

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
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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 of ACE European Group Limited (AEGL) reflects the company's excellent stand alone risk-adjusted capitalisation and good anticipated technical performance, in addition to its strong business profile in the United Kingdom and continental Europe. AEGL's rating also factors its importance to its parent company, ACE Limited (ACE) (Zurich).

Excellent risk-adjusted capitalisation — AEGL is expected to maintain strong stand alone risk-adjusted capitalisation in 2010, supported by robust retained earnings. The company continues to be of strategic importance to its parent company, ACE Limited (ACE) (Zurich), as its main underwriting operation in the UK and Europe. In addition, AEGL benefits from significant reinsurance support from ACE group affiliates.

Good anticipated performance — The company is expected to achieve a good technical result in 2010, albeit reduced from the excellent GBP 42.3 million reported in 2009 due to deteriorating market conditions. In 2009, AEGL benefited from an improvement in pricing for certain lines of specialty business.

Strong business profile — AEGL has a strong 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 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
05/03/10	A+	10/16/06	A+
03/20/09	A+	08/16/05	A
12/13/07	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 continues to be strategically important to its ultimate parent company, ACE Limited (ACE), as its main underwriting operation in these markets. Its well diversified portfolio is underwritten as ACE branded business through three separate business divisions. Property and casualty business, accident and health (A&H) and specialty personal lines business is underwritten by the ACE Europe division. International specialty and global risks business is written by the ACE Global Markets (AGM) and ACE Tempest Re Europe (ATRe) divisions. Lines of business underwritten by AGM and ATRe are also written by Lloyd's Syndicate 2488 which operates in conjunction with AEGL and is managed by ACE Underwriting Agencies Ltd. AEGL's business is well-diversified by geographic territory. Continental Europe is expected to account for approximately 50% of gross premiums written in 2010 and approximately 30% of business is likely to be underwritten in the UK. Remaining business, predominantly AGM and ATRe branded business, is well spread across North America, Asia Pacific, Africa, the Middle East and other territories.

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ACE Europe underwrites property and casualty business through an extensive branch network in the UK, Ireland and continental Europe. 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 AEG's gross premiums written in 2010. Rating conditions for the company's A&H business remain competitive in 2010.

ACE Europe maintains an excellent profile in a broad range of commercial and specialty lines of business, which includes fire, casualty, marine, financial lines, energy and technical business. Rating conditions are weakening for the majority of these lines of business in 2010, including for the company's significant commercial portfolio. The company is expected to maintain rate discipline in 2010 and target only modest growth in certain specialty lines of business. ACE Europe is also expected to further develop its profile in Central and Eastern Europe. Approximately 80% of AEG's gross premiums written are expected to be written by the ACE Europe division in 2010.

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 AEG's gross premiums written in 2010.

FINANCIAL PERFORMANCE

Overall Earnings: AEGL is expected to report a good pre-tax profit in 2010, albeit lower than the excellent GBP 254.7 million achieved in 2009, partly due to deteriorating market conditions. Earnings in 2009 benefited from good rating conditions for certain lines of specialty business and a strong net investment yield, after taking into account net realised and unrealised gains.

Underwriting Income: AEGL is expected to achieve a good technical result in 2010, albeit reduced from the excellent GBP 42.3 million reported in 2009 as a result of rate weakening. The company's 2009 underwriting result was supported by a substantial net release from prior year reserves of GBP 41.7 million (2008: GBP 69.2 million). The net reserve release was primarily from AEG's third party liability and accident and health lines of business. On a net basis, the Haiti earthquake was the company's most significant loss event in the first quarter of 2010.

Investment Income: AEG's 2010 investment portfolio is likely to remain broadly unchanged from 2009, split between bonds and other fixed interest securities (approximately 90%), cash and deposits (approximately 10%) and equities and other variable yield securities. In 2009, a significant net unrealised gain of GBP 107 million contributed to a strong net investment yield of 8.6%, compared to a loss of 4% in 2008.

CAPITALIZATION

AEGL is expected to maintain excellent risk-adjusted capitalisation in 2010, 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 878 million at year-end 2009 (2008: GBP 781 million), benefiting from full retention of earnings.

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 41.7 million at year-end 2009 (2008: GBP 69.2 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 2009), cash and deposits (approximately 10%), and equities and other variable yield securities.

SOURCE OF INFORMATION: Company Annual Report

Summarized Accounts as of December 31, 2009 US \$ per Local Currency Unit 1.59257 = 1 British Pound (GBP)

STATEMENT OF INCOME

	12/31/2009 GBP(000)	12/31/2009 USD(000)
Technical account:		
Direct premiums	1,799,432	2,865,721
Reinsurance premiums assumed	403,194	642,115
Gross premiums written	2,202,626	3,507,836
Reinsurance ceded	1,265,425	2,015,278
Net premiums written	937,201	1,492,558
Increase/(decrease) in gross unearned premiums	41,035	65,351
Reinsurers share unearned premiums	36,704	58,454
Net premiums earned	932,870	1,485,661
Total underwriting income	932,870	1,485,661
Net claims paid	483,078	769,336
Net increase/(decrease) in claims provision	97,301	154,959
Net claims incurred	580,379	924,294
Management expenses	178,707	284,603
Acquisition expenses	131,438	209,324
Net operating expenses	310,145	493,928
Total underwriting expenses	890,524	1,418,222
Balance on technical account	42,346	67,439
Non-technical account:		
Net investment income	100,361	159,832
Realised capital gains/(losses)	11,818	18,821
Unrealised capital gains/(losses)	107,064	170,507
Exchange gains/(losses)	-7,326	-11,667
Other income/(expense)	472	752
Profit/(loss) before tax	254,735	405,683
Taxation	81,536	129,852
Profit/(loss) after tax	173,199	275,832
Transfer to reserves	76,581	121,961
Increase/(decrease) in the equalisation provision	-7,493	-11,933
Retained profit/(loss) for the financial year	104,111	165,804
Retained profit/(loss) brought forward	150,802	240,163
Retained profit/(loss) carried forward	254,913	405,967

MOVEMENT IN CAPITAL & SURPLUS

	12/31/2009 GBP(000)	12/31/2009 USD(000)
Capital & surplus brought forward	721,196	1,148,555
Currency exchange gains	-74,995	-119,435
Profit or loss for the year	180,692	287,765
Other changes	-1,586	-2,526
Total change in capital & surplus	104,111	165,804
Capital & surplus carried forward	825,307	1,314,359

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ASSETS

	12/31/2009 GBP(000)	12/31/2009 % of total	12/31/2009 USD(000)
Cash & deposits with credit institutions	333,314	5.5	530,826
Bonds & other fixed interest securities	2,397,584	39.6	3,818,320
Shares & other variable interest instruments	213	0.0	339
Liquid assets	2,731,111	45.1	4,349,485
Real estate	727	0.0	1,158
Other investments	1,784	0.0	2,841
Total investments	2,733,622	45.1	4,353,484
Reins. sh. of tech. reserves - unearned premiums	341,290	5.6	543,528
Reinsurers' share of technical reserves - claims	2,055,451	33.9	3,273,450
Total reinsurers share of technical reserves	2,396,741	39.6	3,816,978
Insurance/reinsurance debtors	636,188	10.5	1,013,174
Inter-company debtors	58,489	1.0	93,148
Other debtors	8,653	0.1	13,781
Total debtors	703,330	11.6	1,120,102
Fixed assets	5,842	0.1	9,304
Prepayments & accrued income	219,022	3.6	348,808
Other assets	391	0.0	623
Total assets	6,058,948	100.0	9,649,299

LIABILITIES

	12/31/2009 GBP(000)	12/31/2009 % of total	12/31/2009 USD(000)
Capital	544,741	9.0	867,538
Paid-up capital	544,741	9.0	867,538
Non-distributable reserves	25,653	0.4	40,854
Claims equalisation reserve	52,375	0.9	83,411
Retained earnings	254,913	4.2	405,967
Capital & surplus	877,682	14.5	1,397,770
Gross provision for unearned premiums	717,311	11.8	1,142,368
Gross provision for outstanding claims	3,655,464	60.3	5,821,582
Total gross technical reserves	4,372,775	72.2	6,963,950
Short term borrowings	11,860	0.2	18,888
External borrowings	11,860	0.2	18,888
Deposits received from reinsurers	3,736	0.1	5,950
Insurance/reinsurance creditors	309,761	5.1	493,316
Other creditors	118,762	2.0	189,137
Total creditors	428,523	7.1	682,453
Accruals & deferred income	84,108	1.4	133,948
Other liabilities	2,514	0.0	4,004
Segregated funds	277,750	4.6	442,336
Total liabilities & surplus	6,058,948	100.0	9,649,299

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. AEGL continues to benefit from support from ACE and from affiliate cessions. In 2010, the company is expected to maintain its prudent approach to rate adequacy and managing operating expenses.

ANALYSIS OF GROSS PREMIUMS WRITTEN

	GBP (000)	GBP (000)	GBP (000)	GBP (000)	GBP (000)
	2009	2008	2007	2006	2005
Accident & health	392,703	354,328	324,895	295,539	277,041
Fire	633,479	530,337	504,744	525,695	499,698
Liability	518,388	477,802	490,112	549,582	544,492
Marine, aviation & trans	128,289	118,826	106,740	122,996	99,092
Other classes	126,573	112,306	111,916	108,728	148,978
Reinsurance	403,194	369,147	336,439	359,913	318,681
Total non-life	2,202,626	1,962,746	1,874,846	1,962,453	1,887,982

REINSURANCE

AEGL continues to benefit from significant group reinsurance support in 2010. Reinsurance protection is purchased for each individual product line and shared ACE group programmes cover catastrophe-exposed business. The majority of reinsurance recoverables (almost 75% at year-end 2009) 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)	12/31/2009 % of total	12/31/2009 Gross	12/31/2008 Gross
Other Africa	54,816	2.5	54,816	45,627
Total Africa	54,816	2.5	54,816	45,627
Other Asia	65,448	3.0	65,448	52,850
Total Asia	65,448	3.0	65,448	52,850
Other Europe	1,214,329	55.1	1,214,329	1,100,348
United Kingdom	617,839	28.1	617,839	527,010
Total Europe	1,832,168	83.2	1,832,168	1,627,358
United States	69,260	3.1	69,260	69,769
Total North America	69,260	3.1	69,260	69,769
Other Latin America	59,467	2.7	59,467	46,354
Total Latin America	59,467	2.7	59,467	46,354
Other World-Wide	121,467	5.5	121,467	120,788
Total	2,202,626	100.0	2,202,626	1,962,746

BALANCE SHEET ITEMS

	GBP (000)	GBP (000)	GBP (000)	GBP (000)	GBP (000)
	2009	2008	2007	2006	2005
Liquid assets	2,731,111	2,331,441	2,101,620	2,044,590	1,822,326
Total investments	2,733,622	2,338,517	2,107,612	2,052,855	1,826,043
Total assets	6,058,948	5,935,352	5,087,119	4,856,119	4,332,288
Gross technical reserves	4,372,775	4,486,414	3,756,090	3,448,469	3,160,464
Net technical reserves	1,976,034	1,944,922	1,598,318	1,463,979	1,426,281
Total liabilities	5,181,266	5,154,289	4,294,251	4,075,636	3,560,601
Capital & surplus	877,682	781,063	792,868	780,483	771,687

INCOME STATEMENT ITEMS

	GBP (000)	GBP (000)	GBP (000)	GBP (000)	GBP (000)
	2009	2008	2007	2006	2005
Gross premiums written	2,202,626	1,962,746	1,874,846	1,962,453	1,887,982
Net premiums written	937,201	787,566	752,150	779,788	846,614
Balance on technical account(s)	42,346	-11,540	34,722	123,785	148,260
Profit/(loss) before tax	254,735	-14,141	87,627	175,672	242,648
Profit/(loss) after tax	173,199	-23,145	67,101	109,873	164,835

LIQUIDITY RATIOS (%)

	2009	2008	2007	2006	2005
Total debtors to total assets	11.6	13.7	12.3	13.2	14.3
Liquid assets to net technical reserves	138.2	119.9	131.5	139.7	127.8
Liquid assets to total liabilities	52.7	45.2	48.9	50.2	51.2
Total investments to total liabilities	52.8	45.4	49.1	50.4	51.3

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LEVERAGE RATIOS (%)

	2009	2008	2007	2006	2005
Net premiums written to capital & surplus	106.8	100.8	94.9	99.9	109.7
Net technical reserves to capital & surplus	225.1	249.0	201.6	187.6	184.8
Gross premiums written to capital & surplus	251.0	251.3	236.5	251.4	244.7
Gross technical reserves to capital & surplus	498.2	574.4	473.7	441.8	409.6
Total debtors to capital & surplus	80.1	104.4	79.0	82.0	80.0
Total liabilities to capital & surplus	590.3	659.9	541.6	522.2	461.4

PROFITABILITY RATIOS (%)

	2009	2008	2007	2006	2005
Loss ratio	62.2	66.7	62.3	53.8	53.7
Operating expense ratio	33.1	34.8	33.6	31.3	29.5
Combined ratio	95.3	101.4	95.9	85.1	83.1
Net investment income ratio	10.8	12.8	11.5	9.7	8.5
Operating ratio	84.5	88.6	84.5	75.5	74.7
Return on net premiums written	18.5	-2.9	8.9	14.1	19.5
Return on total assets	2.9	-0.4	1.3	2.4	6.3
Return on capital & surplus	20.9	-2.9	8.5	14.2	34.3

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 Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract 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 the 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 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 the A.M. Best Company.

A Best's Rating is assigned after an extensive quantitative and qualitative valuation of a company's financial strength, operating performance and market profile.

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

Secure Best's Ratings

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

Vulnerable Best's 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

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