

Best's Rating Report



ace european group

ACE EUROPEAN GROUP LIMITED

London EC3A 3BP, United Kingdom



A+

Non-Life Business
Ultimate Parent: ACE Limited

ACE EUROPEAN GROUP LIMITED
ACE Building, 100 Leadenhall Street, London EC3A 3BP, England
Web: www.aceeuropeangroup.com

Tel.: 44-20-7173-7000 Fax: 44-20-7173-7800
AMB#: 086485 AHN#: AA-1120810
Ultimate Parent#: 058303

BEST'S FINANCIAL STRENGTH RATING
Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of A+ (Superior). The company's Financial Size Category is Class XIII.

RATING RATIONALE

Rating Rationale: The rating reflects the implicit support provided to ACE European Group Limited (AEGL) by its parent company, ACE Limited (ACE) (Zurich) [NYSE: ACE], and AEGL's importance within the ACE group, which benefits from a diversified global operation and a consistently favourable record of generating strong earnings and cash flows. AEGL continues to be of strategic significance to its parent company as its main underwriting operation in the United Kingdom and Europe. In addition, the company receives significant reinsurance support from ACE group affiliates. The rating further reflects AEGL's excellent stand-alone risk-adjusted capitalisation, solid operating performance and excellent business profile.

Excellent risk-adjusted capitalisation — AEGL is expected to maintain excellent stand-alone risk-adjusted capitalisation in 2011, supported by solid retained earnings. In 2010, a dividend payment was made following the strong operating performance in 2009.

Solid operating performance — The company is expected to achieve a good technical result in 2011, albeit reduced from the GBP 29.2 million reported in 2010, as market conditions continue to be challenging. In 2010, AEGL benefited from an improvement in pricing in certain lines of its London market business and growth within its specialty personal lines and UK retail divisions. Of the various natural catastrophes that occurred in the early months of 2011, the company has modest exposure to the Australian floods and Japanese earthquake and tsunami. Assuming normal catastrophe experience for the remainder of the year, a solid operating performance is accordingly anticipated in 2011, supported by good investment earnings.

Excellent business profile — AEGL has an excellent business profile in its core UK and continental European markets, as an underwriter of a well-diversified portfolio of property and casualty, accident and health and specialty personal lines insurance. Business is underwritten through three well-established brands: ACE Europe, ACE Global Markets and ACE Tempest Re Europe.

Best's Financial Strength Rating: A+

Outlook: Stable

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
06/21/11	A+	12/13/07	A+
05/03/10	A+	10/16/06	A+
03/20/09	A+		

BUSINESS REVIEW

ACE European Group Limited (AEGL) has an excellent profile in the London, UK and continental European markets as a specialist underwriter of commercial and personal lines business. The company, together with Lloyd's Syndicate 2488, which is managed by ACE Underwriting Agencies Ltd and operates in conjunction with AEGL, continues to be strategically important to the ultimate parent company, ACE Limited (ACE), as its main underwriting operation in these markets.

Best's Rating Report



AEGL's well diversified portfolio is underwritten as ACE branded business through three separate business divisions. The ACE Europe division underwrites property and casualty, accident and health (A&H) and specialty personal lines business. ACE Global Markets (AGM) and ACE Tempest Re Europe (ATRe) divisions write international specialty and global risks business. These lines of business are also written by AGM and ATRe through syndicate 2488.

AEGL's business is geographically well-diversified, with continental Europe accounting for 53% of gross premiums written in 2010 and the United Kingdom 30%. These proportions are likely to be similar in 2011, with ACE Europe expected to further develop its profile in Central and Eastern Europe. Remaining business, predominantly AGM and ATRe branded business, is well spread across North America, Asia Pacific, Africa, the Middle East and other territories.

ACE Europe maintains an excellent profile across a broad spread of commercial and specialty lines of business, which includes fire, casualty, marine, financial lines and technical lines business. Through an extensive branch network in the UK, Ireland and continental Europe, the division provides property and casualty insurance for a range of multinational and large commercial clients. In addition, the division continues to maintain a strong position in its core markets as an underwriter of A&H and specialty personal lines business, which together are expected to account for approximately 30% of AEGL's gross premiums written in 2011 (2010: 28%). Rating conditions for both the commercial portfolio and A&H business were competitive in 2010 and remain so in 2011, as economic conditions continue to be difficult. ACE Europe is expected to contribute approximately 80% of AEGL's gross premiums written in 2011.

AEGL underwrites a significant portfolio of specialty and global insurance and reinsurance business which includes A&H, aviation, energy, marine, political risks, financial lines and property business. These lines of business are underwritten by AEGL and Lloyd's Syndicate 2488 through the AGM and ATRe divisions using a single underwriting team and strategy. AGM focuses on international and specialty insurance, including US excess and surplus lines business. ATRe underwrites a broad range of treaty reinsurance. Business underwritten by AGM and ATRe is expected to account for approximately 20% of AEGL's gross premiums written in 2011.

FINANCIAL PERFORMANCE

Overall Earnings: AEGL is expected to report a good pre-tax profit in 2011, albeit lower than the excellent GBP 207.3 million achieved in 2010, due mainly to the continuing difficult conditions in core markets. Although earnings in 2010 suffered from pricing pressure in ACE Europe's UK and European retail business, AGM's London market portfolio saw improved rating conditions within financial lines, political risks and marine classes and overall earnings were bolstered by a strong net investment yield.

Underwriting Income: AEGL achieved an excellent technical result of GBP 29.2 million in 2010, reflecting a substantial net release from prior year reserves of GBP 45.4 million (2009: GBP 41.7 million), primarily from AEGL's third party liability and fire and property damage lines of business. In spite of the many natural disasters that occurred in 2010, the company's net losses from them were only GBP 3.9 million. While greater losses are likely from the natural catastrophes that have happened in 2011, particularly the Japanese earthquake and tsunami in March 2011, AEGL is expected to report a strong underwriting result for the year.

Investment Income: AEGL's 2011 investment portfolio is likely to remain broadly unchanged from 2010, split between bonds and other fixed interest securities (approximately 90%), cash and deposits (approximately 4%) and equities and other variable yield securities. In 2010, good realised and unrealised gains again contributed to a strong net investment yield of 6.6% (2009: 8.6%).

CAPITALIZATION

AEGL is expected to maintain excellent risk-adjusted capitalisation in 2011, supported by robust retained earnings. The company continues to be of strategic importance to ACE, which maintains superior risk-adjusted capitalisation. AEGL also benefits from significant reinsurance support from ACE group affiliates. Shareholders' funds increased to GBP 937 million at year-end 2010 (2009: GBP 878 million), after accounting for the payment of a dividend of GBP 75 million.

Reserve Quality: A prudent approach to reserving has enabled AEGL to make consistent releases from prior year reserves. The company made a net reserve release of GBP 45.4 million at year-end 2010 (2009: GBP 41.7 million). Reserves are reviewed regularly by AEGL and ACE Limited actuaries in addition to monitoring carried out by external consultants.

LIQUIDITY

Overall Liquidity: AEGL maintains a good level of liquidity in its investment portfolio, which comprises fixed interest securities (approximately 90% of total investments in 2010), cash and short-term deposits (4%), and equities and other variable yield securities.

SOURCE OF INFORMATION: Company Annual Report

Summarized Accounts as of December 31, 2010

US \$ per Local Currency Unit 1.54679 = 1 British Pound (GBP)

STATEMENT OF INCOME

	12/31/2010 GBP(000)	12/31/2010 USD(000)
Technical account:		
Direct premiums	1,821,779	2,817,910
Reinsurance premiums assumed	382,280	591,307
Gross premiums written	2,204,059	3,409,216
Reinsurance ceded	1,248,094	1,930,539
Net premiums written	955,965	1,478,677
Increase/(decrease) in gross unearned premiums	11,281	17,449
Reinsurers share unearned premiums	6,201	9,592
Net premiums earned	950,885	1,470,819
Total underwriting income	950,885	1,470,819
Net claims paid	516,814	799,403
Net increase/(decrease) in claims provision	55,511	85,864
Net claims incurred	572,325	885,267
Management expenses	190,952	295,363
Acquisition expenses	158,452	245,092
Net operating expenses	349,404	540,455
Total underwriting expenses	921,729	1,425,721
Balance on technical account	29,156	45,098
Non-technical account:		
Net investment income	88,108	136,285
Realised capital gains/(losses)	39,812	61,581
Unrealised capital gains/(losses)	48,753	75,411
Exchange gains/(losses)	1,356	2,097
Other income/(expense)	68	105
Profit/(loss) before tax	207,253	320,577
Taxation	43,958	67,994
Profit/(loss) after tax	163,295	252,583
Dividend to shareholders	75,000	116,009
Increase/(decrease) in the equalisation provision	12,192	18,858
Exceptional income/(expense)	-28,582	-44,210
Retained profit/(loss) for the financial year	47,521	73,505
Retained profit/(loss) brought forward	254,913	394,297
Retained profit/(loss) carried forward	302,434	467,802

MOVEMENT IN CAPITAL & SURPLUS

	12/31/2010 GBP(000)	12/31/2010 USD(000)
Capital & surplus brought forward	825,307	1,276,577
Currency exchange gains	-28,292	-43,762
Profit or loss for the year	151,103	233,725
Dividend to shareholders	-75,000	-116,009
Other changes	-290	-449
Total change in capital & surplus	47,521	73,505
Capital & surplus carried forward	872,828	1,350,082

Best's Rating Report



ASSETS

	12/31/2010 GBP(000)	12/31/2010 % of total	12/31/2010 USD(000)
Cash & deposits with credit institutions	160,573	2.7	248,373
Bonds & other fixed interest securities	2,436,812	40.9	3,769,236
Liquid assets	2,597,385	43.6	4,017,609
Real estate	646	0.0	999
Other investments	2,703	0.0	4,181
Total investments	2,600,734	43.7	4,022,789
Reins. sh. of tech. reserves - unearned premiums	345,656	5.8	534,657
Reinsurers' share of technical reserves - claims	2,076,199	34.9	3,211,444
Total reinsurers share of technical reserves	2,421,855	40.7	3,746,101
Deposits with ceding companies	14,237	0.2	22,022
Insurance/reinsurance debtors	623,483	10.5	964,397
Inter-company debtors	62,581	1.1	96,800
Other debtors	21,949	0.4	33,950
Total debtors	708,013	11.9	1,095,147
Fixed assets	4,828	0.1	7,468
Prepayments & accrued income	205,250	3.4	317,479
Other assets	671	0.0	1,038
Total assets	5,955,588	100.0	9,212,044

LIABILITIES

	12/31/2010 GBP(000)	12/31/2010 % of total	12/31/2010 USD(000)
Capital	544,741	9.1	842,600
Paid-up capital	544,741	9.1	842,600
Non-distributable reserves	25,653	0.4	39,680
Claims equalisation reserve	64,567	1.1	99,872
Retained earnings	302,434	5.1	467,802
Capital & surplus	937,395	15.7	1,449,953
Gross provision for unearned premiums	724,516	12.2	1,120,674
Gross provision for outstanding claims	3,710,670	62.3	5,739,627
Total gross technical reserves	4,435,186	74.5	6,860,301
Short term borrowings	24,423	0.4	37,777
External borrowings	24,423	0.4	37,777
Deposits received from reinsurers	4,083	0.1	6,316
Insurance/reinsurance creditors	296,194	5.0	458,150
Other creditors	69,130	1.2	106,930
Total creditors	365,324	6.1	565,080
Accruals & deferred income	78,637	1.3	121,635
Other liabilities	2,609	0.0	4,036
Segregated funds	107,931	1.8	166,947
Total liabilities & surplus	5,955,588	100.0	9,212,044

MANAGEMENT

AEGL benefits from the long standing service and technical expertise of its senior executive team. The company adopts prudent risk management principles in all of its business divisions and operates a dedicated European risk management function with risk reporting into the ACE group's enterprise risk management (ERM) board. In 2011, the company is expected to maintain a prudent and disciplined approach to underwriting and the management of operating expenses.

ANALYSIS OF GROSS PREMIUMS WRITTEN

	GBP (000)	GBP (000)	GBP (000)	GBP (000)	GBP (000)
	2010	2009	2008	2007	2006
Accident & health	390,333	392,703	354,328	324,895	295,539
Fire	672,896	633,479	530,337	504,744	525,695
Liability	508,123	518,388	477,802	490,112	549,582
Marine, aviation & trans	100,743	128,289	118,826	106,740	122,996
Other classes	149,684	126,573	112,306	111,916	108,728
Reinsurance	382,280	403,194	369,147	336,439	359,913
Total non-life	2,204,059	2,202,626	1,962,746	1,874,846	1,962,453

REINSURANCE

AEGL continues to benefit from significant group reinsurance support in 2011. Reinsurance protection is purchased for each individual product line and shared ACE group programmes cover catastrophe-exposed business. The majority of reinsurance recoverables (over 70% at year-end 2010) continue to be accounted for by a major affiliate which has an A.M. Best financial strength rating of 'A+'. External reinsurers are selected by a central reinsurance security committee (RSC), which approves maximum lines for each approved reinsurer. In the absence of collateral, the RSC only selects reinsurers with a minimum A.M. Best financial strength rating of 'A-'.

GEOGRAPHICAL DISTRIBUTION OF PREMIUMS WRITTEN

	GBP (000)	12/31/2010 % of total Gross	12/31/2010 % of total Gross	12/31/2009 % of total Gross
Other Africa	55,804	2.5	54,816	54,816
Total Africa	55,804	2.5	54,816	54,816
Other Asia	71,482	3.2	65,448	65,448
Total Asia	71,482	3.2	65,448	65,448
Other Europe	1,172,516	53.2	1,214,329	1,214,329
United Kingdom	668,521	30.3	617,839	617,839
Total Europe	1,841,037	83.5	1,832,168	1,832,168
United States	65,350	3.0	69,260	69,260
Total North America	65,350	3.0	69,260	69,260
Other Latin America	51,275	2.3	59,467	59,467
Total Latin America	51,275	2.3	59,467	59,467
Other World-Wide	119,111	5.4	121,467	121,467
Total	2,204,059	100.0	2,202,626	2,202,626

BALANCE SHEET ITEMS

	GBP (000)	GBP (000)	GBP (000)	GBP (000)	GBP (000)
	2010	2009	2008	2007	2006
Liquid assets	2,597,385	2,731,111	2,331,441	2,101,620	2,044,590
Total investments	2,600,734	2,733,622	2,338,517	2,107,612	2,052,855
Total assets	5,955,588	6,058,948	5,935,352	5,087,119	4,856,119
Gross technical reserves	4,435,186	4,372,775	4,486,414	3,756,090	3,448,469
Net technical reserves	2,013,331	1,976,034	1,944,922	1,598,318	1,463,979
Total liabilities	5,018,193	5,181,266	5,154,289	4,294,251	4,075,636
Capital & surplus	937,395	877,682	781,063	792,868	780,483

INCOME STATEMENT ITEMS

	GBP (000)	GBP (000)	GBP (000)	GBP (000)	GBP (000)
	2010	2009	2008	2007	2006
Gross premiums written	2,204,059	2,202,626	1,962,746	1,874,846	1,962,453
Net premiums written	955,965	937,201	787,566	752,150	779,788
Balance on technical account(s)	29,156	42,346	-11,540	34,722	123,785
Profit/(loss) before tax	207,253	254,735	-14,141	87,627	175,672
Profit/(loss) after tax	163,295	173,199	-23,145	67,101	109,873

LIQUIDITY RATIOS (%)

	2010	2009	2008	2007	2006
Total debtors to total assets	11.9	11.6	13.7	12.3	13.2
Liquid assets to net technical reserves	129.0	138.2	119.9	131.5	139.7
Liquid assets to total liabilities	51.8	52.7	45.2	48.9	50.2
Total investments to total liabilities	51.8	52.8	45.4	49.1	50.4

Best's Rating Report



LEVERAGE RATIOS (%)

	2010	2009	2008	2007	2006
Net premiums written to capital & surplus	102.0	106.8	100.8	94.9	99.9
Net technical reserves to capital & surplus	214.8	225.1	249.0	201.6	187.6
Gross premiums written to capital & surplus	235.1	251.0	251.3	236.5	251.4
Gross technical reserves to capital & surplus	473.1	498.2	574.4	473.7	441.8
Total debtors to capital & surplus	75.5	80.1	104.4	79.0	82.0
Total liabilities to capital & surplus	535.3	590.3	659.9	541.6	522.2

PROFITABILITY RATIOS (%)

	2010	2009	2008	2007	2006
Loss ratio	60.2	62.2	66.7	62.3	53.8
Operating expense ratio	36.5	33.1	34.8	33.6	31.3
Combined ratio	96.7	95.3	101.4	95.9	85.1
Net investment income ratio	9.3	10.8	12.8	11.5	9.7
Operating ratio	87.5	84.5	88.6	84.5	75.5
Return on net premiums written	17.1	18.5	-2.9	8.9	14.1
Return on total assets	2.2	1.6	1.2	1.8	2.4
Return on capital & surplus	14.8	11.6	8.7	11.4	14.2

Why is this *Best's*[®] Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of an insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by A.M. Best Europe - Rating Services Limited.

A Best's Financial Strength Rating is assigned after a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

Best's Financial Strength Ratings are assigned according to the following scale:

Secure Best's Financial Strength Ratings

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

Vulnerable Best's Financial Strength Ratings

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

For the latest **Best's Financial Strength Ratings** and *AMB Credit Reports* visit the A.M. Best web site at www.ambest.com. You may also obtain *AMB Credit Reports* by calling our Customer Service department at +1-908-439-2200, ext. 5742. To expedite your request, please provide the company's identification number (AMB #).