational LOC facility expiring in September 2014. At December 31, 2010, this facility was fully utilized.

To satisfy funding requirements of the Company's Lloyd's Syndicate 2488 through 2012, the Company has a series of four bilateral uncollateralized LOC facilities totaling $400 million. LOCs issued under these facilities will expire no earlier than December 2015. At December 31, 2010, $340 million of this facility was utilized.

These facilities require that the Company and/or certain of its subsidiaries continue to maintain certain covenants, including a minimum consolidated net worth covenant and a maximum leverage covenant, which have been met at December 31, 2010.

f) Legal proceedings
(i) Claims and other litigation
The Company's insurance subsidiaries are subject to claims litigation involving disputed interpretations of policy coverage and, in some jurisdictions, direct actions by allegedly-injured persons seeking damages from policyholders. These lawsuits, involving claims on policies issued by the Company's subsidiaries, which are typical to the insurance industry in general and in the normal course of business, are considered in the Company's loss and loss expense reserves. In addition to claims litigation, the Company and its subsidiaries are subject to lawsuits and regulatory actions in the normal course of business that do not arise from, or directly relate to, claims on insurance policies. This category of business litigation typically involves, amongst other things, allegations of underwriting errors or misconduct, employment claims, regulatory activity, or disputes arising from business ventures. In the opinion of ACE's management, ACE's ultimate liability for these matters is not likely to have a material adverse effect on ACE's consolidated financial condition, although it is possible that the effect could be material to ACE's consolidated results of operations for an individual reporting period.

(ii) Business practices litigation
Beginning in 2004, ACE and its subsidiaries and affiliates received numerous subpoenas, interrogatories, and civil investigative demands in connection with certain investigations of insurance industry practices. These inquiries were issued by a number of attorneys general, state departments of insurance, and other authorities, including the New York Attorney General (NYAG) and the Pennsylvania Insurance Department. Such inquiries concerned underwriting practices and non-traditional or loss mitigation insurance products.

On April 25, 2006, ACE reached a settlement with the Attorneys General of New York, Illinois, and Connecticut and the New York Insurance Department pursuant to which ACE received from these authorities an Assurance of Discontinuance (AOD). On May 9, 2007, ACE and the Pennsylvania Insurance Department (Department) and the Pennsylvania Office of Attorney General (OAG) entered into a settlement agreement. On October 24, 2007, ACE entered into a settlement agreement with the Attorneys General of Florida, Hawaii, Maryland, Massachusetts, Michigan, Oregon, Texas, West Virginia, the District of Columbia, and the Florida Department of Financial Services and Office of Insurance Regulation. These agreements resolved investigations of ACE's underwriting practices and contingent commission payments. In December 2010, the NYAG amended its AOD with ACE, eliminating the ban on contingent commissions that was levied as part of the agreement.

ACE, ACE INA Holdings, Inc., and ACE USA, Inc., along with a number of other insurers and brokers, were named in a series of federal putative nationwide class actions brought by insurance policyholders. The Judicial Panel on Multidistrict Liti-

gation (JPML) consolidated these cases in the District of New Jersey. On August 1, 2005, plaintiffs in the New Jersey consolidated proceedings filed two consolidated amended complaints – one concerning commercial insurance and the other concerning employee benefit plans. The employee benefit plans litigation against ACE has been dismissed.

In the commercial insurance complaint, the plaintiffs named ACE, ACE INA Holdings, Inc., ACE USA, Inc., ACE American Insurance Co., Illinois Union Insurance Co., and Indemnity Insurance Co. of North America. They allege that certain brokers and insurers, including certain ACE entities, conspired to increase premiums and allocate customers through the use of "B" quotes and contingent commissions. In addition, the complaints allege that the broker defendants received additional income by improperly placing their clients' business with insurers through related wholesale entities that acted as intermediaries between the broker and insurer. Plaintiffs also allege that broker defendants tied the purchase of primary insurance to the placement of such coverage with reinsurance carriers through the broker defendants' reinsurance broker subsidiaries. The complaint asserts the following causes of action against ACE: Federal Racketeer Influenced and Corrupt Organizations Act (RICO), federal antitrust law, state antitrust law, aiding and abetting breach of fiduciary duty, and unjust enrichment.

In 2006 and 2007, the Court dismissed plaintiffs' first two attempts to properly plead a case without prejudice and permitted plaintiffs one final opportunity to re-plead. The amended complaint, filed on May 22, 2007, purported to add several new ACE defendants: ACE Group Holdings, Inc., ACE US Holdings, Inc., Westchester Fire Insurance Company, INA Corporation, INA Financial Corporation, INA Holdings Corporation, ACE Property and Casualty Insurance Company, and Pacific Employers Insurance Company. Plaintiffs also added a new antitrust claim against Marsh, ACE, and other insurers based on the same allegations as the other claims but limited to excess casualty insurance. On June 21, 2007, defendants moved to dismiss the amended complaint and moved to strike the new parties. The Court granted defendants' motions and dismissed plaintiffs' antitrust and RICO claims with prejudice on August 31, 2007, and September 28, 2007, respectively. The Court also declined to exercise supplemental jurisdiction over plaintiffs' state law claims and dismissed those claims without prejudice. Plaintiffs appealed to the United States Court of Appeals for the Third Circuit. On August 16, 2010, the Third Circuit affirmed, in part, and vacated, in part, the District Court's previous dismissals with instructions for further briefing at the District Court on remand. Defendants have renewed their motions to dismiss, and the District Court has indicated that it will issue a decision in 2011.

There are a number of federal actions brought by policyholders based on allegations similar to the allegations in the consolidated federal actions that were filed in, or transferred to, the United States District Court for the District of New Jersey for coordination. All proceedings in these actions are currently stayed.

• New Cingular Wireless Headquarters LLC et al. v. Marsh & McLennan Companies, Inc. et al. (Case No. 06-5120; D.N.J.), was originally filed in the Northern District of Georgia on April 4, 2006. ACE, ACE American Ins. Co., ACE USA, Inc., ACE Bermuda Ins. Co. Ltd., Illinois Union Ins. Co., Pacific Employers Ins. Co., and Lloyd's of London Syndicate 2488 AGM, along with a number of other insurers and brokers, are named.
• Avery Dennison Corp. v. Marsh & McLennan Companies, Inc. et al. (Case No. 07-00757; D.N.J.) was filed on February 13, 2007. ACE, ACE INA Holdings, Inc., ACE USA, Inc., and ACE American Insurance Co., along with a number of other insurers and brokers, are named.
• Henley Management Co., Inc. et al v. Marsh, Inc. et al. (Case No. 07-2389; D.N.J.) was filed on May 27, 2007. ACE USA, Inc., along with a number of other insurers and Marsh, are named.
• Lincoln Adventures LLC et al. v. Those Certain Underwriters at Lloyd's, London Members of Syndicates 0033 et al. (Case No. 07-60991; D.N.J.) was originally filed in the Southern District of Florida on July 13, 2007. Supreme Auto Transport LLC et al. v. Certain Underwriters of Lloyd's of London, et al. (Case No. 07-6703; D.N.J.) was originally filed in the Southern District of New York on July 25, 2007. Lloyd's of London Syndicate 2488 AGM, along with a number of other Lloyd's of London Syndicates and various brokers, are named in both actions. The allegations in these putative class-action lawsuits are similar to the allegations in the consolidated federal actions identified above, although these lawsuits focus on alleged conduct within the London insurance market.
• Sears, Roebuck & Co. et al. v. Marsh & McLennan Companies, Inc. et al. (Case No. 07-2535; D.N.J.) was originally filed in the Northern District of Georgia on October 12, 2007. ACE American Insurance Co., ACE Bermuda Insurance Ltd., and Westchester Surplus Lines Insurance Co., along with a number of other insurers and brokers, are named.

Three cases have been filed in state courts with allegations similar to those in the consolidated federal actions described above. One of the cases, Office Depot, Inc. v. Marsh & McLennan Companies, Inc. et al., a Florida state action, settled in August 2010 and ACE was dismissed with prejudice. ACE remains a named party in two state cases:

• Van Emden Management Corporation v. Marsh & McLennan Companies, Inc., et al. (Case No. 05-0066A; Superior Court of Massachusetts), a class action in Massachusetts, was filed on January 13, 2005. Illinois Union Insurance Company is named. The Van Emden case has been stayed pending resolution of the consolidated proceedings in the District of New Jersey or until further order of the Court.

• State of Ohio, ex. rel. Marc E. Dann, Attorney General v. American Int'l Group, Inc. et al. (Case No. 07-633857; Court of Common Pleas in Cuyahoga County, Ohio) is an Ohio state action filed by the Ohio Attorney General on August 24, 2007. ACE INA Holdings, Inc., ACE American Insurance Co., ACE Property & Casualty Insurance Co., Insurance Company of North America, and Westchester Fire Insurance Co., along with a number of other insurance companies and Marsh, are named. Defendants filed motions to dismiss in November 2007. On July 2, 2008, the court denied all of the defendants' motions. Discovery is ongoing. Trial is set for September 12, 2011.

ACE was named in four putative securities class action suits following the filing of a civil suit against Marsh by the NYAG on October 14, 2004. The suits were consolidated by the JPML in the Eastern District of Pennsylvania and the Court appointed Sheet Metal Workers' National Pension Fund and Alaska Ironworkers Pension Trust as lead plaintiffs. Lead plaintiffs filed a consolidated amended complaint on September 30, 2005, naming ACE, Evan G. Greenberg, Brian Duperreault, and Philip V. Bancroft as defendants. Plaintiffs alleged that ACE's public statements and securities filings should have revealed that insurers, including certain ACE entities, and brokers allegedly conspired to increase premiums and allocate customers through the use of "B" quotes and contingent commissions and that ACE's revenues and earnings were inflated by these practices. In December 2008, the parties entered into a Stipulation of Settlement in which ACE agreed to pay the plaintiffs $1.95 million in exchange for a full release of all claims. On June 9, 2009, the Court approved the settlement and dismissed the multidistrict litigation (including the four underlying suits) with prejudice.

ACE, ACE USA, Inc., ACE INA Holdings, Inc., and Evan G. Greenberg, as a former officer and director of AIG and current officer and director of ACE, are named in one or both of two derivative cases brought by certain shareholders of AIG. One of the derivative cases was filed in Delaware Chancery Court, and the other was filed in federal court in the Southern District of New York. The allegations against ACE concern the alleged bid rigging and contingent commission scheme as similarly alleged in the federal commercial insurance cases. Plaintiffs assert the following causes of action against ACE: breach of fiduciary duty, aiding and abetting breaches of fiduciary duties, unjust enrichment, conspiracy, and fraud. In Delaware, the shareholder plaintiffs filed an amended complaint (their third pleading effort), on April 14, 2008, which drops Evan Greenberg as a defendant (plaintiffs in the New York action subsequently dismissed Evan Greenberg as well). On June 13, 2008, ACE filed a motion to dismiss, and on April 20, 2009, the court heard oral argument on the motion. On June 17, 2009, the Court dismissed all claims against ACE with prejudice; final judgment in favor of ACE was entered on July 13, 2009. The derivative plaintiffs appealed. The Delaware Supreme Court affirmed the dismissal on December 29, 2010. The New York derivative action is currently stayed.

In all of the lawsuits described above, plaintiffs seek compensatory and in some cases special damages without specifying an amount. As a result, ACE cannot at this time estimate its potential costs related to these legal matters and, accordingly, no liability for compensatory damages has been established in the consolidated financial statements.

ACE's ultimate liability for these matters is not likely to have a material adverse effect on ACE's consolidated financial condition, although it is possible that the effect could be material to ACE's consolidated results of operations for an individual reporting period.

(iii) Legislative activity

The State of New York, as part of the 2009-10 State budget, adopted language requiring an insurer (1) which paid to the Workers' Compensation Board (WCB) various statutory assessments in an amount less than that insurer "collected" from insured employers in a given year and (2) that "has identified and held any funds collected but not paid to the WCB, as measurable and available, as of January 1, 2009" to pay retroactive assessments to the WCB. The Company's understanding is that the law is intended to address certain inconsistencies in the New York State laws regulating the calculation of workers' compensation assessments by insurance carriers and the remittance of those funds to the State. In July 2009, ACE received a subpoena from the NYAG requesting documents related to these issues, and in October 2009, ACE received a request from the WCB asking ACE to explain whether or not it was an "affected carrier" under the new law. In addition, the New York State legislature, as part of the 2010-11 State budget, enacted language that appears to require an insurer who paid to the WCB various statutory assessments in an amount less than that insurer "collected" from insured employers for the period April 1, 2008, through March 31, 2009, to pay such "excess assessment funds" to the WCB.

During the fourth quarter of 2010, the Company reached an agreement with the NYAG and WCB to satisfy any and all of its potential obligations under the two State budget bills referred to above, which included a payment to the WCB of $70 million. This amount is within the previously established contingency account.

g) Lease commitments

The Company and its subsidiaries lease office space in the countries in which they operate under operating leases which expire at various dates through 2033. The Company renews and enters into new leases in the ordinary course of business as required. Total rent expense with respect to these operating leases was $83 million, $84 million, and $77 million for the years ended December 31, 2010, 2009, and 2008, respectively. Future minimum lease payments under the leases are expected to be as follows:

(in millions of U.S. dollars)	Year ending December 31
2011	$ 75
2012	65
2013	54
2014	45
2015	38
Later years	120
Total minimum future lease commitments	$ 397

11. Preferred Shares

In 2003, the Company sold twenty million depositary shares in a public offering, each representing one-tenth of one of its 7.8 percent Cumulative Redeemable Preferred Shares, for $25 per depositary share. Underwriters exercised their over-allotment option which resulted in the issuance of an additional three million depositary shares.

These shares, with an annual dividend rate of 7.8 percent, were not convertible into or exchangeable for the Company's Common Shares. The Company had the option to redeem these shares at any time after May 30, 2008, at a redemption value of $25 per depositary share or at any time under certain limited circumstances. On June 13, 2008, the Company redeemed all of the outstanding Preferred Shares for cash consideration of $575 million.

12. Shareholders' equity

a) Continuation

In 2008, during ACE's annual general meeting, the Company's shareholders approved a proposal to move the Company's jurisdiction of incorporation from the Cayman Islands to Zurich, Switzerland (the Continuation) and ACE became a Swiss company effective July 18, 2008. In connection with the Continuation in July 2008, the Company changed the currency in which the par value of Ordinary Shares was stated from U.S. dollars to Swiss francs and increased the par value of Ordinary Shares from $0.041666667 to CHF 33.74 (the New Par Value) through a conversion of all issued Ordinary Shares into "stock" and re-conversion of the stock into Ordinary Shares with a par value equal to the New Par Value (the Par Value Conversion). The Par Value Conversion was followed immediately by a stock dividend, to effectively return shareholders to the number of Ordinary Shares held before the Par Value Conversion. The stock dividend did not therefore have the effect of diluting earnings per share. Upon the effectiveness of the Continuation, the Company's Ordinary Shares became Common Shares. All Common Shares of the Company are registered common shares under Swiss corporate law. Though the par value of Common Shares is stated in Swiss francs, the Company continues to use U.S. dollars as its reporting currency for preparing the consolidated financial statements. For purposes of the consolidated financial statements, the increase in par value was accomplished by a corresponding reduction first to retained earnings and second to additional paid-in capital to the extent that the increase in par value exhausted retained earnings at the date of the Continuation.

Under Swiss corporate law, dividends, including distributions through a reduction in par value (par value distributions), must be declared by ACE in Swiss francs though dividend payments are made by the Company in U.S. dollars. Further, under Swiss corporate law, the Company may not generally issue Common Shares below their par value. In the event there is a need to raise common equity at a time when the trading price of the Company's Common Shares is below par value, the Company will need to obtain shareholder approval to decrease the par value of the Common Shares.

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b) Shares issued, outstanding, authorized, and conditional
The following table presents a roll-forward of changes in Common Shares issued and outstanding for the years ended December 31, 2010, 2009, and 2008.

	2010	2009	2008
Shares issued, beginning of year	**337,841,616**	335,413,501	329,704,531
Shares issued, net	**2,268,000**	2,000,000	3,140,194
Exercise of stock options	**984,943**	168,720	2,365,401
Shares issued under ESPP	**–**	259,395	203,375
Shares issued, end of year	**341,094,559**	337,841,616	335,413,501
Common Shares in treasury, end of year	**(6,151,707)**	(1,316,959)	(1,768,030)
Shares issued and outstanding, end of year	**334,942,852**	336,524,657	333,645,471
Common Shares issued to employee trust			
Balance, beginning of year	**(101,481)**	(108,981)	(117,231)
Shares redeemed	**–**	7,500	8,250
Balance, end of year	**(101,481)**	(101,481)	(108,981)

During December 2010, ACE repurchased 4,926,082 Common Shares in a series of open market transactions. The cost of these shares, which were placed in treasury, totaled $303 million. ACE repurchased these Common Shares to partially offset potential dilution from the exercise of stock options and the granting of restricted stock under share-based compensation plans.

Common Shares in treasury are used principally for issuance upon the exercise of employee stock options, for issuance of restricted stock, and for purchases under the ESPP. At December 31, 2010 and 2009, 6,151,707 and 1,316,959 Common Shares, respectively, remain in treasury after net shares redeemed under employee share-based compensation plans.

Common Shares issued to employee trust are issued by the Company to a rabbi trust for deferred compensation obligations as discussed in Note 12 f) below.

Authorized Share Capital for General Purposes
The Board has shareholder-approved authority as set forth in the Articles of Association to increase for general purposes the Company's share capital from time to time through May 19, 2012, by the issuance of up to 140,000,000 fully paid up Common Shares, with a par value equal to the par value of ACE's Common Shares as set forth in the Articles of Association at the time of any such issuance. It is expected that the Company will seek shareholder approval in 2012 for a new pool of authorized share capital for general purposes to replace the existing 140,000,000 share pool when it expires.

Conditional share capital for bonds and similar debt instruments
The share capital of the Company may be increased through the issuance of a maximum of 33,000,000 fully paid up Common Shares with a par value of CHF 30.57 each 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 the Company, including convertible debt instruments.

Conditional share capital for employee benefit plans
The share capital of the Company may be increased through the issuance of a maximum of 27,148,782 fully paid up Common Shares with a par value of CHF 30.57 each in connection with the exercise of option rights granted to any employee of the Company, and any consultant, director, or other person providing services to the Company.

c) ACE Limited securities repurchase authorization
In November 2010, the Board authorized the repurchase of up to $600 million of ACE's Common Shares through December 31, 2012. This authorization was granted to allow ACE to repurchase Common Shares to partially offset potential dilution from the exercise of stock options and the granting of restricted stock under share-based compensation plans. 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. As discussed above, $303 million of this authorization was utilized during December 2010.

d) General restrictions

The holders of the 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 the Company, 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.

e) Dividends declared

Dividends declared on Common Shares amounted to CHF 1.31 ($1.30) for the year ended December 31, 2010, CHF 1.26 ($1.19) for the year ended December 31, 2009, and $1.09 (including par value distributions of CHF 0.60) per Common Share for the year ended December 31, 2008. Par value distributions have been reflected as such through Common Shares in the consolidated statement of shareholders' equity. The par value per Common Share at December 31, 2010, stands at CHF 30.57. Dividends declared on Preferred Shares amounted to $24 million for the year ended December 31, 2008.

f) Deferred compensation obligation

The Company maintains rabbi trusts for deferred compensation plans principally for employees and former directors. The shares issued by the Company to the rabbi trusts in connection with deferrals of share compensation are classified in shareholders' equity and accounted for at historical cost in a manner similar to Common Shares in treasury. These shares are recorded in Common Shares issued to employee trust and the obligations are recorded in Deferred compensation obligation. Changes in the fair value of the shares underlying the obligations are recorded in Accounts payable, accrued expenses, and other liabilities and the related expense or income is recorded in Administrative expenses.

The rabbi trust also holds other assets, such as fixed maturities, equity securities, and life insurance policies. These assets of the rabbi trust are consolidated with those of the Company and reflected in Other investments. Except for life insurance policies which are reflected at cash surrender value, these assets are classified as trading securities and reported at fair value with changes in fair value reflected in Other (income) expense. Except for obligations related to life insurance policies which are carried at cash surrender value, the related deferred compensation obligation is carried at fair value and included in Accounts payable, accrued expenses, and other liabilities with changes reflected as a corresponding increase or decrease to Other (income) expense.

13. Share-based compensation

The Company has share-based compensation plans which currently provide for awards of stock options, restricted stock, and restricted stock units to its employees and members of the Board.

The Company principally issues restricted stock grants and stock options on a graded vesting schedule. The Company recognizes compensation cost for restricted stock and stock option grants with only service conditions that have a graded vesting schedule on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. An estimate of future forfeitures is incorporated into the determination of compensation cost for both grants of restricted stock and stock options.

During 2004, the Company established the ACE Limited 2004 Long-Term Incentive Plan (the 2004 LTIP), which replaced ACE's prior incentive plans except as to outstanding awards. The 2004 LTIP will continue in effect until terminated by the Board. During the 2010 annual general meeting, shareholders voted to increase the number of Common Shares authorized to be issued under the 2004 LTIP from 19,000,000 Common Shares to 30,600,000 Common Shares. Accordingly, under the 2004 LTIP, a total of 30,600,000 Common Shares of the Company are authorized to be issued pursuant to awards made as stock 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) 30,600,000 shares; and (ii) any shares that are represented by awards granted under the prior plans that are forfeited, expired, or are canceled after the effective date of the 2004 LTIP, without delivery of shares or which result in the forfeiture of the shares back to the Company to the extent that such shares would have been added back to the reserve under the terms of the applicable prior plan. At December 31, 2010, a total of 12,525,434 shares remain available for future issuance under this plan.

Under the 2004 LTIP, 3,000,000 Common Shares are authorized to be issued under the ESPP. At December 31, 2010, a total of 489,358 Common Shares remain available for issuance under the ESPP.

The Company generally issues Common Shares for the exercise of stock options, restricted stock, and purchases under the ESPP from un-issued reserved shares and Common Shares in treasury.

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Share-based compensation expense for stock options and shares issued under the ESPP amounted to $28 million ($25 million after tax or $0.07 per basic and diluted share), $27 million ($25 million after tax or $0.07 per basic and diluted share), and $24 million ($22 million after tax or $0.07 per basic and diluted share) for the years ended December 31, 2010, 2009, and 2008, respectively. For the years ended December 31, 2010, 2009, and 2008, the expense for the restricted stock was $111 million ($72 million after tax), $94 million ($68 million after tax), and $101 million ($71 million after tax), respectively. Unrecognized compensation expense related to the unvested portion of the Company's employee share-based awards was $129 million at December 31, 2010, and is expected to be recognized over a weighted-average period of approximately 2 years.

Stock options

The Company's 2004 LTIP provides for grants of both incentive and non-qualified stock options principally at an option price per share of 100 percent of the fair value of the Company's Common Shares on the date of grant. Stock options are generally granted with a 3-year vesting period and a 10-year term. The stock options vest in equal annual installments over the respective vesting period, which is also the requisite service period.

Included in the Company's share-based compensation expense in the year ended December 31, 2010, is the cost related to the unvested portion of the 2007-2010 stock option grants. The fair value of the stock options was estimated on the date of grant using the Black-Scholes option-pricing model that uses the weighted-average assumptions noted in the following table. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life (estimated period of time from grant to exercise date) was estimated using the historical exercise behavior of employees. Expected volatility was calculated as a blend of (a) historical volatility based on daily closing prices over a period equal to the expected life assumption, (b) long-term historical volatility based on daily closing prices over the period from ACE's initial public trading date through the most recent quarter, and (c) implied volatility derived from ACE's publicly traded options.

The fair value of the options issued is estimated on the date of grant using the Black-Scholes option-pricing model. The following table presents the weighted-average model assumptions used for grants for the years indicated.

	2010	2009	2008
Dividend yield	**2.5%**	2.8%	1.8%
Expected volatility	**30.3%**	45.4%	32.2%
Risk-free interest rate	**2.5%**	2.2%	3.15%
Forfeiture rate	**7.5%**	7.5%	7.5%
Expected life	**5.4 years**	5.4 years	5.7 years

The following table presents a roll-forward of the Company's stock options for the years ended December 31, 2010, 2009, and 2008.

	Number of Options	Weighted-Average Exercise Price
Options outstanding, December 31, 2007	11,270,815	$ 42.12
Granted	1,612,507	$ 60.17
Exercised	(2,650,733)	$ 36.25
Forfeited	(309,026)	$ 54.31
Options outstanding, December 31, 2008	9,923,563	$ 46.24
Granted	2,339,036	$ 38.60
Exercised	(537,556)	$ 27.71
Forfeited	(241,939)	$ 50.48
Options outstanding, December 31, 2009	11,483,104	$ 45.46
Granted	2,094,227	$ 50.38
Exercised	(1,328,715)	$ 40.11
Forfeited	(305,723)	$ 49.77
Options outstanding, December 31, 2010	**11,942,893**	**$ 46.80**
Options exercisable, December 31, 2010	**7,839,222**	**$ 46.36**

The weighted-average remaining contractual term was 5.7 years for the stock options outstanding and 4.3 years for the stock options exercisable at December 31, 2010. The total intrinsic value was $184 million for stock options outstanding and $124 million for stock options exercisable at December 31, 2010. The weighted-average fair value for the stock options granted for the years ended December 31, 2010, 2009, and 2008, was $12.09, $12.95, and $17.60, respectively. The total intrinsic value for stock options exercised during the years ended December 31, 2010, 2009, and 2008, was $22 million, $12 million, and $54 million, respectively.

The amount of cash received during the year ended December 31, 2010, from the exercise of stock options was $53 million.

Restricted stock and restricted stock units

The Company's 2004 LTIP provides for grants of restricted stock and restricted stock units with a 4-year vesting period, based on a graded vesting schedule. The Company also grants restricted stock awards to non-management directors which vest at the following year's annual general meeting. The restricted stock is granted at market close price on the date of grant. Each restricted stock unit represents the Company's obligation to deliver to the holder one Common Share upon vesting. Included in the Company's share-based compensation expense for the year ended December 31, 2010, is a portion of the cost related to the unvested restricted stock granted in the years 2006 – 2010.

The following table presents a roll-forward of the Company's restricted stock for the years ended December 31, 2010, 2009, and 2008. Included in the roll-forward below are 36,248 and 38,154 restricted stock awards that were granted to non-management directors during 2010 and 2009, respectively.

	Number of Restricted Stock	Weighted-Average Grant-Date Fair Value
Unvested restricted stock, December 31, 2007	3,821,707	$ 53.12
Granted	1,836,532	$ 59.84
Vested and issued	(1,403,826)	$ 50.96
Forfeited	(371,183)	$ 53.75
Unvested restricted stock, December 31, 2008	3,883,230	$ 57.01
Granted	2,603,344	$ 39.05
Vested and issued	(1,447,676)	$ 54.85
Forfeited	(165,469)	$ 51.45
Unvested restricted stock, December 31, 2009	4,873,429	$ 48.25
Granted	2,461,076	$ 51.09
Vested and issued	(1,771,423)	$ 50.79
Forfeited	(257,350)	$ 47.93
Unvested restricted stock, December 31, 2010	**5,305,732**	**$ 48.74**

During 2010, the Company awarded 326,091 restricted stock units to officers of the Company and its subsidiaries with a weighted-average grant date fair value of $50.36. During 2009, 333,104 restricted stock units, with a weighted-average grant date fair value of $38.75, were awarded to officers of the Company and its subsidiaries. During 2008, 223,588 restricted stock units, with a weighted-average grant date fair value of $59.93, were awarded to officers of the Company and its subsidiaries. At December 31, 2010, the number of unvested restricted stock units was 636,758.

Prior to 2009, the Company granted restricted stock units with a 1-year vesting period to non-management directors. Delivery of Common Shares on account of these restricted stock units to non-management directors is deferred until six months after the date of the non-management directors' termination from the Board. During 2008, 40,362 restricted stock units were awarded to non-management directors. At December 31, 2010, the number of deferred restricted stock units was 230,451.

ESPP

The ESPP gives participating employees the right to purchase Common Shares through payroll deductions during consecutive "Subscription Periods" at a purchase price of 85 percent of the fair value of a Common Share on the Exercise Date. Annual purchases by participants are limited to the number of whole shares that can be purchased by an amount equal to ten percent

of the participant's compensation or $25,000, whichever is less. The ESPP has two six-month Subscription Periods, the first of which runs between January 1 and June 30 and the second of which runs between July 1 and December 31 of each year. The amounts that have been collected from participants during a Subscription Period are used on the "Exercise Date" to purchase full shares of Common Shares. An Exercise Date is generally the last trading day of a Subscription Period. The number of shares purchased is equal to the total amount, as at the Exercise Date, that has been collected from the participants through payroll deductions for that Subscription Period, divided by the "Purchase Price", rounded down to the next full share. Participants may withdraw from an offering before the exercise date and obtain a refund of the amounts withheld through payroll deductions. Pursuant to the provisions of the ESPP, during 2010, 2009, and 2008, employees paid $10.4 million, $10.6 million, and $10.1 million, respectively, to purchase 240,979 shares, 259,219 shares, and 203,375 shares, respectively.

14. Pension plans

The Company provides pension benefits to eligible employees and their dependents through various defined contribution plans and defined benefit plans sponsored by the Company. The defined contribution plans include a capital accumulation plan (401(k)) in the United States. The defined benefit plans consist of various plans offered in certain jurisdictions outside of the United States and Bermuda.

Defined contribution plans (including 401(k))

Under these plans, employees' contributions may be supplemented by ACE matching contributions based on the level of employee contribution. These contributions are invested at the election of each employee in one or more of several investment portfolios offered by a third party investment advisor. Expenses for these plans totaled $87 million, $84 million, and $77 million for the years ended December 31, 2010, 2009, and 2008, respectively.

Defined benefit plans

The Company maintains non-contributory defined benefit plans that cover certain employees, principally located in Europe and Asia. The Company does not provide any such plans to U.S.-based employees. The Company accounts for pension benefits using the accrual method. Benefits under these plans are based on employees' years of service and compensation during final years of service. All underlying defined benefit plans are subject to periodic actuarial valuation by qualified local actuarial firms using actuarial models in calculating the pension expense and liability for each plan. The Company uses December 31 as the measurement date for its defined benefit pension plans.

At December 31, 2010, the fair value of plan assets and the projected benefit obligation were $394 million and $487 million, respectively. The fair value of plan assets and the projected benefit obligation were $368 million and $471 million, respectively, at December 31, 2009. The accrued pension liability of $93 million at December 31, 2010, and $103 million at December 31, 2009, is included in Accounts payable, accrued expenses, and other liabilities.

The defined benefit pension plan contribution for 2011 is expected to be $17 million. The estimated net actuarial loss for the defined benefit pension plans that will be amortized from AOCI into net benefit costs over the next year is $2 million.

Benefit payments were $15 million and $20 million in 2010 and 2009, respectively. Expected future payments are as follows:

(in millions of U.S. dollars)	Year ending December 31
2011	$ 19
2012	22
2013	22
2014	22
2015	23
2016-2020	122

15. Fair value measurements

a) Fair value hierarchy

The Company partially adopted the provisions (specific provisions described below) of Topic 820 on January 1, 2008, and the cumulative effect of the adoption resulted in a reduction to retained earnings of $4 million related to an increase in risk mar-

gins included in the valuation of certain GLB contracts. The Company fully adopted these provisions on January 1, 2009. The provisions of Topic 820 define fair value as the price to sell an asset or transfer a liability in an orderly transaction between market participants and establish a three-level valuation hierarchy in which inputs into valuation techniques used to measure fair value are classified. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Inputs in Level 1 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 management's judgments about assumptions that market participants would use in pricing an asset or liability. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ACE makes decisions regarding the categorization of assets or liabilities within the valuation hierarchy based on the inputs used to determine respective fair values at the balance sheet date. Accordingly, transfers between levels within the valuation hierarchy are determined on the same basis.

The Company utilizes one or more pricing services to obtain fair value measurements for the majority of the investment securities it holds. Based on management's understanding of the methodologies used by these pricing services, all applicable investments have been valued in accordance with GAAP valuation principles. The following is a description of the valuation techniques and inputs used to determine fair values for the Company's financial instruments carried or disclosed at fair value, as well as the general classification of such financial instruments pursuant to the valuation hierarchy.

Fixed maturities

The Company utilizes pricing services to estimate fair value measurements for the majority of its fixed maturities. The pricing services utilize market quotations for fixed maturities that have quoted prices in active markets; such securities are classified within Level 1. For fixed maturities other than U.S. Treasury securities that generally do not trade on a daily basis, the pricing services prepare estimates of fair value measurements using their pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additional valuation factors that can be taken into account are nominal spreads, dollar basis, and liquidity adjustments. The pricing services evaluate each asset class based on relevant market and credit information, perceived market movements, and sector news. The market inputs utilized in the pricing evaluation, listed in the approximate order of priority include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each input is dependant on the asset class and the market conditions. Additionally, given the asset class, the priority of the use of inputs may change or some market inputs may not be relevant. The overwhelming majority of fixed maturities are classified within Level 2 because the most significant inputs used in the pricing techniques are observable. Fixed maturities for which pricing is unobservable are classified within Level 3.

Equity securities

Equity securities with active markets are classified within Level 1 as fair values are based on quoted market prices. For non-public equity securities, fair values are based on market valuations and are classified within Level 2.

Short-term investments

Short-term investments, which comprise securities due to mature within one year of the date of purchase, that are traded in active markets are classified within Level 1 as fair values are based on quoted market prices. Securities such as commercial paper and discount notes are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates par value.

Securities lending collateral

The underlying assets included in Securities lending collateral are fixed maturities which are classified in the valuation hierarchy on the same basis as the Company's other fixed maturities. Excluded from the valuation hierarchy is the corresponding liability related to the Company's obligation to return the collateral plus interest.

Other investments

Fair values for the majority of Other investments including investments in partially-owned investment companies, investment funds, and limited partnerships are based on their respective net asset values or equivalent (NAV). The majority of these

investments, for which the Company has used NAV as a practical expedient to measure fair value, are classified within Level 3 because either ACE will never have the contractual option to redeem the investment or will not have the contractual option to redeem the investments in the near term. The remainder of such investments are classified within Level 2. Equity securities and fixed maturities held in rabbi trusts maintained by the Company for deferred compensation plans, and included in Other investments, are classified within the valuation hierarchy on the same basis as the Company's other equity securities and fixed maturities.

Investments in partially-owned insurance companies
Fair values for investments in partially-owned insurance companies based on the financial statements provided by those companies are classified within Level 3.

Investment derivative instruments
For actively traded investment derivative instruments, including futures, options, and exchange-traded forward contracts, the Company obtains quoted market prices to determine fair value. As such, these instruments are included within Level 1.

Guaranteed living benefits
The liability for GLBs arises from the Company's life reinsurance programs covering living benefit guarantees whereby the Company assumes the risk of GMIBs and GMABs associated with variable annuity contracts. For GLB reinsurance, ACE estimates fair value using an internal valuation model which includes current market information and estimates of policyholder behavior. All of the treaties contain claim limits, which are factored into the valuation model. The fair value depends on a number of inputs, including changes in interest rates, changes in equity markets, credit risk, current account value, changes in market volatility, expected annuitization rates, changes in policyholder behavior, and changes in policyholder mortality.

The most significant policyholder behavior assumptions include lapse rates and the GMIB annuitization rates. Assumptions regarding lapse rates and GMIB annuitization rates differ by treaty but the underlying methodologies to determine rates applied to each treaty are comparable. The assumptions regarding lapse and GMIB annuitization rates determined for each treaty are based on a dynamic calculation that uses several underlying factors.

A lapse rate is the percentage of in-force policies surrendered in a given calendar year. All else equal, as lapse rates increase, ultimate claim payments will decrease. In general, the base lapse function assumes low lapse rates (ranging from about 1 percent to 6 percent per annum) during the surrender charge period of the GMIB contract, followed by a "spike" lapse rate (ranging from about 10 percent to 30 percent per annum) in the year immediately following the surrender charge period, and then reverting to an ultimate lapse rate (generally around 10 percent per annum), typically over a 2-year period. This base rate is adjusted downward for policies with more valuable guarantees (policies with guaranteed values far in excess of their account values) by multiplying the base lapse rate by a factor ranging from 15 percent to 75 percent. Additional lapses due to partial withdrawals and older policyholders with tax-qualified contracts (due to required minimum distributions) are also included.

The GMIB annuitization rate is the percentage of policies for which the policyholder will elect to annuitize using the guaranteed benefit provided under the GMIB. All else equal, as GMIB annuitization rates increase, ultimate claim payments will increase, subject to treaty claim limits. In general ACE assumes that GMIB annuitization rates will be higher for policies with more valuable guarantees (policies with guaranteed values far in excess of their account values). In addition, ACE also assumes that GMIB annuitization rates are higher in the first year immediately following the waiting period (the first year the policies are eligible to annuitize utilizing the GMIB) in comparison to all subsequent years. The Company does not yet have a robust set of annuitization experience because most of its clients' policyholders are not yet eligible to annuitize utilizing the GMIB. However, for certain clients there are several years of annuitization experience. For these clients the annuitization function reflects the actual experience and has a maximum annuitization rate per annum of 8 percent (a higher maximum applies in the first year a policy is eligible to annuitize utilizing the GMIB–it is over 13 percent). For most clients, there is no currently observable relevant annuitization behavior data and so ACE uses a weighted-average (with a heavier weighting on the observed experience noted previously) of three different annuitization functions with maximum annuitization rates per annum of 8 percent, 12 percent, and 30 percent, respectively (with significantly higher rates in the first year a policy is eligible to annuitize utilizing the GMIB). As noted elsewhere, the GMIB reinsurance treaties include claim limits to protect ACE in the event that actual annuitization behavior is significantly higher than expected.

The effect of changes in key market factors on assumed lapse and annuitization rates reflect emerging trends using data available from cedants. For treaties with limited experience, rates are established in line with data received from other ceding companies adjusted as appropriate with industry estimates. 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 information, such as market conditions, market participant assumptions, and demographics of in-force annuities. During 2010, the Company made various changes to assumptions (primarily annuitization and lapse) and methods used to calculate the fair value. The changes had a net effect of reducing fair value of the liability by $98 million (where the dollar impact of each change was measured in the quarter in which the change was implemented).

The Company views the variable annuity reinsurance business as having a similar risk profile to that of catastrophe reinsurance, with the probability of a cumulative long-term economic net loss relatively small at the time of pricing. However, adverse changes in market factors and policyholder behavior will have an adverse impact on net income, which may be material. Because of the significant use of unobservable inputs including policyholder behavior, GLB reinsurance is classified within Level 3.

Short- and long-term debt and trust preferred securities

Where practical, fair values for short-term debt, long-term debt, and trust preferred securities are estimated using discounted cash flow calculations based principally on observable inputs including the Company's incremental borrowing rates, which reflect ACE's credit rating, for similar types of borrowings with maturities consistent with those remaining for the debt being valued. As such, these instruments are classified within Level 2.

Other derivative instruments

The Company maintains positions in other derivative instruments including exchange-traded equity futures contracts and option contracts designed to limit exposure to a severe equity market decline, which would cause an increase in expected claims and, therefore, reserves for GMDB and GLB reinsurance business. The Company's position in exchange-traded equity futures contracts is classified within Level 1. The fair value of the majority of the Company's remaining positions in other derivative instruments is based on significant observable inputs including equity security and interest rate indices. Accordingly, these are classified within Level 2. The Company's position in credit default swaps is typically included within Level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

The following tables present, by valuation hierarchy, the financial instruments carried or disclosed at fair value, and measured on a recurring basis, at December 31, 2010, and December 31, 2009.

December 31, 2010 (in millions of U.S. dollars)	Quoted Prices in Active Markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets:				
Fixed maturities available for sale				
U.S. Treasury and agency	$ 1,564	$ 1,399	$ –	$ 2,963
Foreign	187	10,973	26	11,186
Corporate securities	31	13,441	115	13,587
Mortgage-backed securities	–	8,477	39	8,516
States, municipalities, and political subdivisions	–	1,285	2	1,287
	1,782	35,575	182	37,539
Fixed maturities held to maturity				
U.S. Treasury and agency	439	688	–	1,127
Foreign	–	1,007	6	1,013
Corporate securities	–	2,296	17	2,313
Mortgage-backed securities	–	3,846	–	3,846
States, municipalities, and political subdivisions	–	1,162	–	1,162
	439	8,999	23	9,461
Equity securities	676	3	13	692
Short-term investments	903	1,080	–	1,983
Other investments	39	221	1,432	1,692
Securities lending collateral	–	1,495	–	1,495
Investments in partially-owned insurance companies	–	–	360	360
Investment derivative instruments	11	–	–	11
Other derivative instruments	(25)	46	4	25
Total assets at fair value	$ 3,825	$ 47,419	$ 2,014	$53,258
Liabilities:				
GLB	$ –	$ –	$ 648	$ 648
Short-term debt	–	1,300	–	1,300
Long-term debt	–	3,846	–	3,846
Trust preferred securities	–	376	–	376
Total liabilities at fair value	$ –	$ 5,522	$ 648	$ 6,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

There were no significant gross transfers between Level 1 and Level 2 during the year ended December 31, 2010.

December 31, 2009 (in millions of U.S. dollars)	Quoted Prices in Active Markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets:				
Fixed maturities available for sale				
U.S. Treasury and agency	$1,611	$ 2,098	$ –	$ 3,709
Foreign	207	10,879	59	11,145
Corporate securities	31	13,016	168	13,215
Mortgage-backed securities	–	9,821	21	9,842
States, municipalities, and political subdivisions	–	1,611	3	1,614
	1,849	37,425	251	39,525
Fixed maturities held to maturity				
U.S. Treasury and agency	414	643	–	1,057
Foreign	–	27	–	27
Corporate securities	–	322	–	322
Mortgage-backed securities	–	1,424	45	1,469
States, municipalities, and political subdivisions	–	686	–	686
	414	3,102	45	3,561
Equity securities	453	2	12	467
Short-term investments	1,132	535	–	1,667
Other investments	31	195	1,149	1,375
Securities lending collateral	–	1,544	–	1,544
Investments in partially-owned insurance companies	–	–	433	433
Investment derivative instruments	7	–	–	7
Other derivative instruments	(9)	32	14	37
Total assets at fair value	$3,877	$ 42,835	$ 1,904	$48,616
Liabilities:				
GLB	$ –	$ –	$ 559	$ 559
Short-term debt	–	168	–	168
Long-term debt	–	3,401	–	3,401
Trust preferred securities	–	336	–	336
Total liabilities at fair value	$ –	$ 3,905	$ 559	$ 4,464

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

Fair value of alternative investments
Included in Other investments in the fair value hierarchy at December 31, 2010, and December 31, 2009, are investment funds, limited partnerships, and partially-owned investment companies measured at fair value using NAV as a practical expedient. At December 31, 2010, there were no probable or pending sales related to any of the investments measured at fair value using NAV. The following table presents, by investment category, the fair values of and maximum future funding commitments related to these investments at December 31, 2010, and December 31, 2009. The table also shows the expected liquidation period from December 31, 2010.

	December 31, 2010			December 31, 2009	
(in millions of U.S. dollars)	**Expected Liquidation Period**	**Fair Value**	**Maximum Future Funding Commitments**	Fair Value	Maximum Future Funding Commitments
Financial	**5 to 9 Years**	**$ 192**	**$ 151**	$ 173	$ 109
Real estate	**3 to 9 Years**	**168**	**92**	89	150
Distressed	**6 to 9 Years**	**243**	**43**	233	59
Mezzanine	**6 to 9 Years**	**135**	**173**	102	75
Traditional	**3 to 8 Years**	**376**	**291**	243	300
Vintage	**1 to 3 Years**	**27**	**3**	31	2
Investment funds	**Not Applicable**	**329**	**–**	310	–
		$1,470	**$ 753**	$1,181	$ 695

Included in all categories in the above table except for Investment funds are investments for which ACE will never have the contractual option to redeem but receives distributions based on the liquidation of the underlying assets. Included in the "Expected Liquidation Period" column above is the range in years over which ACE expects the majority of underlying assets in the respective categories to be liquidated. Further, for all categories except for Investment funds, ACE does not have the ability to sell or transfer the investments without the consent from the general partner of individual funds.

Financial
Financial primarily consists of investments in private equity funds targeting financial services companies such as financial institutions and insurance services around the world.

Real estate
Real estate consists of investments in private equity funds targeting global distress opportunities, value added U.S. properties, and global mezzanine debt securities in the commercial real estate market.

Distressed
Distressed consists of investments in private equity funds targeting distressed debt/credit and equity opportunities in the U.S.

Mezzanine
Mezzanine consists of investments in private equity funds targeting private mezzanine debt of large-cap and mid-cap companies in the U.S. and worldwide.

Traditional
Traditional consists of investments in private equity funds employing traditional private equity investment strategies such as buyout and venture with different geographical focuses including Brazil, Asia, Europe, and the U.S.

Vintage
Vintage consists of investments in private equity funds made before 2002 and where the funds' commitment periods had already expired.

Investment funds
ACE's investment funds employ various investment strategies such as long/short equity and arbitrage/distressed. Included in this category are investments for which ACE has the option to redeem at agreed upon value as described in each investment

fund's subscription agreement. Depending on the terms of the various subscription agreements, the Company may redeem investment fund investments monthly, quarterly, semi-annually, or annually. If the Company wishes to redeem an investment fund investment, ACE must first determine if the investment fund is still in a lock-up period (a time when ACE cannot redeem its investment so that the investment fund manager has time to build the portfolio). If the investment fund is no longer in its lock-up period, ACE must then notify the investment fund manager of its intention to redeem by the notification date prescribed by the subscription agreement. Subsequent to notification, the investment fund can redeem ACE's investment within several months of the notification. Notice periods for redemption of ACE's investment funds range between 5 and 120 days. ACE can redeem its investment funds without consent from the investment fund managers.

Level 3 financial instruments

The following tables present a reconciliation of the beginning and ending balances of financial instruments carried or disclosed at fair value using significant unobservable inputs (Level 3) for the years ended December 31, 2010, 2009, and 2008.

Year Ended December 31, 2010 (in millions of U.S. dollars)	Balance-Beginning of Year	Net Realized Gains/ Losses	Change in Net Unrealized Gains (Losses) Included in OCI	Purchases, Sales, Issuances, and Settlements, Net	Transfers Into (Out of) Level 3	Balance-End of Year	Net Realized Gains/Losses Attributable to Changes in Fair Value(1)
Assets:							
Fixed maturities available for sale							
Foreign	$ 59	$ 1	$ 1	$ (21)	$ (14)	$ 26	$ –
Corporate securities	168	(3)	9	(34)	(25)	115	–
Mortgage-backed securities	21	–	–	19	(1)	39	–
States, municipalities, and political subdivisions	3	–	–	(1)	–	2	–
	251	(2)	10	(37)	(40)	182	–
Fixed maturities held to maturity							
Foreign	–	–	–	6	–	6	–
Corporate securities	–	–	1	16	–	17	–
Mortgage-backed securities	45	–	–	(45)	–	–	–
	45	–	1	(23)	–	23	–
Equity securities	12	1	–	(1)	1	13	–
Other investments	1,149	(7)	53	237	–	1,432	(7)
Investments in partially-owned insurance companies	433	180	(115)	(138)	–	360	–
Other derivative instruments	14	2	–	(12)	–	4	1
Total assets at fair value	$ 1,904	$ 174	$ (51)	$ 26	$ (39)	$ 2,014	$ (6)
Liabilities:							
GLB	$ 559	$ 64	$ –	$ 25	$ –	$ 648	$ 64

(1) Relates only to financial instruments still held at the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

Year Ended December 31, 2009 (in millions of U.S. dollars)	Balance-Beginning of Year	Net Realized Gains/ Losses	Change in Net Unrealized Gains (Losses) Included in OCI	Purchases, Sales, Issuances, and Settlements, Net	Transfers Into (Out of) Level 3	Balance-End of Year	Net Realized Gains/Losses Attributable to Changes in Fair Value[1]
Assets:							
Fixed maturities available for sale							
Foreign	$ 45	$ (1)	$ 5	$ 6	$ 4	$ 59	$ 2
Corporate securities	117	1	17	25	8	168	1
Mortgage-backed securities	109	(2)	12	(61)	(37)	21	–
States, municipalities, and political subdivisions	3	–	–	–	–	3	–
	274	(2)	34	(30)	(25)	251	3
Fixed maturities held to maturity							
Mortgage-backed securities	–	–	–	45	–	45	–
States, municipalities, and political subdivisions	1	–	–	(1)	–	–	–
	1	–	–	44	–	45	–
Equity securities	21	–	9	(18)	–	12	–
Other investments	1,099	(149)	191	38	(30)	1,149	(149)
Investments in partially-owned insurance companies	435	8	13	(23)	–	433	–
Other derivative instruments	87	(71)	–	(2)	–	14	(71)
Total assets at fair value	$ 1,917	$ (214)	$ 247	$ 9	$ (55)	$ 1,904	$ (217)
Liabilities:							
GLB	$ 910	$ (368)	$ –	$ 17	$ –	$ 559	$ (368)

[1] Relates only to financial instruments still held at the balance sheet date.

Year Ended December 31, 2008 (in millions of U.S. dollars)	Balance-Beginning of Year	Net Realized Gains/ Losses	Change in Net Unrealized Gains (Losses) Included in OCI	Purchases, Sales, Issuances, and Settlements, Net	Transfers Into (Out of) Level 3	Balance-End of Year	Net Realized Gains/Losses Attributable to Changes in Fair Value[1]
Assets:							
Fixed maturities available for sale	$ 601	$ (29)	$ (86)	$ (8)	$ (204)	$ 274	$ (24)
Fixed maturities held to maturity	–	(2)	–	–	3	1	(2)
Equity securities	12	–	(8)	(8)	25	21	–
Other investments	898	(56)	(270)	527	–	1,099	(56)
Investments in partially-owned insurance companies	381	(6)	28	32	–	435	(8)
Investment derivative instruments	6	5	–	(11)	–	–	–
Other derivative instruments	17	47	–	23	–	87	73
Total assets at fair value	$ 1,915	$ (41)	$ (336)	$ 555	$ (176)	$ 1,917	$ (17)
Liabilities:							
GLB	$ 225	$ 650	$ –	$ 35	$ –	$ 910	$ 650

[1] Relates only to financial instruments still held at the balance sheet date.

b) Fair value option

Effective January 1, 2008, the Company elected the fair value option provided within ASC Topic 825, *Financial Instruments*, for certain of its available for sale equity securities valued and carried at $161 million on the election date. The Company elected the fair value option for these particular equity securities to simplify the accounting and oversight of this portfolio given

the portfolio management strategy employed by the external investment manager. The election resulted in an increase in retained earnings and a reduction to AOCI of $6 million at January 1, 2008. This adjustment reflects the net of tax unrealized gains ($9 million pre-tax) associated with this particular portfolio at January 1, 2008. In June 2008, the Company sold the entire portfolio. Accordingly, the Company currently holds no assets for which this fair value option has been elected. Throughout 2008 to the date of sale, all of these securities were classified within Level 1 in the fair value hierarchy.

16. Other (income) expense

The following table presents the components of Other (income) expense as reflected in the consolidated statements of operations for the years ended December 31, 2010, 2009, and 2008.

(in millions of U.S. dollars)	2010	2009	2008
Equity in net (income) loss of partially-owned entities	**$(81)**	$ 39	$(52)
Noncontrolling interest expense	**14**	3	11
Federal excise and capital taxes	**19**	16	16
Other	**32**	27	(14)
Other (income) expense	**$(16)**	$ 85	$(39)

Equity in net (income) loss of partially-owned entities includes net (income) loss related to investment funds, limited partnerships, partially-owned investment companies, and partially-owned insurance companies. Certain federal excise and capital taxes incurred as a result of capital management initiatives are included in Other (income) expense. As these are considered capital transactions, they are excluded from underwriting results.

17. Segment information

The Company operates through the following business segments, certain of which represent the aggregation of distinct operating segments: Insurance – North American, Insurance – Overseas General, Global Reinsurance, and Life. These segments distribute their products through various forms of brokers, agencies, and direct marketing programs. All business segments have established relationships with reinsurance intermediaries.

The Insurance – North American segment comprises the operations in the U.S., Canada, and Bermuda. This segment includes the operations of ACE USA (including ACE Canada), ACE Westchester, ACE Bermuda, ACE Private Risk Services, and various run-off operations. ACE USA is the North American retail operating division which provides a broad array of P&C, A&H, and risk management products and services to a diverse group of commercial and non-commercial enterprises and consumers. ACE Westchester, which includes the operations of Rain and Hail, specializes in the North American wholesale distribution of excess and surplus P&C, environmental, professional and inland marine products in addition to crop insurance in the U.S. ACE Bermuda provides commercial insurance products on an excess basis to a global client base, covering exposures that are generally low in frequency and high in severity. ACE Private Risk Services provides personal lines coverages (such as homeowners and automobile) for high net worth individuals and families in North America. The run-off operations include Brandywine Holdings Corporation, Commercial Insurance Services, residual market workers' compensation business, pools and syndicates not attributable to a single business group, and other exited lines of business. Run-off operations do not actively sell insurance products, but are responsible for the management of existing policies and related claims.

The Insurance – Overseas General segment comprises ACE International, the wholesale insurance business of ACE Global Markets, and the international A&H and life business of Combined Insurance. ACE International, the ACE INA retail business serving territories outside the U.S., Bermuda, and Canada, maintains a presence in every major insurance market in the world and is organized geographically along product lines that provide dedicated underwriting focus to customers. ACE International has four regions of operations: ACE Europe, ACE Asia Pacific, ACE Far East, and ACE Latin America. ACE Global Markets, the London-based excess and surplus lines business that includes Lloyd's Syndicate 2488, offers products through its parallel distribution network via ACE European Group Limited (AEGL) and Lloyd's Syndicate 2488. ACE provides funds at Lloyd's to support underwriting by Syndicate 2488, which is managed by ACE Underwriting Agencies Limited. ACE Global Markets utilizes Syndicate 2488 to underwrite P&C business on a global basis through Lloyd's worldwide licenses. ACE Global Markets utilizes AEGL to underwrite similar classes of business through its network of U.K. and Continental Europe licenses, and in the U.S. where it is eligible to write excess & surplus business. The reinsurance operation of ACE Global Markets is included in the Global Reinsurance segment. Combined Insurance distributes a wide range of supplemental accident and health products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

Companies within the Insurance – Overseas General segment write a variety of insurance products including P&C, professional lines (directors & officers and errors & omissions), marine, energy, aviation, political risk, specialty consumer-oriented products, and A&H (principally accident and supplemental health).

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. These divisions provide a broad range of property catastrophe, casualty, and property reinsurance coverages to a diverse array of primary P&C insurers. The Global Reinsurance segment also includes ACE Global Markets' reinsurance operations.

The Life segment includes 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. ACE Life provides individual life and group benefit insurance through multiple distribution channels primarily in emerging markets, including Egypt, Indonesia, Taiwan, Thailand, Vietnam, the United Arab Emirates, throughout Latin America, selectively in Europe, as well as China through a partially-owned insurance company. ACE Life Re helps clients (ceding companies) manage mortality, morbidity, and lapse risks embedded in their books of business. 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. Combined Insurance distributes specialty individual accident and supplemental health and life insurance products targeted to middle income consumers in the U.S. and Canada.

Corporate and Other (Corporate) includes ACE Limited, ACE Group Management and Holdings Ltd., ACE INA Holdings, Inc., and intercompany eliminations. Losses and loss expenses arise in connection with the commutation of ceded reinsurance contracts that result from a differential between the consideration received from reinsurers and the related reduction of reinsurance recoverable, principally related to the time value of money. Due to the Company's initiatives to reduce reinsurance recoverable balances and thereby encourage such commutations, losses recognized in connection with the commutation of ceded reinsurance contracts are generally not considered when assessing segment performance and, accordingly, are directly allocated to Corporate. ACE also eliminates the impact of intersegment loss portfolio transfer transactions which are not reflected in the results within the statements of operations by segment.

For segment reporting purposes, certain items have been presented in a different manner than in the consolidated financial statements. Management uses underwriting income as the main measure of segment performance. ACE calculates underwriting income by subtracting losses and loss expenses, policy benefits, policy acquisition costs, and administrative expenses from net premiums earned. For the Life business, management also includes net investment income as a component of underwriting income. The following tables present the operations by segment for the periods indicated.

Statement of Operations by Segment

For the Year Ended December 31, 2010 (in millions of U.S. dollars)	Insurance – North American	Insurance – Overseas General	Global Reinsurance	Life	Corporate and Other	ACE Consolidated
Net premiums written	$ 5,797	$ 5,280	$ 1,075	$1,556	$ –	$ 13,708
Net premiums earned	5,651	5,240	1,071	1,542	–	13,504
Losses and loss expenses	3,918	2,647	518	496	–	7,579
Policy benefits	–	4	–	353	–	357
Policy acquisition costs	625	1,251	204	257	–	2,337
Administrative expenses	561	840	55	228	174	1,858
Underwriting income (loss)	547	498	294	208	(174)	1,373
Net investment income	1,138	475	288	172	(3)	2,070
Net realized gains (losses) including OTTI	417	123	93	(192)	(9)	432
Interest expense	9	1	–	3	211	224
Other (income) expense	(22)	(13)	(23)	20	22	(16)
Income tax expense (benefit)	436	173	42	62	(154)	559
Net income (loss)	$ 1,679	$ 935	$ 656	$ 103	$ (265)	$ 3,108

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
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Statement of Operations by Segment

For the Year Ended December 31, 2009 (in millions of U.S. dollars)	Insurance – North American	Insurance – Overseas General	Global Reinsurance	Life	Corporate and Other	ACE Consolidated
Net premiums written	$ 5,641	$ 5,145	$ 1,038	$1,475	$ –	$ 13,299
Net premiums earned	5,684	5,147	979	1,430	–	13,240
Losses and loss expenses	4,013	2,597	330	482	–	7,422
Policy benefits	–	4	–	321	–	325
Policy acquisition costs	517	1,202	195	216	–	2,130
Administrative expenses	572	783	55	243	158	1,811
Underwriting income (loss)	582	561	399	168	(158)	1,552
Net investment income	1,094	479	278	176	4	2,031
Net realized gains (losses) including OTTI	10	(20)	(17)	(15)	(154)	(196)
Interest expense	1	–	–	–	224	225
Other (income) expense	36	20	2	2	25	85
Income tax expense (benefit)	384	186	46	48	(136)	528
Net income (loss)	$ 1,265	$ 814	$ 612	$ 279	$ (421)	$ 2,549

Statement of Operations by Segment

For the Year Ended December 31, 2008 (in millions of U.S. dollars)	Insurance – North American	Insurance – Overseas General	Global Reinsurance	Life	Corporate and Other	ACE Consolidated
Net premiums written	$ 5,636	$ 5,332	$ 914	$1,198	$ –	$ 13,080
Net premiums earned	5,679	5,337	1,017	1,170	–	13,203
Losses and loss expenses	4,080	2,679	524	320	–	7,603
Policy benefits	–	12	–	387	–	399
Policy acquisition costs	562	1,193	192	188	–	2,135
Administrative expenses	536	793	56	199	153	1,737
Underwriting income (loss)	501	660	245	76	(153)	1,329
Net investment income	1,095	521	309	142	(5)	2,062
Net realized gains (losses) including OTTI	(709)	(316)	(163)	(532)	87	(1,633)
Interest expense	1	–	–	–	229	230
Other (income) expense	7	(11)	2	12	(49)	(39)
Income tax expense (benefit)	315	100	30	30	(105)	370
Net income (loss)	$ 564	$ 776	$ 359	$ (356)	$ (146)	$ 1,197

Underwriting assets are reviewed in total by management for purpose of decision-making. Other than goodwill, the Company does not allocate assets to its segments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

The following table presents the net premiums earned for each segment by product for the periods indicated.

For the Year Ended December 31, 2010 (in millions of U.S. dollars)	Property & All Other	Casualty	Life, Accident & Health	ACE Consolidated
Insurance – North American	**$ 1,578**	**$ 3,777**	**$ 296**	**$ 5,651**
Insurance – Overseas General	**1,800**	**1,424**	**2,016**	**5,240**
Global Reinsurance	**520**	**551**	**–**	**1,071**
Life	**–**	**–**	**1,542**	**1,542**
	$ 3,898	**$ 5,752**	**$ 3,854**	**$ 13,504**
For the Year Ended December 31, 2009				
Insurance – North American	$ 1,690	$ 3,734	$ 260	$ 5,684
Insurance – Overseas General	1,787	1,420	1,940	5,147
Global Reinsurance	546	433	–	979
Life	–	–	1,430	1,430
	$ 4,023	$ 5,587	$ 3,630	$ 13,240
For the Year Ended December 31, 2008				
Insurance – North American	$ 1,576	$ 3,857	$ 246	$ 5,679
Insurance – Overseas General	1,855	1,487	1,995	5,337
Global Reinsurance	523	494	–	1,017
Life	–	–	1,170	1,170
	$ 3,954	$ 5,838	$ 3,411	$ 13,203

The following table presents the Company's net premiums earned by geographic region. Allocations have been made on the basis of location of risk.

Year Ended	North America	Europe	Asia Pacific/Far East	Latin America
2010	**61%**	**20%**	**13%**	**6%**
2009	63%	20%	12%	5%
2008	61%	22%	12%	5%

18. Earnings per share

The following table presents the computation of basic and diluted earnings per share for the years indicated.

(in millions of U.S. dollars, except share and per share data)	2010	2009	2008
Numerator:			
Net Income	**$ 3,108**	$ 2,549	$ 1,197
Dividends on Preferred Shares	**–**	–	(24)
Net income available to holders of Common Shares	**$ 3,108**	$ 2,549	$ 1,173
Denominator:			
Denominator for basic earnings per share:			
Weighted-average shares outstanding	**339,685,143**	336,725,625	332,900,719
Denominator for diluted earnings per share:			
Share-based compensation plans	**1,561,244**	813,669	1,705,518
Adjusted weighted-average shares outstanding and assumed conversions	**341,246,387**	337,539,294	334,606,237
Basic earnings per share	**$ 9.15**	$ 7.57	$ 3.52
Diluted earnings per share	**$ 9.11**	$ 7.55	$ 3.50

Excluded from adjusted weighted-average shares outstanding and assumed conversions is the impact of securities that would have been anti-dilutive during the respective years. For the years ended December 31, 2010, 2009, and 2008, the potential anti-dilutive share conversions were 256,868 shares, 1,230,881 shares, and 638,401 shares, respectively.

19. Related party transactions

The ACE Foundation – Bermuda is an unconsolidated not-for-profit organization whose primary purpose is to fund charitable causes in Bermuda. The Trustees are principally comprised of ACE management. The Company maintains a non-interest bearing demand note receivable from the ACE Foundation – Bermuda, the balance of which was $30 million and $31 million, at December 31, 2010 and 2009, respectively. The receivable is included in Other assets in the accompanying consolidated balance sheets. The borrower has used the related proceeds to finance investments in Bermuda real estate, some of which have been rented to ACE employees at rates established by independent, professional real estate appraisers. The borrower uses income from the investments to both repay the note and to fund charitable activities. Accordingly, the Company reports the demand note at the lower of its principal value or the fair value of assets held by the borrower to repay the loan, including the real estate properties.

20. Statutory financial information

The Company's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate. These regulations include restrictions that limit the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the insurance regulatory authorities.

There are no statutory restrictions on the payment of dividends from retained earnings by any of the Bermuda subsidiaries as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid-in capital of each of the Bermuda subsidiaries.

The Company's U.S. subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by insurance regulators.

Statutory accounting differs from GAAP in the reporting of certain reinsurance contracts, investments, subsidiaries, acquisition expenses, fixed assets, deferred income taxes, and certain other items. The statutory capital and surplus of the U.S. subsidiaries met regulatory requirements for 2010, 2009, and 2008. The amount of dividends available to be paid in 2011, without prior approval from the state insurance departments, totals $850 million.

The following table presents the combined statutory capital and surplus and statutory net income of the Bermuda and U.S. subsidiaries at and for the years ended December 31, 2010, 2009, and 2008.

	Bermuda Subsidiaries			U.S. Subsidiaries		
(in millions of U.S. dollars)	**2010**	2009	2008	**2010**	2009	2008
Statutory capital and surplus	**$11,798**	$9,164	$6,205	**$6,266**	$5,885	$5,368
Statutory net income	**$ 2,430**	$2,369	$2,196	**$1,047**	$ 904	$ 818

As permitted by the Restructuring discussed previously in Note 7, certain of the Company's U.S. subsidiaries discount certain A&E liabilities, which increased statutory capital and surplus by approximately $206 million, $215 million, and $211 million at December 31, 2010, 2009, and 2008, respectively.

The Company's international subsidiaries prepare statutory financial statements based on local laws and regulations. Some jurisdictions impose complex regulatory requirements on insurance companies while other jurisdictions impose fewer requirements. In some countries, the Company must obtain licenses issued by governmental authorities to conduct local insurance business. These licenses may be subject to reserves and minimum capital and solvency tests. Jurisdictions may impose fines, censure, and/or criminal sanctions for violation of regulatory requirements.

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21. Information provided in connection with outstanding debt of subsidiaries

The following tables present condensed consolidating financial information at December 31, 2010, and December 31, 2009, and for years ended December 31, 2010, 2009, and 2008, for ACE Limited (the Parent Guarantor) and its "Subsidiary Issuer", ACE INA Holdings, Inc. The Subsidiary Issuer is an indirect 100 percent-owned subsidiary of the Parent Guarantor. Investments in subsidiaries are accounted for by the Parent Guarantor under the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are reflected in the Parent Guarantor's investment accounts and earnings. The Parent Guarantor fully and unconditionally guarantees certain of the debt of the Subsidiary Issuer. Condensed consolidating financial information of the Subsidiary Issuer is presented on a consolidated basis and consists principally of the net assets, results of operations, and cash flows of operating insurance company subsidiaries.

Condensed Consolidating Balance Sheet at December 31, 2010

(in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Assets					
Investments	$ 47	$ 26,718	$ 24,642	$ –	$ 51,407
Cash	308	573	(109)	–	772
Insurance and reinsurance balances receivable	–	3,710	523	–	4,233
Reinsurance recoverable on losses and loss expenses	–	16,877	(4,006)	–	12,871
Reinsurance recoverable on policy benefits	–	959	(678)	–	281
Value of business acquired	–	634	–	–	634
Goodwill and other intangible assets	–	4,113	551	–	4,664
Investments in subsidiaries	22,529	–	–	(22,529)	–
Due from (to) subsidiaries and affiliates, net	564	(555)	555	(564)	–
Other assets	14	7,045	1,434	–	8,493
Total assets	$ 23,462	$ 60,074	$ 22,912	$ (23,093)	$ 83,355
Liabilities					
Unpaid losses and loss expenses	$ –	$ 30,430	$ 6,961	$ –	$ 37,391
Unearned premiums	–	5,379	951	–	6,330
Future policy benefits	–	2,495	611	–	3,106
Short-term debt	300	1,000	–	–	1,300
Long-term debt	–	3,358	–	–	3,358
Trust preferred securities	–	309	–	–	309
Other liabilities	188	7,394	1,005	–	8,587
Total liabilities	488	50,365	9,528	–	60,381
Total shareholders' equity	22,974	9,709	13,384	(23,093)	22,974
Total liabilities and shareholders' equity	$ 23,462	$ 60,074	$ 22,912	$ (23,093)	$ 83,355

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

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Condensed Consolidating Balance Sheet at December 31, 2009

(in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Assets					
Investments	$ 51	$ 24,125	$ 22,339	$ –	$ 46,515
Cash	(1)	400	270	–	&bbsp; 669
Insurance and reinsurance balances receivable	–	3,043	628	–	3,671
Reinsurance recoverable on losses and loss expenses	–	17,173	(3,578)	–	13,595
Reinsurance recoverable on policy benefits	–	681	(383)	–	298
Value of business acquired	–	748	–	–	748
Goodwill and other intangible assets	–	3,377	554	–	3,931
Investments in subsidiaries	18,714	–	–	(18,714)	–
Due from (to) subsidiaries and affiliates, net	1,062	(669)	669	(1,062)	–
Other assets	18	7,158	1,377	–	8,553
Total assets	$ 19,844	$ 56,036	$ 21,876	$ (19,776)	$ 77,980
Liabilities					
Unpaid losses and loss expenses	$ –	$ 30,038	$ 7,745	$ –	$ 37,783
Unearned premiums	–	4,944	1,123	–	6,067
Future policy benefits	–	2,383	625	–	3,008
Short-term debt	–	161	–	–	161
Long-term debt	–	3,158	–	–	3,158
Trust preferred securities	–	309	–	–	309
Other liabilities	177	6,613	1,037	–	7,827
Total liabilities	177	47,606	10,530	–	58,313
Total shareholders' equity	19,667	8,430	11,346	(19,776)	19,667
Total liabilities and shareholders' equity	$ 19,844	$ 56,036	$ 21,876	$ (19,776)	$ 77,980

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

Condensed Consolidating Statement of Operations

For the Year Ended December 31, 2010 (in millions of U.S. dollars)	**ACE Limited (Parent Guarantor)**	**ACE INA Holdings, Inc. (Subsidiary Issuer)**	**Other ACE Limited Subsidiaries and Eliminations(1)**	**Consolidating Adjustments(2)**	**ACE Limited Consolidated**
Net premiums written	**$ –**	**$ 8,195**	**$ 5,513**	**$ –**	**$ 13,708**
Net premiums earned	**–**	**7,940**	**5,564**	**–**	**13,504**
Net investment income	**1**	**1,011**	**1,058**	**–**	**2,070**
Equity in earnings of subsidiaries	**3,066**	**–**	**–**	**(3,066)**	**–**
Net realized gains (losses) including OTTI	**(42)**	**303**	**171**	**–**	**432**
Losses and loss expenses	**–**	**4,910**	**2,669**	**–**	**7,579**
Policy benefits	**–**	**148**	**209**	**–**	**357**
Policy acquisition costs and administrative expenses	**70**	**2,372**	**1,793**	**(40)**	**4,195**
Interest expense	**(37)**	**251**	**(27)**	**37**	**224**
Other (income) expense	**(123)**	**95**	**12**	**–**	**(16)**
Income tax expense	**7**	**447**	**105**	**–**	**559**
Net income	**$ 3,108**	**$ 1,031**	**$ 2,032**	**$ (3,063)**	**$ 3,108**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Year Ended December 31, 2009 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Net premiums written	$ –	$ 7,407	$ 5,892	$ –	$ 13,299
Net premiums earned	–	7,411	5,829	–	13,240
Net investment income	1	1,003	1,027	–	2,031
Equity in earnings of subsidiaries	2,636	–	–	(2,636)	–
Net realized gains (losses) including OTTI	(75)	75	(196)	–	(196)
Losses and loss expenses	–	4,620	2,802	–	7,422
Policy benefits	–	84	241	–	325
Policy acquisition costs and administrative expenses	54	2,180	1,744	(37)	3,941
Interest expense	(43)	261	(31)	38	225
Other (income) expense	7	44	34	–	85
Income tax expense (benefit)	(5)	395	138	–	528
Net income	$ 2,549	$ 905	$ 1,732	$ (2,637)	$ 2,549

Condensed Consolidating Statement of Operations

For the Year Ended December 31, 2008 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations(1)	Consolidating Adjustments(2)	ACE Limited Consolidated
Net premiums written	$ –	$ 7,267	$ 5,813	$ –	$ 13,080
Net premiums earned	–	7,424	5,779	–	13,203
Net investment income	(16)	1,068	1,010	–	2,062
Equity in earnings of subsidiaries	1,150	–	–	(1,150)	–
Net realized gains (losses) including OTTI	90	(572)	(1,151)	–	(1,633)
Losses and loss expenses	–	4,427	3,176	–	7,603
Policy benefits	–	125	274	–	399
Policy acquisition costs and administrative expenses	73	2,218	1,604	(23)	3,872
Interest expense	(38)	241	(2)	29	230
Other (income) expense	(15)	1	(25)	–	(39)
Income tax expense	7	346	17	–	370
Net income	$ 1,197	$ 562	$ 594	$ (1,156)	$ 1,197

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2010 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	ACE Limited Consolidated
Net cash flows from operating activities	$ 59	$ 1,798	$ 1,689	$ 3,546
Cash flows from (used for) investing activities				
Purchases of fixed maturities available for sale	(1)	(13,785)	(17,470)	(31,256)
Purchases of fixed maturities held to maturity	–	(615)	(1)	(616)
Purchases of equity securities	–	(107)	(687)	(794)
Sales of fixed maturities available for sale	–	10,225	14,054	24,279
Sales of equity securities	–	17	757	774
Maturities and redemptions of fixed maturities available for sale	–	1,845	1,815	3,660
Maturities and redemptions of fixed maturities held to maturity	–	1,142	211	1,353
Net derivative instruments settlements	(3)	(10)	(96)	(109)
Capitalization of subsidiary	(290)	–	290	–
Advances (to) from affiliates	851	–	(851)	–
Acquisition of subsidiaries (net of cash acquired of $80)	–	(1,139)	–	(1,139)
Other	–	(253)	(80)	(333)
Net cash flows from (used for) investing activities	557	(2,680)	(2,058)	(4,181)
Cash flows from (used for) financing activities				
Dividends paid on Common Shares	(435)	–	–	(435)
Common Shares repurchased	(235)	–	–	(235)
Net proceeds from issuance of short-term debt	300	841	–	1,141
Net proceeds from issuance of long-term debt	–	199	–	199
Proceeds from exercise of options for Common Shares	53	–	–	53
Proceeds from Common Shares issued under ESPP	10	–	–	10
Advances (to) from affiliates	–	3	(3)	–
Tax expense on share-based compensation expense	–	–	(1)	(1)
Net cash flows from (used for) financing activities	(307)	1,043	(4)	732
Effect of foreign currency rate changes on cash and cash equivalents	–	12	(6)	6
Net decrease in cash	309	173	(379)	103
Cash – beginning of year	(1)	400	270	669
Cash – end of year	$ 308	$ 573	$ (109)	$ 772

[1] Includes all other subsidiaries of ACE Limited and intercompany eliminations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2009 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	ACE Limited Consolidated
Net cash flows from operating activities	$ 594	$ 1,888	$ 853	$ 3,335
Cash flows used for investing activities				
Purchases of fixed maturities available for sale	–	(16,877)	(20,383)	(37,260)
Purchases of fixed maturities held to maturity	–	(457)	(15)	(472)
Purchases of equity securities	–	(186)	(168)	(354)
Sales of fixed maturities available for sale	88	12,650	16,916	29,654
Sales of fixed maturities held to maturity	–	10	1	11
Sales of equity securities	–	544	728	1,272
Maturities and redemptions of fixed maturities available for sale	–	1,792	1,612	3,404
Maturities and redemptions of fixed maturities held to maturity	–	410	104	514
Net derivative instruments settlements	–	(6)	(86)	(92)
Capitalization of subsidiaries	(90)	–	90	–
Advances (to) from affiliates	(174)	–	174	–
Other	(4)	(14)	117	99
Net cash flows used for investing activities	(180)	(2,134)	(910)	(3,224)
Cash flows from (used for) financing activities				
Dividends paid on Common Shares	(388)	–	–	(388)
Proceeds from exercise of options for Common Shares	15	–	–	15
Proceeds from Common Shares issued under ESPP	10	–	–	10
Net repayment of short-term debt	–	(466)	–	(466)
Net proceeds from issuance of long-term debt	–	500	–	500
Advances (to) from affiliates	–	156	(156)	–
Tax benefit on share-based compensation expense	–	6	2	8
Net cash flows from (used for) financing activities	(363)	196	(154)	(321)
Effect of foreign currency rate changes on cash and cash equivalents	–	8	4	12
Net increase (decrease) in cash	51	(42)	(207)	(198)
Cash – beginning of year	(52)	442	477	867
Cash – end of year	$ (1)	$ 400	$ 270	$ 669

[1] Includes all other subsidiaries of ACE Limited and intercompany eliminations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2008 (in millions of U.S. dollars)	ACE Limited (Parent Guarantor)	ACE INA Holdings, Inc. (Subsidiary Issuer)	Other ACE Limited Subsidiaries and Eliminations[1]	ACE Limited Consolidated
Net cash flows from operating activities	$ 1,613	$ 886	$ 1,602	$ 4,101
Cash flows used for investing activities				
Purchases of fixed maturities available for sale	(94)	(15,535)	(27,877)	(43,506)
Purchases of fixed maturities held to maturity	–	(351)	(15)	(366)
Purchases of equity securities	–	(492)	(479)	(971)
Sales of fixed maturities available for sale	–	14,117	25,310	39,427
Sales of equity securities	–	749	415	1,164
Maturities and redemptions of fixed maturities available for sale	–	1,355	1,425	2,780
Maturities and redemptions of fixed maturities held to maturity	–	332	113	445
Net derivative instruments settlements	11	–	21	32
Capitalization of subsidiary	(215)	–	215	–
Advances (to) from affiliates	(475)	–	475	–
Acquisition of subsidiary (net of cash acquired of $19)	–	(2,521)	–	(2,521)
Other	13	(150)	(471)	(608)
Net cash flows used for investing activities	(760)	(2,496)	(868)	(4,124)
Cash flows from (used for) financing activities				
Dividends paid on Common Shares	(362)	–	–	(362)
Dividends paid on Preferred Shares	(24)	–	–	(24)
Net repayment of short-term debt	(51)	196	(234)	(89)
Net proceeds from issuance of long-term debt	–	1,245	–	1,245
Redemption of Preferred Shares	(575)	–	–	(575)
Proceeds from exercise of options for Common Shares	97	–	–	97
Proceeds from Common Shares issued under ESPP	10	–	–	10
Advances from (to) affiliates	–	234	(234)	–
Tax benefit on share-based compensation expense	–	–	12	12
Net cash flows from (used for) financing activities	(905)	1,675	(456)	314
Effect of foreign currency rate changes on cash and cash equivalents	–	67	(1)	66
Net increase (decrease) in cash	(52)	132	277	357
Cash – beginning of year	–	310	200	510
Cash – end of year	$ (52)	$ 442	$ 477	$ 867

[1] Includes all other subsidiaries of ACE Limited and intercompany eliminations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
ACE LIMITED AND SUBSIDIARIES

22. Condensed unaudited quarterly financial data

(in millions of U.S. dollars, except per share data)	Quarter Ended March 31, 2010	Quarter Ended June 30, 2010	Quarter Ended September 30, 2010	Quarter Ended December 31, 2010
Net premiums earned	**$ 3,277**	**$ 3,233**	**$ 3,422**	**$ 3,572**
Net investment income	**504**	**518**	**516**	**532**
Net realized gains (losses) including OTTI	**168**	**9**	**(50)**	**305**
Total revenues	**$ 3,949**	**$ 3,760**	**$ 3,888**	**$ 4,409**
Losses and loss expenses	**$ 1,921**	**$ 1,800**	**$ 1,887**	**$ 1,971**
Policy benefits	**$ 87**	**$ 87**	**$ 93**	**$ 90**
Net income	**$ 755**	**$ 677**	**$ 675**	**$ 1,001**
Basic earnings per share	**$ 2.23**	**$ 1.99**	**$ 1.98**	**$ 2.94**
Diluted earnings per share	**$ 2.22**	**$ 1.98**	**$ 1.97**	**$ 2.92**

(in millions of U.S. dollars, except per share data)	Quarter Ended March 31, 2009	Quarter Ended June 30, 2009	Quarter Ended September 30, 2009	Quarter Ended December 31, 2009
Net premiums earned	$ 3,194	$ 3,266	$ 3,393	$ 3,387
Net investment income	502	506	511	512
Net realized gains (losses) including OTTI	(121)	(225)	(223)	373
Total revenues	$ 3,575	$ 3,547	$ 3,681	$ 4,272
Losses and loss expenses	$ 1,816	$ 1,821	$ 1,885	$ 1,900
Policy benefits	$ 99	$ 78	$ 79	$ 69
Net income	$ 567	$ 535	$ 494	$ 953
Basic earnings per share	$ 1.69	$ 1.58	$ 1.46	$ 2.82
Diluted earnings per share	$ 1.69	$ 1.58	$ 1.46	$ 2.81

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SCHEDULE I
ACE LIMITED AND SUBSIDIARIES

SUMMARY OF INVESTMENTS – OTHER THAN INVESTMENTS IN RELATED PARTIES

December 31, 2010 (in millions of U.S. dollars)	Cost or Amortized Cost	Fair Value	Amount at Which Shown in the Balance Sheet
Fixed maturities available for sale			
U.S. Treasury and agency	$ 2,904	$ 2,963	$ 2,963
Foreign	10,926	11,186	11,186
Corporate securities	12,902	13,587	13,587
Mortgage-backed securities	8,508	8,516	8,516
States, municipalities, and political subdivisions	1,302	1,287	1,287
Total fixed maturities	36,542	37,539	37,539
Fixed maturities held to maturity			
U.S. Treasury and agency	1,105	1,127	1,105
Foreign	1,049	1,013	1,049
Corporate securities	2,361	2,313	2,361
Mortgage-backed securities	3,811	3,846	3,811
States, municipalities, and political subdivisions	1,175	1,162	1,175
Total fixed maturities	9,501	9,461	9,501
Equity securities			
Industrial, miscellaneous, and all other	666	692	692
Short-term investments	1,983	1,983	1,983
Other investments	1,511	1,692	1,692
	3,494	3,675	3,675
Total investments – other than investments in related parties	$ 50,203	$ 51,367	$ 51,407

SCHEDULE II
ACE LIMITED AND SUBSIDIARIES

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS (Parent Company Only)

December 31, 2010 and 2009 (in millions of U.S. dollars)	2010	2009
Assets		
Investments in subsidiaries and affiliates on equity basis	**$22,529**	$18,714
Short-term investments	**10**	9
Other investments, at cost	**37**	42
Total investments	**22,576**	18,765
Cash	**308**	(1)
Due from subsidiaries and affiliates, net	**564**	1,062
Other assets	**14**	18
Total assets	**$23,462**	$19,844
Liabilities		
Accounts payable, accrued expenses, and other liabilities	**$ 76**	$ 73
Dividends payable	**112**	104
Short-term debt	**300**	–
Total liabilities	**488**	177
Shareholders' equity		
Common Shares	**10,161**	10,503
Common Shares in treasury	**(330)**	(3)
Additional paid-in capital	**5,623**	5,526
Retained earnings	**5,926**	2,818
Deferred compensation obligation	**2**	2
Accumulated other comprehensive income	**1,594**	823
Common Shares issued to employee trust	**(2)**	(2)
Total shareholders' equity	**22,974**	19,667
Total liabilities and shareholders' equity	**$23,462**	$19,844

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SCHEDULE II – (continued)
ACE LIMITED AND SUBSIDIARIES

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF OPERATIONS (Parent Company Only)

For the years ended December 31, 2010, 2009, and 2008 (in millions of U.S. dollars)	2010	2009	2008
Revenues			
Investment income, including intercompany interest income	**$ 38**	$ 39	$ 14
Equity in net income of subsidiaries and affiliates	**3,066**	2,636	1,150
Net realized gains (losses)	**(42)**	(75)	90
	3,062	2,600	1,254
Expenses			
Administrative and other (income) expenses	**(46)**	56	65
Interest expense (income)	**–**	(5)	(8)
	(46)	51	57
Net income	**$3,108**	$2,549	$1,197

SCHEDULE II – (continued)
ACE LIMITED AND SUBSIDIARIES

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF CASH FLOWS (Parent Company Only)

For the years ended December 31, 2010, 2009, and 2008 (in millions of U.S. dollars)	**2010**	2009	2008
Net cash flows from operating activities	**$ 59**	$ 594	$1,613
Cash flows from (used for) investing activities			
Purchases of fixed maturities available for sale	**(1)**	–	(94)
Sales of fixed maturities available for sale	**–**	88	–
Net derivative instruments settlements	**(3)**	–	11
Capitalization of subsidiaries	**(290)**	(90)	(215)
Advances (to) from affiliates	**851**	(174)	(475)
Other	**–**	(4)	13
Net cash flows from (used for) investing activities	**557**	(180)	(760)
Cash flows used for financing activities			
Dividends paid on Common Shares	**(435)**	(388)	(362)
Dividends paid on Preferred Shares	**–**	–	(24)
Common Shares repurchased	**(235)**	–	–
Net proceeds from (repayment of) short-term debt	**300**	–	(51)
Proceeds from exercise of options for Common Shares	**53**	15	97
Proceeds from Common Shares issued under ESPP	**10**	10	10
Redemption of Preferred Shares	**–**	–	(575)
Net cash flows used for financing activities	**(307)**	(363)	(905)
Net increase (decrease) in cash	**309**	51	(52)
Cash – beginning of year	**(1)**	(52)	–
Cash – end of year	**$ 308**	$ (1)	$ (52)

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SCHEDULE IV
ACE LIMITED AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION CONCERNING REINSURANCE

Premiums Earned

For the years ended December 31, 2010, 2009, and 2008 (in millions of U.S. dollars, except for percentages)	Direct Amount	Ceded To Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
2010	**$15,780**	**$ 5,792**	**$ 3,516**	**$13,504**	**26%**
2009	$15,415	$ 5,943	$ 3,768	$13,240	28%
2008	$16,087	$ 6,144	$ 3,260	$13,203	25%

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SCHEDULE VI

ACE LIMITED AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION CONCERNING PROPERTY AND CASUALTY OPERATIONS

As of and for the years ended December 31, 2010, 2009, and 2008
(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			
2010	**$ 1,581**	**$25,242**	**$ 6,295**	**$12,981**	**$ 1,996**	**$8,091**	**$(512)**	**$ 2,252**	**$ 7,413**	**$13,166**
2009	$ 1,396	$25,038	$ 6,034	$12,713	$ 1,940	$8,001	$(579)	$ 2,076	$ 6,948	$12,735
2008	$ 1,192	$24,241	$ 5,924	$12,742	$ 1,966	$8,417	$(814)	$ 2,087	$ 6,327	$12,594