



ACE EUROPE LIFE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2007

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 (FORMERLY HACKREMCO (NO. 2417) LIMITED)

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ACE EUROPE LIFE LIMITED

CHAIRMAN'S REPORT FOR THE PERIOD ENDED 31 DECEMBER 2007

INTRODUCTION

On 26 April 2007, the Financial Services Authority ("FSA") granted approval for the establishment of a new UK based life assurance company, ACE Europe Life Limited ("ACE Life"). Initially focusing on the pure protection markets, ACE Life markets term life policies via a number of distribution partners.

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

PERFORMANCE IN 2007

ACE Life wrote its first insurance policy on 20 June 2007, and generated gross written premiums of £79,000 for the year. Due to the start-up nature and associated expenses of the business in 2007, the year closed with a pre-tax loss of £625,000 and a loss after taxation of £464,000 due to the surrender of tax losses through group relief.

It is anticipated that the increased momentum of the initiatives implemented in 2007 and the new businesses proposals planned for 2008 will result in significant top line growth in the near term, and that the company will generate a small operating profit in 2008.

SIGNIFICANT ACHIEVEMENTS

In the first year of operation, ACE Life fulfilled the primary objectives of structuring the core management team; setting-up core operational, financial, compliance and control processes; establishing ACE Life's UK headquarters and branch infrastructure across target markets (France, Spain, Finland, Sweden, the Netherlands and Italy); launching pilot campaigns in priority countries; starting the roll-out phase in pioneer countries; and supporting non-direct marketing life projects including creditor schemes and affinity programs.

TREATING CUSTOMERS FAIRLY

Treating Customers Fairly ("TCF") is a core principle of our current regulatory framework, and a key focus for the FSA. It is a principle that fits well with ACE's culture of integrity, something that all employees automatically strive to achieve. We are strongly committed to treating our customers fairly in all aspects of our business and have developed a TCF statement which defines how we adhere to the key principles of customer service in practice, particularly regarding our behaviour and interaction with customers and broking partners.

FUTURE PROSPECTS

During 2008 we aim to consolidate our operational, financial, compliance and control processes and finalise the regulatory infrastructure in the remaining target countries. We will ensure that ACE Life is established as "business-as-usual" within our initial target countries of France, Spain, Finland, Sweden and the UK and launch pilot programs in new markets including Germany and Italy. We will also look to diversify the direct market product range beyond term life; our planned entry into the affinity and creditor book will be one of the first steps in this direction.

IN CONCLUSION

ACE Life has achieved the first step required to establish itself 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. I am immensely proud of the achievements made to date.

The start up project has involved a great deal of effort from all those involved, with considerable support coming from the European A&H direct marketing and operations teams, as well as the ACE Finance team. I would like to take this opportunity to formally acknowledge these contributions, and thank all staff for their continued hard work and dedication.

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.

E Levin
Chairman

13 March 2008

ACE EUROPE LIFE LIMITED

BUSINESS REVIEW FOR THE PERIOD ENDED 31 DECEMBER 2007

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. 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 at 31 December 2007, ACE Limited, the Bermuda-based holding company of the ACE Group of Companies reported gross premiums written of US\$17 billion and total net assets of US\$72 billion. 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 France, Spain, Finland, Sweden and the UK. Further European country roll-outs are planned for 2008.

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 product range ranging from accident to life and health covers;
- 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 pricing and trends

The market for term life assurance can be highly price sensitive. 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 – e.g. sponsor-driven direct marketing activities.

The 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 the UK FSA "Treating Customers Fairly"; European Union mediation and distance selling directives; EU Data protection regulations and country-specific life insurance regulation.

Challenges in 2008 include building and maintaining a precise understanding of relevant legislations in our various countries of operation; ensuring the establishment of a strong compliance framework; and managing the interactions between FSA-directed initiatives and local regulation in countries of operation.

ACE EUROPE LIFE LIMITED

BUSINESS REVIEW FOR THE PERIOD ENDED 31 DECEMBER 2007

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.

	£'000
15 September 2006 to 31 December 2007:	
Annualised new business premiums	995
Gross written premiums	79
Loss before taxation	625
Loss after taxation	464
	<hr/>
Number of policies in force	6,455
Capital margin cover	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

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

	£'000
15 September 2006 to 31 December 2007:	
Net earned premiums	4
Reported losses	-
Net increase in mathematical reserves	(565)
Net acquisition expenses	(79)
Administrative expenses	(62)
Investment income	204
Start up costs	(127)
Taxation credit	161
	<hr/>
Loss for the period after taxation	(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 2007 comfortably exceeded these requirements.

Based on current projections of 2008 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.

ACE EUROPE LIFE LIMITED

BUSINESS REVIEW FOR THE PERIOD ENDED 31 DECEMBER 2007

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.

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.

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 2008

ACE EUROPE LIFE LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2007

The directors are pleased to submit their report and the audited financial statements for the period from incorporation (15 September 2006) to 31 December 2007 ("the period").

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 Business Review.

CHANGE OF NAME

The name of the company was changed from Hackremco (no. 2417) Limited to ACE Europe Life Limited on 10 November 2006.

RESULTS AND DIVIDENDS

The results of the company for the period show a loss on ordinary activities before tax of £625,000 and a loss after tax of £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 15 September 2006 to the date of this report unless otherwise indicated:

Executive directors

Randi Cigelnik (appointed on 13 November 2006 and resigned on 31 January 2007)
Philippa Curtis (appointed on 13 November 2006)
Andy Hollenberg (appointed on 25 January 2008)
Andrew Kendrick (appointed on 13 November 2006)
Edward Levin (appointed on 13 November 2006)
Bertrand Liber (appointed on 13 November 2006 and resigned on 25 January 2008)
Hackwood Directors Limited (appointed on 15 September 2006 and resigned on 13 November 2006)

Non-executive director

David Somers (appointed on 18 December 2007)

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 period for this policy.

DIRECTORS INTERESTS

In accordance with The Companies (Disclosure Directors' Interests) (Exceptions) Regulations 1985 (SI 1985/802), the directors' interests in ACE Limited, the ultimate holding company, are not disclosed in these financial statements.

FINANCIAL RISK MANAGEMENT

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.

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.

ACE EUROPE LIFE LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2007

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 period ended 31 December 2007 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, were appointed 13 November 2006 and 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 2008

ACE Building
100 Leadenhall Street
London
EC3A 3BP

ACE EUROPE LIFE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 2007. 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.

ACE EUROPE LIFE LIMITED

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of ACE Europe Life Limited for the period between 15 September 2006 and 31 December 2007 ("the period") which comprise the Profit and Loss Account, the Balance Sheet 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 Annual Report and 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 2007 and of its loss for the period 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 2008

ACE EUROPE LIFE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE FOR THE PERIOD ENDED 31 DECEMBER 2007

15 September 2006 to
31 December 2007

	Note	£'000
TECHNICAL ACCOUNT – LONG-TERM BUSINESS		
EARNED PREMIUM, NET OF REINSURANCE		
Gross premiums written	3	79
Outward reinsurance premiums		(75)
Earned premium, net of reinsurance		<u>4</u>
CHANGE IN TECHNICAL PROVISIONS		
Change in long-term business provision, net of reinsurance		
Gross amount		(595)
Reinsurers' share		30
Net change in the long-term business provision		<u>(565)</u>
Net operating expenses	4	(141)
Taxation attributable to the long-term business	8	211
BALANCE ON THE TECHNICAL ACCOUNT – LONG-TERM BUSINESS		<u>(491)</u>

All of the above results derive from continuing operations.

ACE EUROPE LIFE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE FOR THE PERIOD ENDED 31 DECEMBER 2007

		15 September 2006 to 31 December 2007
	Note	£'000
NON-TECHNICAL ACCOUNT		
BALANCE ON THE LONG-TERM BUSINESS TECHNICAL ACCOUNT		(491)
Tax credit attributable to balance on long-term business technical account		(211)
Shareholder's pre-tax loss from long-term business		(702)
Investment income	7	204
Other charges		(127)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(625)
Taxation on loss on ordinary activities	8	161
LOSS FOR THE PERIOD		(464)

All of the above results derive from continuing operations.

The company has no recognised gains or losses other than those included in the technical and non-technical accounts. As such, no separate statement of recognised gains and losses has been presented.

ACE EUROPE LIFE LIMITED**BALANCE SHEET AT 31 DECEMBER 2007**

	Note	2007 £'000
ASSETS		
INVESTMENTS		
Other financial investments	10	5,004
REINSURER'S SHARE OF TECHNICAL PROVISIONS		
Long-term business provision		30
DEBTORS – amounts falling due within one year		
Debtors arising out of direct insurance operations:		
Amounts owed by policyholders		24
Debtors arising out of reinsurance operations		500
Other debtors	11	161
		685
OTHER ASSETS		
Cash at bank and in hand		615
TOTAL ASSETS		6,334
LIABILITIES		
CAPITAL AND RESERVES		
Called-up share capital	12	5,375
Profit and loss account	13	(464)
		4,911
TECHNICAL PROVISIONS		
Long-term business provision	14	595
CREDITORS– amounts falling due within one year		
Creditors arising out of reinsurance operations		
Other creditors including taxation and social security	15	67
		492
		559
ACCRUALS AND DEFERRED INCOME		
		269
TOTAL LIABILITIES		6,334

The financial statements on pages 10 to 20 were approved by the board of directors on 13 March 2008 and were signed on its behalf by:

P M Curtis
Chief Financial Officer

NOTES TO THE FINANCIAL STATEMENTS

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.

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 and cash equivalents

Cash and cash equivalents are short term, highly liquid deposit investment balances that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash equivalents comprise financial assets with less than three months maturity from the date of acquisition.

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.

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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	Long-term business fund	Total
	£'000	£'000	£'000
Share capital	5,375	-	5,375
Profit and loss account	27	(491)	(464)
Transfer to the long-term business fund	(495)	495	-
	<hr/>	<hr/>	<hr/>
Total shareholder's funds	4,907	4	4,911
Adjustments onto regulatory basis:			
Adjustment to asset values	-	-	-
Adjustments to liabilities	-	-	-
	<hr/>	<hr/>	<hr/>
Total available capital resources for the long-term business	4,907	4	4,911
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Technical provisions in the balance sheet			(595)
			<hr/> <hr/>

The company has £4.9 million of available capital resources at 31 December 2007 of which £0.004 million is held by the long-term business fund. 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 2007 the available capital was 220% of the capital requirement of £2.2 million, in excess of management's target minimum of 150%.

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 £495,000 to the long-term fund from the shareholder's fund.

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.

As part of this measurement, the company has to consider the admissibility of assets. During the period, the company invested funds with one bank which were not fully admissible for measurement purposes. This meant that £3.1 million was inadmissible for part of the period, but was rectified by period end. As a result, the company was £0.2 million short of the Minimum Capital Requirements until rectified before year end. The FSA has been notified of this breach.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF INSURANCE RISK (CONTINUED)

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.

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.

Gross premiums written by destination basis are not materially different from gross premiums written by origin.

There was no reinsurance inwards during this period.

Geographical analysis

	Gross premiums written	Loss before taxation	Net Assets
	£'000	£'000	£'000
15 September 2006 to 31 December 2007			
United Kingdom	10	(204)	4,907
Other EEA states	69	(421)	4
	<hr/>	<hr/>	<hr/>
TOTAL	79	(625)	4,911
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 £ 1,270,000

New business analysis

The annualised equivalent new business premiums were £ 995,000. The premiums written are regular periodic premiums.

ACE EUROPE LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	Gross	Reinsurance	Net
15 September 2006 to 31 December 2007	£'000	£'000	£'000
Acquisition costs	388	(296)	92
Administrative expenses	258	(196)	62
Reinsurance commissions	-	(13)	(13)
	<u>646</u>	<u>(505)</u>	<u>141</u>

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 £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:

	15 September 2006 to 31 December 2007
	£'000
Audit fees	
Fees payable for the audit of the annual accounts	36
Non audit fees	
Other services pursuant to legislation	6
Other services relating to taxation	62
	<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.

	15 September 2006 to 31 December 2007
	£'000
Aggregate emoluments and benefits	1,656
Company pension contributions to money purchase pension schemes	58
	<u>1,714</u>

ACE EUROPE LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. DIRECTORS AND EMPLOYEES (CONTINUED)

Directors' emoluments

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 £801,000 in respect of emoluments and benefits.

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, two directors 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

15 September 2006 to
31 December 2007

£'000

Investment income

204

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

The investment return relates to the assets of the shareholders fund.

8. TAXATION ON LOSS ON ORDINARY ACTIVITIES

15 September 2006 to
31 December 2007

£'000

Long-term business technical account - analysis of charge/(credit):

Current taxation

(211)

Non-technical account - analysis of charge/(credit):

Current taxation

(161)

Factors affecting the taxation charge/(credit) for the period

Long-term business technical account

Balance on the long-term business technical account

(491)

Less:

Tax credit attributable to the long-term business technical account

(211)

Loss on ordinary activities before taxation

(702)

Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%

(211)

ACE EUROPE LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. TAXATION ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

Factors affecting the taxation charge for the period (continued)

15 September 2006 to
31 December 2007

	£'000
Non-technical account	
Loss on ordinary activities before taxation	(625)
Add back loss attributable to the long-term business (as above)	702
	<hr/>
Profit on ordinary activities before taxation	77
	<hr/>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	23
Effects of:	
Expenses not deductible for taxation purposes	27
	<hr/>
Tax charge attributable to the non-technical account	50
	<hr/>
Tax credit attributable to balance on long-term business technical account	(211)
	<hr/>
Current taxation credit for the period	(161)
	<hr/> <hr/>

9. DIVIDENDS

No dividends were paid during the period. The directors do not propose to pay any dividends.

10. OTHER FINANCIAL INVESTMENTS

	Market value 2007	Cost 2007
	£'000	£'000
Other financial investments	5,004	5,000
	<hr/>	<hr/>

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

11. OTHER DEBTORS

	2007
	£'000
Amounts due from group undertaking	161
	<hr/> <hr/>

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

12. CALLED-UP SHARE CAPITAL

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

5,375,000 shares were subscribed and paid for on 26 April 2007.

NOTES TO THE FINANCIAL STATEMENTS

13. RESERVES

	Share capital	Profit and loss account	Total
	£'000	£'000	£'000
As at 15 September 2006	-	-	-
Movement during the period	5,375	-	5,375
Loss for the period	-	(464)	(464)
	<hr/>	<hr/>	<hr/>
As at 31 December 2007	5,375	(464)	4,911
	<hr/>	<hr/>	<hr/>

14. LONG-TERM BUSINESS PROVISION

Methodology

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, 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.

In the case of yearly renewable term ("YRT") 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 cover the total expenses expected to be incurred in 2008, including any discontinuance costs that would arise if the firm were to cease transacting new business 12 months after the valuation date, offset by any expense loadings and surplus expected to be generated on a prudent basis. The expense loadings used for the calculation of the expense reserve is based on pricing assumptions plus a 10% prudent margin.

Principal Assumptions

As the firm was only authorised in April 2007, there is insufficient data to perform any detailed 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.

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

Mortality :	Male non smoker	135% TMN00	Ultimate
	Female non smoker	135% TFN00	Ultimate
	Male smoker	135% TMS00	Ultimate
	Female smoker	135% TMS00	Ultimate
Lapse Rate (% pa) :	Year 1	49.5%	
	Year 2	38.5%	
	Year 3	27.5%	
	Year 4 +	16.5%	
Expenses	18.75% of premium		
Valuation interest rate	3.7%		

ACE EUROPE LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. LONG-TERM BUSINESS PROVISION (CONTINUED)

Principal Assumptions (continued)

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 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 derived based on the expected return (net of taxation) from the assets invested subject to minimum requirements from FSA rules.

The UPR for non-UK business is calculated as 5% of the premiums written over the previous year.

The IBNR for non-UK business is calculated as 40% of gross written premium during the final calendar quarter of 2007. This is broadly equivalent to the average expected loss ratio from the pricing bases plus a prudent 10% margin.

Sensitivity of provision to changes in significant assumptions

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

For UK business, we expect the long-term business provision to be negative in the early years (and may turn positive later on). 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 £18,000.

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 £25,000.

Similarly if higher expenses are assumed, the long-term business provision will increase.

For the YRT business, the most significant assumption is the loss ratio. An increase in loss ratios in the order of 50% would increase the IBNR by approximately 40%.

15. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2007
	£'000
Amounts payable to group undertakings	492

16. CAPITAL COMMITMENTS

No capital expenditure was authorised at 31 December 2007 which has not been provided for in these financial statements.

17. TRANSACTIONS WITH RELATED PARTIES

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

18. 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 the Cayman Islands, with its headquarters 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.

ACE EUROPE LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS