

ACE EUROPEAN HOLDINGS No 2 LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2011

COMPANY REGISTRATION NUMBER 05548342

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

The directors are pleased to submit their report and the audited financial statements for the year to 31 December 2011

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the company is that of an intermediate holding company within the ACE European group. The results for the company show a loss before taxation of £632,000 (2010 profit £45,917,000) and, as disclosed in note 14 to the financial statements (the reconciliation of movement in shareholder's funds), the shareholder's funds of the company total £271,922,000 (2010 £261,675,000)

During the year, the company received capital contributions totalling £10.8 million from its immediate parent, ACE European Holdings Limited of which £7.3 million was subsequently invested in LLC ACE Insurance Russia and £3.5 million in CJSC ACE Life Insurance Russia

FUTURE DEVELOPMENTS

The company continues to act as an intermediate holding company for subsidiary undertakings and is expected to do so for the foreseeable future

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainty affecting the company are in relation to movements in the valuation of its investment in group undertakings

KEY PERFORMANCE INDICATORS (KPIs)

Given the nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

RESULTS AND DIVIDENDS

The loss for the year to 31 December 2011 after taxation amounted to £583,000 (2010 Profit £47,323,000)

No dividend was paid during the year (2010 £Nil). In February 2012 the company paid a dividend of £54,334,705. The directors do not recommend the payment of a further dividend

DIRECTORS

The following have been directors from 1 January 2011 to the date of this report unless otherwise indicated

A J Kendrick
R V Pryce (Resigned 11th April 2012)
K L H Underhill

The company has the benefit of a group insurance company management activities policy effected by ACE Limited. No charge was made to the company during the year for this policy

STATEMENT AS TO DISCLOSURE OF INFORMATION

Each of the persons who are a director at the date of this report confirms that

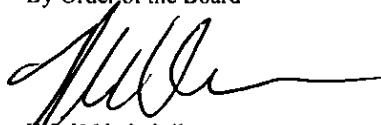
1. So far as each of them is aware, there is no information relevant to the audit of the company's financial statements for the year ended 31 December 2011 of which the auditors are unaware, and
2. The director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011 - continued

AUDITORS

The company's auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office

By Order of the Board

A handwritten signature in black ink, appearing to be 'K. L. H. Underhill', written over a horizontal line.

K. L. H. Underhill
for and on behalf of
ACE London Services Limited
Secretary, 29 June 2012

ACE Building
100 Leadenhall Street
London
EC3A 3BP

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

To the members of ACE European Holdings No 2 Limited

We have audited the financial statements of ACE European Holdings No 2 Limited for the year ended 31 December 2011 which comprise the profit and loss account, the balance sheet, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any parent material misstatements or inconsistencies we consider the implications for our audit report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Barnabas Wanstall (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 June 2012

**PROFIT AND LOSS ACCOUNT
FOR YEAR ENDED 31 December 2011**

	Note	2011 £'000	2010 £'000
TURNOVER	2	-	50,938
Operating expenses	4	-	-
OPERATING PROFIT		-	50,938
Other expenses	7	(187)	-
Interest payable	6	-	(5,021)
Impairment of investment	5	(445)	-
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(632)	45,917
Tax on (loss) / profit on ordinary activities	8	48	1,406
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(583)	47,323

All of the above results derive from continuing operations

The company has no recognised gains or losses other than those presented and hence no separate Statement of Total Recognised Gains and Losses is presented

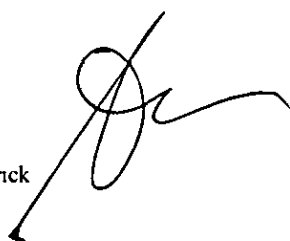
There is no difference between the loss on ordinary activities before taxation and the loss for the financial period stated above and their historical cost equivalents

BALANCE SHEET AT 31 December 2011

	Note	2011 £'000	2010 £'000
FIXED ASSETS			
Investments	9	<u>271,967</u>	<u>261,582</u>
CURRENT ASSETS			
Debtors – amounts falling due within one year	10	<u>7,170</u>	<u>15,063</u>
CURRENT LIABILITIES			
Creditors – amounts falling due within one year	11	<u>(7,215)</u>	<u>(14,970)</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(45)</u>	<u>93</u>
NET ASSETS		<u>271,922</u>	<u>261,675</u>
CAPITAL AND RESERVES			
Called-up share capital	12	152,983	152,983
Profit and loss account	13	118,939	108,692
TOTAL SHAREHOLDER'S FUNDS	14	<u>271,922</u>	<u>261,675</u>

The financial statements on pages 5 to 12 were approved by the board of directors on 29 June 2012 and were signed on its behalf by

A J Kendrick
Director



COMPANY REGISTRATION NUMBER 05548342

NOTES TO THE FINANCIAL STATEMENTS**1. ACCOUNTING POLICIES****Accounting convention**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. The company is a wholly owned subsidiary within the ACE Limited group and is included in the consolidated financial statements of ACE Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (revised) "Cash Flow Statements".

The company is exempt under Section 401 of the Companies Act 2006 from the requirement to prepare and deliver consolidated financial statements as it and its subsidiary undertakings are wholly-owned subsidiaries within the ACE Limited group and are included within the consolidated financial statements of ACE Limited.

Dividends

Dividends receivable are recognised when receivable.

Interest receivable

Interest receivable is accounted for on an accruals basis.

Interest payable

Interest payable is accounted for on an accruals basis.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling on the date of the transaction. Exchange differences arising from the retranslation of monetary assets and liabilities denominated in foreign currencies are included in the profit and loss account.

Investments

Investments in group undertakings and participating interests are stated at the lower of cost and net realisable value.

2. TURNOVER

Turnover consists of dividends received from subsidiary companies.

3. DIRECTORS AND EMPLOYEES

The company has no employees. The directors received no emoluments for their services to the company.

4. OPERATING EXPENSES

The following fees are payable to the company's auditors and are borne by ACE INA Services U.K. Limited, a fellow group company.

	2011	2010
	£'000	£'000
Audit fees:		
Fees payable for the audit of the financial statements	4	4
Non audit fees:		
Fees in respect of audit and other services provided to subsidiary undertakings, pursuant to legislation, including that of countries and territories outside Great Britain	548	362
Other services pursuant to legislation	225	324
Other services relating to taxation and actuarial	824	352
	<hr/>	<hr/>
	1,601	1,042
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NOTES TO THE FINANCIAL STATEMENTS

5 IMPAIRMENT OF INVESTMENT

During 2011, a provision of £445,000 (2010: £Nil) was made against the value of the company's investment in LLC ACE Life Insurance, as the net asset value was lower than the carrying value in the financial statements of the company

6. INTEREST PAYABLE

	2011	2010
	£'000	£'000
Bank interest payable	-	5,021
	<u> </u>	<u> </u>

7 OTHER EXPENSES

	2011	2010
	£'000	£'000
Write off of accrued bank interest	(192)	-
Unrealised foreign exchange gain	5	-
	<u> </u>	<u> </u>
	(187)	-
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

8. TAX ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of credit in year

	2011	2010
	£'000	£'000
Current tax		
UK Corporation tax on profit of the period	-	-
Amounts receivable from other ACE group companies in respect of group relief	(48)	(1,406)
	<hr/>	<hr/>
Total current tax (note 8(b))	(48)	(1,406)
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(b) Factors affecting tax credit for year

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 26.5%. The differences are explained below

	2011	2010
	£'000	£'000
(Loss) / Profit on ordinary activities before taxation	<u>(632)</u>	<u>45,918</u>
(Loss) / Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK of 26.5% (2010: 28%)	(167)	12,857
Effects of		
Dividends not chargeable to corporation tax	-	(14,263)
Amounts written off investments	119	-
Prior year adjustments	-	-
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Current tax credit for year (note 8(a))	(48)	(1,406)
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NOTES TO THE FINANCIAL STATEMENTS

9 INVESTMENTS

Unlisted undertakings	% holding	Country of incorporation	2011 £'000	2010 £'000
Investment in ACE Insurance S A -N V	99.95%	Belgium	252,983	252,983
Investment in LLC ACE Life Insurance	100%	Russia	4,957	1,867
Investment in CJSC ACE Insurance	100%	Russia	12,547	5,252
Investment in CJSC Russian Reinsurance	23.335%	Russia	1,480	1,480
			<hr/> 271,967	<hr/> 261,582

Movements during the year

LLC ACE Life Insurance

Carrying value at 1 January 2011

Impairment

Investment in LLC ACE Life Insurance

Capital contribution

Investment in LLC ACE Life Insurance

Carrying value at 31 December 2011

CJSC ACE Insurance

Carrying value at 1 January 2011

Capital contribution

Investment in CJSC ACE Insurance

Carrying value at 31 December 2011

10 DEBTORS – amounts falling due within one year

	2011 £'000	2010 £'000
Amounts due from group undertakings in respect of group relief	-	4,261
Amounts due from group undertakings	7,170	10,802
	<hr/> 7,170	<hr/> 15,063

11. CREDITORS – amounts falling due within one year

	2011 £'000	2010 £'000
Amounts due to group undertakings	7,215	14,970

NOTES TO THE FINANCIAL STATEMENTS

12. CALLED UP SHARE CAPITAL

	2011 £'000	2010 £'000
Allotted, issued and fully paid 152,983,214 Ordinary £1 shares	<u>152,983</u>	<u>152,983</u>

13 RESERVES

	Profit and loss account £'000
At 1 January 2011	108,692
Loss for the year	(583)
Capital contributions	<u>10,830</u>
At 31 December 2011	<u>118,939</u>

During the year, the company received capital contributions totalling £10.8 million from its immediate parent, ACE European Holdings Limited

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	2011 £'000	2010 £'000
(Loss) / Profit for the financial year	(583)	47,323
Capital contributions	10,830	49,061
Net addition to shareholder's funds	<u>10,247</u>	<u>96,384</u>
Opening shareholder's funds	261,675	165,291
Closing shareholder's funds	<u>271,922</u>	<u>261,675</u>

NOTES TO THE FINANCIAL STATEMENTS

15 ADDITIONAL INFORMATION IN RELATION TO NOTE 9 TO THE FINANCIAL STATEMENTS

Subsidiary undertakings as at 31 December 2011 were as follows

Subsidiaries		Country of Incorporation	Percentage of nominal value held by the company
LLC ACE Life Insurance	Insurance company	Russia	100% Direct
CJSC ACE Insurance	Insurance company	Russia	100% Direct
ACE Insurance S A -N V	Intermediate holding company	Belgium	99.95% Direct
ACE European Group Limited	Insurance company	England and Wales	69.13% Indirect

The ACE Limited group is the beneficial owner of all of the share capital and voting rights of all of the above undertakings

16 TRANSACTIONS WITH RELATED PARTIES

Advantage has been taken of the exemption provided in FRS 8 "Related Party Disclosures" from disclosing details of transactions with ACE Limited and its subsidiary undertakings

17 ULTIMATE HOLDING COMPANY

The company's immediate holding company is ACE European Holdings Limited, the ultimate holding company is ACE Limited. ACE Limited's headquarters are in Zurich, Switzerland and it is quoted on the New York Stock Exchange. Copies of the ultimate holding company's consolidated financial statements can be obtained from Investor Relations at ACE's executive offices at 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.