



ACE EUROPE LIFE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2010

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 2010

Performance in 2010

During 2010, ACE Europe Life Limited ("ACE Life") generated gross premiums of £11.0 million (2009: £8.8 million). The Credit Life business in Spain and the Nordic region accounted for 39% of premiums, while Direct Marketing made up 31% of the premiums. The intermediary based term life offering in the Netherlands accounted for the remaining 30% of the total gross premium income.

ACE Life closed 2010 with a pre-tax profit of £2.1 million (2009: £0.6 million loss). Shareholders' funds at the close of the financial year were £7.7 million (2009: £3.9 million).

It is anticipated that the increased momentum of the business and the initiatives planned for 2011 will result in continued growth in premiums and profitability.

Significant achievements

Celebrating 25 years of ACE

ACE Limited celebrated its 25th anniversary on 30 August 2010. Our commemoration of this milestone included advertisements in publications around the globe thanking our friends, distribution partners and customers who have supported us over the years and a global road show by ACE senior management to meet with clients and brokers.

As a company, we make it one of our priorities to support the communities where we live and work by giving back through charitable efforts, and another highlight of the year's activities was ACE's Global Day of Service on 22 October when employees around the world demonstrated their appreciation to the communities that have supported us throughout the years by working on volunteer service projects in partnership with local organisations.

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 integral 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.

Solvency II

The European Union Solvency II Directive is due to be implemented by 1st January 2013. Covering over 30 countries, it is the biggest ever exercise in establishing a single set of rules governing insurer capital and risk management, and represents a fundamental shift in regulatory requirements for the insurance industry. ACE Life has completed a Solvency II "gap analysis" which provides an efficient and consolidated assessment of ACE Life's risk management objectives and processes and how these need to adapt for supervision under a Solvency II regime.

Future prospects

ACE Life is really well positioned for the coming years. The Accident and Health business is growing and we are going to be able to leverage that business's distribution to drive additional growth in both the Direct Marketing and Affinity areas. Over the past years we've succeeded in developing product and marketing synergies that make us stronger than most of our competitors.

Though we have a small life team, our organization actually stretches well beyond it and we are developing champions in most of our European operations. In 2011 you'll see us invest further in product development and marketing, and also in operations as we strive to automate more of our processes. It is with great anticipation that I look towards the coming years.

In conclusion

ACE Life has significantly enhanced ACE's direct marketing offering throughout Europe, providing our distribution partners with additional and valuable cover for their customers. We also had a good year with growth in gross premiums and net profits after tax, despite the tough economic environment in our key markets.

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.

A Hollenberg

Chairman and Chief Executive Officer

25 March 2011

The board of ACE Life has prepared this review in accordance with Section 417 of the Companies Act 2006. 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 is one of the world's largest providers of commercial property & casualty, accident & health and Life insurance and reinsurance.

With \$83.4 billion in assets and \$19.5 billion of gross written premiums in 2010, the ACE group is distinguished by its underwriting expertise, superior claims handling and global franchise, which includes offices in 53 countries and clients in over 170.

The insurance companies of the ACE group serve a diverse range of clients: multinational corporations and local businesses with property and casualty exposures; companies and affinity groups looking to provide or offer accident and health insurance programmes and life insurance to their employees or members; insurers seeking reinsurance coverage; and individuals purchasing life, personal accident, supplemental health and high-valued homeowners, automobile, and umbrella insurance.

ACE Limited, the Swiss-incorporated parent company of the ACE group, is listed on the New York Stock Exchange (NYSE: ACE) and is a component of the S&P 500 stock index. The ACE group maintains executive offices in Zurich, Bermuda and New York, among other locations, and employs more than 15,000 people worldwide.

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.

Organisation of the business

ACE life has branches in 11 countries across Europe and holds cross-border permissions in all countries in the European Economic Area. The head office is based in London and 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 and broker distribution 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 card 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.

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 2011 will be a challenging 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 and adding life cover to core A&H products 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 that is constantly changing in response to market conditions. 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 2011 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.

Business Review
31 December 2010

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.

	2010 £'000	2009 £'000
Annualised new business premiums	7,739	3,478
Gross written premiums	11,030	8,806
Profit/(loss) before taxation	2,057	(618)
Profit/(loss) after taxation	1,764	(445)
	=====	=====
Number of policies in force	46,490	20,906

Results and performance

2010 produced a pre-tax operating profit of £2,057,000 (2009: £618,000 loss) and a profit after taxation of £1,764,000 (2009: £445,000 loss). A summary of the reported financial results is shown in the following table.

	2010 £'000	2009 £'000
Net earned premiums	5,391	6,344
Reported losses	(447)	(675)
Net decrease/(increase) in mathematical reserves	304	(29)
Net acquisition expenses	(2,349)	(5,087)
Administrative expenses	(1,137)	(1,037)
Investment income	398	45
Other income	(104)	11
Taxation charge	(292)	(17)
	=====	=====
Profit/(loss) for the period after taxation	1,764	(445)

Financial position

Investment strategy

ACE Life’s investment strategy aims to achieve a balance between achieving adequate investment returns while matching the profile of the Company’s technical liabilities and reserves. Currently, the Company’s investments are held in UCITS funds that are separately managed by PIMCO and Blackrock.

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 2010 is in excess of these requirements.

Capitalisation is assessed on a regular basis throughout in light of the growth anticipated in the business. 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.

Further details regarding the company’s capital resources are set out on page 15 “Management of insurance risk”.

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 AEGL and ACE Life International 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.

Communication with employees is primarily effected through the corporate intranet and regular briefings and presentations by the Chief Executive Officer of ACE Europe Group and local management.

ACE and the Environment

ACE is committed to reducing its carbon footprint and controlling its environmental impact, even as it continues to expand its operations around the globe.

ACE has made significant strides towards reducing its environmental footprint and improved its position in Newsweek's 2010 Green Rankings of America's 500 largest public companies, ranking 6th in the banks and insurance sector (2009: 9th) and 64th overall (2009: 103rd). Companies were rated based on a weighted average of scores for environmental impact, green policies and reputation.

In December 2010, ACE announced that it had achieved its company-wide greenhouse gas emissions reduction goal – to reduce its global emissions by 8% per employee from 2006 to 2012. The goal was reached through a range of activities, including making energy-efficient upgrades to lighting and heating, reducing non-essential business travel, optimizing its real estate square footage and making improvements in its largest owned and leased facilities.

Responsibility for ACE's environmental action program is a shared commitment at the senior management level and involves a comprehensive, coordinated effort integrating activity across all areas of the organisation.

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.

ACE EUROPE LIFE LIMITED

Directors' Report 31 December 2010

The directors of ACE Europe Life Limited (Company registration number 5936400) are pleased to submit their annual report and the audited financial statements for the year to 31 December 2010.

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.

Principal risks and uncertainties

A review of the Company's principle risks and uncertainties is set out in the business review.

Results and dividends

The results of the Company for the year show a profit on ordinary activities before tax of £2,057,000 (2009: £618,000 loss) and a profit after tax of £1,764,000 (2009: £445,000 loss). No dividends have been proposed or paid.

Shareholders' funds at the 31 December 2010 totalled £7,686,000 (2009: £3,924,000). A reconciliation of the movement in shareholders' funds during the year is set out in note 14 to the financial statements.

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 2010 to the date of this report unless otherwise indicated:

Executive directors:

A S Fieldus

A A Hollenberg

A J Kendrick

I J Watts (resigned on 26 January 2010)

M T Reynolds

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 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 financial instruments.

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 2010

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 2010 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, 25 March 2011

ACE Building
100 Leadenhall Street
London
EC3A 3BP

ACE EUROPE LIFE LIMITED

Statement of Directors' Responsibilities 31 December 2010

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

The directors are required by the Companies Act 2006 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 2010. 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 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.

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

We have audited the financial statements of Ace Europe Life Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, 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 Directors' Responsibilities Statement set out on page 8 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.

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 2010 and of its profit 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.

Nick Wilks (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 March 2011

ACE EUROPE LIFE LIMITED

Profit and Loss Account

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Technical account – Long-term business			
Earned premium, net of reinsurance:			
Gross premiums written	3	11,030	8,806
Outward reinsurance premiums		(5,639)	(2,462)
Earned premium, net of reinsurance		5,391	6,344
Investment income:			
Income from other investments	7	123	30
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(1,138)	(503)
Reinsurers' share		618	69
Net claims paid		(520)	(434)
Change in the provision for claims			
Gross amount		(49)	(383)
Reinsurers' share		122	142
Net change in provision for claims outstanding		73	(241)
Claims incurred, net of reinsurance		(447)	(675)
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance			
Gross amount		(4,368)	(279)
Reinsurers' share		4,672	250
Net change in other technical provisions		304	(29)
Net operating expenses	4	(3,486)	(6,124)
Taxation attributable to the long-term business	8	(244)	(10)
Balance on the technical account – long-term business		1,641	(464)

All of the above results derive from continuing operations.

ACE EUROPE LIFE LIMITED

Profit and Loss Account

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Non-technical account			
Balance on the long-term business technical account		1,641	(464)
Tax credit attributable to balance on long-term business technical account		245	(180)
Shareholder's pre-tax profit/(loss) from long-term business		1,886	(644)
Investment income	7	275	15
Other (expense)/income		(104)	11
Profit/(loss) on ordinary activities before taxation		2,057	(618)
Taxation on profit/(loss) on ordinary activities	8	(293)	173
Profit/(loss) on ordinary activities after taxation		1,764	(445)

Statement of Recognised Gains and Losses

For the year ended 31 December 2010

		2010 £'000	2009 £'000
Profit/(loss) for the financial year		1,764	(445)
Currency translation differences	13	(2)	(4)
Total recognised profit/(loss) for the financial year		1,762	(449)

All of the above results derive from continuing operations.

ACE EUROPE LIFE LIMITED

Balance Sheet
at 31 December 2010

	Note	2010 £'000	2009 £'000
Assets			
Investments			
Other financial investments	10	6,883	4,520
Reinsurer's share of technical provisions			
Long-term business provision		7,588	3,006
Claims outstanding		303	166
		7,891	3,172
DEBTORS – amounts falling due within one year			
Debtors arising out of direct insurance operations:			
Amounts owed by policyholders		980	565
Debtors arising out of reinsurance operations	11	1,201	1,364
		2,181	1,929
Other assets			
Cash at bank and in hand		4,059	3,095
Prepayments and accrued income			
Deferred acquisition costs		2,981	525
Total assets		23,995	13,241
Liabilities			
Capital and reserves			
Called-up share capital	12	5,375	5,375
Other reserves - capital contribution	13	2,000	-
Profit and loss account	13	311	(1,451)
	14	7,686	3,924
Technical provisions			
Long-term business provision	15	9,100	4,847
Claims outstanding		479	418
		9,579	5,265
Provisions for other risks and charges			
Provisions for deferred taxation	16	827	181
Creditors– amounts falling due within one year			
Creditors arising out of reinsurance operations	17	695	266
Other creditors including taxation and social security	18	5,128	3,097
		5,823	3,363
Accruals and deferred income		80	508
Total liabilities		23,995	13,241

The financial statements on pages 10 to 25 were approved by the board of directors on 25 March 2011 and were signed on its behalf by:

M T Reynolds
Chief Financial Officer

1. Accounting policies**Basis of presentation**

The Company's financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies' individual accounts and in accordance 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 bid 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

ACE Life operates through a network of branches across the European Economic Area (“foreign branches”), with the head office in the UK. The profit and loss accounts of the foreign branches are translated into sterling at the average rate for the period in accordance with the branch accounting provisions of Statement of Standard Accounting Policy 20 “Foreign Currency Translation”.

Transactions in currencies other than the currency of the foreign branch are translated into the foreign branch currency at the rates of exchange ruling at the date the transaction is processed.

Foreign currency transactions in the UK 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.

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.

Results of branches, recorded in the foreign branches’ currencies, are translated into sterling at average rates of exchange for the year while assets and liabilities are translated to sterling at year end exchange rates. Differences arising on translation are recorded 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 15.

Notes to the Financial Statements

31 December 2010

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").

Available capital resources – 2010

	Shareholder's funds £'000	Long-term business fund £'000	Total £'000
Total shareholder's funds at 1 January 2010	3,168	756	3,924
Capital Contribution	2,000	-	2,000
Profit and loss account	124	1,638	1,762
Transfer to the long term business fund	(600)	600	-
Total shareholder's funds at 31 December 2010	4,692	2,994	7,686
Adjustments onto regulatory basis:			
Adjustment to assets	-	(2,981)	(2,981)
Adjustment to liabilities	-	827	827
Closure & reinsurers' default reserves	-	(80)	(80)
Total available capital resources at 31 December 2010	4,692	760	5,452

The key driver for the movement in total available capital resources from £3,457,000 at 31 December 2009 to £5,452,000 at 31 December 2010 is the capital contribution of £2,000,000 paid into the company during 2010.

Policyholders' liabilities in the long-term fund amount to £6.0 million (2009: £4.1 million). Note 15 (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 £5.5 million (2009: £3.5 million) of available capital resources at 31 December 2010 of which £0.8 million is held by the long-term business fund (2009: £0.3 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 2010 the available capital was 109% (2009: 111%) of the capital requirement of £5.0 million (2009: £3.1 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.

£0.6 million has been transferred from the shareholders' fund to the long-term fund in the year (2009: No transfer was made from the shareholders' fund into the long-term fund).

2. Management of insurance risk (continued)

Available capital resources - 2009

	Shareholder's funds £'000	Long-term business fund £'000	Total £'000
Total shareholder's funds at 1 January 2009	3,150	1,223	4,373
Profit and loss account	18	(467)	(449)
Total shareholder's funds at 31 December 2009	3,168	756	3,924
Adjustments onto regulatory basis:			
Adjustment to assets	-	(525)	(525)
Adjustment to liabilities	-	181	181
Closure & reinsurers' default reserves	-	(123)	(123)
Total available capital resources at 31 December 2009	3,168	289	3,457

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 the Company's 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 and regulators;
- 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;
- to allocate capital efficiently by ensuring that returns on capital employed meet requirements of its capital providers and of its shareholder; 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. During the year, the Company maintained capital in excess of regulatory 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.

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 £3.5 million (2009: £5.7 million)

Geographical analysis

	Gross premiums written £'000	Profit/(loss) before taxation £'000	Reinsurance balance £'000	Net Assets £'000
2010				
United Kingdom	479	363	(1,388)	6,762
Other EEA states	10,551	1,694	6,944	924
TOTAL	11,030	2,057	5,556	7,686
2009				
United Kingdom	389	(1,065)	1,126	4,181
Other EEA states	8,417	447	(30)	(257)
TOTAL	8,806	(618)	1,096	3,924

The total amount of assets attributable to the long-term fund maintained in accordance with Chapter 1 of the Prudential Source book for Insurers is £8,367,000 (2009: £6,370,000)

New business analysis

The annualised equivalent new business premiums were £7,739,000 (2009: £3,478,000). The premiums written are regular periodic premiums.

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4. Net operating expenses – technical account	Gross £'000	Reinsurance £'000	Net £'000
2010			
Acquisition costs	10,300	(4,076)	6,224
Change in deferred acquisition costs	(2,493)	-	(2,493)
Administrative expenses	1,462	(325)	1,137
Reinsurance commissions and profit participation	-	(1,382)	(1,382)
	<u>9,269</u>	<u>(5,783)</u>	<u>3,486</u>
2009			
Acquisition costs	7,901	(2,094)	5,807
Change in deferred acquisition costs	(314)	-	(314)
Administrative expenses	1,635	(598)	1,037
Reinsurance commissions and profit participation	-	(406)	(406)
	<u>9,222</u>	<u>(3,098)</u>	<u>6,124</u>

Foreign exchange losses of £7,000 (2009: £146,000) are included in administrative expenses.

Administrative expenses include costs that are incurred by ACE INA Services U.K. Limited (“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 £9.1 million (2009: £5.6 million) 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:

	2010 £'000	2009 £'000
Audit fees		
Fees payable for the audit of the annual accounts	31	26
Non audit fees		
Other services pursuant to legislation	6	10
Other services relating to taxation	-	5
	<u>37</u>	<u>41</u>

Notes to the Financial Statements

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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.

	2010 £'000	2009 £'000
Aggregate emoluments and benefits	1,920	1,873
Company pension contributions to money purchase pension schemes	75	65
	1,995	1,938

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 £714,000 (2009: £616,000) 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 £42,000 (2009: £42,000) and £213,000 (2009: £209,000) 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 (the highest paid director) exercised options over the shares of ACE Limited.

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

	2010 £'000	2009 £'000
Investment income – Long term technical account	123	30
Investment income – Non-technical account	275	15

The majority of investment income during the year relates to income earned on UCITS investments. There were no investment management charges related to these investments.

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Notes to the Financial Statements
31 December 2010

8. Taxation on profit/(loss) on ordinary activities

	2010 £'000	2009 £'000
Long-term business technical account - analysis of charge:		
Current taxation		
UK Corporation tax at 28% (2009: 28%)	-	188
Amounts receivable from group undertakings in respect of group relief	(907)	-
Adjustments in respect of previous periods	(6)	(112)
	(913)	76
Double taxation relief	-	(155)
	(913)	(79)
Foreign taxation		
Current taxation on income for the period	500	155
Adjustments in respect of previous periods	11	-
	(402)	76
Current tax (credit)/charge on profit/(loss) for the period	(402)	76
Deferred tax (note 16)		
Effect of decreased tax rate on opening liability	(6)	-
Deferred tax charge / (credit) for the period	652	(66)
	646	(66)
	244	10
Tax charge on profit/(loss) on ordinary activities	244	10
Non-technical account - analysis of charge/(credit):		
UK Corporation tax at 28% (2009: 28%)		
Current taxation on income for the period	48	7
Tax charge/(credit) attributable to balance on long term business technical account	245	(180)
	293	(173)
Tax on profit/(loss) on ordinary activities	293	(173)
Factors affecting the taxation charge/(credit) for the period		
Non-technical account		
Profit/(loss) on ordinary activities before taxation	2,057	(618)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	576	(173)
Effect of:		
Long term fund at effective rate of tax of 13% (2009: 28%)	(283)	-
	293	(173)
Current taxation charge/(credit) for the period	293	(173)

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Notes to the Financial Statements
31 December 2010

9. Dividends

No dividends were paid during the year (2009: nil). The directors do not propose the payment of a dividend.

10. Other financial investments

	2010 £'000	2009 £'000
Other financial investments – Market value	6,883	4,520
Other financial investments – Cost value	6,602	4,520

The investments above are held in UCITS accounts managed by Black Rock (formerly Barclays Global Investors) and PIMCO.

The investments are not quoted on an active market. The market value of the investments is derived from prices directly observable from net assets values provided by Blackrock and PIMCO.

11. Debtors arising out of reinsurance operations

	2010 £'000	2009 £'000
Amounts due from group undertaking	1,090	1,353
Amounts due from other reinsurers	111	11
	1,201	1,364

12. Called-up share capital

	2010 £'000	2009 £'000
Allotted, issued and fully paid: 5,375,001 Ordinary £1 shares	5,375	5,375
Authorised: 100,000,000 Ordinary £1 shares	100,000	100,000

13. Reserves

	Share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
As at 1 January 2010	5,375	-	(1,451)	3,924
Capital Contribution	-	2,000	-	2,000
Profit for the year	-	-	1,764	1,764
Currency translation differences	-	-	(2)	(2)
As at 31 December 2010	5,375	2,000	311	7,686

During the year, the company received a capital contribution of £2.0 million from its immediate parent, ACE Tempest Life Reinsurance Limited.

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Notes to the Financial Statements
31 December 2010

14. Reconciliation of movements in shareholders' funds

	2010 £'000	2009 £'000
Profit/(loss) for the financial year	1,764	(445)
Currency translation differences	(2)	(4)
Capital Contribution	2,000	-
	3,762	(449)
Net increase/(decrease) in shareholders' funds	3,762	(449)
Opening shareholders' funds	3,924	4,373
	7,686	3,924
At 31 December 2010	7,686	3,924

15. 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 long term business written (business of term greater than one year), 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 any death or maturity benefits. The total outgo less income in each year is discounted to the valuation date to give the long term business provision.

The long term business provision may be negative in the early years for some products (and may turn positive later on). It should be noted that any negative reserves arising on product level 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, 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 no longer includes an explicit expense reserve as the surplus expected to be generated on a prudent basis is sufficient to cover projected expenses. The level of projected expenses is based on best estimates using the 2011 budget with a 10% margin of adverse deviation.

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. 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 for the year ending 31 December 2009.

The principal assumptions used for the calculation of the long term business provision for the most material long term business products are as follows:

Mortgage Protection

Mortality :	Male non smoker	93.5% GBMNS9095
	Female non smoker	93.5% GBFNS9095
	Male smoker	93.5% GBMS9095
	Female smoker	93.5% GBFS9095
Lapse Rate (%pa) :	Year 1	12.0%
	Year 2	11.0%
	Year 3	10.0%
	Year 4 +	8.0%
Expenses	6.25% of premium	
Valuation interest rate	3.5%	

15. Long-term business provision**Principal Assumptions (continued)****Return of Premium**

Mortality :	Male non smoker	110% TMNS00
	Female non smoker	110% TFNS00
	Male smoker	110% TMS00
	Female smoker	110% TFS00
Lapse Rate (%pa) :	Year 1	25.0%
	Year 2	15.0%
	Years 3-5	10.0%
	Years 6-7	7.5%
	Years 7-9	5.0%
	Years 10-11	2.5%
	Years 12+	0.0%
Expenses	£31.25 per policy	
Valuation interest rate	3.50%	

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

The persistency assumptions used to project future cash flows are based on the pricing assumptions used for this business plus a 10% margin for adverse deviation. For the Return of Premium product the persistency assumption is dependant on term, the rates shown are based on the average term (20 years).

The level of expenses used in the policy reserves is based on the pricing assumptions, with a 25% margin for adverse deviation, allowing for cost inflation of 4.5%.

The valuation interest rate is derived based on the expected return (gross of tax) from the assets hypothecated to each product subject to minimum requirements from FSA rules. The valuation rate of interest for all of the other long term liabilities was 3.25%.

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

The IBNR reserve for YRT business is calculated as 44% 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

For long term business (including the expense reserve), the most significant assumptions are interest rates, mortality rates, lapse rates and expenses.

A decrease in interest rates will increase the long term business provision. For example a decrease of valuation interest rates by 20% (which equates to about 80 basis points) will increase the long term provisions by approximately 40%.

If higher mortality rates were assumed, the long term business provision will increase. For example, an increase in mortality rates by 10% would result in the long term business provision increase by approximately 11%

15. Long-term business provision

Sensitivity of provision to changes in significant assumptions (continued)

If higher expenses were assumed, the long term business provision will increase. For example, an increase in expenses by 10% would result in the long term business provision increase by approximately 13%.

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%.

16. Provisions for other risks and charges

	2010 £'000	2009 £'000
Deferred tax		
At 1 January	181	247
Movement in the period	646	(66)
	827	181
	827	181
The provision for deferred tax in the financial statements is as follows:		
Deferred acquisition costs		
Technical provisions	805	147
	22	34
	827	181
	827	181

A potential deferred tax asset of £235,000 (2009: £182,000) in respect of unutilised tax losses has not been recognised as there is insufficient evidence that it will be recoverable. The asset would be recoverable should sufficient taxable profits and investment income be generated in future which would be eligible for relief against the unutilised tax losses.

17. Creditors arising out of reinsurance operations

	2010 £'000	2009 £'000
Amounts due to group undertaking	164	72
Amounts due to other reinsurers	531	194
	695	266
	695	266

18. Other creditors including taxation and social security

Amounts payable to group undertakings	3,931	2,229
Other creditors payable	809	674
Corporation tax payable	388	194
	5,128	3,097
	5,128	3,097

19. Capital commitments

No capital expenditure was authorised at 31 December 2010 which has not been provided for in these financial statements.

20. Transactions with related parties

During the year, ACE Life paid £1,093,000 (2009: £1,067,000) for management services provided by ACE Limited affiliate companies.

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, other than those disclosed above.

21. 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 registered in Zurich, Switzerland. ACE Limited's headquarters are in Zurich, Switzerland 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.