ACE LTD

FORM 10-K
(Annual Report)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the Transition Period from to

Commission File No. 1-11778

ACE LIMITED

(Exact name of registrant as specified in its charter)

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

Baerengasse 32

Zurich, Switzerland CH-8001

(Address of principal executive offices) (Zip Code)

+41 (0)43 456 76 00

(Registrant's telephone number, including area code)

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO ☐

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

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

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

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

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

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

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

Documents Incorporated by Reference

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

ACE LIMITED INDEX TO 10-K

PART I

ITEM 1. Business

General

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

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

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

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

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

Customers

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

Competition

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

Trademarks and Trade Names

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

Segment Information

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

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

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

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

Overview

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

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

Products and Distribution

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

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

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

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

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

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

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

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

Competitive Environment

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

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

Overview

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

Products and Distribution

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

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

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

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

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

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

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

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

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

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

Global Reinsurance (6 percent of 2014 Consolidated NPE)

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

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

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

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

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

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

Competitive Environment

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

Life (11 percent of 2014 Consolidated NPE)

Overview

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

Products and Distribution

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

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

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

Competitive Environment

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

Underwriting

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

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

Reinsurance Protection

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

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

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

Unpaid Losses and Loss Expenses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Analysis of Losses and Loss Expenses Development

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

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

Reconciliation of Unpaid Losses and Loss Expenses

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

Investments

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

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

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

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

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

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

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

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

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

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

Regulation

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

Group Supervision

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

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

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

Swiss Operations

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

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

U.S. Operations

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

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

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

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

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

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

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

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

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

Bermuda Operations

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

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

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

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

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

Other International Operations

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

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

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

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

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

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

Enterprise Risk Management

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

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

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

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

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

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

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

Tax Matters

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

EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

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

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

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

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

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

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

ITEM 1A. Risk Factors

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

Insurance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial

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

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

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

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

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

We may require additional capital or financing sources in the future, which may not be available or may be available only on unfavorable terms.

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

We may be required to post additional collateral because of changes in our reinsurance liabilities to regulated insurance companies, or because of regulatory changes that affect our companies.

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

U.S. and global economic and financial industry events and their consequences could harm our business, our liquidity and financial condition, and our stock price.

The consequences of adverse global or regional market and economic conditions may affect (among other aspects of our business) the demand for and claims made under our products, the ability of customers, counterparties, and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources, the availability of reinsurance protection, the risks we assume under reinsurance programs covering variable annuity guarantees, and our investment performance. Volatility in the U.S. and other securities markets may adversely affect our stock price.

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

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

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

Operational

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Strategic

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

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

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

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

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

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

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

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

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

Shareholders

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

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

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

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

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

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

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

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

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

As a result of the increase in par value of our shares that occurred in connection with our redomestication from the Cayman Islands to Switzerland in July 2008, we have less flexibility with respect to certain aspects of capital management than previously.

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

Shareholders may be subject to Swiss withholding taxes on the payment of dividends.

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

Under certain circumstances, U. S. shareholders may be subject to adverse U.S. federal income tax consequences.

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

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

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

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

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

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

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

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

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

ITEM 4. Mine Safety Disclosures
Item not applicable.

PART II

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

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

Quarterly Stock Information

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

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

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

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

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

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

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

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

Issuer's Repurchases of Equity Securities

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

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

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

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

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

Performance Graph

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

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

ITEM 6. Selected Financial Data

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

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

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

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

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

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

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our results of operations, financial condition, and liquidity and capital resources as of and for the year ended December 31, 2014 . This discussion should be read in conjunction with the consolidated financial statements and related Notes, under Item 8 of this Form 10-K.

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

Forward-Looking Statements

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

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

- uncertainties relating to governmental, legislative and regulatory policies, developments, actions, investigations, and treaties, which, among other things, could subject us to insurance regulation or taxation in additional jurisdictions or affect our current operations;
- the actual amount of new and renewal business, market acceptance of our products, and risks associated with the introduction of new products and services and entering new markets, including regulatory constraints on exit strategies;
- the competitive environment in which we operate, including trends in pricing or in policy terms and conditions, which may differ from our projections and changes in market conditions that could render our business strategies ineffective or obsolete;
- acquisitions made by us performing differently than expected, our failure to realize anticipated expense-related efficiencies or growth from acquisitions, the impact of acquisitions on our pre-existing organization, or announced acquisitions not closing;
- risks associated with being a Swiss corporation, including reduced flexibility with respect to certain aspects of capital management and the potential for additional regulatory burdens;
- the potential impact from government-mandated insurance coverage for acts of terrorism;
- the availability of borrowings and letters of credit under our credit facilities;
- the adequacy of collateral supporting funded high deductible programs;
- changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers;
- material differences between actual and expected assessments for guaranty funds and mandatory pooling arrangements;
- the effects of investigations into market practices in the property and casualty (P&C) industry;
- changing rates of inflation and other economic conditions, for example, recession;
- the amount of dividends received from subsidiaries;
- loss of the services of any of our executive officers without suitable replacements being recruited in a reasonable time frame;
- the ability of our technology resources, including information systems and security, to perform as anticipated such as with respect to preventing material information technology failures or third-party infiltrations or hacking resulting in consequences adverse to ACE or its customers or partners; and
- management’s response to these factors and actual events (including, but not limited to, those described above).

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

Overview

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

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

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

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

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

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

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

Financial Highlights for the Year Ended December 31, 2014

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

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

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

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

Critical Accounting Estimates

Our consolidated financial statements include amounts that, either by their nature or due to requirements of generally accepted accounting principles in the U.S. (GAAP), are determined using best estimates and assumptions. While we believe that the amounts included in our consolidated financial statements reflect our best judgment, actual amounts could ultimately materially differ from those currently presented. We believe the items that require the most subjective and complex estimates are:

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

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

Unpaid losses and loss expenses

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

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

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

(1) Net of provision for uncollectible reinsurance.

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

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

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

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

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

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

Determining management's best estimate

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

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

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

Management does not build in any specific provision for uncertainty.

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

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

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

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

Standard actuarial reserving methods

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

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

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

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

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

Short-tail and long-tail business

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

Short-tail business

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

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

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

Long-tail business

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

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

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

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

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

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

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

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

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

Sensitivity to underlying assumptions

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

Insurance – North American P&C

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Asbestos and environmental reserves

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

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

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

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

Future policy benefits reserves

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

Valuation of value of business acquired (VOBA) and amortization of deferred policy acquisition costs and VOBA

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

Risk transfer

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

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

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

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

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

Reinsurance recoverable

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assumed reinsurance programs involving minimum benefit guarantees under variable annuity contracts

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

Guaranteed living benefits (GLB) derivatives

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

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

Determination of GLB fair value

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

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

Determination of GLB and Guaranteed minimum death benefits (GMDB) benefit reserves

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

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

Risk Management

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

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

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

(1) ACE would only pay total annual claims in excess of deductibles.

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

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

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

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

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

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

Collateral

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

Goodwill impairment

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

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

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

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

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

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

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

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

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

NM – not meaningful

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

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

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

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

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

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

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

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

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

In evaluating our segments excluding Life, we use the combined ratio, the loss and loss expense ratio, the policy acquisition cost ratio, and the administrative expense ratio. We calculate these ratios by dividing the respective expense amounts by net premiums earned. We do not calculate these ratios for the Life segment as we do not use these measures to monitor or manage that segment. The combined ratio is determined by adding the loss and loss expense ratio, the policy acquisition cost ratio, and the administrative expense ratio. A combined ratio under 100 percent indicates underwriting income and a combined ratio exceeding 100 percent indicates underwriting loss.

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

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

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

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

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

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

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

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

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

Prior Period Development

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

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

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

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

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

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

Insurance – North American

Insurance – North American P&C

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

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

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

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

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

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

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

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

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

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

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

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

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

Insurance – North American Agriculture

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

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

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

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

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

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

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

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

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

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

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

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

Insurance – Overseas General

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Global Reinsurance

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

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

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

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

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

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

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

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

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

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

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

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

Life

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

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

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

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

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

[1] Includes the North American supplemental A&H and life business of Combined Insurance

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

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

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

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

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

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

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

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

Net Investment Income

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

Net investment income is influenced by a number of factors including the amounts and timing of inward and outward cash flows, the level of interest rates, and changes in overall asset allocation. Net investment income increased 5.1 percent in 2014 compared with 2013 primarily due to a higher overall invested asset base and call activity in our corporate bond portfolio, partially offset by the negative impact of foreign exchange. Net investment income decreased 1.7 percent in 2013 compared with 2012 primarily due to lower reinvestment rates in our fixed income portfolio, offset by a higher overall invested asset base.

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

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

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

The following table shows the return on average invested assets:

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

Net Realized and Unrealized Gains (Losses)

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

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

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

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

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

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

Other Income and Expense Items

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

Investments

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

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

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

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

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

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

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

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

Corporate and asset-backed securities

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

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

Mortgage-backed securities

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

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

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

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

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

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

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

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

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

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

Below-investment grade corporate fixed income portfolio

Below-investment grade securities have different characteristics than investment grade corporate debt securities. Risk of loss from default by the borrower is greater with below-investment grade securities. Below-investment grade securities are generally unsecured and are often subordinated to other creditors of the issuer. Also, issuers of below-investment grade securities usually have higher levels of debt and are more sensitive to adverse economic conditions, such as recession or increasing interest rates, than investment grade issuers. At December 31, 2014 , our corporate fixed income investment portfolio included below-investment grade and non-rated securities which, in total, comprised approximately 13 percent of our fixed income portfolio. Our below-investment grade and non-rated portfolio includes over 1,200 issuers, with the greatest single exposure being $96 million.

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

Reinsurance Recoverable on Ceded Reinsurance

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

(1) Net of a provision for uncollectible reinsurance.

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

Asbestos and Environmental (A&E)

Asbestos and environmental (A&E) reserving considerations

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

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

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

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

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

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

Catastrophe Management

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

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

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

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

Natural Catastrophe Property Reinsurance Program

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

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

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

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

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

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

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

Political Risk, Trade Credit, and Structured Trade Credit

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

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

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

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

Crop Insurance

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

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

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

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

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

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

Liquidity

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

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

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

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

The payment of dividends or other statutorily permissible distributions from our operating companies are subject to the laws and regulations applicable to each jurisdiction, as well as the need to maintain capital levels adequate to support the insurance and reinsurance operations, including financial strength ratings issued by independent rating agencies. During 2014 , we were able to meet all of our obligations, including the payments of dividends on our Common Shares, with our net cash flows.

We assess which subsidiaries to draw dividends from based on a number of factors. Considerations such as regulatory and legal restrictions as well as the subsidiary's financial condition are paramount to the dividend decision. ACE Limited received dividends of $ 300 million and $825 million from its Bermuda subsidiaries in 2014 and 2013 , respectively.

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

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

Cash Flows

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

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

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

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

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

Both internal and external forces influence our financial condition, results of operations, and cash flows. Claim settlements, premium levels, and investment returns may be impacted by changing rates of inflation and other economic conditions. In many cases, significant periods of time, ranging up to several years or more, may lapse between the occurrence of an insured loss, the reporting of the loss to us, and the settlement of the liability for that loss.

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

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

Capital Resources

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

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

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

We believe our financial strength provides us with the flexibility and capacity to obtain available funds externally through debt or equity financing on both a short-term and long-term basis. Our ability to access the capital markets is dependent on, among other things, market conditions and our perceived financial strength. We have accessed both the debt and equity markets from time to time. We generally maintain the ability to issue certain classes of debt and equity securities via an unlimited SEC shelf registration which is renewed every three years. This allows us capital market access for refinancing as well as for unforeseen or opportunistic capital needs. Our current shelf registration on file with the SEC expires in December 2017.

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

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

Common Shares

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

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

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

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

Contractual Obligations and Commitments

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

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

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

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

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

The above table excludes the following items:

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

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

Estimated gross loss payments under insurance and reinsurance contracts

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

Estimated payments for future policy benefits

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

Credit Facilities

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

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

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

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

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

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

(ii) Maintenance of a maximum debt to total capitalization ratio of not greater than 0.35 to 1. Under this covenant, debt does not include trust preferred securities or mezzanine equity, except where the ratio of the sum of trust preferred securities and mezzanine equity to total capitalization is greater than 15 percent. In this circumstance, the amount greater than 15 percent would be included in the debt to total capitalization ratio.

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

Our failure to comply with the covenants under any credit facility would, subject to grace periods in the case of certain covenants, result in an event of default. This could require us to repay any outstanding borrowings or to cash collateralize LOCs under such facility. Our failure to repay material financial obligations, as well as our failure with respect to certain other events expressly identified, would result in an event of default under the facility.

Ratings

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

Financial strength ratings reflect the rating agencies' opinions of a company's claims paying ability. Independent ratings are one of the important factors that establish our competitive position in the insurance markets. The rating agencies consider many factors in determining the financial strength rating of an insurance company, including the relative level of statutory surplus necessary to support the business operations of the company. These ratings are based upon factors relevant to policyholders, agents, and intermediaries and are not directed toward the protection of investors. Such ratings are not recommendations to buy, sell, or hold securities.

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

It is possible that, in the future, one or more of the rating agencies may reduce our existing ratings. If one or more of our ratings were downgraded, we could incur higher borrowing costs, and our ability to access the capital markets could be impacted. In addition, our insurance and reinsurance operations could be adversely impacted by a downgrade in our financial strength ratings, including a possible reduction in demand for our products in certain markets. Also, we have insurance and reinsurance contracts which contain rating triggers. In the event the S&P or A.M. Best financial strength ratings of ACE fall, we may be faced with the cancellation of premium or be required to post collateral on our underlying obligation associated with this premium. We estimate that at December 31, 2014 , a one-notch downgrade of our S&P or A.M. Best financial strength ratings would result in an immaterial loss of premium or requirement for collateral to be posted.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Sensitive Instruments and Risk Management

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

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

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

Interest rate risk – fixed income portfolio and debt obligations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Variable Annuity Net Amount at Risk

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

a) Reinsurance covering the GMDB risk only

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

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

some impact due to a small portion of the GMDB reinsurance under which claims are positively correlated to equity markets (claims decrease as equity markets fall).

b) Reinsurance covering the GLB risk only

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

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

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

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

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

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

ITEM 8. Financial Statements and Supplementary Data
The financial statements and supplementary data are included in this Form 10-K commencing on page F-1.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

ITEM 9A. Controls and Procedures
ACE’s management, with the participation of ACE’s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of ACE’s disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 as of December 31, 2014 . Based upon that evaluation, ACE’s Chief Executive Officer and Chief Financial Officer concluded that ACE’s disclosure controls and procedures are effective in allowing information required to be disclosed in reports filed under the Securities and Exchange Act of 1934 to be recorded, processed, summarized, and reported within time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to ACE’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In accordance with the SEC's published guidance, the disclosure controls and procedures of the large corporate account P&C business of Itaú Seguros, S.A. (Itaú Seguros), which was acquired on October 31, 2014, was excluded from our evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2014 . As of and for the year ended December 31, 2014 , Itaú Seguros' assets represented approximately three percent of consolidated assets, revenues represented less than one percent of consolidated revenues, and net income represented less than one percent of consolidated net income.

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

ITEM 9B. Other Information
None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

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

Code of Ethics

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

ITEM 11. Executive Compensation

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

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

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

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

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

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

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

ITEM 13. Certain Relationships and Related Transactions and Director Independence

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

ITEM 14. Principal Accounting Fees and Services

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

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) Financial Statements, Schedules, and Exhibits

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

3. Exhibits

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

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

10.11*	ACE Limited Executive Severance Plan as amended effective May 18, 2011	10-K	10.21	February 24, 2012

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

10.32*	ACE USA Supplemental Employee Retirement Savings Plan (as amended through the Third Amendment)	10-K	10.31	March 1, 2007

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

10.52*	Form of Non-Qualified Stock Option Terms under the ACE Limited 2004 Long-Term Incentive Plan	8-K	10.5	September 13, 2004

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

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

* Management Contract or Compensation Plan

SIGNATURES

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

ACE LIMITED

By: /s/ Philip V. Bancroft
Philip V. Bancroft
Chief Financial Officer

February 27, 2015

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

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

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

ACE LIMITED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

ACE Limited
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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) (includes hybrid financial instruments of $274 and $302)	**$**	**49,395**	$	49,254
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

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

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:

(i) 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

(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 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.

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 2014		December 31 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

(in millions of U.S. dollars)	**December 31 2014**	December 31 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)**

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:

(in millions of U.S. dollars)	Year Ended December 31 **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):

	Assets						Liabilities	
	Available-for-Sale Debt Securities							
Year Ended December 31, 2014 (in millions of U.S. dollars)	**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

	Available-for-Sale Debt Securities					Assets	Liabilities
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. 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.

	Available-for-Sale Debt Securities						Assets		Liabilities
Year Ended December 31, 2012 (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	$ 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	
(in millions of U.S. dollars)		Level 1	Level 2	Level 3	Total	Carrying 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
Berkshire Hathaway Insurance Group
Everest Re Group
HDI Group (Hanover Re)
IRB Brasil Resseguros S.A. Group
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 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.

(in millions of U.S. dollars)	Years Ended December 31 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)		Net amount at risk				
Reinsurance covering		2014	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:

    - Favorab le 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:

	Years Ended December 31			January 1, 2015 through
(in millions of U.S. dollars, except share data)	**2014**	2013	2012	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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

ACE Limited and Subsidiaries

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:

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

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

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.

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

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

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 $20)	**—**	**—**	**(766)**	**—**	**(766)**
Capital contribution	**—**	**(258)**	**—**	**258**	**—**
Other	**—**	**(8)**	**(266)**	**—**	**(274)**
Net cash flows used for investing activities	**—**	**(429)**	**(2,333)**	**258**	**(2,504)**
Cash flows from financing activities					
Dividends paid on Common Shares	**(862)**	**—**	**—**	**—**	**(862)**
Common Shares repurchased	**—**	**—**	**(1,429)**	**—**	**(1,429)**
Proceeds from issuance of long-term debt	**—**	**699**	**—**	**—**	**699**
Proceeds from issuance of short-term debt	**—**	**—**	**1,978**	**—**	**1,978**
Repayment of long-term debt	**—**	**(500)**	**(1)**	**—**	**(501)**
Repayment of short-term debt	**—**	**—**	**(1,977)**	**—**	**(1,977)**
Proceeds from share-based compensation plans, including windfall tax benefits	**—**	**—**	**127**	**—**	**127**
Advances (to) from affiliates	**260**	**(298)**	**38**	**—**	**—**
Dividends to parent company	**—**	**—**	**(674)**	**674**	**—**
Capital contribution	**—**	**—**	**258**	**(258)**	**—**
Net proceeds from affiliated notional cash pooling programs [(1)]	**61**	**309**	**—**	**(370)**	**—**
Other	**—**	**(6)**	**194**	**—**	**188**
Net cash flows (used for) from financing activities	**(541)**	**204**	**(1,486)**	**46**	**(1,777)**
Effect of foreign currency rate changes on cash and cash equivalents	**—**	**—**	**(139)**	**—**	**(139)**
Net (decrease) increase in cash	**—**	**(15)**	**461**	**(370)**	**76**
Cash – beginning of year [(1)]	**—**	**16**	**748**	**(185)**	**579**
Cash – end of year [(1)]	**$ —**	**$ 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.

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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)
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
Effect 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.

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.

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

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)

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

SCHEDULE II (continued)

ACE Limited and Subsidiaries

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF CASH FLOWS (Parent Company Only)

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

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%

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

For Awards for Swiss Executive Management

Restricted Stock Award Terms
under the
ACE Limited 2004 Long-Term Incentive Plan

The Participant has been granted a Restricted Stock Award by ACE Limited (the "Company") under the ACE Limited 2004 Long-Term Incentive Plan (the "Plan"). The Restricted Stock Award shall be subject to the following Restricted Stock Award Terms:

1. Terms of Award . The following words and phrases used in these Restricted Stock Award Terms shall have the meanings set forth in this paragraph 1:

(a) The "Participant" is the individual recipient of the Restricted Stock Award on the specified Grant Date.

(b) The "Grant Date" is (**Insert Date**).

(c) The number of "Covered Shares" shall be that number of shares of Stock awarded to the Participant on the Grant Date as reflected in the corporate records and shown in the Record-Keeping System in the Participant's individual account records.

Other words and phrases used in these Restricted Stock Award Terms are defined pursuant to paragraph 9 or elsewhere in these Restricted Stock Award Terms.

2. Restricted Period . Subject to the limitations of these Restricted Stock Award Terms, the "Restricted Period" for each Installment of Covered Shares of the Restricted Stock Award shall begin on the Grant Date and end as described in the following schedule (but only if the Date of Termination has not occurred before the end of the Restricted Period):

INSTALLMENT	**RESTRICTED PERIOD WILL END ON** :
1/4 of Covered Shares	One-year anniversary of the Grant Date
1/4 of Covered Shares	Two-year anniversary of the Grant Date
1/4 of Covered Shares	Three-year anniversary of the Grant Date
1/4 of Covered Shares	Four-year anniversary of the Grant Date

The Restricted Period shall end prior to the date specified in the foregoing schedule to the extent set forth below:

(a) For Installments as to which the Restricted Period has not ended prior to the Date of Termination, the Restricted Period for such Installments shall end upon the Participant's Date of Termination, if the Date of Termination occurs by reason of the Participant's death.

(b) For Installments as to which the Restricted Period has not ended prior to the Date of Termination, the Restricted Period for such Installments shall end upon the Participant's Date of Termination, if the Date of Termination occurs by reason of the Participant's Long-Term Disability.

(c) For Installments as to which the Restricted Period has not ended prior to the Date of Termination, if the Date of Termination occurs by reason of the Participant's Qualifying Termination, vesting shall continue pursuant to the Vesting Schedule following the Date of Termination as though the Participant continued to be employed through the two-year anniversary of the Participant's Date of Termination, subject to the Participant not engaging in any Competitive Activity during such two-year period and subject to the Participant signing and not revoking a general release and waiver of all claims against the Company and such release becoming effective no later than the sixty-day anniversary of the Date of Termination. If such release is not effective within such sixty-day period or in the event that the Participant engages in a Competitive Activity prior to the last day of the Restricted Period for any Installment, the Participant shall immediately forfeit any unvested Installments.

(d) If the Participant's Date of Termination is a Change in Control Date of Termination, then, for Installments, if any, as to which the Restricted Period has not ended prior to the Participant's Date of Termination, the Restricted Period will end on the Change in Control Date of Termination; provided that if the Participant's Change in Control Date of

Termination occurs within the 180-day period immediately preceding the date of a Change in Control, then the Restricted Period for all unvested Installments held by the Participant on the Date of Termination will end, and those Installments will vest on the date of a Change in Control.

3. Transfer and Forfeiture of Shares . Except as otherwise determined by the Committee in its sole discretion and subject to subparagraphs 2(c) and 2(d), the Participant shall forfeit the Installments of the Covered Shares as of the Participant's Date of Termination, if such Date of Termination occurs prior to the end of the Restricted Period which applies to those Installments. If the Participant's Date of Termination has not occurred prior to the last day of the Restricted Period with respect to any Installment of the Covered Shares, then, at the end of such Restricted Period, that Installment of Covered Shares shall be transferred to the Participant free of all restrictions.

4. Withholding . All deliveries and distributions under these Restricted Stock Award Terms are subject to withholding of all applicable taxes. At the election of the Participant, and subject to such rules and limitations as may be established by the Committee from time to time, such withholding obligations may be satisfied through the surrender of shares of Stock which the Participant already owns, or to which the Participant is otherwise entitled under the Plan; provided, however, that such shares may be used to satisfy not more than the Company's minimum statutory withholding obligation (based on minimum statutory withholding rates for Federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income).

5. Transferability . Except as otherwise provided by the Committee, the Restricted Stock Award may not be sold, assigned, transferred, pledged or otherwise encumbered during the Restricted Period.

6. Dividends . The Participant shall not be prevented from receiving dividends and distributions paid on the Covered Shares of Restricted Stock merely because those shares are subject to the restrictions imposed by these Restricted Stock Award Terms and the Plan; provided, however, that no dividends or distributions shall be payable to or for the benefit of the Participant with respect to record dates for such dividends or distributions for any Covered Shares occurring on or after the date, if any, on which the Participant has forfeited those shares.

7. Voting . The Participant shall not be prevented from voting the Restricted Stock Award merely because those shares are subject to the restrictions imposed by these Restricted Stock Award Terms and the Plan; provided, however, that the Participant shall not be entitled to vote Covered Shares with respect to record dates for any Covered Shares occurring on or after the date, if any, on which the Participant has forfeited those shares.

8. Deposit of Restricted Stock Award . Each certificate issued in respect of the Covered Shares awarded under these Restricted Stock Award Terms shall be registered in the name of the Participant and shall be deposited in a bank designated by the Committee.

9. Definitions . For purposes of these Restricted Stock Award Terms, words and phrases shall be defined as follows:

(a) Cause . The term "Cause" shall mean - unless otherwise defined in an employment agreement between the Participant and the Company or Subsidiary - the occurrence of any of the following:

(i) a conviction of the Participant with respect to a (x) felony or (y) a misdemeanor involving moral turpitude; or

(ii) willful misconduct or gross negligence by the Participant resulting, in either case, in harm to the Company or any Subsidiary; or

(iii) failure by the Participant to carry out the lawful and reasonable directions of the Board or the Participant's immediate supervisor, as the case may be; or

(iv) refusal to cooperate or non-cooperation by the Participant with any governmental regulatory authority; or

(v) fraud, embezzlement, theft or dishonesty by the Participant against the Company or any Subsidiary or a material violation by the Participant of a policy or procedure of the Company, resulting, in any case, in harm to the Company or any Subsidiary.

(b) Change in Control . The term "Change in Control" shall be defined as set forth in the Plan.

(c) Change in Control Date of Termination . The term “Change in Control Date of Termination” means the Participant’s Date of Termination that occurs because the Company and/or any of the Related Companies terminates the Participant’s employment with the Company and/or the Related Companies without Cause (other than due to death, a Long-Term Disability or a retirement) or because the Participant terminates his or her employment for Good Reason, provided that such termination in accordance with this subparagraph (9)(c) occurs during the period commencing on the 180th day immediately preceding a Change in Control date and ending on the two year anniversary of such Change in Control date.

(d) Competitive Activity . The term “Competitive Activity” means the Participant’s: (i) engagement in an activity - whether as an employee, consultant, principal, member, agent, officer, director, partner or shareholder (except as a less than 1% shareholder of a publicly traded company) - that is competitive with any business of the Company or any Subsidiary conducted by the Company or such Subsidiary during the Participant’s employment with the Company or the two-year period following the Date of Termination; (ii) solicitation of any client and/or customer of the Company or any affiliate with respect to an activity prohibited by subparagraph (c)(i); (iii) solicitation or employment of any employee of the Company or any affiliate for the purpose of causing such employee to terminate his or her employment with the Company or such affiliate; or (iv) failure to keep confidential all Company trade secrets, proprietary and confidential information.

(e) Date of Termination . A Participant’s “Date of Termination” means, with respect to an employee, the date on which the Participant’s employment with the Company and Related Companies terminates for any reason, and with respect to a Director, the date immediately following the last day on which the Participant serves as a Director; provided that a Date of Termination shall not be deemed to occur by reason of a Participant’s transfer of employment between the Company and a Related Company or between two Related Companies; further provided that a Date of Termination shall not be deemed to occur by reason of a Participant’s cessation of service as a Director if immediately following such cessation of service the Participant becomes or continues to be employed by the Company or a Related Company, nor by reason of a Participant’s termination of employment with the Company or a Related Company if immediately following such termination of employment the Participant becomes or continues to be a Director; and further provided that a Participant’s employment shall not be considered terminated while the Participant is on a leave of absence from the Company or a Related Company approved by the Participant’s employer.

(f) Director . The term “Director” means a member of the Board, who may or may not be an employee of the Company or a Related Company.

(g) Forfeiture Payment . The term “Forfeiture Payment” means the pre-tax proceeds from sales or other transfers, if any, of the number of shares of Stock that became vested on the Date of Termination or during the Restrictive Covenant Period pursuant to this Agreement and that the Participant has sold or otherwise transferred prior to the date of repayment required pursuant to subparagraph 15(b). For purposes of this definition, pre-tax proceeds for any shares of Stock that were transferred by the Participant in a transaction other than a sale on the New York Stock Exchange means the Fair Market Value of such shares on the New York Stock Exchange as of the date of such transaction.

(h) Forfeiture Shares . The term “Forfeiture Shares” means the number of shares of Stock that became vested on the Date of Termination or during the Restrictive Covenant Period pursuant to this Agreement and that remain held by the Participant as of the date of repayment required pursuant to subparagraph 15(b). It is the Participant’s responsibility to ensure that the shares of Stock delivered as Forfeiture Shares are the shares of Stock delivered previously pursuant to this Agreement. In the absence of Company records or written documentation from Participant’s broker demonstrating this fact, the Participant must deliver to the Company the Forfeiture Payment determined as of the date that such shares of Stock delivered pursuant to this Agreement are transferred from Participant’s stock account or otherwise become indistinguishable from other shares of Stock that the Participant may hold.

(i) Good Reason . The term “Good Reason” shall mean - unless otherwise defined in an in-force employment agreement between the Participant and the Company or Subsidiary - the occurrence of any of the following within the 60-day period preceding a Date of Termination without the Participant’s prior written consent:

(i) a material adverse diminution of the Participant’s titles, authority, duties or responsibilities, or the assignment to the Participant of titles, authority, duties or responsibilities that are materially inconsistent with his or her titles, authority, duties and/or responsibilities in a manner materially adverse to the Participant; or

(ii) a reduction in the Participant's base salary or annual bonus opportunity (other than any reduction applicable to all similarly situated Executives generally); or

(iii) a failure of the Company to obtain the assumption in writing of its obligations under the Plan by any successor to all or substantially all of the assets of the Company within 45 days after a merger, consolidation, sale or similar transaction that qualifies as a Change in Control.

(j) Long-Term Disability . A Participant shall be considered to have a "Long-Term Disability" if the Participant is determined to be eligible for long-term disability benefits under the long-term disability plan in which the Participant participates and which is sponsored by the Company or a Related Company; or if the Participant does not participate in a long-term disability plan sponsored by the Company or a Related Company, then the Participant shall be considered to have a "Long-Term Disability" if the Committee determines, under standards comparable to those of the Company's long-term disability plan, that the Participant would be eligible for long-term disability benefits if he or she participated in such plan.

(k) Plan Definitions . Except where the context clearly implies or indicates the contrary, a word, term, or phrase used in the Plan is similarly used in these Restricted Stock Award Terms.

(l) Qualifying Termination . The term "Qualifying Termination" means the Participant's Date of Termination that occurs because the Company and/or any of the Related Companies terminates the Participant's employment with the Company and/or the Related Companies without Cause. For the avoidance of doubt, the termination of the Participant's employment due to death or Long-Term Disability, or a voluntary termination of the Participant's employment by the Participant for any reason (including Good Reason or retirement) shall not constitute a Qualifying Termination for purposes of this Agreement.

(m) Restrictive Covenant Period . The term "Restrictive Covenant Period" means the twenty-four month period following a Date of Termination due to a Qualifying Termination.

10. Heirs and Successors . These Restricted Stock Award Terms shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business. If any benefits deliverable to the Participant under these Restricted Stock Award Terms have not been delivered at the time of the Participant's death, such benefits shall be delivered to the Designated Beneficiary, in accordance with the provisions of these Restricted Stock Award Terms and the Plan. The "Designated Beneficiary" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form and at such time as the Committee shall require. If a deceased Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any rights that would have been exercisable by the Participant and any benefits distributable to the Participant shall be distributed to the legal representative of the estate of the Participant. If a deceased Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the complete distribution of benefits to the Designated Beneficiary under these Restricted Stock Award Terms, then any benefits distributable to the Designated Beneficiary shall be distributed to the legal representative of the estate of the Designated Beneficiary.

11. Administration . The authority to manage and control the operation and administration of these Restricted Stock Award Terms shall be vested in the Committee, and the Committee shall have all powers with respect to these Restricted Stock Award Terms as it has with respect to the Plan. Any interpretation of these Restricted Stock Award Terms by the Committee and any decision made by it with respect to these Restricted Stock Award Terms are final and binding on all persons.

12. Plan and Corporate Records Govern . Notwithstanding anything in these Restricted Stock Award Terms to the contrary, these Restricted Stock Award Terms shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Secretary of the Company; and these Restricted Stock Award Terms are subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan. Notwithstanding anything in the Restricted Stock Award Terms to the contrary, in the event of any discrepancies between the corporate records regarding this award and the Record-Keeping System, the corporate records shall control.

13. Not An Employment Contract . The Restricted Stock Award will not confer on the Participant any right with respect to continuance of employment or other service with the Company or any Related Company, nor will it interfere in any way with any right the Company or any Related Company would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.

14. Notices. Any written notices provided for in these Restricted Stock Award Terms or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailing but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant's address indicated by the Company's records, or if to the Company, at the Company's principal executive office.

15. Competitive Activity.

(a) The Committee may cancel, rescind, suspend, withhold or otherwise limit or restrict the Restricted Stock Award at any time if the Participant engages in any "Competitive Activity".

(b) Immediately prior to the vesting of the shares of Stock pursuant to this Agreement, the Participant shall certify, to the extent required by the Committee, in a manner acceptable to the Committee, that the Participant is not engaging and has not engaged in any Competitive Activity. In the event a Participant has engaged in any Competitive Activity during the Restrictive Covenant Period, then the Participant shall be required to transfer the Forfeiture Shares to the Company and, if applicable, pay the Forfeiture Payment to the Company, in such manner and on such terms and conditions as may be required by the Committee, and the Company shall be entitled to set-off such amounts against any amount owed to the Participant by the Company and/or Subsidiary.

16. Fractional Shares. In lieu of issuing a fraction of a share, resulting from an adjustment of the Restricted Stock Award pursuant to paragraph 5.2(f) of the Plan or otherwise, the Company will be entitled to pay to the Participant an amount equal to the fair market value of such fractional share.

17. Amendment. These Restricted Stock Award Terms may be amended in accordance with the provisions of the Plan, and may otherwise be amended by written agreement of the Participant and the Company without the consent of any other person.

IN WITNESS WHEREOF, the Company has caused these presents to be executed in its name and on its behalf, all as of the Grant Date.

ACE LIMITED

By: ________________________________

Its: ________________________________

I hereby agree to all the terms, restrictions and conditions set forth in the Agreement:

____

Participant

For Awards for Swiss Executive Management

Performance Based Restricted Stock Award Terms
under the
ACE Limited 2004 Long-Term Incentive Plan

The Participant has been granted a Performance Based Restricted Stock Award by ACE Limited (the "Company") under the ACE Limited 2004 Long-Term Incentive Plan (the "Plan"). The shares of Stock granted as Covered Performance Shares and Premium Performance Shares pursuant to this Performance Based Restricted Stock Award shall be subject to the following Performance Based Restricted Stock Award Terms:

1. Terms of Award . The following words and phrases used in these Performance Based Restricted Stock Award Terms shall have the meanings set forth in this paragraph 1:

(a) The "Participant" is [**Insert Name]** , who is the individual recipient of the Performance Based Restricted Stock Award on the specified Grant Date.

(b) The "Grant Date" is [**Insert Date**].

(c) The "Commencement Date" is [**Insert Date**].

(d) The number of "Covered Performance Shares" is **[Insert Number]** , which is 50% **[75% for Chief Executive Officer]** of that portion of the Participant's annual Long-Term Incentive Award which is granted in the form of restricted shares for the year in which the Grant Date occurs, as reflected in the corporate records and shown in the Record-Keeping System in the Participant's individual account records.

(e) The number of Premium Performance Shares is [**Insert number equal to the number of Covered Performance Shares].**

Other words and phrases used in these Performance Based Restricted Stock Award Terms are defined pursuant to paragraph 13 or elsewhere in these Performance Based Restricted Stock Award Terms.

2. Restricted Period . Subject to the limitations of these Performance Based Restricted Stock Award Terms, the "Restricted Period" for each Installment of Covered Performance Shares of the Performance Based Restricted Stock Award shall begin on the Grant Date and end as described below (but only if the Date of Termination has not occurred before the end of the Restricted Period):

(a) The Restricted Period shall end with respect to a number of the Covered Performance Shares determined by multiplying one quarter (1/4) of the Covered Performance Shares (the "First Installment") by the applicable Performance Percentage on the later of the applicable Certification Date (as defined below) or the one-year anniversary of the Grant Date, if the Performance Goal has been fully or partially satisfied for the measurement period beginning on the Commencement Date and ending on the one-year anniversary of the Commencement Date (the "First Installment Primary Performance Measurement Period"). If the Performance Goal with respect to the First Installment Primary Performance Measurement Period has not been fully satisfied such that the applicable Performance Percentage did not equal 100% for the First Installment Primary Performance Measurement Period, then the Restricted Period for all or a portion of the First Installment shall end on the earliest of the two-year, three-year, or four-year anniversary of the Grant Date (or, if later than the anniversary of the Grant Date, on the applicable Certification Date) on which the Performance Goal has been fully or partially satisfied for the measurement period beginning on the Commencement Date and ending on the two-year, three-year, or four-year anniversary of the Commencement Date, as applicable (each, a "First Installment Secondary Performance Measurement Period") and the Performance Percentage as measured over any First Installment Secondary Performance Measurement Period is greater than it was over the First Installment Primary Performance Measurement Period or any previous First Installment Secondary Performance Measurement Period. For any First Installment Secondary Performance Measurement Period pursuant to which the conditions of the previous sentence have been met, the Restricted Period shall end with respect to a number of the Covered Performance Shares determined by multiplying the number of shares in the First Installment by the applicable Performance Percentage for such First Installment Secondary Performance Measurement Period minus the greatest applicable Performance Percentage taken into account in any previous Performance Measurement Period for the First Installment on the later of the applicable Certification Date (as defined below) or the applicable anniversary of the Grant Date.

(b) The Restricted Period shall end with respect to a number of the Covered Performance Shares determined by multiplying one quarter (1/4) of the Covered Performance Shares (the "Second Installment") by the applicable Performance Percentage on the later of the applicable Certification Date or the two-year anniversary of the Grant Date, if the Performance Goal has been fully or partially satisfied for the measurement period beginning on the one-year anniversary of the Commencement Date and ending on the two-year anniversary of the Commencement Date (the "Second Installment Primary Performance Measurement Period"). If the Performance Goal with respect to the Second Installment Primary Performance Measurement Period has not been fully satisfied such that the applicable Performance Percentage did not equal 100% for the Second Installment Primary Performance Measurement Period, then the Restricted Period for all or a portion of the Second Installment shall end on the earlier of the three-year anniversary or the four-year anniversary of the Grant Date (or, if later than the anniversary of the Grant Date, on the applicable Certification Date) on which the Performance Goal has been fully or partially satisfied for the measurement period beginning on the one-year anniversary of the Commencement Date and ending on the three-year or four-year anniversary date of the Commencement Date, as applicable (each, a "Second Installment Secondary Performance Measurement Period") and the Performance Percentage as measured over any Second Installment Secondary Performance Measurement Period is greater than it was over the Second Installment Primary Performance Measurement Period or any previous Second Installment Secondary Performance Measurement Period. For any Second Installment Secondary Performance Measurement Period pursuant to which the conditions of the previous sentence have been met, the Restricted Period shall end with respect to a number of the Covered Performance Shares determined by multiplying the number of shares in the Second Installment by the applicable Performance Percentage for such Second Installment Secondary Performance Measurement Period minus the greatest applicable Performance Percentage taken into account in any previous Performance Measurement Period for the Second Installment on the later of the applicable Certification Date (as defined below) or the applicable anniversary of the Grant Date.

(c) The Restricted Period shall end with respect to a number of the Covered Performance Shares determined by multiplying one quarter (1/4) of the Covered Performance Shares (the "Third Installment") by the applicable Performance Percentage on the later of the applicable Certification Date or the three-year anniversary of the Grant Date, if the Performance Goal has been fully or partially satisfied for the measurement period beginning on the two-year anniversary of the Commencement Date and ending on the three-year anniversary of the Commencement Date (the "Third Installment Primary Performance Measurement Period"). If the Performance Goal with respect to the Third Installment Primary Performance Measurement Period has not been fully satisfied such that the applicable Performance Percentage did not equal 100% for the Third Installment Primary Performance Measurement Period, then the Restricted Period for all or a portion of the Third Installment shall end on the four-year anniversary of the Grant Date (or, if later than the anniversary of the Grant Date, on the applicable Certification Date) if the Performance Goal has been fully or partially satisfied for the measurement period beginning on the two-year anniversary of the Commencement Date and ending on the four-year anniversary of the Commencement Date (the "Third Installment Secondary Performance Measurement Period") and the Performance Percentage as measured over the Third Installment Secondary Performance Measurement Period is greater than it was over the Third Installment Primary Performance Measurement Period. If, for the Third Installment Secondary Performance Measurement Period, the conditions of the previous sentence have been met, the Restricted Period shall end with respect to a number of the Covered Performance Shares determined by multiplying the number of shares in the Third Installment by the applicable Performance Percentage for such Third Installment Secondary Performance Measurement Period minus the applicable Performance Percentage taken into account for the Third Installment Primary Performance Measurement Period on the later of the applicable Certification Date (as defined below) or the applicable anniversary of the Grant Date.

(d) The Restricted Period shall end with respect to a number of the Covered Performance Shares determined by multiplying one quarter (1/4) of the Covered Performance Shares (the "Fourth Installment") by the applicable Performance Percentage on the later of the applicable Certification Date or the four-year anniversary of the Grant Date, if the Performance Goal has been fully or partially satisfied for the measurement period beginning on the three-year anniversary of the Commencement Date and ending on the four-year anniversary of the Commencement Date (which measurement period shall be both the "Fourth Installment Primary Performance Measurement Period" and the "Fourth Installment Secondary Performance Measurement Period").

(e) If the Cumulative Performance of the Company during the period beginning on the Commencement Date and ending on the four-year anniversary of the Commencement Date (the "Four-Year Performance Measurement Period") is greater than the Cumulative Performance of 65% of the Peer Companies, the Restricted Period shall end for any Covered Performance Shares that have not previously vested in accordance with this paragraph 2 on the date the Committee certifies that the requisite Cumulative Performance has been achieved during the applicable Four-Year Performance Measurement Period (which date of certification is the “Cumulative Performance Certification Date”).

For the avoidance of doubt, the Restricted Period with respect to any Installment shall end only upon the Committee’s certification that the Performance Goal with respect to such Installment for the applicable Performance Measurement Period has been satisfied (which date of certification with respect to any Installment is the “Certification Date” applicable to such Installment).

3. Retirement. If the Participant’s Date of Termination occurs because of Retirement, then for any Covered Performance Shares and any Premium Performance Shares as to which the Restricted Period has not otherwise ended prior to the Date of Termination, the Participant shall become vested and the Restricted Period shall end for any Covered Performance Shares if and when the terms of paragraph 2 are satisfied with respect to such Covered Performance Shares and for any Premium Performance Shares if and when the terms of paragraph 7 are satisfied with respect to such Premium Performance Shares, in each case, determined as though the Participant had remained employed and the Date of Termination had not occurred prior to the end of any applicable Restricted Period for purposes of this Agreement.

4. Death, Long-Term Disability and Change in Control. Notwithstanding the provisions of paragraph 2, the Restricted Period for one or more Installments of Covered Performance Shares shall end prior to the date specified in the schedule set forth in paragraph 2 to the extent set forth below:

(a) For Covered Performance Shares as to which the Restricted Period has not ended prior to the Date of Termination, the Restricted Period for such Covered Performance Shares shall end upon the Participant’s Date of Termination, and the Installments shall vest upon the Date of Termination, if the Date of Termination occurs by reason of the Participant’s death.

(b) For Covered Performance Shares as to which the Restricted Period has not ended prior to the Date of Termination, the Restricted Period for such Covered Performance Shares shall end upon the Participant’s Date of Termination, and the Installments shall vest upon the Date of Termination, if the Date of Termination occurs by reason of the Participant’s Long-Term Disability.

(c) If the Participant's Date of Termination is a Change in Control Date of Termination, then, for Covered Performance Shares, if any, as to which the Restricted Period has not ended prior to the Participant’s Date of Termination, the Restricted Period for such Covered Performance Shares will end on the Change in Control Date of Termination; provided that if the Participant's Change in Control Date of Termination occurs within the 180-day period immediately preceding the date of a Change in Control, then the Restricted Period for all unvested Covered Performance Shares held by the Participant on the Date of Termination will end, and those Covered Performance Shares will vest on the date of a Change in Control.

5. Qualifying Termination. Notwithstanding the provisions of paragraph 2, for Installments of Covered Performance Shares as to which the Restricted Period has not ended prior to the Date of Termination and the Date of Termination occurs by reason of the Participant’s Qualifying Termination, vesting shall continue pursuant to the schedule set forth in paragraph 2 following the Date of Termination as though the Participant continued to be employed through the two-year anniversary of the Participant’s Date of Termination, subject to the Participant not engaging in any Competitive Activity during such two-year period and subject to the Participant signing and not revoking a general release and waiver of all claims against the Company and such release is effective no later than the sixty-day anniversary of the Date of Termination. If such release is not effective within such sixty-day period or in the event that the Participant engages in a Competitive Activity prior to the last day of the Restricted Period for any Installment, the Participant shall immediately forfeit any unvested Installments of Covered Performance Shares.

6. Transfer and Forfeiture of Shares. The transfer and forfeiture of shares shall be subject to the following:

(a) Except as provided in paragraphs 3, 4 and 5 above, the Participant will be vested in any Covered Performance Shares if the Date of Termination has not occurred prior to the last day of the Restricted Period with respect to those shares and the requirements of paragraph 2 have been satisfied. Upon vesting at the end of such Restricted Period, those shares will be delivered to the Participant free of all restrictions.

(b) Except as otherwise determined by the Committee and as provided in paragraphs 3, 4 and 5 above, the Participant shall forfeit any Covered Performance Shares as of the Date of Termination, if such Date of Termination occurs prior to vesting of those shares. Any Covered Performance Shares that have not vested as of the end of the

Restricted Period that includes the Four-Year Performance Measurement Period shall be forfeited by the Participant as of the Cumulative Performance Certification Date.

(c) Notwithstanding anything to the contrary in any agreement between the Participant and the Company or a Subsidiary, the Participant acknowledges and agrees that the Covered Performance Shares and Premium Performance Shares shall vest (and the Restricted Period shall end) only as provided by, and subject to the terms of, this Performance Based Restricted Stock Award.

7. Premium Performance Shares. The vesting of the Premium Performance Shares under this paragraph 7 will be based on the Cumulative Performance of ACE Limited during the Four-Year Performance Measurement Period and will be determined as follows:

(a) The Restricted Period shall end for the number of the Premium Performance Shares determined by multiplying the number of Covered Performance Shares that became vested pursuant to the terms of paragraph 2 by the Premium Award Performance Percentage (as determined below).

(b) The Premium Award Performance Percentage will be determined in accordance with the following schedule:

If the Cumulative Performance of ACE Limited during the Four-Year Performance Measurement Period:	The Premium Award Performance Percentage will be:
Does not exceed the 65th percentile of the Cumulative Performance of the Peer Companies	0%
Exceeds the 65th percentile, but does not exceed the 75 th percentile, of the Cumulative Performance of the Peer Companies	50%, as increased to the extent, if any, provided pursuant to the following provisions of this paragraph (b)
Exceeds the 75th percentile of the Cumulative Performance of the Peer Companies	100%

If the Cumulative Performance of ACE Limited exceeds the 65th percentile but does not exceed the 75th percentile of the Cumulative Performance of the Peer Companies during the Four-Year Performance Measurement Period, then the Premium Award Performance Percentage will be a percentage between 50% and 100%, based on an interpolation of the ACE Limited Cumulative Performance falling between the 65th percentile and 75th percentile of the Cumulative Performance of the Peer Companies during the Four-Year Performance Measurement Period.

(c) Notwithstanding the foregoing provisions of this paragraph 7, the Participant shall vest in the number of Premium Performance Shares determined above on the later of the Cumulative Performance Certification Date or the four-year anniversary of the Grant Date, but only if the Committee certifies that the requisite Cumulative Performance has been achieved during the applicable Four-Year Performance Measurement Period on the Cumulative Performance Certification Date. Upon vesting at the end of such Restricted Period, those shares will be delivered to the Participant free of all restrictions. Except as provided in paragraph 3 for a Date of Termination that occurs because of Retirement, the Participant shall not be entitled to vesting of any Premium Performance Shares if the Date of Termination occurs before the later of the Cumulative Performance Certification Date or the four-year anniversary of the Grant Date for any reason.

8. Withholding. All deliveries and distributions and the vesting of shares of stock under these Performance Based Restricted Stock Award Terms are subject to withholding of all applicable taxes. At the election of the Participant, and subject to such rules and limitations as may be established by the Committee from time to time, such withholding obligations may be satisfied through the surrender of shares of Stock which the Participant already owns, or to which the Participant is otherwise entitled under the Plan; provided, however, that such shares may be used to satisfy not more than the Company’s minimum statutory withholding obligation (based on minimum statutory withholding rates for Federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income).

9. Transferability. Except as otherwise provided by the Committee, awards under these Performance Based Restricted Stock Award Terms may not be sold, assigned, transferred, pledged or otherwise encumbered prior to vesting and delivery.

10. Dividends. Dividends paid with respect to the Covered Performance Shares and the Premium Performance Shares with respect to record dates on or after the Grant Date for such shares but prior to the end of the Restricted Period for such shares shall be accumulated and distributed to the Participant on the date that the Restricted Period ends with respect to the share pursuant to which such dividend was paid; provided, however that no dividends or distributions shall be payable to or for the benefit of the Participant with respect to record dates for such dividends or distributions for any Covered Performance Shares or Premium Performance Shares occurring on or after the date, if any, on which the Participant has forfeited those shares. Notwithstanding the foregoing, if the right to the payment of dividends with respect to a Covered Performance Share or a Premium Performance Share would otherwise constitute nonqualified deferred compensation subject to Section 457A of the Internal Revenue Code (“Code Section 457A”), then, (i) any dividends accumulated in relation to Covered Performance Shares and Premium Performance Shares as of the date that the right to receive such payments is no longer treated as subject to a substantial risk of forfeiture for purposes of Code Section 457A (the “457A Vesting Date”) shall be used to purchase additional Covered Performance Shares and Premium Performance Shares subject to the same vesting provisions of the original Covered Performance Shares and Premium Performance Shares to which such accumulated dividends relate and any remaining unused cash amounts that are not sufficient to purchase an additional share shall be distributed to the Participant and (ii) any dividends that are paid on or after the 457A Vesting Date but prior to the vesting of the Covered Performance Shares and Premium Performance Shares shall be used to purchase additional Covered Performance Shares and Premium Performance Shares subject to the same vesting provisions of the original Covered Performance Shares and Premium Performance Shares to which such dividends relate and any remaining unused cash amounts that are not sufficient to purchase an additional share shall be distributed to the Participant.

11. Voting. The Participant shall not be prevented from voting the Covered Performance Shares merely because those shares are subject to the restrictions imposed by these Performance Based Restricted Stock Award Terms and the Plan; provided, however, that the Participant shall not be entitled to vote Covered Performance Shares with respect to record dates for any Covered Performance Shares occurring on or after the date, if any, on which the Participant has forfeited those shares. The Participant acknowledges and agrees that he or she shall not be entitled to vote any Premium Performance Shares if the record date for entitlement to voting occurs prior to the date on which such shares become vested pursuant to paragraph 7.

12. Deposit of Performance Based Restricted Stock Award. Each certificate issued in respect of the Covered Performance Shares and Premium Performance Shares awarded under these Performance Based Restricted Stock Award Terms shall be registered in the name of the Participant and shall be deposited in a bank designated by the Committee.

13. Definitions. For purposes of these Performance Based Restricted Stock Award Terms, words and phrases shall be defined as follows:

(a) Cause. The term “Cause” shall mean - unless otherwise defined in an employment agreement between the Participant and the Company or Subsidiary - the occurrence of any of the following:

(i) a conviction of the Participant with respect to a (x) felony or (y) a misdemeanor involving moral turpitude; or

(ii) willful misconduct or gross negligence by the Participant resulting, in either case, in harm to the Company or any Subsidiary; or

(iii) failure by the Participant to carry out the lawful and reasonable directions of the Board or the Participant’s immediate supervisor, as the case may be; or

(iv) refusal to cooperate or non-cooperation by the Participant with any governmental regulatory authority; or

(v) fraud, embezzlement, theft or dishonesty by the Participant against the Company or any Subsidiary or a material violation by the Participant of a policy or procedure of the Company, resulting, in any case, in harm to the Company or any Subsidiary.

(b) Change in Control. The term “Change in Control” shall be defined as set forth in the Plan.

(c) Change in Control Date Termination . The term “Change in Control Date of Termination” means the Participant’s Date of Termination that occurs because the Company and/or any of the Related Companies terminates the Participant’s employment with the Company and/or the Related Companies without Cause (other than due to death, a Long-Term Disability or a Retirement) or because the Participant terminates his or her employment for Good Reason, provided that such termination in accordance with this paragraph 13(c) occurs during the period commencing on the 180th day immediately preceding a Change in Control date and ending on the two-year anniversary of such Change in Control date.

(d) Competitive Activity. The term “Competitive Activity” means the Participant’s: (i) engagement in an activity - whether as an employee, consultant, principal, member, agent, officer, director, partner or shareholder (except as a less than 1% shareholder of a publicly traded company) - that is competitive with any business of the Company or any Subsidiary conducted by the Company or such Subsidiary during the Participant’s employment with the Company or the two-year period following the Date of Termination; (ii) solicitation of any client and/or customer of the Company or any affiliate with respect to an activity prohibited by subparagraph (d)(i); (iii) solicitation or employment of any employee of the Company or any affiliate for the purpose of causing such employee to terminate his or her employment with the Company or such affiliate; or (iv) failure to keep confidential all Company trade secrets, proprietary and confidential information.

(e) Cumulative Performance . The term “Cumulative Performance” means, as to ACE Limited or the Peer Companies, the growth in tangible book value per common shares outstanding as reported under GAAP for ACE Limited or the Peer Companies during the Four-Year Performance Measurement Period beginning on the Commencement Date and ending on the fourth anniversary of the Commencement Date. The determination of the Cumulative Performance and its parameters is subject to rules established by the Committee within 90 days of the beginning of the Four-Year Performance Measurement Period. The Committee, in its discretion, may adjust the reported tangible book value for ACE Limited or the Peer Companies for any Four-Year Performance Measurement Period; provided, however, that no such adjustment may result in an increase in the number of Covered Performance Shares or Premium Performance Shares which vest (as described in paragraph 7) over the number of shares that would have otherwise vested had the reported tangible book value for either ACE Limited or the Peer Companies not been adjusted.

(f) Date of Termination . A Participant’s “Date of Termination” means, with respect to an employee, the date on which the Participant’s employment with the Company and the Subsidiaries terminates for any reason, and with respect to a Director, the date immediately following the last day on which the Participant serves as a Director; provided that a Date of Termination shall not be deemed to occur by reason of a Participant’s transfer of employment between the Company and a Subsidiary or between two Subsidiaries; further provided that a Date of Termination shall not be deemed to occur by reason of a Participant’s cessation of service as a Director if immediately following such cessation of service the Participant becomes or continues to be employed by the Company or a Subsidiary, nor by reason of a Participant’s termination of employment with the Company or a Subsidiary if immediately following such termination of employment the Participant becomes or continues to be a Director; and further provided that a Participant’s employment shall not be considered terminated while the Participant is on a leave of absence from the Company or a Subsidiary approved by the Participant’s employer.

(g) Director . The term “Director” means a member of the Board, who may or may not be an employee of the Company or a Subsidiary.

(h) Forfeiture Payment . The term “Forfeiture Payment” means the pre-tax proceeds from sales or other transfers, if any, of the number of shares of Stock that became vested during the Restrictive Covenant Period pursuant to this Agreement and that the Participant has sold or otherwise transferred prior to the date of repayment required pursuant to subparagraph 21(b). For purposes of this definition, pre-tax proceeds for any shares of Stock that were transferred by the Participant in a transaction other than a sale on the New York Stock Exchange means the Fair Market Value of such shares on the New York Stock Exchange as of the date of such transaction.

(i) Forfeiture Shares . The term “Forfeiture Shares” means the number of shares of Stock that became vested during the Restrictive Covenant Period pursuant to this Agreement and that remain held by the Participant as of the date of repayment required pursuant to subparagraph 21(b). It is the Participant’s responsibility to ensure that the shares of Stock delivered as Forfeiture Shares are the shares of Stock delivered previously pursuant to this Agreement. In the absence of Company records or written documentation from Participant’s broker demonstrating this fact, the Participant must deliver to the Company the Forfeiture Payment determined as of the date that such shares of Stock delivered pursuant to this Agreement are transferred from Participant’s stock account or otherwise become indistinguishable from other shares of Stock that the Participant may hold.

(j) Good Reason. The term “Good Reason” shall mean - unless otherwise defined in an in-force employment agreement between the Participant and the Company or Subsidiary - the occurrence of any of the following within the 60-day period preceding a Date of Termination without the Participant’s prior written consent:

(i) a material adverse diminution of the Participant’s titles, authority, duties or responsibilities, or the assignment to the Participant of titles, authority, duties or responsibilities that are materially inconsistent with his or her titles, authority, duties and/or responsibilities in a manner materially adverse to the Participant; or

(ii) a reduction in the Participant’s base salary or annual bonus opportunity (other than any reduction applicable to all similarly situated Executives generally); or

(iii) a failure of the Company to obtain the assumption in writing of its obligations under the Plan by any successor to all or substantially all of the assets of the Company within 45 days after a merger, consolidation, sale or similar transaction that qualifies as a Change in Control.

(k) Long-Term Disability. A Participant shall be considered to have a “Long-Term Disability” if the Participant is determined to be eligible for long-term disability benefits under the long-term disability plan in which the Participant participates and which is sponsored by the Company or a Subsidiary; or if the Participant does not participate in a long-term disability plan sponsored by the Company or a Subsidiary, then the Participant shall be considered to have a “Long-Term Disability” if the Committee determines, under standards comparable to those of the Company’s long-term disability plan, that the Participant would be eligible for long-term disability benefits if he or she participated in such plan.

(l) Peer Companies. The term “Peer Companies” means the companies which are in the ACE Financial Performance Peer Group as determined by the Committee within 90 days of the beginning of the applicable Performance Period and for which financial information is available for all year(s) in such Performance Measurement Period.

(m) Performance Goal. The term “Performance Goal” for any Primary Performance Measurement Period or Secondary Performance Measurement Period means the achievement by ACE Limited of growth in tangible book value per common shares outstanding as reported under GAAP during such Performance Measurement Period, as compared to the growth in tangible book value per common shares outstanding as reported under GAAP during the same Performance Measurement Period by the Peer Companies. The determination of the Performance Goal and its parameters is subject to rules established by the Committee within 90 days of the beginning of the applicable Performance Measurement Period. The Committee, in its discretion, may adjust the reported tangible book value for ACE Limited or the Peer Companies for any Primary Performance Measurement Period or Secondary Performance Measurement Period; provided, however, that no such adjustment may result in an increase in the number of Covered Performance Shares which are earned and vested at the end of any such Performance Measurement Period over the number of Covered Performance Shares that would have been earned and vested had the reported tangible book value for either ACE Limited or the Peer Companies not been adjusted.

(n) Performance Measurement Period. The term “Performance Measurement Period” shall mean the Primary Performance Measurement Period or the Secondary Performance Measurement Period, as applicable, with respect to an Installment of Covered Performance Shares; and shall mean the Four-Year Performance Measurement Period with respect to the Covered Performance Shares as described in paragraph 2(e) and Premium Performance Shares as described in paragraph 7.

(o) Performance Percentage. The term “Performance Percentage” shall mean the applicable Performance Percentage determined based on the achievement of the Performance Goal over a Performance Measurement Period by ACE Limited as compared to the Peer Companies:

If the Satisfaction of ACE Limited of the Performance Goal during the applicable Performance Measurement Period:	The Performance Percentage will be:
Does not exceed the 25th percentile of the satisfaction of the Performance Goal of the Peer Companies	0%
Exceeds the 25th percentile, but does not exceed the 50th percentile, of the satisfaction of the Performance Goal of the Peer Companies	50%
Exceeds the 50th percentile of the satisfaction of the Performance Goal of the Peer Companies	100%

(p) Qualifying Termination . The term "Qualifying Termination" means the Participant's Date of Termination that occurs because the Company and/or any of the Related Companies terminates the Participant's employment with the Company and/or the Related Companies without Cause. For the avoidance of doubt, the termination of the Participant's employment due to death or Long-Term Disability, or a voluntary termination of the Participant's employment by the Participant for any reason (including Good Reason or Retirement) shall not constitute a Qualifying Termination for the purposes of this Agreement.

(q) Restrictive Covenant Period . The term "Restrictive Covenant Period" means the twenty-four month period following a Date of Termination due to a Qualifying Termination or a Retirement.

(r) Retirement . The term "Retirement" means the Participant's Date of Termination that occurs on or after the Participant has both completed at least ten years of service with the Company or a Subsidiary and attained at least age 62; provided, however, that a Date of Termination will not be treated as a Retirement unless the Participant (i) has terminated employment in good standing with the Company or a Subsidiary, and (ii) executes an agreement and release as required by the Company which will include, without limitation, a general release, and non-competition and non-solicitation provisions. A Participant shall be deemed to have executed a release as described in clause (ii) above only if such release is returned by such time as is established by the Company; provided that to the extent benefits provided pursuant to the Plan would be considered to be provided under a nonqualified deferred compensation plan as that term is defined in Treas. Reg. §1.409A-1, such benefits shall be paid to the Participant only if the release is returned in time to permit the distribution of the benefits to satisfy the requirements of Section 409A of the Internal Revenue Code with respect to the time of payment.

14. Plan Definitions . Except where the context clearly implies or indicates the contrary, a word, term, or phrase used in the Plan is similarly used in these Performance Based Restricted Stock Award Terms.

15. Heirs and Successors . These Performance Based Restricted Stock Terms shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business. If any benefits deliverable to the Participant under these Performance Based Restricted Stock Terms have not been delivered at the time of the Participant's death, such benefits shall be delivered to the Designated Beneficiary, in accordance with the provisions of these Performance Based Restricted Stock Terms and the Plan. The "Designated Beneficiary" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form and at such time as the Committee shall require. If a deceased Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any rights that would have been exercisable by the Participant and any benefits distributable to the Participant shall be distributed to the legal representative of the estate of the Participant. If a deceased Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the complete distribution of benefits to the Designated Beneficiary under these Performance Based Restricted Stock Terms, then any benefits distributable to the Designated Beneficiary shall be distributed to the legal representative of the estate of the Designated Beneficiary.

16. Administration . The authority to manage and control the operation and administration of these Performance Based Restricted Stock Award Terms shall be vested in the Committee, and the Committee shall have all powers with respect to these Performance Based Restricted Stock Award Terms as it has with respect to the Plan. Any

interpretation of these Performance Based Restricted Stock Award Terms by the Committee and any decision made by it with respect to these Performance Based Restricted Stock Award Terms are final and binding on all persons.

17. Plan and Corporate Records Govern . Notwithstanding anything in these Performance Based Restricted Stock Award Terms to the contrary, these Performance Based Restricted Stock Award Terms shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Secretary of the Company; and these Performance Based Restricted Stock Award Terms are subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan. Notwithstanding anything in the Performance Based Restricted Stock Terms to the contrary, in the event of any discrepancies between the corporate records regarding this award and the Record-Keeping System, the corporate records shall control.

18. Not An Employment Contract . The Performance Based Restricted Stock Award will not confer on the Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate or modify the terms of such Participant’s employment or other service at any time.

19. Notices . Any written notices provided for in these Performance Based Restricted Stock Award Terms or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailing but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant’s address indicated by the Company’s records, or if to the Company, at the Company’s principal executive office.

20. Fractional Shares . In lieu of issuing a fraction of a share, resulting from an adjustment of the Performance Based Restricted Stock Award pursuant to paragraph 5.2(f) of the Plan or otherwise, the Company will be entitled to pay to the Participant an amount equal to the fair market value of such fractional share.

21. Competitive Activity .

(a) The Committee may cancel, rescind, suspend, withhold or otherwise limit or restrict the Performance Based Restricted Stock Award at any time if the Participant engages in any "Competitive Activity".

(b) Immediately prior to the vesting of the shares of Stock pursuant to this Agreement, the Participant shall certify, to the extent required by the Committee, in a manner acceptable to the Committee, that the Participant is not engaging and has not engaged in any Competitive Activity. In the event a Participant has engaged in any Competitive Activity during the Restrictive Covenant Period, then the Participant shall be required to transfer the Forfeiture Shares to the Company and, if applicable, pay the Forfeiture Payment to the Company, in such manner and on such terms and conditions as may be required by the Committee, and the Company shall be entitled to set-off such amounts against any amount owed to the Participant by the Company and/or Subsidiary.

22. Amendment . These Performance Based Restricted Stock Award Terms may be amended in accordance with the provisions of the Plan, and may otherwise be amended by written agreement of the Participant and the Company without the consent of any other person.

IN WITNESS WHEREOF, the Company has caused these presents to be executed in its name and on its behalf, all as of the Grant Date.

ACE LIMITED

By: ______________________________

Its: ______________________________

I hereby agree to all the terms, restrictions and conditions set forth in the Agreement:

____

Participant

Exhibit 10.70

For Awards for Swiss Executive Management

Restricted Stock Unit Award Terms
under the
ACE Limited 2004 Long-Term Incentive Plan

The Participant has been granted a Restricted Stock Unit Award by ACE Limited (the "Company") under the ACE Limited 2004 Long-Term Incentive Plan (the "Plan"). The Restricted Stock Unit Award shall be subject to the following Restricted Stock Unit Award Terms:

1. Terms of Award . Subject to the following Restricted Stock Unit Award Terms, the Participant has been granted the right to receive shares of Stock of the Company ("Units") as of the Delivery Date. Each "Unit" represents the right to receive one share of Stock. The following words and phrases used in these Restricted Stock Unit Award Terms shall have the meanings set forth in this paragraph 1:

(a) The "Participant" is the individual recipient of the Restricted Stock Unit Award on the specified Grant Date.

(b) The "Grant Date" is **[Insert the date]** .

(c) The number of "Units" shall be that number of Units awarded to the Participant on the Grant Date as reflected in the corporate records and shown in the Record-Keeping System in the Participant's individual account records.

(d) The "Delivery Date" shall be end of the Restricted Period with respect to the applicable Units. However, notwithstanding the preceding sentence, the following shall apply in determining the Delivery Date:

(i) The occurrence of a Change in Control Date of Termination shall be disregarded for purposes of determining the Delivery Date of such Installments.

(ii) The occurrence of a Long-Term Disability shall be disregarded for purposes of determining the Delivery Date of such Units; provided that this sentence shall not affect the vesting of the Units upon the occurrence of a Long-Term Disability in accordance with subparagraph 2(b).

(e) Other words and phrases used in these Restricted Stock Unit Award Terms are defined pursuant to paragraph 9 or elsewhere in these Restricted Stock Unit Award Terms.

2. Restricted Period . Subject to the limitations of these Restricted Stock Unit Award Terms, the "Restricted Period" for each Installment of Units shall begin on the Grant Date and end as described in the following schedule (the "Vesting Schedule") (but only if the Date of Termination has not occurred before end of the Restricted Period):

VESTING SCHEDULE	
INSTALLMENT	RESTRICTED PERIOD WILL END ON:
¼ of Restricted Stock Units	One year anniversary of the Grant Date
¼ of Restricted Stock Units	Two year anniversary of the Grant Date
¼ of Restricted Stock Units	Three year anniversary of the Grant Date
¼ of Restricted Stock Units	Four year anniversary of the Grant Date

The Restricted Period shall end prior to the date specified in the foregoing Vesting Schedule to the extent set forth below, with the exception of subparagraphs (c) and (e):

(a) For Installments as to which the Restricted Period has not ended prior to the Date of Termination, the Restricted Period for such Installments shall end upon the Participant's Date of Termination, if the Date of Termination occurs by reason of the Participant's death.

(b) For Installments as to which the Restricted Period has not ended prior to the Date of Termination, the Restricted Period for such Installments shall end upon the Participant’s Date of Termination, if the Date of Termination occurs by reason of the Participant’s Long-Term Disability.

(c) For Installments as to which the Restricted Period has not ended prior to the Date of Termination, if the Date of Termination occurs by reason of the Participant’s Qualifying Termination, vesting shall continue pursuant to the Vesting Schedule following the Date of Termination as though the Participant continued to be employed through the two-year anniversary of the Participant’s Date of Termination, subject to the Participant not engaging in any Competitive Activity during such two-year period and subject to the Participant signing and not revoking a general release and waiver of all claims against the Company and such release becomes effective no later than the sixty-day anniversary of the Date of Termination. If such release is not effective within such sixty-day period or in the event that the Participant engages in a Competitive Activity prior to the last day of the Restricted Period for any Installment, the Participant shall immediately forfeit any unvested Installments.

(d) If the Participant's Date of Termination is a Change in Control Date of Termination, then, for any Installments as to which the Restricted Period has not ended prior to the Participant’s Date of Termination, the Restricted Period for such Installments will end on the Change in Control Date of Termination; provided that if the Participant's Change in Control Date of Termination occurs within the 180-day period immediately preceding the date of a Change in Control, then the Restricted Period for all unvested Installments held by the Participant on the Date of Termination will end, and those Installments will vest on the date of a Change in Control.

(e) For Installments as to which the Restricted Period has not ended prior to the Date of Termination, if the Date of Termination occurs by reason of the Participant’s Retirement, vesting shall continue pursuant to the Vesting Schedule following the Date of Termination as though the Participant continued to be employed through the end of the longest Restricted Period. Following the Date of Termination by reason of Retirement, the end of the Restricted Period for any Installment shall be determined in accordance with the Vesting Schedule.

3. Transfer and Forfeiture of Shares. Except as otherwise determined by the Committee in its sole discretion, and subject to subparagraphs 2(c), 2(d) and 2(e), the Participant shall forfeit the Units as of the Participant's Date of Termination, if such Date of Termination occurs prior to the end of the Restricted Period which applies to those Installments. If the Participant's Date of Termination has not occurred prior to the last day of the Restricted Period with respect to any Installment of the Units, then that Installment of Units shall be delivered to the Participant in the form of Stock free of all restrictions at or within sixty days after the Delivery Date; provided, however, if such delivery is contingent on the Participant's execution of a release in accordance with subparagraphs 2(c) or 9(n) and the applicable sixty-day period begins in one taxable year and ends in a second taxable year, that Installment of Units shall be delivered in the second taxable year. After delivery of a share of Stock for a Unit, the Unit shall have no further force or effect. Notwithstanding anything to the contrary in any agreement between the Participant and the Company or a Subsidiary, the Participate acknowledges and agrees that the Installments of Units shall vest (and the Restricted Period shall end) only as provided by, and subject to the terms of, this Restricted Stock Unit Award.

4. Withholding . All deliveries and distributions under these Restricted Stock Unit Award Terms are subject to withholding of all applicable taxes. At the election of the Participant, and subject to such rules and limitations as may be established by the Committee from time to time, such withholding obligations may be satisfied through the surrender of shares of Stock which the Participant already owns, or to which the Participant is otherwise entitled under the Plan. Notwithstanding the foregoing, the Committee has the authority to make the necessary elections to ensure appropriate taxes are withheld.

5. Transferability . Except as otherwise provided by the Committee, the Restricted Stock Unit Award may not be sold, assigned, transferred, pledged or otherwise encumbered during the Restricted Period.

6. Dividends . The Participant shall be permitted to receive cash payments equal to the dividends and distributions paid on shares of Stock to the same extent as if each Unit was a share of Stock, and those shares were not subject to the restrictions imposed by these Restricted Stock Unit Award Terms and the Plan; provided, however, that no dividends or distributions shall be payable to or for the benefit of the Participant with respect to record dates for such dividends or distributions occurring on or after the date, if any, on which the Participant has received a share of Stock in exchange for a Unit or has forfeited the Units. Dividend payments made under this paragraph 6 with respect to any record date will be paid as soon as practicable after dividends with respect to that record date are paid on outstanding shares but in all events within the calendar year in which such dividends are paid to the holders of Stock.

7. Voting. The Participant shall not be a shareholder of record with respect to the Units and shall have no voting rights with respect to the Units during the Restricted Period.

8. Participant's Rights to Shares. Prior to the delivery of shares of Stock which are to be delivered pursuant to these Restricted Stock Unit Award Terms, (a) the Participant shall not be treated as owner of the shares, shall not have any rights as a shareholder as to those shares, and shall have only a contractual right to receive them, unsecured by any assets of the Company or its subsidiaries; and (b) the Participant's right to receive such shares will be subject to the adjustment provisions relating to mergers, reorganizations, and similar events set forth in the Plan.

9. Definitions**.** For purposes of these Restricted Stock Unit Award Terms, words and phrases shall be defined as follows:

(a) Cause. The term "Cause" shall mean - unless otherwise defined in an employment agreement between the Participant and the Company or Subsidiary - the occurrence of any of the following:

(i) a conviction of the Participant with respect to a (x) felony or (y) a misdemeanor involving moral turpitude; or

(ii) willful misconduct or gross negligence by the Participant resulting, in either case, in harm to the Company or any Subsidiary; or

(iii) failure by the Participant to carry out the lawful and reasonable directions of the Board or the Participant's immediate supervisor, as the case may be; or

(iv) refusal to cooperate or non-cooperation by the Participant with any governmental regulatory authority; or

(v) fraud, embezzlement, theft or dishonesty by the Participant against the Company or any Subsidiary or a material violation by the Participant of a policy or procedure of the Company, resulting, in any case, in harm to the Company or any Subsidiary.

(b) Change in Control. The term "Change in Control" shall be defined as set forth in the Plan.

(c) Change in Control Date Termination. The term "Change in Control Date of Termination" means the Participant's Date of Termination that occurs because the Company and/or any of the Related Companies terminates the Participant's employment with the Company and/or the Related Companies without Cause (other than due to death, a Long-Term Disability or a Retirement) or because the Participant terminates his or her employment for Good Reason, provided that such termination in accordance with this paragraph 9(c) occurs during the period commencing on the 180th day immediately preceding a Change in Control date and ending on the two year anniversary of such Change in Control date.

(d) Competitive Activity. The term "Competitive Activity" means the Participant's: (i) engagement in an activity - whether as an employee, consultant, principal, member, agent, officer, director, partner or shareholder (except as a less than 1% shareholder of a publicly traded company) - that is competitive with any business of the Company or any Subsidiary conducted by the Company or such Subsidiary during the Participant's employment with the Company or the two-year period following the Date of Termination; (ii) solicitation of any client and/or customer of the Company or any affiliate with respect to an activity prohibited by subparagraph (d)(i); (iii) solicitation or employment of any employee of the Company or any affiliate for the purpose of causing such employee to terminate his or her employment with the Company or such affiliate; or (iv) failure to keep confidential all Company trade secrets, proprietary and confidential information.

(e) Date of Termination. A Participant's "Date of Termination" means, with respect to an employee, the date on which the Participant's employment with the Company and Related Companies terminates for any reason, and with respect to a Director, the date immediately following the last day on which the Participant serves as a Director; provided that a Date of Termination shall not be deemed to occur by reason of a Participant's transfer of employment between the Company and a Related Company or between two Related Companies; further provided that a Date of Termination shall not be deemed to occur by reason of a Participant's cessation of service as a Director if immediately following such cessation of service the Participant becomes or continues to be employed by the Company or a Related Company, nor by reason of a Participant's termination of employment with the Company or a Related Company if immediately following such termination of employment the Participant becomes or continues to be a Director; and further provided that a Participant's employment shall not be considered terminated while the Participant is on a leave of absence from the Company or a Related Company approved by the Participant's employer.

(f) Director. The term "Director" means a member of the Board, who may or may not be an employee of the Company or a Related Company.

(g) Forfeiture Payment. The term "Forfeiture Payment" means the pre-tax proceeds from sales or other transfers, if any, of the number of shares of Stock that were delivered to the Participant during the Restrictive Covenant Period pursuant to this Agreement and that the Participant has sold or otherwise transferred prior to the date of repayment required pursuant to subparagraph 17(b). For purposes of this definition, pre-tax proceeds for any shares of Stock that were transferred by the Participant in a transaction other than a sale on the New York Stock Exchange means the Fair Market Value of such shares on the New York Stock Exchange as of the date of such transaction.

(h) Forfeiture Shares. The term "Forfeiture Shares" means the number of shares of Stock that were delivered to the Participant during the Restrictive Covenant Period pursuant to this Agreement and that remain held by the Participant as of the date of repayment required pursuant to subparagraph 17(b). It is the Participant's responsibility to ensure that the shares of Stock delivered as Forfeiture Shares are the shares of Stock delivered previously pursuant to this Agreement. In the absence of Company records or written documentation from Participant's broker demonstrating this fact, the Participant must deliver to the Company the Forfeiture Payment determined as of the date that such shares of Stock delivered pursuant to this Agreement are transferred from Participant's stock account or otherwise become indistinguishable from other shares of Stock that the Participant may hold.

(i) Good Reason. The term "Good Reason" shall mean - unless otherwise defined in an in-force employment agreement between the Participant and the Company or Subsidiary - the occurrence of any of the following within the 60-day period preceding a Date of Termination without the Participant's prior written consent:

(i) a material adverse diminution of the Participant's titles, authority, duties or responsibilities, or the assignment to the Participant of titles, authority, duties or responsibilities that are materially inconsistent with his or her titles, authority, duties and/or responsibilities in a manner materially adverse to the Participant; or

(ii) a reduction in the Participant's base salary or annual bonus opportunity (other than any reduction applicable to all similarly situated Executives generally); or

(iii) a failure of the Company to obtain the assumption in writing of its obligations under the Plan by any successor to all or substantially all of the assets of the Company within 45 days after a merger, consolidation, sale or similar transaction that qualifies as a Change in Control.

(j) Long-Term Disability. A Participant shall be considered to have a "Long-Term Disability" if the Participant is determined to be eligible for long-term disability benefits under the long-term disability plan in which the Participant participates and which is sponsored by the Company or a Related Company; or if the Participant does not participate in a long-term disability plan sponsored by the Company or a Related Company, then the Participant shall be considered to have a "Long-Term Disability" if the Committee determines, under standards comparable to those of the Company's long-term disability plan, that the Participant would be eligible for long-term disability benefits if he or she participated in such plan.

(k) Qualifying Termination. The term "Qualifying Termination" means the Participant's Date of Termination that occurs because the Company and/or any of the Related Companies terminates the Participant's employment with the Company and/or the Related Companies without Cause. For the avoidance of doubt, the termination of the Participant's employment due to death or Long-Term Disability, or a voluntary termination of the Participant's employment by the Participant for any reason (including Good Reason or Retirement) shall not constitute a Qualifying Termination for purposes of this Agreement.

(l) Record-Keeping System. The term "Record-Keeping System" means the record-keeping system developed and maintained by third parties contracted by the Company to keep records and facilitate Participant interfaces with respect to the Plan and awards granted thereunder.

(m) Restrictive Covenant Period. The term “Restrictive Covenant Period” means the twenty-four month period following a Date of Termination due to a Qualifying Termination or a Retirement.

(n) Retirement. The term “Retirement” means the Participant’s Date of Termination that occurs on or after the Participant has both completed at least ten years of service with the Company or a Related Company and attained at least age 62; provided, however, that a Date of Termination will not be treated as a Retirement unless the Participant (x) has terminated employment in good standing with the Company or a Related Company, and (y) executes an agreement and release as required by the Company which will include, without limitation, a general release, and non-competition and non-solicitation provisions. A Participant shall be deemed to have executed a release as described in clause (y) above only if such release is returned by such time as is established by the Company; provided that to the extent benefits provided pursuant to the Plan would be considered to be provided under a nonqualified deferred compensation plan as that term is defined in Treas. Reg. §1.409A-1, such benefits shall be paid to the Participant only if the release is returned in time to permit the distribution of the benefits to satisfy the requirements of Code section 409A with respect to the time of payment.

10. Plan Definitions. Except where the context clearly implies or indicates the contrary, a word, term, or phrase used in the Plan is similarly used in these Restricted Stock Unit Award Terms.

11. Heirs and Successors. The Restricted Stock Unit Award Terms shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business. If any benefits deliverable to the Participant under these Restricted Stock Unit Award Terms have not been delivered at the time of the Participant's death, such benefits shall be delivered to the Designated Beneficiary, in accordance with the provisions of these Restricted Stock Unit Award Terms and the Plan. The "Designated Beneficiary" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form and at such time as the Committee shall require. If a deceased Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any rights that would have been exercisable by the Participant and any benefits distributable to the Participant shall be distributed to the legal representative of the estate of the Participant. If a deceased Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the complete distribution of benefits to the Designated Beneficiary under these Restricted Stock Unit Award Terms, then any benefits distributable to the Designated Beneficiary shall be distributed to the legal representative of the estate of the Designated Beneficiary.

12. Administration. The authority to manage and control the operation and administration of these Restricted Stock Unit Award Terms shall be vested in the Committee, and the Committee shall have all powers with respect to these Restricted Stock Unit Award Terms as it has with respect to the Plan. Any interpretation of these Restricted Stock Unit Award Terms by the Committee and any decision made by it with respect to these Restricted Stock Unit Award Terms are final and binding on all persons.

13. Plan and Corporate Records Govern. Notwithstanding anything in these Restricted Stock Unit Award Terms to the contrary, these Restricted Stock Unit Award Terms shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Secretary of the Company; and these Restricted Stock Unit Award Terms are subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan. Notwithstanding anything in the Restricted Stock Unit Award Terms to the contrary, in the event of any discrepancies between the corporate records regarding this award and the Record-Keeping System, the corporate records shall control.

14. Not An Employment Contract. The Restricted Stock Unit Award will not confer on the Participant any right with respect to continuance of employment or other service with the Company or any Related Company, nor will it interfere in any way with any right the Company or any Related Company would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.

15. Notices. Any written notices provided for in these Restricted Stock Unit Award Terms or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailing but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant's address indicated by the Company's records, or if to the Company, at the Company's principal executive office.

16. Fractional Shares. In lieu of issuing a fraction of a share, resulting from an adjustment of the Restricted Stock Unit Award pursuant to paragraph 5.2(f) of the Plan or otherwise, the Company will be entitled to pay to the Participant an amount equal to the fair market value of such fractional share.

17. Competitive Activity .

(a) The Committee may cancel, rescind, suspend, withhold or otherwise limit or restrict the Restricted Stock Unit Award at any time if the Participant engages in any "Competitive Activity".

(b) Immediately prior to the Delivery Date and prior to the delivery of the shares of Stock to the Participant, the Participant shall certify, to the extent required by the Committee, in a manner acceptable to the Committee, that the Participant is not engaging and has not engaged in any Competitive Activity. In the event a Participant has engaged in any Competitive Activity during the Restrictive Covenant Period, then the Participant shall be required to transfer the Forfeiture Shares to the Company and, if applicable, pay the Forfeiture Payment to the Company, in such manner and on such terms and conditions as may be required by the Committee, and the Company shall be entitled to set-off such amounts against any amount owed to the Participant by the Company and/or Subsidiary.

18. Amendment . The Restricted Stock Unit Award Terms may be amended in accordance with the provisions of the Plan, and may otherwise be amended by written agreement of the Participant and the Company without the consent of any other person.

19. 409A Compliance . These Restricted Stock Unit Award Terms are intended to be interpreted, operated, and administered in a manner so as not to subject the Participant to the assessment of additional taxes or interest under Code section 409A, and these Restricted Stock Unit Award Terms may be amended as the Company, in its sole discretion, determines is necessary and appropriate to avoid the application of any such taxes or interest.

IN WITNESS WHEREOF, the Company has caused these presents to be executed in its name and on its behalf, all as of the Grant Date.

ACE LIMITED

By: ____
Its: ____

I hereby agree to all the terms, restrictions and conditions set forth in the Agreement:

____

Participant

For Awards for Swiss Executive Management

Incentive Stock Option Terms
under the
ACE Limited 2004 Long-Term Incentive Plan

The Participant has been granted an Option by ACE Limited (the "Company") under the ACE Limited 2004 Long-Term Incentive Plan (the "Plan"). The Option shall be subject to the following Incentive Stock Option Terms (sometimes referred to as the "Option Terms"):

1. Terms of Award . The following words and phrases used in these Option Terms shall have the meanings set forth in this paragraph 1:

(a) The "Participant" is the individual recipient of the Incentive Stock Option Award on the specified Grant Date.

(b) The "Grant Date" is **[Insert Date]** .

(c) The number of "Covered Shares" shall be that number of shares of Stock awarded to the Participant on the Grant Date as reflected in the corporate records and shown in the Record-Keeping System in the Participant's individual account records.

(d) The "Exercise Price" is $ **[Insert Price]** per share.

Other words and phrases used in these Option Terms are defined pursuant to paragraph 8 or elsewhere in these Option Terms.

2. Incentive Stock Option . The Option is intended to constitute an "incentive stock option" as that term is used in Code section 422. To the extent that the aggregate fair market value (determined at the time of grant) of Shares with respect to which incentive stock options are exercisable for the first time by the Participant during any calendar year under all plans of the Company and its Subsidiaries exceeds $100,000, the options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as nonstatutory stock options. It should be understood that there is no assurance that the Option will, in fact, be treated as an incentive stock option.

3. Date of Exercise . Subject to the limitations of these Option Terms, each Installment of Covered Shares of the Option shall be exercisable on and after the Vesting Date for such Installment as described in the following schedule (but only if the Date of Termination has not occurred before the Vesting Date):

INSTALLMENT	VESTING DATE APPLICABLE TO INSTALLMENT
1/3 of Covered Shares	One-year anniversary of the Grant Date
1/3 of Covered Shares	Two-year anniversary of the Grant Date
1/3 of Covered Shares	Three-year anniversary of the Grant Date

Notwithstanding the foregoing provisions of this paragraph 3, the Option shall become fully vested and exercisable as follows, with the exception of paragraph (c) or (d):

(a) The Option shall become fully exercisable upon the Date of Termination, if the Date of Termination occurs by reason of the Participant's death or Long-Term Disability.

(b) If the Participant's Date of Termination is a Change in Control Date of Termination, then, for Installments, if any, as to which the Restricted Period has not ended prior to the Participant's Date of Termination, the Restricted Period will end and such Installments will become exercisable on the Change in Control Date of Termination; provided that if the Participant's Change in Control Date of Termination occurs within the 180-day period immediately preceding the date of a Change in Control, then all unvested Installments held by the Participant on the Date of Termination will become exercisable on the date of the Change in Control. If the originally scheduled expiration date for the Option occurs before the date of the Change in Control, then the Option will not become exercisable under this paragraph (b).

(c) For Installments as to which the Restricted Period has not ended prior to the Date of Termination, if the Date of Termination occurs by reason of the Participant’s Retirement, vesting shall continue pursuant to the foregoing schedule following the Date of Termination. Following the Date of Termination the Restricted Period shall end in accordance with the above schedule.

(d) For Installments as to which the Restricted Period has not ended prior to the Date of Termination, if the Date of Termination occurs by reason of the Participant’s Qualifying Termination, vesting shall continue pursuant to the vesting schedule in this paragraph 3 following the Date of Termination as though the Participant continued to be employed through the two-year anniversary of the Participant’s Date of Termination, subject to the Participant not engaging in any Competitive Activity during such two-year period and subject to the Participant signing and not revoking a general release and waiver of all claims against the Company and such release becomes effective no later than the sixty-day anniversary of the Date of Termination. If such release is not effective within such sixty-day period or in the event that the Participant engages in a Competitive Activity prior to the last day of the Restricted Period for any Installment, the Participant shall immediately forfeit any unvested Installments.

Except as specified in paragraphs (b), (c) and (d), the Option may be exercised on or after the Date of Termination only as to that portion of the Covered Shares for which it was exercisable (or became exercisable) immediately prior to the Date of Termination.

4. Expiration . The Option shall not be exercisable after the Company’s close of business on the last business day that occurs prior to the Expiration Date. The "Expiration Date" shall be the earliest to occur of:

(a) the ten−year anniversary of the Grant Date;

(b) if the Participant's Date of Termination occurs by reason of death or Long-Term Disability, the one-year anniversary of such Date of Termination;

(c) if the Participant's Date of Termination occurs by reason of Retirement, the ten-year anniversary of the Grant Date, or if earlier, the date of the Participant's death;

(d) if the Participant’s Date of Termination occurs by reason of the Participant’s Qualifying Termination or the Participant’s Change in Control Date of Termination, the three-year anniversary of the Participant’s Date of Termination; or

(e) if the Participant's Date of Termination occurs for any reason other than those listed in subparagraph (b), (c) or (d) of this paragraph 4, then subject to paragraph 3(b), the three-month anniversary of such Date of Termination.

Notwithstanding the foregoing provisions of this paragraph 4, if the Participant exercises the Option following the three-month anniversary of his or her Date of Termination, but prior to the Expiration Date of such Option, any such Option shall be treated as a nonstatutory stock option.

5. Method of Option Exercise . Subject to these Option Terms and the Plan, the Option may be exercised in whole or in part by filing a written notice (or by such other method as may be provided by the Committee, including but not limited to processes provided in electronic record-keeping systems utilized for management of the Plan) with the Secretary of the Company at its corporate headquarters prior to the Company’s close of business on the last business day that occurs prior to the Expiration Date. Such notice shall specify the number of shares of Stock which the Participant elects to purchase, and shall be accompanied by payment of the Exercise Price for such shares of Stock indicated by the Participant’s election. Payment shall be by cash or by check payable to the Company. Except as otherwise provided by the Committee before the Option is exercised: (i) all or a portion of the Exercise Price may be paid by the Participant by delivery of shares of Stock owned by the Participant and acceptable to the Committee having an aggregate Fair Market Value (valued as of the date of exercise) that is equal to the amount of cash that would otherwise be required; and (ii) the Participant may pay the Exercise Price by authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of

the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise. The Option shall not be exercisable if and to the extent the Company determines that such exercise would violate applicable state or Federal securities laws or the rules and regulations of any securities exchange on which the Stock is traded. If the Company makes such a determination, it shall use all reasonable efforts to obtain compliance with such laws, rules and regulations. In making any determination hereunder, the Company may rely on the opinion of counsel for the Company.

6. Withholding . All deliveries and distributions under these Option Terms are subject to withholding of all applicable taxes. At the election of the Participant, and subject to such rules and limitations as may be established by the Committee from time to time, such withholding obligations may be satisfied through the surrender of shares of Stock which the Participant already owns, or to which the Participant is otherwise entitled under the Plan; provided, however, that such shares may be used to satisfy not more than the Company's minimum statutory withholding obligation (based on minimum statutory withholding rates for Federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income).

7. Transferability . Except as otherwise provided by the Committee, the Option is not transferable other than as designated by the Participant by will or by the laws of descent and distribution, and during the Participant's life, may be exercised only by the Participant.

8. Definitions **.** For purposes of these Option Terms, words and phrases shall be defined as follows:

(a) Cause . The term "Cause" shall mean - unless otherwise defined in an employment agreement between the Participant and the Company or Subsidiary - the occurrence of any of the following:

(i) a conviction of the Participant with respect to a (x) felony or (y) a misdemeanor involving moral turpitude; or

(ii) willful misconduct or gross negligence by the Participant resulting, in either case, in harm to the Company or any Subsidiary; or

(iii) failure by the Participant to carry out the lawful and reasonable directions of the Board or the Participant's immediate supervisor, as the case may be; or

(iv) refusal to cooperate or non-cooperation by the Participant with any governmental regulatory authority; or

(v) fraud, embezzlement, theft or dishonesty by the Participant against the Company or any Subsidiary or a material violation by the Participant of a policy or procedure of the Company, resulting, in any case, in harm to the Company or any Subsidiary.

(b) Change in Control . The term "Change in Control" shall be defined as set forth in the Plan.

(c) Change in Control Date of Termination . The term "Change in Control Date of Termination" means the Participant's Date of Termination occurs because the Company and/or any of the Related Companies terminates the Participant's employment with the Company and/or the Related Companies without Cause (other than due to death, a Long-Term Disability or a Retirement) or because the Participant terminates his or her employment for Good Reason, provided that such termination in accordance with this paragraph 8(c) occurs during the period commencing on the 180 th day immediately preceding a Change in Control date and ending on the two-year anniversary of such Change in Control date.

(d) Competitive Activity . The term "Competitive Activity" means the Participant's: (i) engagement in an activity - whether as an employee, consultant, principal, member, agent, officer, director, partner or shareholder (except as a less than 1% shareholder of a publicly traded company) - that is competitive with any business of the Company or any Subsidiary conducted by the Company or such Subsidiary during the Participant's employment with the Company or the two-year period following the Date of Termination; (ii) solicitation of any client and/or customer of the Company or any affiliate with respect to an activity prohibited by subparagraph (c)(i); (iii) solicitation or employment of any employee of the Company or any affiliate for the purpose of causing such employee to terminate his or her employment with the Company or such affiliate; or (iv) failure to keep confidential all Company trade secrets, proprietary and confidential information.

(e) Date of Termination. A Participant's "Date of Termination" means, with respect to an employee, the date on which the Participant's employment with the Company and Subsidiaries terminates for any reason, and with respect to a Director, the date immediately following the last day on which the Participant serves as a Director; provided that a Date of Termination shall not be deemed to occur by reason of a Participant's transfer of employment between the Company and a Subsidiary or between two Subsidiaries; further provided that a Date of Termination shall not be deemed to occur by reason of a Participant's cessation of service as a Director if immediately following such cessation of service the Participant becomes or continues to be employed by the Company or a Subsidiary, nor by reason of a Participant's termination of employment with the Company or a Subsidiary if immediately following such termination of employment the Participant becomes or continues to be a Director; and further provided that a Participant's employment shall not be considered terminated while the Participant is on a leave of absence from the Company or a Subsidiary approved by the Participant's employer.

(f) Director. The term "Director" means a member of the Board, who may or may not be an employee of the Company or a Subsidiary.

(g) Forfeiture Payment. The term “Forfeiture Payment” means the amount of any gain on any Options exercised by the Participant during the Restrictive Covenant Period pursuant to this Agreement equal to the amount included in the Participant’s income for such exercise.

(h) Good Reason. The term “Good Reason” shall mean - unless otherwise defined in an employment agreement between the Participant and the Company or Subsidiary - the occurrence of any of the following within the sixty-day period preceding a Date of Termination without the Participant’s prior written consent:

(i) a material adverse diminution of the Participant’s titles, authority, duties or responsibilities, or the assignment to the Participant of titles, authority, duties or responsibilities that are materially inconsistent with his or her titles, authority, duties and/or responsibilities in a manner materially adverse to the Participant; or

(ii) a reduction in the Participant’s base salary or annual bonus opportunity (other than any reduction applicable to all similarly situated Executives generally); or

(iii) a failure of the Company to obtain the assumption in writing of its obligations under the Plan by any successor to all or substantially all of the assets of the Company within 45 days after a merger, consolidation, sale or similar transaction that qualifies as a Change in Control.

(i) Long-Term Disability. A Participant shall be considered to have a “Long-Term Disability” if the Participant is determined to be eligible for long-term disability benefits under the long-term disability plan in which the Participant participates and which is sponsored by the Company or a Related Company; or if the Participant does not participate in a long-term disability plan sponsored by the Company or a Related Company, then the Participant shall be considered to have a “Long-Term Disability” if the Committee determines, under standards comparable to those of the Company’s long-term disability plan, that the Participant would be eligible for long-term disability benefits if he or she participated in such plan.

(j) Qualifying Termination. The term “Qualifying Termination” means the Participant’s Date of Termination that occurs because the Company and/or any of the Related Companies terminates the Participant’s employment with the Company and/or the Related Companies without Cause. For the avoidance of doubt, the termination of the Participant’s employment due to death or Long-Term Disability, or a voluntary termination of the Participant’s employment by the Participant for any reason (including Good Reason or Retirement) shall not constitute a Qualifying Termination for the purposes of this Agreement.

(k) Restrictive Covenant Period. The term “Restrictive Covenant Period” means the twenty-four month period following a Date of Termination due to a Qualifying Termination or a Retirement.

(l) Retirement. The term “Retirement” means an employee who’s Date of Termination occurs after satisfying all of the following: (i) the employee has provided at least ten years of service with the Company or a Related Company; (ii) the employee has attained at least age 62; (iii) the employee terminates employment in good standing with the Company or a Related Company; and (iv) the employee executes an agreement and release as required by the Company which will include, without limitation, a general release, and non-competition and non-solicitation provisions. However, with respect to exercising vested options pursuant to 4(c), above, “Retirement” shall mean the occurrence of a Participant's Date of Termination with the consent of the Participant's employer after the Participant is eligible for early retirement or normal retirement under a retirement plan maintained by the Company or the Subsidiaries.

(m) Plan Definitions . Except where the context clearly implies or indicates the contrary, a word, term, or phrase used in the Plan is similarly used in these Option Terms.

9. Heirs and Successors . The Option Terms shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company’s assets and business. If any rights exercisable by the Participant or benefits deliverable to the Participant under these Option Terms have not been exercised or delivered, respectively, at the time of the Participant’s death, such rights shall be exercisable by the Designated Beneficiary, and such benefits shall be delivered to the Designated Beneficiary, in accordance with the provisions of these Option Terms and the Plan. The "Designated Beneficiary" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form and at such time as the Committee shall require. If a deceased Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any rights that would have been exercisable by the Participant and any benefits distributable to the Participant shall be exercised by or distributed to the legal representative of the estate of the Participant. If a deceased Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the Designated Beneficiary’s exercise of all rights under these Option Terms or before the complete distribution of benefits to the Designated Beneficiary under these Option Terms, then any rights that would have been exercisable by the Designated Beneficiary shall be exercised by the legal representative of the estate of the Designated Beneficiary, and any benefits distributable to the Designated Beneficiary shall be distributed to the legal representative of the estate of the Designated Beneficiary.

10. Administration . The authority to manage and control the operation and administration of these Option Terms shall be vested in the Committee, and the Committee shall have all powers with respect to these Option Terms as it has with respect to the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement is final and binding on all persons.

11. Plan and Corporate Records Govern . Notwithstanding anything in these Option Terms to the contrary, these Option Terms shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Secretary of the Company; and these Option Terms are subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan. Notwithstanding anything in the Option Terms to the contrary, in the event of any discrepancies between the corporate records regarding this award and the Record-Keeping System, the corporate records shall control.

12. Not An Employment Contract . The Option will not confer on the Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate or modify the terms of such Participant’s employment or other service at any time.

13. Notices . Any written notices provided for in these Option Terms or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailing but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant’s address indicated by the Company’s records, or if to the Company, at the Company’s principal executive office.

14. Competitive Activity .

(a) The Committee may cancel, rescind, suspend, withhold or otherwise limit or restrict the Incentive Stock Option Award at any time if the Participant engages in any “Competitive Activity”.

(b) Immediately prior to the exercise of the Participant’s Options, the Participant shall certify, to the extent required by the Committee, in a manner acceptable to the Committee, that the Participant is not engaging and has not engaged in any Competitive Activity. In the event a Participant has engaged in any Competitive Activity during the Restrictive Covenant Period, then the Participant shall be required to pay the Forfeiture Payment to the Company, in such manner and on such terms and conditions as may be required by the Committee, and the Company shall be entitled to set-off such amounts against any amount owed to the Participant by the Company and/or Subsidiary. In the event a Participant has engaged in any Competitive Activity during the Restrictive Covenant Period, Participant shall immediately forfeit any unvested or unexercised Options.

15. Fractional Shares . In lieu of issuing a fraction of a share upon any exercise of the Option, resulting from an adjustment of the Option pursuant to paragraph 5.2(f) of the Plan or otherwise, the Company will be entitled to pay to the Participant an amount equal to the fair market value of such fractional share.

16. No Rights As Shareholder . The Participant shall not have any rights of a shareholder with respect to the shares subject to the Option, until a stock certificate has been duly issued following exercise of the Option as provided herein.

17. Amendment . The Option Terms may be amended in accordance with the provisions of the Plan, and may otherwise be amended by written agreement of the Participant and the Company without the consent of any other person.

IN WITNESS WHEREOF, the Company has caused these presents to be executed in its name and on its behalf, all as of the Grant Date.

ACE LIMITED

By: ______________________________
Its: ______________________________

I hereby agree to all the terms, restrictions and conditions set forth in the Agreement:

____
Participant

Exhibit 10.72

For Awards for Swiss Executive Management

Non-Qualified Stock Option Terms
under the
ACE Limited 2004 Long-Term Incentive Plan

The Participant has been granted an Option by ACE Limited (the "Company") under the ACE Limited 2004 Long-Term Incentive Plan (the "Plan"). The Option shall be subject to the following Non-Qualified Stock Option Terms (sometimes referred to as the "Option Terms"):

1. Terms of Award . The following words and phrases used in these Option Terms shall have the meanings set forth in this paragraph 1:

(a) The "Participant" is the individual recipient of the Non-Qualified Stock Option Award on the specified Grant Date.

(b) The "Grant Date" is **[Insert Date]** .

(c) The number of "Covered Shares" shall be that number of shares of Stock awarded to the Participant on the Grant Date as reflected in the corporate records and shown in the Record-Keeping System in the Participant's individual account records.

(d) The "Exercise Price" is $ **[Insert Price]** per share.
Other words and phrases used in these Option Terms are defined pursuant to paragraph 8 or elsewhere in these Option Terms.

2. Non-Qualified Stock Option . The Option is not intended to constitute an "incentive stock option" as that term is used in Code section 422.

3. Date of Exercise . Subject to the limitations of these Option Terms, each Installment of Covered Shares of the Option shall be exercisable on and after the Vesting Date for such Installment as described in the following schedule (but only if the Date of Termination has not occurred before the Vesting Date):

INSTALLMENT	**VESTING DATE APPLICABLE TO INSTALLMENT**
1/3 of Covered Shares	One-year anniversary of the Grant Date
1/3 of Covered Shares	Two-year anniversary of the Grant Date
1/3 of Covered Shares	Three-year anniversary of the Grant Date

Notwithstanding the foregoing provisions of this paragraph 3, the Option shall become fully vested and exercisable as follows, with the exception of paragraph (c) or (d):

(a) The Option shall become fully exercisable upon the Date of Termination, if the Date of Termination occurs by reason of the Participant's death or Long-Term Disability.

(b) If the Participant's Date of Termination is a Change in Control Date of Termination, then, for Installments, if any, as to which the Restricted Period has not ended prior to the Participant's Date of Termination, the Restricted Period will end and such Installments will become exercisable on the Change in Control Date of Termination; provided that if the Participant's Change in Control Date of Termination occurs within the 180-day period immediately preceding the date of a Change in Control, then all unvested Installments held by the Participant on the Date of Termination will become exercisable on the date of the Change in Control. If the originally scheduled expiration date for the Option occurs before the date of the Change in Control, then the Option will not become exercisable under this paragraph (b).

(c) For Installments as to which the Restricted Period has not ended prior to the Date of Termination, if the Date of Termination occurs by reason of the Participant's Retirement, vesting shall continue pursuant to the foregoing schedule following the Date of Termination. Following the Date of Termination the Restricted Period shall end in accordance with the above schedule.

(d) For Installments as to which the Restricted Period has not ended prior to the Date of Termination, if the Date of Termination occurs by reason of the Participant's Qualifying Termination, vesting shall continue pursuant to the vesting schedule in this paragraph 3 following the Date of Termination as though the Participant continued to be employed through the two-year anniversary of the Participant's Date of Termination, subject to the Participant not engaging in any Competitive Activity during such two-year period and subject to the Participant signing and not revoking a general release and waiver of all claims against the Company and such release becomes effective no later than the sixty-day anniversary of the Date of Termination. If such release is not effective within such sixty-day period or in the event that the Participant engages in a Competitive Activity prior to the last day of the Restricted Period for any Installment, the Participant shall immediately forfeit any unvested Installments.

Except as specified in paragraphs (b), (c) and (d), the Option may be exercised on or after the Date of Termination only as to that portion of the Covered Shares for which it was exercisable (or became exercisable) immediately prior to the Date of Termination.

4. Expiration . The Option shall not be exercisable after the Company's close of business on the last business day that occurs prior to the Expiration Date. The "Expiration Date" shall be the earliest to occur of:

(a) the ten-year anniversary of the Grant Date;

(b) if the Participant's Date of Termination occurs by reason of death or Long-Term Disability, the one-year anniversary of such Date of Termination;

(c) if the Participant's Date of Termination occurs by reason of Retirement, the ten-year anniversary of the Grant Date[, or if earlier, the date of the Participant's death];

(d) if the Participant's Date of Termination occurs by reason of the Participant's Qualifying Termination or the Participant's Change in Control Date of Termination, the three-year anniversary of the Participant's Date of Termination; or

(e) if the Participant's Date of Termination occurs for any reason other than those listed in subparagraph (b), (c) or (d) of this paragraph 4, then subject to paragraph 3(b), the three-month anniversary of such Date of Termination.

5. Method of Option Exercise . Subject to these Option Terms and the Plan, the Option may be exercised in whole or in part by filing a written notice (or by such other method as may be provided by the Committee, including but not limited to processes provided in electronic record-keeping systems utilized for management of the Plan) with the Secretary of the Company at its corporate headquarters prior to the Company's close of business on the last business day that occurs prior to the Expiration Date. Such notice shall specify the number of shares of Stock which the Participant elects to purchase, and shall be accompanied by payment of the Exercise Price for such shares of Stock indicated by the Participant's election. Payment shall be by cash or by check payable to the Company. Except as otherwise provided by the Committee before the Option is exercised: (i) all or a portion of the Exercise Price may be paid by the Participant by delivery of shares of Stock owned by the Participant and acceptable to the Committee having an aggregate Fair Market Value (valued as of the date of exercise) that is equal to the amount of cash that would otherwise be required; and (ii) the Participant may pay the Exercise Price by authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise. The Option shall not be exercisable if and to the extent the Company determines that such exercise would violate applicable state or Federal securities laws or the rules and regulations of any securities exchange on which the Stock is traded. If the Company makes such a determination, it shall use all reasonable efforts to obtain compliance with such laws, rules and regulations. In making any determination hereunder, the Company may rely on the opinion of counsel for the Company.

6. Withholding . All deliveries and distributions under these Option Terms are subject to withholding of all applicable taxes. At the election of the Participant, and subject to such rules and limitations as may be established by the Committee from time to time, such withholding obligations may be satisfied through the surrender of shares of Stock which the Participant already owns, or to which the Participant is otherwise entitled under the Plan; provided, however, that such shares may be used to satisfy not more than the Company's minimum statutory withholding obligation (based on minimum statutory withholding rates for Federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income).

7. Transferability. Except as otherwise provided by the Committee, the Option is not transferable other than as designated by the Participant by will or by the laws of descent and distribution, and during the Participant's life, may be exercised only by the Participant.

8. Definitions. For purposes of these Option Terms, words and phrases shall be defined as follows:

(a) Cause. The term "Cause" shall mean - unless otherwise defined in an employment agreement between the Participant and the Company or Subsidiary - the occurrence of any of the following:

(i) a conviction of the Participant with respect to a (x) felony or (y) a misdemeanor involving moral turpitude; or

(ii) willful misconduct or gross negligence by the Participant resulting, in either case, in harm to the Company or any Subsidiary; or

(iii) failure by the Participant to carry out the lawful and reasonable directions of the Board or the Participant's immediate supervisor, as the case may be; or

(iv) refusal to cooperate or non-cooperation by the Participant with any governmental regulatory authority; or

(v) fraud, embezzlement, theft or dishonesty by the Participant against the Company or any Subsidiary or a material violation by the Participant of a policy or procedure of the Company, resulting, in any case, in harm to the Company or any Subsidiary.

(b) Change in Control. The term "Change in Control" shall be defined as set forth in the Plan.

(c) Change in Control Date of Termination. The term "Change in Control Date of Termination" means the Participant's Date of Termination occurs because the Company and/or any of the Related Companies terminates the Participant's employment with the Company and/or the Related Companies without Cause (other than due to death, a Long-Term Disability or a Retirement) or because the Participant terminates his or her employment for Good Reason, provided that such termination in accordance with this paragraph 8(c) occurs during the period commencing on the 180th day immediately preceding a Change in Control date and ending on the two-year anniversary of such Change in Control date.

(d) Competitive Activity. The term "Competitive Activity" means the Participant's: (i) engagement in an activity - whether as an employee, consultant, principal, member, agent, officer, director, partner or shareholder (except as a less than 1% shareholder of a publicly traded company) - that is competitive with any business of the Company or any Subsidiary conducted by the Company or such Subsidiary during the Participant's employment with the Company or the two-year period following the Date of Termination; (ii) solicitation of any client and/or customer of the Company or any affiliate with respect to an activity prohibited by subparagraph (c)(i); (iii) solicitation or employment of any employee of the Company or any affiliate for the purpose of causing such employee to terminate his or her employment with the Company or such affiliate; or (iv) failure to keep confidential all Company trade secrets, proprietary and confidential information.

(e) Date of Termination. A Participant's "Date of Termination" means, with respect to an employee, the date on which the Participant's employment with the Company and Subsidiaries terminates for any reason, and with respect to a Director, the date immediately following the last day on which the Participant serves as a Director; provided that a Date of Termination shall not be deemed to occur by reason of a Participant's transfer of employment between the Company and a Subsidiary or between two Subsidiaries; further provided that a Date of Termination shall not be deemed to occur by reason of a Participant's cessation of service as a Director if immediately following such cessation of service the Participant becomes or continues to be employed by the Company or a Subsidiary, nor by reason of a Participant's termination of employment with the Company or a Subsidiary if immediately following such termination of employment the Participant becomes or continues to be a Director; and further provided that a Participant's employment shall not be considered terminated while the Participant is on a leave of absence from the Company or a Subsidiary approved by the Participant's employer.

(f) Director. The term "Director" means a member of the Board, who may or may not be an employee of the Company or a Subsidiary.

(g) Forfeiture Payment . The term “Forfeiture Payment” means the amount of any gain on any Options exercised by the Participant during the Restrictive Covenant Period pursuant to this Agreement equal to the amount included in the Participant’s income for such exercise.

(h) Good Reason . The term “Good Reason” shall mean - unless otherwise defined in an employment agreement between the Participant and the Company or Subsidiary - the occurrence of any of the following within the sixty-day period preceding a Date of Termination without the Participant’s prior written consent:

(i) a material adverse diminution of the Participant’s titles, authority, duties or responsibilities, or the assignment to the Participant of titles, authority, duties or responsibilities that are materially inconsistent with his or her titles, authority, duties and/or responsibilities in a manner materially adverse to the Participant; or

(ii) a reduction in the Participant’s base salary or annual bonus opportunity (other than any reduction applicable to all similarly situated Executives generally); or

(iii) a failure of the Company to obtain the assumption in writing of its obligations under the Plan by any successor to all or substantially all of the assets of the Company within 45 days after a merger, consolidation, sale or similar transaction that qualifies as a Change in Control.

(i) Long-Term Disability . A Participant shall be considered to have a “Long-Term Disability” if the Participant is determined to be eligible for long-term disability benefits under the long-term disability plan in which the Participant participates and which is sponsored by the Company or a Related Company; or if the Participant does not participate in a long-term disability plan sponsored by the Company or a Related Company, then the Participant shall be considered to have a “Long-Term Disability” if the Committee determines, under standards comparable to those of the Company’s long-term disability plan, that the Participant would be eligible for long-term disability benefits if he or she participated in such plan.

(j) Qualifying Termination . The term “Qualifying Termination” means the Participant’s Date of Termination that occurs because the Company and/or any of the Related Companies terminates the Participant’s employment with the Company and/or the Related Companies without Cause. For the avoidance of doubt, the termination of the Participant’s employment due to death or Long-Term Disability, or a voluntary termination of the Participant’s employment by the Participant for any reason (including Good Reason or Retirement) shall not constitute a Qualifying Termination for the purposes of this Agreement.

(k) Restrictive Covenant Period . The term “Restrictive Covenant Period” means the twenty-four month period following a Date of Termination due to a Qualifying Termination or a Retirement.

(l) Retirement . The term “Retirement” means an employee who’s Date of Termination occurs after satisfying all of the following: (i) the employee has provided at least ten years of service with the Company or a Related Company; (ii) the employee has attained at least age 62; (iii) the employee terminates employment in good standing with the Company or a Related Company; and (iv) the employee executes an agreement and release as required by the Company which will include, without limitation, a general release, and non-competition and non-solicitation provisions. However, with respect to exercising vested options pursuant to 4(c), above, “Retirement” shall mean the occurrence of a Participant’s Date of Termination with the consent of the Participant’s employer after the Participant is eligible for early retirement or normal retirement under a retirement plan maintained by the Company or the Subsidiaries.

(m) Plan Definitions . Except where the context clearly implies or indicates the contrary, a word, term, or phrase used in the Plan is similarly used in these Option Terms.

9. Heirs and Successors . The Option Terms shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company’s assets and business. If any rights exercisable by the Participant or benefits deliverable to the Participant under these Option Terms have not been exercised or delivered, respectively, at the time of the Participant’s death, such rights shall be exercisable by the Designated Beneficiary, and such benefits shall be delivered to the Designated Beneficiary, in accordance with the provisions of these Option Terms and the Plan. The “Designated Beneficiary” shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form and at such time as the Committee shall require. If a deceased Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any rights that would have been exercisable by the Participant and any benefits distributable to the Participant shall be exercised by or distributed to the legal

representative of the estate of the Participant. If a deceased Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the Designated Beneficiary's exercise of all rights under these Option Terms or before the complete distribution of benefits to the Designated Beneficiary under these Option Terms, then any rights that would have been exercisable by the Designated Beneficiary shall be exercised by the legal representative of the estate of the Designated Beneficiary, and any benefits distributable to the Designated Beneficiary shall be distributed to the legal representative of the estate of the Designated Beneficiary.

10. Administration . The authority to manage and control the operation and administration of these Option Terms shall be vested in the Committee, and the Committee shall have all powers with respect to these Option Terms as it has with respect to the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement is final and binding on all persons.

11. Plan Governs . Notwithstanding anything in these Option Terms to the contrary, these Option Terms shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Secretary of the Company; and these Option Terms are subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan. Notwithstanding anything in the Option Terms to the contrary, in the event of any discrepancies between the corporate records regarding this award and the Record-Keeping System, the corporate records shall control.

12. Not An Employment Contract . The Option will not confer on the Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.

13. Notices . Any written notices provided for in these Option Terms or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailing but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant's address indicated by the Company's records, or if to the Company, at the Company's principal executive office.

14. Competitive Activity.

(a) The Committee may cancel, rescind, suspend, withhold or otherwise limit or restrict the Non-Qualified Stock Option Award at any time if the Participant engages in any "Competitive Activity".

(b) Immediately prior to the exercise of the Participant's Options, the Participant shall certify, to the extent required by the Committee, in a manner acceptable to the Committee, that the Participant is not engaging and has not engaged in any Competitive Activity. In the event a Participant has engaged in any Competitive Activity during the Restrictive Covenant Period, then the Participant shall be required to pay the Forfeiture Payment to the Company, in such manner and on such terms and conditions as may be required by the Committee, and the Company shall be entitled to set-off such amounts against any amount owed to the Participant by the Company and/or Subsidiary. In the event a Participant has engaged in any Competitive Activity during the Restrictive Covenant Period, Participant shall immediately forfeit any unvested or unexercised Options.

15. Fractional Shares . In lieu of issuing a fraction of a share upon any exercise of the Option, resulting from an adjustment of the Option pursuant to paragraph 5.2(f) of the Plan or otherwise, the Company will be entitled to pay to the Participant an amount equal to the fair market value of such fractional share.

16. No Rights As Shareholder . The Participant shall not have any rights of a shareholder with respect to the shares subject to the Option, until a stock certificate has been duly issued following exercise of the Option as provided herein.

17. Amendment . The Option Terms may be amended in accordance with the provisions of the Plan, and may otherwise be amended by written agreement of the Participant and the Company without the consent of any other person.

IN WITNESS WHEREOF, the Company has caused these presents to be executed in its name and on its behalf, all as of the Grant Date.

ACE LIMITED

By: ____
Its: ____

I hereby agree to all the terms, restrictions and conditions set forth in the Agreement:

____

Participant

Exhibit 12.1

ACE Limited
Ratio of Earnings to Fixed Charges

	Years Ended December 31				
(in millions of U.S. dollars, except ratios)	**2014**	2013	2012	2011	2010
Net income	**$ 2,853**	$ 3,758	$ 2,706	$ 1,540	$ 3,085
Add:					
Provision for income taxes	**634**	480	270	502	553
Fixed charges	**322**	318	287	288	251
Earnings for computation	**$ 3,809**	$ 4,556	$ 3,263	$ 2,330	$ 3,889
Fixed charges					
Interest expense	**$ 280**	$ 275	$ 250	$ 250	$ 224
Portion of rental expense deemed to be interest	**42**	43	37	38	27
Total fixed charges	**$ 322**	$ 318	$ 287	$ 288	$ 251
Ratio of earnings to fixed charges	**11.8**	14.4	11.4	8.1	15.5

Note: ACE Limited recognizes accruals for interest and penalties, if any, related to unrecognized tax benefits in income tax expense (i.e., excluded from interest expense).

Exhibit 21.1 Set forth below are subsidiaries of ACE and their respective jurisdiction of ownership and percentage ownership, in each case as of December 31, 2014. Each of the named subsidiaries is not necessarily a significant subsidiary as defined in Rule 1-02(w) of Regulation S-X, and ACE has several additional subsidiaries not named below. The unnamed subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary at the end of the year covered by this report.

Name	Jurisdiction of Organization	Percentage Ownership
ACE Limited	Switzerland	Publicly held
ACE Insurance (Switzerland) Limited	Switzerland	100%
ACE Reinsurance (Switzerland) Limited	Switzerland	100%
ACE Group Management and Holdings Ltd.	Bermuda	100%
ACE Bermuda Insurance Ltd.	Bermuda	100%
Paget Reinsurance Ltd.	Bermuda	100%
ACE Capital Title Reinsurance Company	USA (New York)	100%
ACE Financial Solutions International, Ltd.	Bermuda	100%
ACE Bermuda International Insurance (Ireland) Limited (formerly ACE European Markets Insurance Limited)	Ireland	100%
Corporate Officers & Directors Assurance Ltd.	Bermuda	100%
Oasis Real Estate Company Ltd.	Bermuda	100%
Sovereign Risk Insurance Limited	Bermuda	100%
Sovereign Risk Insurance (Dubai) Limited	UAE (Dubai)	100%
ACE Realty Holdings Limited	Bermuda	100%
ACE Global Markets Limited	England & Wales	100%
ACE Group Holdings Limited	England & Wales	100%
ACE Tarquin	England & Wales	100%
ACE Capital V Limited	England & Wales	100%
ACE Leadenhall Limited	England & Wales	100%
ACE Underwriting Agencies Limited	England & Wales	100%
ACE London Group Limited	England & Wales	100%
ACE Capital Limited	England & Wales	100%
ACE Capital III Limited	England & Wales	100%
ACE Capital IV Limited	England & Wales	100%
ACE London Holdings Limited	England & Wales	100%
ACE Capital II Limited	England & Wales	100%
ACE London Investments Limited	England & Wales	100%
ACE London Aviation Limited	England & Wales	100%
ACE London Underwriting Limited	England & Wales	100%
ACE Underwriting Services Limited	England & Wales	100%
ACE London Services Limited	England & Wales	100%
ACE Capital VI Limited	England & Wales	100%
ACE Services Limited	Cayman Islands	100%
Oasis Insurance Services Ltd.	Bermuda	100%
ACE Tempest Life Reinsurance Ltd.	Bermuda	100%
ACE Europe Life Limited	England & Wales	100%
ACE Tempest Reinsurance Ltd.	Bermuda	100%
ACE Tempest Re Escritório de Representação no Brasil Ltda.	Brazil	100%

Oasis Investments Limited	Bermuda	67% 33% (ACE Bermuda Insurance Ltd.)
Oasis Investments 2 Ltd.	Bermuda	67% 33% (ACE Bermuda Insurance Ltd.)
ACE Group Holdings, Inc.	USA (Delaware)	100%
ACE (CR) Holdings	England & Wales	100%
ACE Capital VII Limited	England & Wales	100%
ACE (RGB) Holdings Limited	England & Wales	100%
ACE (CIDR) Limited	England & Wales	100%
Ridge Underwriting Agencies Limited	England & Wales	100%
ACE Asset Management Inc.	USA (Delaware)	100%
ACE Life Insurance Company	USA (Connecticut)	100%
ACE INA Holdings Inc.	USA (Delaware)	80% 20% (ACE Limited)
ACE Direct Marketing Company, Ltd.	Korea	100%
ACE Life Insurance Company Ltd.	Korea	100%
Combined Insurance Company of America	USA (Illinois)	100%
Combined Insurance Company of Europe Limited	Ireland	100%
Combined Life Insurance Company of New York	USA (New York)	100%
Huatai Insurance Group Company, Limited	China	5.8293% 9.7755% (ACE Tempest Reinsurance Ltd.) 4.3952% (ACE US Holdings, Inc.)
Huatai Life Insurance Company, Limited	China	79.5746% 20% (ACE INA Holdings Inc.)
INA Corporation	USA (Pennsylvania)	100%
INA Tax Benefits Reporting, Inc.	USA (Delaware)	100%
INA Financial Corporation	USA (Delaware)	100%
Brandywine Holdings Corporation	USA (Delaware)	100%
Cravens, Dargan & Company, Pacific Coast	USA (Delaware)	100%
Century Indemnity Company	USA (Pennsylvania)	100%
Century International Reinsurance Company Ltd.	Bermuda	100%
INA Holdings Corporation	USA (Delaware)	100%
INA International Holdings, LLC	USA (Delaware)	100%
ACE INA Properties, Inc.	USA (Delaware)	100%
Conference Facilities, Inc.	USA (Pennsylvania)	100%
INA Reinsurance Company, Ltd.	Bermuda	100%
ACE INA Financial Institution Solutions, Inc.	USA (Delaware)	100%
American Lenders Facilities, Inc.	USA (California)	100%
ESIS, Inc.	USA (Pennsylvania)	100%
ESIS Canada Inc.	Canada (Ontario)	100%

ACE Environmental Health and Safety Consulting (Shanghai) Company Limited	China	100%
ESIS Asia Pacific PTE. Ltd.	Singapore	100%
ESIS Academy PTE. Ltd.	Singapore	100%
Proclaim America, Inc.	USA (Texas)	51%
NewMarkets Insurance Agency, Inc.	USA (Delaware)	100%
ACE INA Excess and Surplus Insurance Services, Inc.	USA (Pennsylvania)	100%
ACE INA Excess and Surplus Insurance Services, Inc.	USA (California)	100%
ACE Financial Solutions, Inc.	USA (Delaware)	100%
ACE Risk Solutions, Inc.	USA (New York)	100%
Indemnity Insurance Company of North America	USA (Pennsylvania)	100%
ACE American Insurance Company	USA (Pennsylvania)	100%
Penn Millers Holding Corporation	USA (Pennsylvania)	100%
PMMHC Corp.	USA (Pennsylvania)	100%
Penn Millers Insurance Company	USA (Pennsylvania)	100%
Penn Millers Agency, Inc.	USA (Pennsylvania)	100%
Pacific Employers Insurance Company	USA (Pennsylvania)	100%
Illinois Union Insurance Company	USA (Illinois)	100%
Rain and Hail Insurance Service Incorporated	USA (Iowa)	100%
Agri General Insurance Company	USA (Iowa)	100%
Rain and Hail L.L.C.	USA (Iowa)	100%
Agri General Insurance Service, Inc.	USA (Iowa)	100%
Rain and Hail Insurance Service International, Inc.	USA (Iowa)	100%
Rain and Hail Holding Corporation	Canada	100%
Rain and Hail Insurance Service, Ltd.	Canada	100%
Rain and Hail Insurance Service de Mexico, S.A. de C.V.	Mexico	100%
Rain and Hail Financial, Inc.	USA (Iowa)	100%
INAMAR Insurance Underwriting Agency, Inc.	USA (New Jersey)	100%
INAMAR Insurance Underwriting Agency, Inc. of Texas	USA (Texas)	100%
Insurance Company of North America	USA (Pennsylvania)	100%
Bankers Standard Insurance Company	USA (Pennsylvania)	100%
Bankers Standard Fire and Marine Company	USA (Pennsylvania)	100%
ACE Property and Casualty Insurance Company	USA (Pennsylvania)	100%
ACE Fire Underwriters Insurance Company	USA (Pennsylvania)	100%
Atlantic Employers Insurance Company	USA (New Jersey)	100%
ACE Insurance Company of the Midwest	USA (Indiana)	100%

ACE Tempest Re USA, LLC	USA (Connecticut)	100%
ACE Structured Products, Inc.	USA (Delaware)	100%
Recovery Services International, Inc.	USA (Delaware)	100%
ACE INA International Holdings, Ltd.	USA (Delaware)	100%
Combined Life Insurance Company of Australia, Ltd.	Australia	100%
ACE Arabia Cooperative Insurance Company	Saudi Arabia	30%
ACE Servicios, S.A.	Panama	100%
ACE Life Insurance Company Ltd.	Bermuda	100%
ACE Jerneh Insurance Berhad	Malaysia	100%
FM HoldCo LLC	USA (Delaware)	100%
ACE Fianzas Monterrey, S.A.	Mexico	99.95% .05% (AFIA Finance Corporation)
Operadora FMA, S.A. de C.V.	Mexico	100%
INACOMB S.A. de C.V.	Mexico	100%
ACE Australia Holdings Pty Limited	Australia	100%
ACE Insurance Limited	Australia	100%
PT. ACE Life Assurance	Indonesia	98.21%
ACE Life Insurance Company Limited	Vietnam	100%
ACE Life Fund Management Company Limited	Vietnam	100%
ACE Insurance Company Limited	Vietnam	100%
ACE Seguradora S.A.	Brazil	100%
ACE Seguros Solucoes Corporativas S.A.	Brazil	100%
ACE Participações Ltda.	Brazil	99% 1% (AFIA Finance Corporation)
ACE Resseguradora S.A.	Brazil	100%
Servicios ACEINA, S.A. de C.V.	Mexico	99.9% .1% (AFIA Finance Corporation)
ACE Seguros S.A.	Argentina	96.8621% 3.12% (AFIA Finance Corporation)
ACE INA International Holdings Ltd. Agencia Chile	Chile	100%
ACE Seguros de Vida S.A.	Chile	95% 5% (AFIA Finance Corporation Agencia en Chile)
Ventas Personales Limitada	Chile	99% 1% (AFIA Finance Corporation Agencia en Chile)

ACE Seguros S.A.	Chile	85.83% 8.00% (AFIA Finance Corporation, Agencia en Chile) 5.95% (AFIA Finance Corp. Chile Limitada)
ACE Servicios Regionales Limitada	Chile	99% 1% (AFIA Finance Corporation Agencia en Chile)
PT ACE Jaya Proteksi	Indonesia	83% 17% (PT Adi Citra Mandiri)
PT Jaya Proteksi Takaful	Indonesia	51%
PT Jaya Prima Auto Center	Indonesia	75%
ACE INA Overseas Holdings, Inc.	USA (Delaware)	100%
ACE European Holdings Limited	England & Wales	100%
ACE Insurance Management (DIFC) Limited	Dubai International Financial Centre	100%
ACE European Holdings No 2 Limited	England & Wales	100%
ACE Insurance S.A.-N.V.	Belgium	99.94923% 0.05076% (ACE INA International Holdings, Ltd.)
ACE European Group Limited	England & Wales	69.1277% 30.8723% (ACE European Holdings Ltd.)
ACE Pension Trustee Limited	England & Wales	100%
ACE Russia Investments Limited	England & Wales	100%
LLC ACE Life Insurance	Russia	100%
CJSC ACE Insurance Company	Russia	100%
ACE Seguradora S.A.	Macau	99.9897%
ACE Holdings Limited	Cayman Islands	100%
ACE Insurance Company Egypt S.A.E.	Egypt	98.014% 0.551% (ACE INA Services UK Ltd) 0.551% (ACE European Holdings Ltd)
ACE Life Insurance Company S.A.E.	Egypt	98.35% 0.98% (ACE Holdings Limited) 0.67% (AFIA Finance Corporation)
ACE INA Berhad	Malaysia	100%

ACE Seguros S.A.	Colombia	35.801859% 46.682606% (Insurance Company of North America) 7.84194% (INA Financial Corporation) 5.752174% (AFIA Finance Corporation) 3.921353% (Century International Reinsurance Company, Ltd)
ACE Seguros S.A.	Ecuador	100%
ACE Seguros S.A.	Mexico	100%
ACE Seguros S.A.	Panama	100%
ACE Seguros S.A. (formerly Altas Cumbres Compañía de Seguros de Vida)	Peru	100%
Eksupsiri Company Limited	Thailand	49% 50.99% (Nam Ek)
ACE Life Assurance Public Co. Ltd.	Thailand	75.01% 24.99% (Oriental Equity Holdings)
The Siam Commercial Samaggi Insurance PCL	Thailand	93.03%
Nam Ek Company Limited	Thailand	49%
Eksupsiri Company Limited	Thailand	50.99% 49% (AIIH)
Siam Marketing & Analytics Company Limited	Thailand	50.99% 49% (ACE Asia Pacific Services Pte. Limited)
Siam Liberty Insurance Broker Co., Ltd.	Thailand	74.8% 24.99% (AFIA Finance Corporation)
ACE Insurance Limited	South Africa	100%
ACE Insurance Limited	New Zealand	100%
ACE Brazil Holdings, Ltd.	Delaware	100%
ACE International Management Corporation	Pennsylvania	100%
Cover Direct, Inc.	USA (Delaware)	100%
PT Adi Citra Mandiri	Indonesia	100%
ACE INA G.B. Holdings, Ltd	USA (Delaware)	100%
ACE INA Services U.K. Limited	United Kingdom	100%
Century Inversiones, S.A.	Panama	100%
ACE Arabia Insurance Company Limited B.S.C. (C)	Bahrain	50%
ACE Insurance Limited	Pakistan	100%
ACE INA Overseas Insurance Company Ltd.	Bermuda	100%
ACE Canada Holdings, Inc.	USA (Delaware)	100%
INACAN Holdings Ltd.	Canada (Ontario)	100%
ACE INA Insurance	Canada	100%
ACE INA Life Insurance	Canada	100%
ACE Tempest Re Canada Inc.	Canada (Quebec)	100%
ACE Insurance Limited	Singapore	100%

ACE Insurance	Japan	100%
ACE Chintai SSI	Japan	100%
H.S. Life Small Amount & Short Term Ins. Co. Ltd.	Japan	12.5%
ACE Marketing Group, C.A.	Venezuela	100%
ACE Insurance Company	Puerto Rico	100%
ACE Insurance Agency, Inc.	Puerto Rico	100%
ACE Insurance Limited	Hong Kong	100%
ACE Alternative Risk Ltd. (formerly ACE Risk Management International Ltd.)	Bermuda	100%
DELPANAMA S.A.	Panama	100%
INAMEX S.A.	Mexico	100%
Oriental Equity Holdings Limited	British Virgin Islands	100%
AFIA Finance Corporation	USA (Delaware)	100%
AFIA Finance Corporation Agencia en Chile	Chile	100%
AFIA Venezolana C.A.	Venezuela	100%
ACE Servicios S.A.	Argentina	95% 5% (ACE INA Int'l Holdings)
AFIA Finance Corp. Chile Limitada	Chile	98% 2% (ACE INA Int'l Holdings)
Pembroke Reinsurance, Inc.	USA (Delaware)	100%
RIYAD Insurance Co. Ltd.	Bermuda	80%
ACE Asia Pacific Services Pte. Ltd. (formerly Safire Private Limited)	Singapore	100%
ACE Asia Pacific Services Sdn Bhd	Malaysia	100%
AFIA (INA) Corporation, Limited	USA (Delaware)	100%
AFIA	Unincorporated Association	60% 40% AFIA (ACE)
AFIA (ACE) Corporation, Limited	USA (Delaware)	100%
INAVEN, C.A. “Venezuela”	Venezuela	100%
Ally Insurance Holdings LLC	USA (Delaware)	100%
ABA Seguros, S.A. de C.V.	Mexico	100%
ABA Servicios Corporativos, S.A. de C.V.	Mexico	100%
ABA Mexico Holdings LLC	USA (Delaware)	100%
ABA Garantias S.A. de C.V.	Mexico	100%
ACE US Holdings, Inc.	USA (Delaware)	100%
Rhea International Marketing (L), Inc.	Malaysia	60%
Westchester Fire Insurance Company (F/K/A ACE Indemnity Insurance Company)	USA (Pennsylvania)	100%
Westchester Surplus Lines Insurance Company	USA (Georgia)	100%
Westchester Specialty Insurance Services, Inc.	USA (Nevada)	100%

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-200838) and Form S-8 (Nos. 333-188949, 333-182062, 333-153239, 333-116532, 333-1404, 333-46301, 333-93867, 333-72301, 333-61038, 333-134504, and 333-168795) of ACE Limited of our report dated February 27, 2015 relating to the financial statements, financial statement schedules, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 27, 2015

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Evan G. Greenberg, certify that:

1) I have reviewed this annual report on Form 10-K of ACE Limited;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2015

/s/ Evan G. Greenberg

Evan G. Greenberg
Chairman, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Philip V. Bancroft, certify that:

1) I have reviewed this annual report on Form 10-K of ACE Limited;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2015

/s/ Philip V. Bancroft

Philip V. Bancroft

Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of ACE Limited (the Corporation) hereby certifies that the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2014 , fully complies with the applicable reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a)) and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Dated: February 27, 2015	/s/ Evan G. Greenberg
	Evan G. Greenberg Chairman, President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of ACE Limited (the Corporation) hereby certifies that the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2014 , fully complies with the applicable reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a)) and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Dated: February 27, 2015	/s/ Philip V. Bancroft
	Philip V. Bancroft
	Chief Financial Officer