



## **ACE EUROPE LIFE LIMITED**

ANNUAL REPORT AND FINANCIAL STATEMENTS  
31 DECEMBER 2008

ACE Europe Life Limited

Registered office:  
ACE Building  
100 Leadenhall Street  
London EC3A 3BP  
United Kingdom

Registered in England  
Number 5936400

Authorised and Regulated by the  
Financial Services Authority

# ACE EUROPE LIFE LIMITED

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**Chairman's Report**  
**31 December 2008**

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**Introduction**

2008 was the first full calendar year of operations for ACE Europe Life Limited ("ACE Life"). The Financial Services Authority ("FSA") granted approval for the establishment of ACE Life on 26 April 2007, and the company wrote its first policy on 20 June 2007. ACE Life focuses on the pure protection markets and underwrites term life policies and credit life business via a number of distribution partners.

ACE Life forms part of the ACE Group of insurance and reinsurance companies and operates in synergy with an affiliated UK non-life company, ACE European Group Limited ("AEGL"). ACE Life has set up a network of branches across Europe and utilises AEGL's existing infrastructure in the UK and other European countries. Further ACE Life branches will come into operation in 2009. ACE Life's product range complements AEGL's existing accident & health ("A&H") direct marketing proposition.

**Performance in 2008**

ACE Life generated gross written premiums of £2,148,000 for the year (2007: £79,000) and closed 2008 with a pre-tax loss of £791,000 (2007: loss of £625,000).

It is anticipated that the increased momentum of the business initiatives implemented in 2008 and the new businesses proposals planned for 2009 will result in further top line growth and an operating profit in the near to medium term.

**Significant achievements**

In 2007, ACE Life fulfilled its primary objectives of structuring the core management team, setting up operational, financial, compliance and control processes and establishing ACE Life's UK headquarters and branch infrastructure across target markets. Pilot direct marketing campaigns were launched in priority countries – France, Spain, UK, Finland and Sweden.

In 2008, we substantially increased our profile in the UK and other target markets, particularly Spain, which resulted in a number of new sponsorship agreements and a significant increase in the level of business written. We also finalised an agreement on a substantial credit life book of business in Spain. In October 2008, we successfully launched a term life product in Italy, with further roll-outs planned in Germany, Belgium and the Netherlands during the first half of 2009.

**Treating Customers Fairly**

Service levels are one of the key differentiators in the insurance market and we recognise the importance of providing an efficient and responsive service to our business partners and sponsors. At the heart of our customer service ethos is Treating Customers Fairly ("TCF"), a core principle of our regulatory framework and a principle that fits well with ACE Life's culture of integrity. TCF is core to our daily interaction with our clients and we operate in accordance with a TCF framework which defines how we adhere to the key principles of customer service in practice, particularly regarding our behaviour and interaction with business partners.

**Future prospects**

ACE Life's strengths lie in a team with strong technical, modelling, pricing and reporting skills and real innovative direct marketing life product ideas. The company benefits from powerful pricing software, strong client and sponsor relationships, particularly in the UK and Spain, and the ability to leverage AEGL's extensive country distribution network and existing A&H and Personal Lines relationships to create cross selling opportunities for life business.

During 2009 we anticipate completing the roll-out of life products to the other main markets in which AEGL A&H has a presence, and increase ACE Life's product offerings to our existing sponsors in all countries. ACE Life's distribution methods will be expanded to reduce dependency on outbound telemarketing.

Following the successful launch of credit life business towards the end of 2008, we anticipate approximately 45% of ACE Life's revenues to be sourced from this business class in 2009.

**In conclusion**

ACE Life has achieved the first steps in our aim of establishing the company as one of Europe's leading providers of directly marketed life products. The new life proposition via ACE Life has significantly enhanced ACE's direct marketing offering throughout Europe, providing our distribution partners with additional and valuable cover for their customers. These achievements have required a great deal of effort from all those involved with ACE Life, and I would like to take this opportunity to formally acknowledge their contribution to the growing success of the company. I would also like to thank the AEGL European A&H direct marketing and operations teams for their continued support.

Primarily as a result of the downturn in the global economic environment, I anticipate 2009 to be a tough year for us, however I look forward to the opportunities and challenges of the forthcoming years and have every confidence that ACE Life will achieve its vision of becoming the preferred provider of directly marketed individual protection products in Europe by 2011.

**A Hollenberg**

Chairman and Chief Executive Officer

13 March 2009

The board of ACE Life has prepared this review in accordance with section 234ZZB of the Companies Act 1985. In addition to this statutory requirement, this report also addresses other aspects of the Company's business which the board believes will be of benefit to all stakeholders.

### **Background and company structure**

ACE Life forms part of the ACE Group of insurance and reinsurance companies. The ACE Group serves a variety of clients around the world, from large multinational corporations to individuals and smaller clients in local markets and is distinguished by its underwriting expertise, superior claims handling and global franchise. As at 31 December 2008, ACE Limited, the Swiss-based holding company of the ACE Group of Companies reported gross premiums written of US\$72 billion and total net assets of US\$19 billion. Members of the ACE Group of Companies have offices in more than 50 countries and authority to do business in more than 140 countries. As well as being one of the world's leading providers of commercial property and casualty insurance and reinsurance, the ACE Group also has a major presence in the accident and health business and a young, growing life insurance operation.

ACE Life benefits from the ACE Group's strong platform, reputation, skill sets, financial strength ratings and consistent management philosophy. ACE Life operates in synergy with an affiliated ACE non-life company, AEGL, by offering life products which complement AEGL's A&H portfolio.

ACE Life was authorised to underwrite term life and related accident and sickness coverages by the FSA on 26 April 2007. Since then, life products have been launched in the UK, France, Spain, Finland, Sweden and Italy, with further European country roll-outs planned for 2009. During the fourth quarter of 2008, ACE Life launched its credit life product. It is anticipated that this class of life insurance will grow significantly during 2009 and produce approximately 45% of ACE Life's total revenue.

### **Organisation of the business**

The London based head office of ACE Life handles core functions including overall management of the life operations, product design and pricing, definition and monitoring of underwriting and claims rules and the financial management of the company. ACE Life has engaged the services of ACE INA Services UK Ltd ("AIS") and AEGL for various other operational functions. This has enabled ACE Life to benefit from AEGL's direct marketing experience.

### **Business objectives and strategy**

ACE Life is a strategically important part of the ACE Group's European business franchise and international life business. In summary, the company's strategy is to:

- Extend the business proposition made to existing partners currently engaged in A&H direct marketed programmes across Europe. This will be achieved by cross-selling existing A&H customers with term life or whole of life products and acquiring new customers for these products;
- Facilitate the acquisition of new partners by being able to offer a comprehensive range of products, from accident to life and health covers; and
- Selectively address the creditor insurance market in Europe (life cover with accident and sickness as supplementary risks). This will be facilitated by the existing strong relationships between the ACE Group and several leading personal finance institutions (retail banks, consumer credit and credit cards issuers).

### **Business environment**

#### ***Market conditions and trends***

The market for term life assurance can be highly price sensitive. In the UK, life products sold via traditional distribution are very price competitive and heavily reliant on the mortgage market. However despite the large number of players, there remains limited focus on lower market segments, and non-traditional distribution still forms a very small proportion of total market sales. ACE Life's strategy is to steer clear of market sections in which price competition is intense, and concentrate on markets in which customers value the ease of purchase and are relatively price insensitive, such as sponsor-driven direct marketing activities.

The Continental Europe life market is also competitive however some of the products on the market are in need of updating, and there is currently little product or process innovation. There is also an over-reliance of competitors on group life and creditor business as a market growth strategy, and on price as a competitive strategy.

The economic slow down affecting ACE Life's key markets in Spain and the UK continues to be of concern and is likely to increase pressure on attrition and response rates. The true extent of the downturn and the resulting knock-on effects on life business remain uncertain however it is clear that 2009 will be a difficult year for all insurers in both the life and non-life fields.

Another major market trend affecting ACE Life's business model is the threat to the telemarketing distribution method, primarily as a consequence of changing customer behaviour and regulations. Cross-selling to existing AEGL A&H customers is key to ACE Life's business plan as this approach is less influenced by negative trends affecting acquisition campaigns.

#### ***Regulatory environment***

ACE Life operates in a heavily regulated environment. The ACE Life business operates a branch structure with the UK's regulator, the FSA, as its domestic regulator. Major pieces of regulation or regulatory initiatives affecting the business include preparations for Solvency II; the UK FSA's "Treating Customers Fairly"; European Union mediation and distance selling directives; EU Data protection regulations and country-specific life insurance regulation.

Challenges in 2009 include maintaining a precise understanding of relevant legislations in the increasing number of countries in which ACE Life operates, ensuring the establishment of a strong compliance framework and managing the interactions between FSA-directed initiatives and local regulation in countries of operation.

**Presentation of financial statements**

The financial statements have been prepared in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in 2005 (as amended in December 2006) and applicable accounting standards in the UK.

**Key performance indicators**

The board has defined the following as being the financial key performance indicators (“KPIs”) for the business. These KPIs are reviewed through the board meetings.

	12 Months to 31.12.08 £'000	15 Months 31.12.07 £'000
Annualised new business premiums	4,125	995
Gross written premiums	2,148	79
Loss before taxation	(791)	(625)
Loss after taxation	(540)	(464)
Number of policies in force	20,071	6,455
Total available capital resources At 31 December	3,152	4,911
Regulatory capital requirements	2,518	2,218
Capital margin cover	125%	220%

Further details regarding the capital needs of the company are set out in the ‘Financial position’ section of this Business Review.

**Results and performance**

2008 produced a pre-tax operating loss of £791,000 (2007: £625,000) and a loss after taxation of £540,000 (2007: £464,000). A summary of the reported financial results is shown in the following table.

	12 Months to 31.12.08 £'000	15 Months 31.12.07 £'000
Net earned premiums	736	4
Reported losses	(12)	-
Net increase in mathematical reserves	(1,231)	(565)
Net acquisition expenses	(386)	(79)
Administrative expenses	(197)	(62)
Investment income	271	204
Start up costs	-	(127)
Taxation credit	279	161
Loss for the period after taxation	(540)	(464)

**Financial position**

**Investment strategy**

As a start-up company, ACE Life’s initial investment strategy restricts asset allocation to cash and short duration deposits and investments restricted to approved institutions. The short duration investments are currently held with Barclays Global Investors.

**Capital**

ACE Life maintains a capital structure consistent with its risk profile and regulatory requirements. The company assesses its capital requirements in accordance with the FSA’s Capital Resources Requirement and Individual Capital Assessment (“ICA”) principles. The capital held at 31 December 2008 comfortably exceeded these requirements.

Based on current projections of 2009 business volumes, no additional capital is anticipated to be required in the near future, however capitalisation will continue to be assessed on a regular basis throughout the year.

### Principal risks and uncertainties

ACE Life benefits from the risk management processes and knowledge resident in AEGL. The board of ACE Life consists of directors drawn from within the AEGL management team and a non-executive director.

The Board ensures that the company operates within an established framework of effective systems of internal controls, risk management and compliance with policies, procedures, internal controls and regulatory requirements. ACE Life manages its risks through a bottom up approach, with strict business owner responsibility for mitigating controls as summarised below:

- Insurance Risk: underwriting guidance and restrictions, actuarial price modelling, exposure monitoring, peer review, business planning process;
- Credit Risk: access to the Group's Security Committee, strict reinsurance protocol;
- Market Risk: investment policies and capital management;
- Liquidity Risk: maintain funds in the form of cash and cash equivalents to meet known cashflows; and
- Operational Risk: corporate governance and compliance

Compliance with regulation, legal and ethical standards is a high priority for the company and annual affirmation of the ACE Group Code of Conduct is required of all employees and directors.

The financial crisis is likely to lead to increased scrutiny of financial institutions by regulators, and a possible implementation of additional regulatory requirements within the insurance markets. As a member of the wider ACE Group of companies, ACE Life has access to a highly skilled and proficient workforce of risk and compliance managers to manage its regulatory and compliance undertakings and aims to operate to a standard of best practice. The team enjoy good relationships with regulators and engage in open dialogue and communication to address and resolve any issues.

### Employees

ACE is an equal opportunity employer. One of the three key ACE mission statements is to provide "superior employee value by creating a rewarding and ethical environment." In support of this, it is ACE's policy to take whatever steps reasonably practicable to promote equality of opportunity and to eliminate discrimination in employment. The company has implemented a number of policies relating to diversity and equal opportunities including but not limited to age, disability, race, religious or sex discrimination.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the ACE Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The ACE Group's global employee share scheme provides all eligible employees with an opportunity to participate in the Group's success as measured by the potential increase in stock price. The scheme continues to operate successfully and is open to all employees with a minimum of 6 months service with the company.

### ACE and the Environment

The ACE Group is committed to lessening its impact on the environment and is now a member of the US Environmental Protection Agency's Climate Leaders program. In addition to the environmental activities planned at the corporate level, the ACE Group has launched ACE Green, an environmental program for its global employees. As part of this initiative, the UK has formed an ACE Green committee which is charged with reviewing and assessing the environmental initiatives, actions and improvements that can be adopted across all ACE sites in the UK by staff, partners, suppliers and contractors.

### ACE in the Community

The ACE Group supports the communities around the world in which its employees live and work through the established "ACE Foundations" and through company-sponsored volunteer initiatives. These positive contributions to the fabric of local communities return long-lasting benefits to society, employees and the company.

### Approved by the Board of Directors

13 March 2009

## ACE EUROPE LIFE LIMITED

### Directors' Report 31 December 2008

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The directors are pleased to submit their annual report and the audited financial statements for the year to 31 December 2008.

#### **Principal activity**

The company's principal activity is the transaction of life assurance business in the United Kingdom and Continental Europe.

#### **Business review**

A review of the company's activities and its future prospects is set out in the Chairman's Report and Business Review.

#### **Results and dividends**

The results of the company for the year show a loss on ordinary activities before tax of £791,000 (2007: £625,000) and a loss after tax of £540,000 (2007: £464,000). No dividends have been proposed or paid.

#### **Employees**

Staff that support the company's operations are employed by affiliates, either by AEGL or by AIS. Their costs are included in management recharges from these companies.

#### **Directors**

The following were the directors of the company from 1 January 2008 to the date of this report unless otherwise indicated:

##### *Executive directors:*

P M Curtis

S Hersey (appointed on 16 September 2008)

A A Hollenberg (appointed on 25 January 2008)

A J Kendrick

E M Levin (resigned on 16 September 2008)

B J A Liber (resigned on 25 January 2008)

##### *Non-executive director*

D Somers

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.

#### **Financial risk management**

The Company is exposed to a range of financial risks through its investment strategy and underwriting activity. In particular, the company is exposed to currency risk, interest rate risk, price risk, liquidity risk and credit risk. The notes below explain how financial risks are managed.

The underwriting activity of the business also generates financial risk particularly in the form of liquidity and credit risk through insurance and reinsurance receivables and payables. The company's exposure to cash flow risk is addressed under the headings of "Credit risk" and "Liquidity risk".

##### *Currency risk*

The company maintains various currency balances generated through regular trading activity. The majority of the funds held are denominated in US dollars, sterling and euros. The company policy seeks to ensure an approximate currency match of assets and liabilities is maintained, with any surplus held in sterling and euros.

##### *Interest rate risk*

The Company is exposed to interest rate risk primarily through its investments in interest earning short term deposits with approved credit institutions.

##### *Equity price risk*

The company is not specifically exposed to equity price risk as a result of its current conservative investment strategy. As noted in the business review section, the company's investment strategy restricts asset allocation to cash, short duration deposits and investments restricted to approved credit institutions.

##### *Liquidity risk*

Liquidity risk is the potential that the company is unable to meet its obligations as they fall due. To counter this risk, the company aims to maintain funds in the form of cash or cash equivalents to meet known cash flows.

**Directors' Report**  
**31 December 2008**

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**Financial risk management (continued)**

*Credit risk and counterparty limits*

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The company is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance policyholders; and
- amounts due from insurance intermediaries.

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. The company utilises the ACE Group's reinsurance security committee. The creditworthiness of reinsurers is considered on a quarterly basis by reviewing their financial strength. With regard to direct insurance receivables, the company monitors balances receivable on a monthly basis.

**Statement of disclosure of information to auditors**

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

- i. 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 2008 of which the auditors are unaware; and
- ii. 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.

**Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the annual general meeting.

By order of the Board

For and on behalf of ACE INA Services U.K. Limited  
Secretary, 13 March 2009

ACE Building  
100 Leadenhall Street  
London  
EC3A 3BP

## ACE EUROPE LIFE LIMITED

### Statement of Directors' Responsibilities 31 December 2008

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The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for the financial period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 2008. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records that 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 1985. 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.

The directors are responsible for the maintenance and integrity of the company's or the parent company's website on which these accounts may be published. Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Independent Auditors Report**

to the members of ACE Europe Life Limited

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We have audited the financial statements of ACE Europe Life Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Report, the Business Review and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

London, United Kingdom

13 March 2009

**ACE EUROPE LIFE LIMITED**

**Profit and Loss Account**

For the for the Year ended 31 December 2008

		2008	15 Sep. 2006 to 31 Dec. 2007
	Note	£'000	£'000
<b>Technical account – Long-term business</b>			
<b>Earned premium, net of reinsurance:</b>			
Gross premiums written	3	2,148	79
Outward reinsurance premiums		(1,412)	(75)
Earned premium, net of reinsurance		736	4
<b>Investment income:</b>			
Income from other investments	7	10	-
<b>Claims incurred, net of reinsurance</b>			
Claims paid:			
Gross amount		(7)	-
Reinsurers' share		6	-
Net claims paid		(1)	-
Change in the provision for claims			
Gross amount		(35)	-
Reinsurers' share		24	-
Net change in provision for claims outstanding		(11)	-
<b>Claims incurred, net of reinsurance</b>		(12)	-
<b>Change in other technical provisions, net of reinsurance</b>			
Long-term business provision, net of reinsurance			
Gross amount		(3,961)	(595)
Reinsurers' share		2,730	30
Net change in other technical provisions		(1,231)	(565)
Net operating expenses	4	(583)	(141)
Taxation attributable to the long-term business	8	328	211
<b>Balance on the technical account – long-term business</b>		(752)	(491)

All of the above results derive from continuing operations.

**ACE EUROPE LIFE LIMITED**

**Profit and Loss Account**

For the for the Year ended 31 December 2008

	2008	15 Sep. 2006 to 31 Dec. 2007
Note	£'000	£'000
<b>Non-technical account</b>		
Balance on the long-term business technical account	(752)	(491)
Tax credit attributable to balance on long-term business technical account	(300)	(211)
Shareholder's pre-tax loss from long-term business	(1,052)	(702)
Investment income	7 261	204
Other charges	-	(127)
<b>Loss on ordinary activities before taxation</b>	<b>(791)</b>	<b>(625)</b>
Taxation on loss on ordinary activities	8 251	161
<b>Loss on ordinary activities after taxation</b>	<b>(540)</b>	<b>(464)</b>

**Statement of Recognised Gains and Losses**

For the year ended 31 December 2008

	2008	15 Sep. 2006 to 31 Dec. 2007
	£'000	£'000
Loss for the financial year	(540)	(464)
Currency translation differences	13 2	-
<b>Total recognised loss relating to the year</b>	<b>(538)</b>	<b>(464)</b>

All of the above results derive from continuing operations.

**ACE EUROPE LIFE LIMITED**

**Balance Sheet**  
at 31 December 2008

	Note	2008 £'000	2007 £'000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	10	6,818	5,004
<b>Reinsurer's share of technical provisions</b>			
Long-term business provision		2,767	30
Claims outstanding		24	-
		2,791	30
<b>DEBTORS – amounts falling due within one year</b>			
Debtors arising out of direct insurance operations:			
Amounts owed by policyholders		730	24
Debtors arising out of reinsurance operations		432	500
Other debtors	11	734	161
		1,896	685
<b>Other assets</b>			
Cash at bank and in hand		2,109	615
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		216	-
<b>Total assets</b>		<b>13,830</b>	<b>6,334</b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called-up share capital	12	5,375	5,375
Profit and loss account	13	(1,002)	(464)
		4,373	4,911
<b>Technical provisions</b>			
Long-term business provision	14	4,589	595
Claims outstanding		35	-
		4,624	595
<b>Provisions for other risks and charges</b>			
Provisions for deferred taxation	15	247	-
<b>Creditors– amounts falling due within one year</b>			
Creditors arising out of reinsurance operations		137	67
Other creditors including taxation and social security	16	4,292	492
		4,429	559
<b>Accruals and deferred income</b>			
		157	269
<b>Total liabilities</b>		<b>13,830</b>	<b>6,334</b>

The financial statements on pages 10 to 24 were approved by the board of directors on 13 March 2009 and were signed on its behalf by:

**P M Curtis**  
Chief Financial Officer

**1. Accounting policies**

**Basis of presentation**

The Company's financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ('the ABI SORP') dated December 2005 (as amended in December 2006) and the applicable accounting standards in the United Kingdom.

The company is a wholly owned subsidiary within the ACE Limited group and is included within 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".

**Premiums written**

Premiums written, including reinsurance premiums, are stated gross of brokerage but exclusive of premium taxes and are accounted for when due for payment.

**Reinsurance**

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. Such contracts are accounted for as insurance contracts provided the risk transfer is significant. Contracts with the legal structure of reinsurance contracts which do not transfer significant insurance risk are classified as financial assets.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies.

The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outwards reinsurance premiums' when due.

**Claims**

Claims are accounted for when notified. Claims payable include internal and external claims handling costs.

The provision for claims outstanding includes amounts set aside in respect of all claims notified but not yet settled.

**Investment return**

Investment return comprises all investment income net of investment expenses, charges and interest.

Investment return relating to investments which are directly connected with the carrying on of the long-term business is recorded in the long-term business technical account. The investment return arising in relation to all other investments is recorded in the non-technical account.

**Other financial investments**

Investments are stated at market value at the balance sheet date. Any appreciation or impairment in value to investments which are directly connected with the carrying on of the long-term business is accounted for in the long-term business technical account. All other appreciation or impairment is accounted for in the non-technical account.

**Cash at bank and in hand**

Cash at bank and in hand is cash in hand and deposits repayable on demand, less overdrafts repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed.

**Deferred taxation**

Deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised are not discounted.

**Deferred acquisition costs**

Acquisition costs comprise brokerage, commissions and other expenses incurred in relation to obtaining and processing new business. Acquisition costs which are incurred during a financial year, but which relate to a subsequent financial year, are deferred to the extent that they are recoverable out of future revenue margins. Advertising costs are only deferred to the extent that they directly relate to the acquisition of new business. Such costs are disclosed, as an asset, gross of tax, in the balance sheet. The asset is amortised over the period during which the costs are expected to be recoverable from future revenue margins.

**1. Accounting policies (continued)**

**Foreign currencies**

Foreign currency transactions are translated into sterling at the rates of exchange ruling at the date the transaction is processed. All assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. The profit and loss accounts of the foreign branches are translated at the average rate for the period in accordance with the branch accounting provisions of Statement of Standard Accounting Policy 20 "Foreign Currency Translation".

Exchange differences arising from translation of transactions, assets and liabilities connected with the carrying on of the long-term business are included in the technical account. All other exchange differences are accounted for in the non-technical account.

Exchange differences arising from the revaluation of the net assets of the branch operations brought forward from the previous balance sheet date are included in the statement of total recognised gains and losses.

**Long-term business provision**

The long-term business provision is determined by the company's reporting actuary following the annual investigation of the long-term business and comprises the provision for future policy benefits. The valuation has due regard to the actuarial principles laid down in the Life Framework Directive (Council Directive 2002/83/EC).

The details of key assumptions used are contained in Note 14.

**ACE EUROPE LIFE LIMITED**

**Notes to the Financial Statements**  
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**2. Management of insurance risk**

The company operates a single fund in respect of its long-term insurance business, which is non-participating. The analysis below shows the capital on a regulatory basis available to meet the regulatory capital requirements of the long-term insurance business (known as "Pillar 1").

	Shareholder's funds £'000	Long-term business fund £'000	Total £'000
<u>Available capital resources - 2008</u>			
Total shareholder's funds at 1 January 2008	4,907	4	4,911
Profit and loss account	213	(751)	(538)
Transfer to the long-term business fund	(1,970)	1,970	-
	<u>3,150</u>	<u>1,223</u>	<u>4,373</u>
<b>Adjustments onto regulatory basis:</b>			
Adjustment to assets	-	(636)	(636)
Adjustment to liabilities	-	247	247
Closure & reinsurers' default reserves	-	(832)	(832)
	<u>3,150</u>	<u>2</u>	<u>3,152</u>
<b>Total available capital resources At 31 December 2008</b>	<b>3,150</b>	<b>2</b>	<b>3,152</b>

Policyholders' liabilities in the long-term fund amount to £4,589,000 (2007: £595,000). Note 14 (Long-term business provision) sets out the methodology for determining the policyholders' liabilities as well as the sensitivity of the liabilities to changes in key assumptions.

The company has £3.2 million (2007: £4.9 million) of available capital resources at 31 December 2008 of which £0.002 million is held by the long-term business fund (2007: £0.004 million). The capital held by the company is subject to the requirement to meet and maintain a margin in excess of the company's capital resources requirement in its regulatory filing with the FSA.

The capital requirement is the minimum solvency requirement determined in accordance with FSA regulations. At 31 December 2008 the available capital was 125% (2007: 220%) of the capital requirement of £2.5 million (2007: £2.2 million).

The capital held by the long-term business fund is constrained by regulatory requirements. This means it may not be possible for the capital to be used to provide funding for other businesses.

The Directors have authorised the transfer of £1,970,000 (2007: £495,000) to the long-term fund from the shareholder's fund.

## Notes to the Financial Statements

31 December 2008

## 2. Management of insurance risk (continued)

Available capital resources - 2007	Shareholder's funds £'000	Long-term business fund £'000	Total £'000
Total shareholder's funds at 15 September 2006	5,375	-	5,375
Profit and loss account	27	(491)	(464)
Transfer to the long-term business fund	(495)	495	-
Total shareholder's funds at 31 December 2007	4,907	4	4,911
Adjustments onto regulatory basis	-	-	-
<b>Total available capital resources At 31 December 2007</b>	<b>4,907</b>	<b>4</b>	<b>4,911</b>

**Capital management**

The company maintains a capital structure consistent with the company's risk profile and the regulatory and market requirements of its business. The company is subject to a number of regulatory capital tests and also employs a number of realistic tests to allocate capital and manage risk.

In reporting our financial strength, capital and solvency is measured using the regulations prescribed by the FSA. These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the company.

**Capital management policies and objectives**

The company's objectives in managing its capital can be summarised as follows:

- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to manage exposures to key risks;
- to maintain financial strength to support new business growth; and
- to retain financial flexibility by maintaining strong liquidity.

The company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance when assessing its deployment and usage of capital.

**Restrictions on available capital resources**

The company is required to hold sufficient capital to meet the FSA's capital requirements. Under the FSA's rules for non-profit business, the capital requirement is calculated on the statutory basis, which is based on EU Directives. For all regulated insurance business, account is also taken of the Individual Capital Assessment which considers certain business risks not reflected in the statutory bases.

The available capital is subject to certain restrictions as to its availability to meet capital requirements. In particular, no transfers from long-term funds can take place without an up to date actuarial valuation.

The available surplus can be distributed to the shareholder subject to meeting the requirements of the business.

The capital held within the shareholder's funds is generally available to meet any requirements. It remains the intention of management to ensure that there is adequate capital to exceed the company's regulatory requirements.

**Capital resource sensitivities**

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. It is also sensitive to assumptions and experience relating to termination rates, mortality and, to a lesser extent, expenses and persistency.

**ACE EUROPE LIFE LIMITED**

**Notes to the Financial Statements**  
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**3. Segmental analysis**

In the opinion of the directors, the company operates in a single business segment, being that of non-linked, non-profit individual long-term insurance business. Geographically, the company operates in the UK and in other European Economic Community countries (“EEA”). Gross premiums written by destination basis are not materially different from gross premiums written by origin. There were no single premium contracts written in the year.

There were no intra-group revenues with entities affiliated to ACE Life.

Inward reinsurance premiums written during the year amount to £0.6 million (2007: nil)

**Geographical analysis**

	Gross premiums written £'000	Loss before taxation £'000	Reinsurance balance £'000	Net Assets £'000
2008				
United Kingdom	366	(121)	1,860	4,927
Other EEA states	1,782	(670)	2,027	(554)
<b>TOTAL</b>	<b>2,148</b>	<b>(791)</b>	<b>3,887</b>	<b>4,373</b>
15 September 2006 to 31 December 2007				
United Kingdom	10	(204)	356	4,907
Other EEA states	69	(421)	103	4
<b>TOTAL</b>	<b>79</b>	<b>(625)</b>	<b>459</b>	<b>4,911</b>

The total amount of net assets attributable to the long-term fund maintained in accordance with Chapter 1 of the Prudential Source book for Insurers is £7,133,000 (2007: £ 1,270,000)

**New business analysis**

The annualised equivalent direct-marketed new business premiums were £4,125,000 (2007: £ 995,000). The premiums written are regular periodic premiums.

**ACE EUROPE LIFE LIMITED**

**Notes to the Financial Statements**  
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<b>4. Net operating expenses – technical account</b>	Gross £'000	Reinsurance £'000	Net £'000
2008			
Acquisition costs	2,190	(1,183)	1,007
Change in deferred acquisition costs	(199)	-	(199)
Administrative expenses	1,131	(934)	197
Reinsurance commissions and profit participation	-	(422)	(422)
	<u>3,122</u>	<u>(2,539)</u>	<u>583</u>
15 September 2006 to 31 December 2007			
Acquisition costs	388	(296)	92
Change in deferred acquisition costs	-	-	-
Administrative expenses	258	(196)	62
Reinsurance commissions and profit participation	-	(13)	(13)
	<u>646</u>	<u>(505)</u>	<u>141</u>

Gains arising from the translation of monetary assets at the balance sheet date of £286,000 (2007: nil) are included in administrative expenses.

Administrative expenses include costs that are incurred by AIS, a fellow group undertaking, and recharged to the company in the form of management charges. In particular, this charge includes the cost of the AIS staff engaged in the business of ACE Life.

Total commissions for direct insurance accounted for by the company during the year amounted to £711,000 (2007: £19,000) and are included within acquisition costs.

**5. Auditors' remuneration**

During the period the company (including its overseas branches) obtained the following services from the company's auditor at costs as detailed below:

	2008 £'000	15 Sept. 2006 to 31 Dec. 2007 £'000
<b>Audit fees</b>		
Fees payable for the audit of the annual accounts	36	36
<b>Non audit fees</b>		
Other services pursuant to legislation	16	6
Other services relating to taxation	21	62
	<u>73</u>	<u>104</u>

**6. Directors and employees**

*Staff costs*

The company has no employees. Staff that support the company are employed by AIS or AEGL and their costs are recovered through a recharge as described in note 4.

*Directors' emoluments*

Directors received emoluments from AIS and AEGL in respect of their services to ACE Group companies. The cost of these emoluments is incorporated within the management recharges from AIS. For disclosure purposes, it is not practical to allocate these amounts to the underlying entities to which the directors provide services. Consequently, the following amounts represent the total emoluments in respect of the directors of this company.

	2008 £'000	15 Sep. 2006 to 31 Dec. 2007 £'000
Aggregate emoluments and benefits	1,873	1,656
Company pension contributions to money purchase pension schemes	65	58
	1,938	1,714

Included in the above amounts paid by AIS and AEGL in respect of the directors of this company, the highest paid director was paid a total of £613,000 (2007: £801,000) in respect of emoluments and benefits. The amounts of accrued pension and accrued lump sum in relation to the highest paid director at the end of the year were £37,000 (2007: £37,000) and £156,000 (2007: £156,000) respectively.

The aggregate emoluments above do not include share based remuneration. All executive directors are entitled to shares in ACE Limited under long-term incentive plans. During the period, one director exercised options over the shares of ACE Limited. The highest paid director did not exercise any share options during the year.

Until 31 March 2002, retirement benefits accrued under the ACE London Pension Scheme to two current directors under the final salary section. Disclosures relating to this scheme are contained within the financial statements for AIS. From 1 April 2002, pension benefits are accruing to two current directors under the ACE European Group UK Pension Plan (Stakeholder scheme).

**7. Investment income**

	2008 £'000	15 Sep. 2006 to 31 Dec. 2007 £'000
Investment income – Long term technical account	10	-
Investment income – Non-technical account	261	204

Investment income during the year relates to bank interest and income earned on a UCITS investment. There were no investment management charges related to these investments.

8. TAXATION ON LOSS ON ORDINARY ACTIVITIES

	2008 £'000	15 Sep. 2006 to 31 Dec. 2007 £'000
<b>Long-term business technical account - analysis of credit:</b>		
<i>UK Corporation tax at 28.5% (2007: 30%)</i>		
Current taxation on income for the period	(593)	(211)
Adjustments in respect of previous periods	(3)	-
	(596)	(211)
Double taxation relief	(4)	-
	(600)	(211)
<i>Foreign taxation</i>		
Current taxation on income for the period	14	-
Adjustments in respect of previous periods	11	-
Current tax credit on loss for the period	(575)	(211)
Deferred tax (note 15) Origination and reversal of timing differences	247	-
Tax on loss on ordinary activities	(328)	(211)
<b>Non-technical account - analysis of credit:</b>		
<i>UK Corporation tax at 28.5% (2007: 30%)</i>		
Current taxation on income for the period	74	(161)
Adjustments in respect of previous periods	(25)	-
Tax credit attributable to balance on long term business technical account	(300)	-
Tax on loss on ordinary activities	(251)	(161)
<b>Factors affecting the taxation credit for the period</b>		
<b>Non-technical account</b>		
Loss on ordinary activities before taxation	(791)	(625)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	(226)	(188)
Effects of:		
Expenses not deductible for taxation purposes	-	27
Adjustments to current tax in respect of previous periods	(25)	-
<b>Current taxation credit for the period</b>	(251)	(161)

**ACE EUROPE LIFE LIMITED**

**Notes to the Financial Statements**  
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**9. Dividends**

No dividends were paid during the year (2007: nil). The directors do not propose to pay any dividends.

**10. Other financial investments**

	2008 £'000	2007 £'000
Other financial investments – Market value	6,818	5,004
Other financial investments – Cost value	6,818	5,000

All the above is held in a Barclays Global Investors UCITS liquidity funds.

**11. OTHER DEBTORS**

	2008 £'000	2007 £'000
Amounts due from group undertaking	734	161

Amounts due from group undertaking relate to taxation losses that have been surrendered to an affiliate company.

**12. CALLED-UP SHARE CAPITAL**

	2008 £'000	2007 £'000
<b>Allotted, issued and fully paid:</b>		
5,375,001 Ordinary £1 shares	5,375	5,375
<b>Authorised:</b>		
100,000,000 Ordinary £1 shares	100,000	100,000

**13. RESERVES**

	Share capital £'000	Profit and loss account £'000	Total £'000
As at 1 January 2008	5,375	(464)	4,911
Loss for the year	-	(540)	(540)
Currency translation differences	-	2	2
As at 31 December 2008	5,375	(1,002)	4,373

## Notes to the Financial Statements

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**14. Long-term business provision****Methodology**

The long term business provision is calculated initially on a statutory solvency basis to comply with reporting requirements under the FSA Handbook of Rules and Guidance. The statutory solvency basis of valuation is then modified to remove certain contingency reserves not required by the ABI SORP.

For the level premium term assurance business in the UK, the long term business provision is valued on a prospective valuation basis, where the liability is determined by projecting separately each policy in force, for each future year, the expected amount of income and outgo in that year net of reinsurance, allowing for premiums paid, expenses and death benefits. The total outgo less income in each year is discounted to the valuation date to give the long term business provision.

For the UK term life business, we expect the long term business provision to be negative in the short to the medium term (and may turn positive later on). It should be noted that any negative reserves arising on individual contracts in the UK as a result of the valuation method adopted at this year-end have been eliminated.

In the case of yearly renewable term (YRT) life business and credit life business written outside the UK, the reserve held is the sum of:

- an unearned premium reserve (UPR); and
- an incurred but not reported claims reserve (IBNR)

The long-term business provision also includes an explicit expense reserve to allow for any expense overrun expected to be incurred, to the extent that the expected surplus generated on a prudent basis is insufficient to cover projected expenses.

**Principal Assumptions**

As the firm was only authorised in April 2007, there is insufficient data to perform any meaningful experience analyses on the business written to date.

Assumptions are set by reference to the company's pricing assumptions used, which were based on the original Regulatory Business Plan submitted to the FSA. Prudent margins are added to the pricing assumptions to form the overall assumptions used for valuing the long term business provisions.

With the exception of economic assumptions, the principal assumptions underlying the calculation of the long term business provision remain largely unchanged from that used last year.

The principal assumptions used for the calculation of the long term business provision for UK term life business are as follows:

		<b>2008</b>	<b>2007</b>
Mortality :	Male non smoker	135% TMN00 Ult	135% TMN00 Ult
	Female non smoker	135% TFN00 Ult	135% TFN00 Ult
	Male smoker	135% TMS00 Ult	135% TMS00 Ult
	Female smoker	135% TMS00 Ult	135% TMS00 Ult
Lapse Rate (%pa) :	Year 1	49.5%	49.5%
	Year 2	38.5%	38.5%
	Year 3	27.5%	27.5%
	Year 4 +	22.0%	16.5%
Expenses		18.75% of premium	18.75% of premium
Valuation interest rate		1.2%	3.7%

The mortality assumptions are based on the most recent published assured lives tables for term assurance in the UK, with a 10% margin over the pricing basis recommended by our reinsurer.

The persistency assumptions (lapse rates) used to project future cash flows are based on the pricing assumptions used for this business plus a 10% margin for adverse deviation.

The level of expenses included is based on the pricing assumptions, with a 25% margin for adverse deviation, allowing for cost inflation of 4%.

The valuation interest rate is based on the expected return (net of tax) from the assets invested subject to minimum requirements from FSA rules.

**14. Long-term business provision (continued)**

The UPR for YRT and Credit Life business is calculated as 5% of the annual premiums in force at the valuation date.

In the absence of claims data, the IBNR reserve for YRT business is calculated as 41% of annual premium in force multiplied by a factor of 3/12. This is broadly equivalent to the average expected loss ratio from the pricing bases plus a prudent 10% margin, together with an allowance for 3 months delay in reporting claims. Similarly for credit life business, the IBNR reserve is calculated as 10% of annual premium in force multiplied by a factor of 3/12.

**Sensitivity of provision to changes in significant assumptions**

In calculating the long term business provision for the UK term life business, the most significant assumptions are mortality rates, lapse rates and expenses.

An increase in lapse assumptions will increase the long term business provision. For example, an increase in lapse rates by 20% would result in the long term business provision to *become less negative* by approximately 18%.

If higher mortality rates were assumed, the long term business provision will increase. For example, an increase in mortality rates by 20% would result in the long term business provision to *become less negative* by approximately 10%.

Similarly if higher expenses are assumed, the expense reserve will increase, and hence the long term business provision will increase.

For the YRT and credit life business, the most significant assumption is the loss ratio. An increase in loss ratios in the order of 20% would increase the IBNR by approximately 20%.

**15. Provisions for other risks and charges**

	2008 £'000	2007 £'000
Deferred tax		
At 1 January	-	-
Movement in the period	247	-
	<hr/>	<hr/>
At 31 December	247	-
	<hr/> <hr/>	<hr/> <hr/>
The provision for deferred tax in the financial statements is as follows:		
Deferred acquisition costs		
Technical provisions	61	-
	186	-
	<hr/>	<hr/>
Deferred tax liability	247	-
	<hr/> <hr/>	<hr/> <hr/>

**16. Other creditors including taxation and social security**

Amounts payable to group undertakings	3,691	492
Other creditors payable	565	-
Corporation tax payable	22	-
Foreign tax payable	14	-
	<hr/>	<hr/>
	4,292	492
	<hr/> <hr/>	<hr/> <hr/>

**17. Capital commitments**

No capital expenditure was authorised at 31 December 2008 which has not been provided for in these financial statements.

**18. Transactions with related parties**

Advantage has been taken of the exemption provided in FRS 8 (“related party transactions”) from disclosing details of transactions with ACE Limited and its subsidiary undertakings.

**19. Ultimate Parent undertaking**

The company is a wholly owned subsidiary of ACE Tempest Life Reinsurance Limited (“immediate parent”), a company registered in Bermuda.

The ultimate parent company is ACE Limited, a company which was registered in the Cayman Islands until 18 July 2008 when it redomesticated its place of incorporation to Zurich, Switzerland. ACE Limited’s headquarters are in Bermuda and quoted on the New York Stock Exchange. Copies of the consolidated accounts of the immediate parent and of the ultimate parent companies can be obtained from Investor Relations at ACE Global Headquarters, 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.