



ace european group

A decorative graphic consisting of three overlapping rectangular blocks: a blue block on top, a green block on the left, and a dark grey block on the right. The text 'Financial Statements 31 December 2004' is centered within the dark grey block.

Financial Statements
31 December 2004

ACE Insurance S.A.-N.V.

ACE INSURANCE S.A.-N.V.

Registered Office:
Avenue des Nerviens 9-31
Nerviërslaan 9-31
Brussels

Register of Commerce
(Brussels): number 317.734

has been licensed to write all
non-life classes of business
under code 0600.

ACE Insurance S.A.-N.V

Contents

Board of Directors' Report	2
Statutory Auditors' Report	5
Balance Sheet	6
Profit and Loss Account	8
Notes to the Financial Statements	10

Board of Directors' Report

31 December 2004

The directors are pleased to submit their report and the audited financial statements for the year to 31 December 2004.

Introduction and future developments

These financial statements report the last year of insurance trading activity of the company. Until 31 December 2004 the company underwrote all ACE Europe branded property & casualty ('P&C') and accident & health ('A&H') business. However, during 2004, ACE European Group Limited ('AEGL'), a fellow group undertaking, successfully implemented the final stage of the rationalisation of ACE Limited's ('ACE') European operations. As a consequence, on 1 January 2005, all of ACE Insurance S.A.-N.V.'s assets, liabilities and obligations were transferred to AEGL, and all ACE Europe branded business has been written by AEGL from this date onwards. ACE Europe branded business will continue to be managed by the same experienced teams of underwriters and claims specialists, thereby ensuring continuity for our clients.

The transfer has resulted in the formation of one of the largest UK registered P&C insurance companies. From 1 January 2005, AEGL now underwrites a well diversified portfolio of business, encompassing UK and Continental Europe property & casualty and accident & health, and London Market US and international specialty business, alongside international reinsurance business.

As a result of the transfer, ACE Insurance S.A.-N.V. has surrendered its insurance licences and ceased doing business as an insurance company. The company received shares in AEGL in consideration for the transfer of its business. The number of shares the company received gave it an ownership in AEGL that was commensurate with the value of the business it transferred. The company will operate as a holding company from 1 January 2005 and its Articles of Association will be amended to that effect.

Table 1 – Summary profit and loss account

	2004 € million	2003 € million
Gross written premium	2,329	2,164
Net written premium	1,000	944
Net earned premium	956	859
Net incurred losses	400	495
Net acquisition costs	90	95
Administrative expenses	172	149
Underwriting profit	294	120
Net investment income	63	44
Operating income	357	164
Capital gains (losses)	26	(12)
Extraordinary items	(4)	(4)
Foreign exchange adjustments	(15)	(14)
Net profit before taxes	364	134
Income tax charge	(125)	(17)
Net profit	239	117
Net incurred loss ratio	41.8%	57.6%
Net acquisition cost ratio	9.4%	11.0%
Administrative expense ratio	18.0%	17.4%
Combined ratio	69.2%	86.0%

Board of Directors' Report

31 December 2004

Financial review highlights

- Pre-tax profit of €364 million (2003 profit: €134 million)
- 69.2% combined ratio (2003: 86.0%)
- 8% increase in gross written premiums;
6% increase in net written premiums
- Maintenance of shareholder's funds after dividend payment of €227 million.

Summary results

The company recorded an after tax profit for the year of €239 million (2003: €117 million). This exceptional result was driven by an underwriting profit of €294 million (including bad debt provisions and equalisation reserves, but before allocation of investment returns and foreign exchange adjustments) and is reflected in a combined ratio of 69.2% (2003: 86.0%). This performance represents the fruition of strong underwriting disciplines in recent years, careful risk selection, a robust rating environment

and a benign claims environment. In addition, an element of the underwriting profit was generated by the release of reserves in respect of claims occurring in prior years.

Table 1 presents the profit and loss account in a summarised format and facilitates the calculation of the company's combined ratio, the key performance indicator of the insurance industry.

Production

Gross written premium grew by 8% in the year (2003: 20%). The slower rate of growth in comparison to the prior year reflects the company's selective underwriting approach in a competitive environment. Rate increases on property and casualty lines have also slowed in the year and premium growth rate consequently reduced in the latter half of 2004. Accident and health business grew steadily, despite the non-renewal of business from an agency relationship, and marine business grew significantly over its 2003 base.

Table 2 – Net written premium by line of business

	2004	2003
Casualty	36%	32%
Fire	24%	26%
Accident & health/medical	7%	16%
Marine	9%	9%
Technical lines	12%	8%
Financial lines	9%	8%
Other	3%	1%
Total	100%	100%

Table 3 – Geographical split of net written premium by source

	2004	2003
UK	50%	50%
France	15%	19%
Italy	9%	9%
Germany	9%	8%
Spain	5%	4%
Netherlands	4%	4%
Other	8%	6%
Total	100%	100%

Board of Directors' Report

31 December 2004

Net written premium

Net written premium grew by 6% in the year (2003: 20%). These growth rates are broadly consistent with those at the gross level and, therefore, the retention ratio remained similar to last year at 42.9% (2003: 43.6%). The slight reduction in the retention is attributable to higher rates of growth in lines of business with higher reinsurance cessions. Otherwise, the consistency from year to year is reflective of the fact that the limits and retentions on the principal reinsurance with ACE Tempest Reinsurance Limited, an ACE group company, remained substantially unchanged between 2004 and 2003.

The company's net written premium by line of business is shown in table 2. The analysis of business by country source is shown in table 3.

Losses

The loss ratio at 41.8% shows a substantial reduction compared to those of recent years; the equivalent ratio for 2003 was 57.6%. This unusually low ratio is reflective of the company's selective underwriting approach in a market which has benefited from substantial price and rate increases over an extended period of time. Principally, however, the loss environment in 2004 was benign and the company had little exposure to large and catastrophic losses during the year. The loss ratio also benefited from reductions in prior year claims reserves.

Expenses

In absolute terms acquisition costs are in line with last year despite the increase in gross written premiums. This reduction in relative terms is a consequence of the company's active initiatives to reduce the overall commission ratio. In addition, higher levels of growth were achieved in lines of business that generally attract lower commission ratios. Commission received under reinsurance contracts was also consistent in absolute terms with the prior year. Generally, the principal reinsurance contracts have operated to similar commission rates in comparison to prior years.

The administrative expense ratio has increased from 17.4% in 2003 to 18.0% in 2004. The increase is reflective of the maintenance of a strong business operation in a year of relatively low net premium growth. In addition investments were made in new business ventures during the year. Management continues to focus on strict management of the expense base.

Fees paid to PricewaterhouseCoopers, the company's auditors, for non-audit services were €89,000.

Cash flow and investments

The strong business performance in 2004 was also reflected in large net cash inflows. Financial investments increased from €1,290 million at the end of 2003 to €1,806 million at the end of 2004. Annual investment returns (including realised and unrealised gains) increased from €32 million to €89 million. These increases were driven purely by business activities with no additional funding or capital being injected in the year. Low paid claims ratios were an important factor in these increases. In addition the company continued with its intensive efforts to collect receivable balances in a timely manner.

The company operates an investment committee which functions under terms of reference determined by the Board. This committee determines the investment policy and reviews the performance of the appointed investment managers. The investment policy remained unchanged in 2004. The investment management agreements permit the use of derivative contracts although their use is limited and clearly prescribed. The use of derivatives is limited to exchange traded financial futures and options for the purpose of controlling interest rate volatility and counter-party risk. The agreement mandates the holding of cash or equivalents, or highly correlated securities in order to back long or short derivative positions. In addition, derivatives may be used in order to hedge exchange rate risk, although portfolio exposure to other currencies is limited to 5% of the portfolio.

Income taxes

In 2003 income tax charges on the profits for the year were significantly mitigated by the utilisation of prior year tax losses in certain countries. For the 2004 year end the effective tax rate has increased due to these tax losses having been substantially exhausted.

Financial condition and solvency

After payment of the dividend the company has shareholders' equity of €466 million (2003: €454 million). The company meets its regulatory solvency measures.

Appropriation of the profit for the year

The directors recommend the payment of a dividend of €227 million for the year ended 31 December 2004. The remaining retained profit for the year of €12 million has been added to the legal reserve.

23 March 2005

The Board of Directors

Statutory Auditors' Report for the year ended 31 December 2004

to the shareholders of ACE Insurance S.A.-N.V. Brussels

In accordance with legal and statutory requirements, we hereby report to you on the result of the audit engagement which you have entrusted to us.

We have audited the financial statements as of and for the year ended 31 December 2004. These financial statements which are the responsibility of the Board of Directors show a balance sheet total of €4,648,993,272 and a profit for the year of €239,018,036. We have also carried out the specific additional audit procedures required by law.

Unqualified opinion on the financial statements

We conducted our audit in accordance with Belgian auditing standards, as issued by the Belgian Institute of Auditors ("Institut des Reviseurs d'Entreprises / Instituut der Bedrijfsrevisoren"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, taking into account the legal and regulatory requirements applicable to financial statements in Belgium.

In accordance with those standards, we considered the company's administrative and accounting organisation, as well as its internal control procedures. Company officials have responded clearly to our requests for explanations and information. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, taking into account the applicable legal and regulatory requirements in Belgium, the financial statements present fairly the company's net worth and financial position as of 31 December 2004 and the results of its operations for the year then ended, and the information given in the notes to the financial statements is adequate.

Additional certifications and information

We supplement our report with the following certifications and information which do not have any impact on our audit opinion on the financial statements:

- i) The Directors' report contains the information required by the law and is consistent with the financial statements.
- ii) Without prejudice to certain formal matters of minor importance, the accounting records are maintained and the financial statements have been prepared in accordance with the legal and regulatory requirements applicable to insurance companies in Belgium.
- iii) There are no transactions undertaken or decisions taken in violation of the company's statutes or the Companies' Code that we have to report to you.
- iv) The appropriation of results proposed to the general meeting complies with legal and statutory provisions.
- v) On 30 December 2004, the company's shareholders ratified the decision to transfer all of its assets, liabilities, rights and obligations to ACE European Group Limited, a UK company, effective 1 January 2005. Before the transfer the necessary documentation required by articles 760 and 761 of the Companies' Code was completed. In consideration for the transfer, ACE Insurance S.A.-N.V. receives new shares in ACE European Group Limited. At the same time as this transfer of activities, ACE Insurance S.A.-N.V. ceased doing business as an insurance company. This cessation of insurance business has been confirmed by the management committee of the Commission Bancaire Financière et des Assurances/Commissie voor het Bank, Financie- en Assurantiewezen on 8 February 2005. As a consequence, the company's objects clause will soon be changed to that of a holding company.

The Statutory Auditor
PricewaterhouseCoopers Reviseurs d'Entreprises SCCRL
Represented by J Tison (Partner)

23 March 2005

Note:

- i) The Statutory Auditor's report was issued on the complete set of financial statements including annexes to be deposited with the National Bank.
- ii) This Annual Report does not contain the Annexes to the Balance Sheet and Profit and Loss Account.
- iii) The Statutory Auditor's report does not cover any sections of this Annual Report which are not part of the Statutory Annual Statements.

Balance Sheet

at 31 December 2004

	Note	2004 €	2003 €
Assets			
Intangible assets		-	713,115
Formation expenses		-	713,115
Investments		1,807,970,522	1,292,481,447
Buildings used by the company for its own activities		2,273,872	2,351,304
Other financial investments		1,805,595,769	1,290,087,949
Shares and other securities	2	102,686,579	86,874,193
Bonds and other fixed income securities	2	1,570,049,479	1,097,544,417
Other loans		58,328,091	56,954,498
Deposits with credit institutions		74,525,847	48,708,884
Other investments		5,773	5,957
Funds withheld by reinsurers		100,881	42,194
Reinsurers' share of technical reserves		2,063,395,098	1,825,580,787
Unearned premium and unexpired risk reserves		215,508,546	179,740,819
Loss reserves		1,847,886,552	1,645,839,968
Debtors		711,337,134	641,735,907
Debtors arising out of direct insurance operations		627,421,075	521,846,759
Policyholders		163,934,371	107,182,438
Insurance intermediaries and brokers		374,731,757	333,398,582
Other		88,754,947	81,265,739
Debtors arising out of reinsurance operations		2,247,977	43,153,752
Other debtors		81,668,082	76,735,396
Other assets		21,672,749	61,151,752
Tangible assets		11,149,465	11,398,376
Cash at bank and in hand		3,315,840	44,120,844
Other		7,207,444	5,632,532
Transition accounts		44,617,769	33,110,479
Accrued interest and rent		34,779,200	28,299,637
Other prepayments and accrued income		9,838,569	4,810,842
Total assets		4,648,993,272	3,854,773,487

Balance Sheet

at 31 December 2004

	Note	2004 €	2003 €
Liabilities			
Shareholders' equity		465,781,294	453,763,258
Subscribed capital		364,248,749	364,248,749
Reserves		101,532,545	89,514,509
Legal reserve		25,815,588	13,864,686
Untaxed reserves		679,671	679,671
Reserves available for distribution		75,037,286	74,970,152
Technical reserves		3,438,693,727	3,031,643,258
Unearned premium and unexpired risk reserves		616,412,351	535,665,161
Loss reserves		2,779,844,011	2,460,766,586
Equalization and catastrophe reserves		42,437,365	35,211,511
Provisions for other risks and charges		10,779,031	10,556,789
Provisions for pensions and similar obligations		9,707,100	9,505,193
Other provisions		1,071,931	1,051,596
Deposits received from reinsurers		24,789	24,789
Creditors		719,564,183	350,999,581
Creditors arising out of direct insurance operations		66,649,893	101,579,522
Creditors arising out of reinsurance operations		229,240,399	167,518,640
Amounts due to credit institutions		104,988	109,651
Other creditors		423,568,903	81,791,768
Taxes, remuneration and social security costs		127,159,895	51,027,430
Taxes		122,433,197	43,821,597
Remuneration and social security costs		4,726,698	7,205,833
Other		296,409,008	30,764,338
Transition accounts		14,150,248	7,785,812
Total liabilities		4,648,993,272	3,854,773,487

Profit and Loss Account

for the year ended 31 December 2004

	2004	2003
	€	€
Technical account		
Earned premiums, net of reinsurance	956,066,834	859,112,459
Gross premiums	2,329,270,839	2,163,889,930
Ceded premiums	(1,329,022,693)	(1,220,367,737)
Change in gross unearned premium and unexpired risk reserves	(79,618,870)	(119,131,983)
Change in reinsurers' share of unearned premium and unexpired risk reserves	35,437,558	34,722,249
Allocated investment return transferred from the non-technical account	91,825,309	(37,871,240)
Other technical income, net of reinsurance	(299)	(439)
Claims incurred, net of reinsurance	(356,129,826)	(485,575,966)
Net claims paid	238,852,891	307,112,811
Gross amounts	685,283,448	714,025,669
Reinsurers' share	(446,430,557)	(406,912,858)
Change in loss reserves, net of reinsurance	117,276,935	178,463,155
Change in gross loss reserves	315,793,537	442,987,072
Change in reinsurers' share of loss reserves	(198,516,602)	(264,523,917)
Net operating expenses	(261,651,859)	(243,982,287)
Acquisition costs	342,473,962	342,666,509
Administrative expenses	171,838,646	149,349,618
Commissions received from reinsurers and profit participations from other insurance undertakings	(252,660,749)	(248,033,840)
Other technical charges, net of reinsurance	(2,065,836)	64,577,844
Change in the equalization and catastrophe reserves, net of reinsurance	(7,169,313)	(9,296,263)
Non-life technical account result	420,875,010	146,964,108

Profit and Loss Account

for the year ended 31 December 2004

	Note	2004 €	2003 €
Non – technical account			
Non-life technical account result		420,875,010	146,964,108
Investment income		121,149,696	80,749,787
Income from investments		78,976,220	59,452,971
Valuation gains on investments		2,773,129	-
Gains on realisation		39,400,347	21,296,816
Investment charges		(29,324,387)	(118,621,027)
Investment management charges		15,550,436	15,823,746
Valuation losses on investments		1,628,118	79,206,720
Losses on realisation		12,145,833	23,590,561
Allocated investment return transferred to the non-life technical account		(91,825,309)	37,871,240
Other income		2,506,233	4,097,147
Other charges		(55,783,299)	(12,501,148)
Operating result before taxes		367,597,944	138,560,107
Extraordinary income	4	147,417	-
Extraordinary charges	5	(4,173,734)	(3,748,525)
Extraordinary result		(4,026,317)	(3,748,525)
Taxes on the result	6	(124,553,591)	(17,368,311)
Result of the financial year		239,018,036	117,443,271
Result of the financial year to be appropriated		239,018,036	117,443,271
Appropriation account			
Profit to be appropriated		239,018,036	117,443,271
Transfers to equity		(12,018,036)	(117,443,271)
To the legal reserve		11,950,902	3,945,797
To the other reserves		67,134	113,497,474
Profit distribution – dividends		(227,000,000)	-

Notes to the Financial Statements

31 December 2004

1. Summary of significant accounting policies

Basis of presentation

The financial statements include the accounts of all the company's branch operations converted to euros at prevailing year-end exchange rates. All significant intra-company transactions have been eliminated. These statements have been prepared in accordance with relevant legal and regulatory requirements and generally accepted accounting and valuation principles of the Kingdom of Belgium, in particular the provision of the Royal Decree of 17 November 1994 applicable to the annual financial statements of insurance undertakings.

Investments

Company owned real estate is valued at cost. Shares, fixed income securities and deposits are valued at cost (fixed income securities at amortized cost), unless if, in the opinion of management, their value is permanently impaired, in which case they are valued at market.

Reinsurers' share of technical reserves

Technical reserves ceded to third party reinsurers are considered an asset rather than a deduction from liabilities, and are based on existing reinsurance agreements as applied to the company's gross technical reserve balances.

Debtors

Accounts receivable represent the amount due by policyholders, brokers, agents, insurance companies, reinsurance companies and other third parties, net of balances that the company considers as uncollectible.

Other assets

Tangible assets, which consist of improvements to company occupied real estate and fixed assets, such as machinery and equipment, furniture and vehicles are valued at cost less accumulated depreciation. Depreciation is generally calculated on a pro-rata basis over the estimated useful life of the asset.

Cash consists of bank deposits payable on demand and operating cash balances.

Technical provisions

Premiums for property, casualty and accident and health coverages are generally reported as earned on a pro-rata basis over the contract period. The unexpired portion of these premiums is recorded as the unearned premium reserve net of the portion of commissions paid for premiums written but not yet earned, which is amortized over the period in which the premiums are earned, generally not exceeding one year.

Outstanding loss reserves are estimates of loss and expense payments to be made on insurance claims for reported events and estimates of incurred but not reported losses.

Equalization reserves are set up in line with legal prescriptions with the aim, over the coming years, of either compensating the non-recurring technical loss, levelling the incurred loss ratio fluctuations, or covering special risks.

Unearned premium, outstanding loss and other technical reserves are stated on a gross basis, i.e. without reduction of reinsurers' shares of such amounts.

Notes to the Financial Statements

31 December 2004

2. Investments

The market value of securities owned as at 31 December, 2004 and 2003 was:

	2004 €	2003 €
Shares and other securities	121,788,397	103,712,520
Bonds and other fixed income securities	1,603,073,797	1,107,542,715

The market value of short-term deposits approximates their stated cost value. Certain shares and securities owned were treated as permanently impaired in value, and as a result valued within the accounts at market value.

3. Accounting for foreign currencies

The company conducts its business in the relevant currencies of its branch operations, which are located in most European countries. Branch books and records, surplus and technical reserve coverages are maintained in the applicable local currency. The financial statements of the company are presented in euros. Exchange differences are recorded in the profit and loss account.

4. Extraordinary income

Extraordinary income totalled €0.1 in 2004 and €Nil in 2003. This income relates to the write back of sundry provisions.

5. Extraordinary charges

Extraordinary charges totalled €4.2 million in 2004 and €3.7 million in 2003. The majority of these charges relates to corporate expenses which are not included in the technical account.

6. Income taxes

The company pays taxes in each jurisdiction in accordance with local laws based on income earned in that jurisdiction. Taxes are paid in Belgium substantially on income earned in Belgium.

7. Pensions

The company maintains pension plans for its employees in certain countries. These plans are maintained, funded and administered in accordance with regulations governing the maintenance of such plans in the applicable jurisdictions.

Board of Directors

Chairman:

Graham D. WILLIAMS

Executive committee:

Randi L. CIGELNIK

Philippa M. CURTIS

G rard P.C. FOURNIER

Michael G. FURGUESON (Appointed 4 June 2004)

Gary T. SCHMALZRIEDT

Other board members:

Carl L. BACH

William J. LOSCHERT

Statutory Auditor

PricewaterhouseCoopers SCCRL

Represented by Mr Jacques Tison

Corporate Secretary

ACE London Services Limited



ace european group

AUSTRIA

Barmherzigengasse 17/4/64
A-1040 Vienna
Austria
(43-1) 710 93 55
(43-1) 710 95 20

BELGIUM (Head Office)

Avenue des Nerviens 9-31
1040 Brussels
Belgium
(32-2) 516 9711
(32-2) 513 0884

DENMARK

Regus House
Larsbjornsstraede 3
1454 Copenhagen K
Denmark
(45-33) 37 71 37
(45-33) 37 72 07

FINLAND

Mannerheimintie 12B
FI-00100 Helsinki
Finland
(358-0) 6969 2626
(358-0) 6969 2627

FRANCE

Le Colisée
8 Avenue de I Arche
92400 Courbevoie Cedex
Paris
France
(33-1) 5591 4545
(33-1) 4788 4510

GERMANY

Lurgiallee 10
60439 Frankfurt
Germany
(49-69) 756 130
(49-69) 746 193

IRELAND

Ground Floor, Guild House
Guild Street
International Financial
Services Centre
Dublin 1
Republic of Ireland
(353-1) 636 9100
(353-1) 636 9111

ITALY

Via Monza, 258
20128 Milan
Italy
(39-02) 27095-1
(39-02) 27095-333

NETHERLANDS

Marten Meesweg 8-10
3068 AV Rotterdam
Netherlands
(31-10) 289 3575
(31-10) 289 3599

NORWAY

Stortorvet 3
NO-0155 Oslo
Norway
(47) 2331-5440
(47) 2331-5441

SPAIN

Francisco Gervás, No. 13
Apartado No. 14103
Madrid 28020
Spain
(34-91) 556 3600
(34-91) 556 3650

SWEDEN

ST Eriksgatan 44
2nd Floor
S-112 34 Stockholm
Sweden
(46-8) 692 5400
(46-8) 692 5410

SWITZERLAND

Mainaustrasse 30
CH-8008 Zurich
Switzerland
(41-43) 456 7600
(41-43) 456 7601

U.K.

ACE Building
100 Leadenhall Street
London EC3A 3BP
(44-20) 7173 7000
(44-20) 7173 7800

ACE Insurance S.A.-N.V.
Avenue des Nerviens 9-31
Nerviërsiaan 9-31
Brussels

www.aceeuropeangroup.com