

**ACE UNDERWRITING AGENCIES LIMITED  
SYNDICATE 2488**

**REPORT AND ANNUAL ACCOUNTS**

**31 DECEMBER 2007**

**CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2007****PERFORMANCE IN 2007**

Syndicate 2488 is widely recognised as one of the pre-eminent specialty insurers in the London market. Profit for the financial year amounted to £96.2 million, reflecting the syndicate's continued focus on underwriting discipline during a period in which underwriters were faced with increasingly challenging market conditions and relentless competition. The solid 2007 underwriting performance resulted in a combined ratio of 86.5% and contributed £43.4 million to the financial year profit. Investment returns amounted to £52.8 million, despite the impact of the US sub-prime mortgage turmoil on the global financial markets.

**UNDERWRITING PRACTICES AND PRINCIPLES**

Contract certainty continues to be a focus for underwriters. Syndicate 2488 successfully met the Financial Services Authority's ("FSA") challenge to materially achieve contract certainty by the end of 2006 and has embedded the process in its day-to-day operations. The syndicate also supports the Contract Certainty Code of Practice, introduced in June 2007 and endorsed by all of the UK's leading industry bodies including the Association of British Insurers, the British Insurance Brokers' Association, Lloyd's, the Lloyd's Market Association, the London Market Insurance Brokers' Committee, the Market Reform Group, the International Underwriting Association and the Association of Insurance and Risk Managers.

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. While TCF is aimed predominantly at businesses that deal with retail customers, the TCF statement outlines some good practices that are equally applicable and potentially value adding to property and casualty ("P&C") commercial relationships.

We are always looking for ways to enhance the syndicate's client and broker relationships, using both traditional and technology driven methods, and will continue to work with Lloyd's to achieve these aims.

**FUTURE PROSPECTS**

Syndicate 2488's strength is borne out of its diversity. Our products and services are among the most comprehensive in the market place providing insurance to a wide range of clients.

Syndicate 2488's core business approach focuses on maintaining underwriting discipline whilst preserving its leadership position. Pricing, terms and conditions are constantly monitored by underwriting and actuarial teams. In order to continue to preserve profitability in a softening market environment, underwriters adhere to strict target rating levels.

It is management's intention to build upon the syndicate's existing strengths for service and product innovation to the benefit of brokers and clients during the forthcoming year.

**IN CONCLUSION**

2007 has been a particularly demanding year and I anticipate that the insurance industry will face more challenges in the years to come. As part of the ACE Group of Companies, Syndicate 2488 has a strong franchise, solid balance sheet, a broad product base and good producer relationships. Above all, it has talented people and a strong underwriting culture - vital ingredients in today's market. The loyalty and commitment of our employees has ensured that ACE met its targets in 2007 and should continue to do so in the years ahead. There is an enthusiasm and optimism that endures regardless of market conditions, and I would like to take this opportunity to thank the management teams and staff for their hard work and dedication.

**A J Kendrick**

Chairman and Chief Executive Officer

12 March 2008

## BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2007

The board of ACE Underwriting Agencies Limited (“AUAL”) has prepared this review in accordance with Section 234ZZB of the Companies Act 1985. In addition to this statutory requirement, this report also addresses other aspects of the syndicate’s business which the board believes will be of benefit to all stakeholders.

### BUSINESS OBJECTIVES AND STRATEGY

Syndicate 2488 at Lloyd’s is managed by AUAL and is a strategically important entity within the ACE Group of Companies, allowing the group to access specialist Lloyd’s London market business.

The ACE group is one of the world’s few truly global insurance and reinsurance organisations and serves a wide variety of clients, ranging from large multinational corporations to smaller clients in local markets. With offices in more than 50 countries and the authority to transact business in over 140, the ACE group focuses on building global operations diversified by region and business line. This diverse product mix and extensive global presence give it competitive advantage and enhanced financial stability.

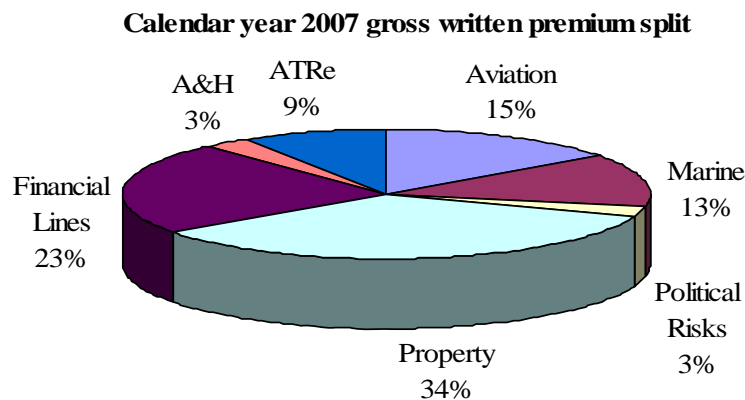
The syndicate differentiates itself from others in the market by its experience and expertise in the product range it elects to operate in, and the quality of its underwriting and claims service. In a market with a surplus of capacity, it is essential that the underwriting teams maintain their underwriting discipline yet ensure Syndicate 2488’s submission level remains one of the highest in the sector. It is imperative that the syndicate’s service levels remain amongst the best in the market as this will ensure that, despite the growing competition, Syndicate 2488 will continue to be the insurer of choice for its many UK and international clients.

### ORGANISATION OF THE BUSINESS

Richard Pryce has been active underwriter of Syndicate 2488 since 2003. The organisation of the syndicate, in particular the product line segmental structure, enables underwriters to manage each business class at a detailed level. This is essential for the analysis of the characteristics, challenges and opportunities of each class which ensures that the risk/reward ratio remains acceptable.

The syndicate also benefits from comprehensive and fully integrated support functions, including claims, finance and actuarial, legal and compliance, human resources, operations and facilities. These support services are shared between all entities within the ACE European Group, predominantly ACE European Group Limited (“AEGL”) and Syndicate 2488.

Insurance and reinsurance policies are written under the well established “ACE Global Markets (AGM)” and “ACE Tempest Re (Europe) (ATRe)” brands which fully capitalise on Syndicate 2488’s strong platform, reputation, skill sets and consistent management philosophy. The syndicate underwrites a diverse portfolio of business organised into product lines encompassing aviation, property, financial lines, marine, political risks, accident & health (“A&H”) and ATRe branded inwards reinsurance business. The business split is illustrated in the chart below.



AGM and ATRe underwriting products are offered through both Syndicate 2488 and AEGL. AEGL is a UK domiciled, FSA regulated company which offers a wide range of A&H and P&C insurance and reinsurance products to both retail and wholesale markets. Factors influencing the decision to place business with the syndicate or the company include licensing eligibilities and capitalisation requirements, but predominantly reflect client and broker preference.

AGM provides risk solutions to clients in over 140 countries throughout the world, including a significant presence in the US. The underwriting team prides itself on a technical approach to evaluating risk and, combined with a strong commitment to high levels of service to both clients and brokers, can react quickly to a changing market.

ATRe is the ACE group’s inwards reinsurance business brand, encompassing a wide-range of property and liability treaty classes. The operation is dedicated to working with both clients and brokers in a combined effort to create products that are of genuine value to all parties; this is demonstrable by its ability to quote and lead most lines of treaty business. ATRe offers clients a technical approach to risk solutions and prides itself on the team’s significant underwriting and analytical experience.

**BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2007 - continued****BUSINESS ENVIRONMENT**

It is anticipated that the majority of the syndicate's lines of business will be under increased pressure resulting from softening market conditions in 2008 and growth opportunities are anticipated to be relatively limited. However, Syndicate 2488 is a lead insurer with a significant market presence in all product lines underwritten. Its position, combined with longstanding client relationships and a multi-line global platform, means there is no necessity for underwriters to resort to excessive price competition as a mechanism to win or retain business. Our underwriters pride themselves on their ability to manage the business throughout the insurance cycle and achieve a profit in all product lines, regardless of market conditions.

The top priority for 2008 is to continue to manage the cycle in an ever more challenging environment. Key strategies for achieving this goal involve: strong underwriting management coupled with close actuarial involvement, particularly on new business; the retention of core accounts; and creating operational efficiencies to reduce underwriting administration and improve service levels.

**PRESENTATION OF FINANCIAL STATEMENTS**

The basis of preparation of Syndicate 2488's annual financial statements is in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. These financial statements recognise a calendar year profit and loss, driven by net earned premium and net incurred losses arising on that net earned premium.

Managing agents are required to prepare syndicate underwriting accounts, similar to those previously prepared on a three year underwriting basis, in respect of any year of account which is being closed by reinsurance to close unless all the members on the closing year agree otherwise. Syndicate 2488 became a fully aligned syndicate, with 100% of the underwriting capital provided by ACE group corporate vehicles, with effect from 2003. The ACE group corporate vehicles have agreed to waive their right to syndicate underwriting accounts in respect of Syndicate 2488's closed 2005 year of account and as such, no information on this basis has been provided within this report and annual accounts.

**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 quarterly board meetings.

<b>£ million</b>	<b>2007</b>	<b>2006</b>
Gross written premiums	393.4	434.9
Net written premiums	298.8	328.2
Combined ratio *	86.5%	89.9%
Profit for financial year	96.2	82.1

\* Ratio of net claims incurred, commission and expenses to net premiums earned

Management also uses a variety of other performance indicators including production volumes, retention ratios, price monitoring, loss and expense analyses, and operating metrics in assessing the performance of each of the product lines. All financial results are monitored against plan, forecast and prior year on at least a quarterly basis.

AUAL seeks to manage syndicate capacity levels in order to make the most effective use of available capital. Syndicate 2488's premium base has steadily reduced over the last four years as AEGL has increasingly been selected by brokers as an alternative to the syndicate. This has led to a reduction in the capacity of the syndicate from £725 million in 2003 to £400 million in 2007. The syndicate's capacity has reduced further to £330 million this year, primarily reflecting the more challenging rating environment anticipated for 2008.

**BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2007 - continued****RESULTS AND PERFORMANCE**

Syndicate 2488 again produced a solid underwriting performance in 2007, illustrated by the combined ratio, which expresses the total of net claims incurred and net operating expenses as a percentage of net earned premiums, of 86.5%. This contributed to a profit for the financial year of £96.2 million.

A summary of the reported financial results is shown in the table below.

<b>£ million</b>	<b>2007</b>	<b>2006</b>
Gross written premiums	393.4	434.9
Net written premiums	298.8	328.2
Net earned premiums	321.9	351.7
Incurred losses	183.6	204.5
Operating expenses	94.9	111.6
Underwriting profit	43.4	35.6
Investment return	52.8	46.5
Profit for financial year	96.2	82.1
Combined ratio %	86.5%	89.9%

Gross written premiums in 2007 fell by almost 10% in comparison to those of 2006. This decline reflects the more challenging rating environment during the year together with the syndicate's selective approach to underwriting in a competitive market, and brokers' increasing acceptance of AEGL as an alternative access point to AGM and ATRe underwriting expertise.

The syndicate purchases reinsurance to mitigate the impact of major events and an undue frequency of smaller losses. The programmes are primarily product line specific and the reinsurance purchasing process benefits from the strong relationships built up with key reinsurers over the years. The syndicate seeks to limit its loss exposures by purchasing reinsurance up to its maximum line sizes and accumulations and natural catastrophe cover is purchased up to modelled 1 in 250 year events. The principal reinsurance programmes in operation during 2007 were shared with other ACE companies, predominantly AEGL.

Although there were a number of well publicised natural catastrophe losses in 2007, including the UK floods in the summer of 2007, Windstorm Kyrill and the Australian storms, none of these events has had a material impact on the syndicate's results. A new high profile issue emerging in 2007 was the impact of the sub-prime crisis and subsequent credit crunch on underwriting exposures. Syndicate 2488 has received a limited number of notifications in this respect, however as the financial lines book is underwritten on a claims made basis there remains potential for future claim notifications in 2008. The 2007 loss ratio of 57.0% compares favourably with the prior year ratio of 58.1%, despite the relatively benign loss environment of 2006; this is predominantly due to a release of £6.2 million from prior year reserves in 2007 compared to £12.5 million of reserve strengthening in 2006. The 2007 release has been principally driven by a reduction in the reserves now required in respect of the 2005 hurricane losses; this reduction has arisen as a result of the increasing maturity and settlement of claims on these losses.

Operating expenses constitute commissions, the managing agency fee, Lloyd's subscriptions and Central Fund contributions. Investment returns for 2007 exceeded those achieved in 2006 despite the turmoil in the global financial markets arising from the US sub-prime mortgage crisis. Returns in 2007 benefited from the falling yield environment which resulted in capital price appreciation for fixed income investors.

**FINANCIAL POSITION****Investments**

Approximately 79% of the investible assets of Syndicate 2488 are held in US dollars, with other currency balances maintained in sterling and Canadian dollars, representing approximately 10% and 11% respectively. Funds held within the Lloyd's American Trust Fund ("LATF"), the Surplus Lines Trust Fund ("SLTF"), the Credit for Reinsurance Trust Fund ("CRTF") and the equity, high yield and fixed income portfolios held within the Lloyd's Dollar Trust Fund ("LDTF") are managed by Wellington Management Company. Barclays Global Investors manage the sterling fixed income investment portfolio and the Lloyd's Canadian Trust Fund ("LCTF"). In January 2008, Oaktree Capital Management replaced Wellington Management Company as manager of the LDTF high yield portfolio.

Market volatility in 2007 fuelled by the sub-prime mortgage crisis impacted returns for the syndicate principally due to exposure to spread sectors which significantly underperformed government issues in the resultant flight to quality. However, Syndicate 2488 had little direct exposure to sub-prime investments during 2007, and none were held at year end.

**BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2007 - continued****FINANCIAL POSITION - continued****Cash flow**

During the year, underwriting cash flow (including expenses) was roughly neutral reflecting the impact of business migration from Syndicate 2488 to AEGL and the settlement of reserves established in respect of previous years. Overall, funds grew modestly in the year due to investment returns and refunds of loans to Lloyd's Central Fund, offset in part by financing cash flow deriving from the release of the 2004 year of account syndicate profits.

**Capital**

Capital requirements are determined through the submission and agreement by the FSA of an Individual Capital Assessment ("ICA") uplifted for Lloyd's "A+" financial credit rating. The syndicate continues to develop its internal model to deliver its ICA and to embed risk and capital assessment within the business. As for 2007, the ICA has further reduced for 2008, particularly reflecting the capital impact of the reduction in syndicate capacity over the last five years.

Syndicate 2488's Funds at Lloyd's ("FAL") are provided by letters of credit guaranteed by ACE Bermuda Insurance Ltd and ACE Tempest Reinsurance Ltd. The letters of credit are provided by a syndication of banks and the facility, renewed in November 2007, has been extended to expire in 2013 at a reduced level of £300 million. This reduction reflects the impact of the 2006 ICA and improvements in the solvency position of the syndicate. These changes led to a significant reduction in the FAL requirement of the syndicate during 2007.

**Ratings**

All syndicates benefit from the financial strength ratings assigned to the Lloyd's market by the various rating agencies. Lloyd's holds financial strength ratings of "A+ (Strong)" by Standard & Poor's, "A (Excellent)" by AM Best and "A+ (Strong)" by Fitch. In view of these robust ratings, together with the "A+" ratings from both AM Best and Standard & Poor's held by the ACE group, it has not been considered necessary to obtain an individual rating for the syndicate.

**CORPORATE GOVERNANCE**

Corporate governance is focused upon the proper oversight of the management of the business, senior management responsibility and the implementation of systems and controls.

The board of directors of AUAL ("the board") is comprised of the executive management team and two non-executives. The role of non-executive director is to constructively challenge management, help develop proposals on strategy and to bring strong independent judgement, knowledge and experience to the board's deliberations. The board meets at least quarterly and delegates certain oversight responsibilities to committees with formal terms of reference (including audit, risk, investment, reserving and reinsurance security committees).

The board reviews and approves the annual business plan for the syndicate, which includes strategy, limits, and reinsurance protections for each product line. The board also reviews the ICA, quarterly financial information and significant management decisions.

The syndicate's underwriting and reinsurance strategies are approved by the board and communicated clearly throughout the business through policy statements and guidelines.

**RISK & CONTROL FRAMEWORK**

The board ensures the syndicate operates within an established framework of effective systems encompassing risk management and compliance with policies, procedures, internal controls and regulatory requirements.

A principal committee of the AUAL board, the Audit Committee is responsible for oversight and review of external and internal audit processes. In the case of the external audit process, this will involve working in conjunction with the ACE Limited group audit function, agreeing and monitoring the nature and scope of work to be done in the preparation of the statutory accounts and any external reporting requirements. In the case of the internal audit function, the role involves agreeing and monitoring, again in conjunction with the group audit function, the nature and scope of work to be carried out by internal audit, aimed at providing assurance to management that the internal control systems, agreed by executive management as being appropriate for the prudent management of the business, are operating as planned. At all times the Audit Committee will be expected to challenge any aspect of these processes which it considers weak or generally poor practice.

Also a principal committee of the AUAL board, the Risk Committee oversees the development, implementation and maintenance of embedded risk management across the business. The Risk Committee ensures that business risks and controls are recorded and monitored.

**BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2007 - continued****RISK & CONTROL FRAMEWORK - continued**

All key policies and procedures are subject to board approval and ongoing review by executive management, the Risk Committee and internal audit.

The syndicate is undertaking a significant amount of development of the risk management framework through the recent establishment of a dedicated central risk management team tasked with further embedding risk assessment within the business.

The syndicate's risk based framework identifies the key risks to which each business sector, and the syndicate as a whole, is exposed and their resultant impact on economic and regulatory capital. This framework employs ICA principles to assess risk and manage capital requirements to ensure the capital adequacy required to support business objectives, and meet the requirements of policyholders, regulators and rating agencies, is in place.

The principal risks from the syndicate's insurance and reinsurance business arise from its underwriting activities, both prospective and retrospective. Key risks include: unexpected losses arising from inaccurate pricing; fluctuations in the timing, frequency and severity of claims compared to expectations; inadequate reinsurance protection; and inadequate reserving. The syndicate also faces risks from its investment activities, exchange rate fluctuations, and business operational activities.

Risks and line sizes are continually monitored through the established peer review process and automated exception reporting. Formal price monitoring procedures have been in place since early 2002 and form part of the standard monthly management statistics. These contribute to the quarterly actuarial review whereby the loss outcome of the underwriting activity is continually reassessed and considered by the Reserve Committee. With such a large and diverse book, it is vital that the syndicate's aggregate exposures are continually monitored and adjustments made to the underwriting profile as appropriate. The syndicate operates a dedicated catastrophe management function independent of underwriting management, whose responsibility is to model aggregate risk and to assist in determining pricing for individual policies, providing a key control to the underwriting process.

**COMPLIANCE**

Compliance with regulation, legal and ethical standards is a high priority for the syndicate, and the compliance team and finance department take on an important oversight role in this regard.

Annual affirmation of the ACE Group Code of Conduct is required of all employees and directors. As a material subsidiary of ACE Limited, a US listed company, the control environment in which the US GAAP financial statements are derived is subject to the requirements of US Sarbanes-Oxley legislation. The syndicate has formalised documentation and tested controls to enable ACE Limited to fulfil the requirements of the legislation.

**EMPLOYEES**

ACE is dedicated to providing a safe, healthy and ethical environment for all employees, and seeks to create a workplace where all employees, agency staff and contractors are treated equitably and with dignity and respect. ACE fully supports the rights and opportunities of all people to seek, obtain and hold employment without discrimination.

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 and 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 company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

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

Communication with employees is primarily effected through the corporate intranet and regular briefings and presentations by the Chief Executive Officer.

**BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2007 - continued****ACE AND THE ENVIRONMENT**

The ACE group is committed to lessening the company's 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.

In addition, AEGL is a founding signatory of a major new initiative aimed at reducing the long term risk from climate change. Along with 36 other signatories, including insurers from AIG to Zurich, ACE has signed up to the "Climate Wise" initiative which will lead the way in analysing and reducing risks, support climate awareness amongst our customers, incorporate climate change into our investment strategies, inform and engage in public policy debate and reduce the environmental impact of our businesses.

**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. Examples of just some of the initiatives in which members of ACE European Group participated in 2007 are listed below.

In October 2007, the ACE Foundation-International contributed €200 for each European Risk Manager attending ACE's charity reception at the Red Cross museum in Geneva, following the FERMA (Federation of European Risk Managers) Congress. ACE European Group managed to raise over €40,000 for a Red Cross HIV/ AIDS educational programme in India, supporting the Red Cross's life saving work increasing awareness of HIV/AIDS among young people in India's Northern State of Utter Pradesh.

ACE European Group participated in the "Take Our Students to Work Day", organised by Tower Hamlets Education Business Partnership. Students from inner city London schools and colleges were invited to take a peek into the daily workings of the insurance world when they spent a day at ACE's UK headquarters and given the opportunity to shadow an insurance underwriter. In addition, ACE hosted a public speaking competition for Year 10 pupils in Tower Hamlet Schools.

For over ten years, employees in London have been making a real difference to the lives of children in East London by taking part in the Lloyd's Community Reading Partners scheme, whereby volunteers give up their lunch break once a week to help pupils improve reading skills.

ACE employees in London also took part in the JP Morgan Chase 5.6km Corporate Challenge, a world-wide series of running events open to groups of employees from organisations within the business and public sectors. Part of the entry fee for each participant went to the event beneficiary "Sports Aid", the organisation that provides financial and training assistance in the development of young athletes.

**Approved by the Board of Directors**

12 March 2008

**MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2007**

The directors of the syndicate's managing agent, ACE Underwriting Agencies Limited ("AUAL"), are pleased to submit their report and the audited syndicate annual accounts for the year to 31 December 2007.

This report and accounts is prepared using the annual basis of accounting as required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the 2004 Regulations").

**PRINCIPAL ACTIVITY, BUSINESS REVIEW AND FUTURE DEVELOPMENTS**

The principal activity of the business of the syndicate is the transaction of general insurance and reinsurance business. A review of the syndicate's activities and its future prospects is set out in the Business Review that precedes this Managing Agent's Report.

**RESULTS**

The profit for the year to 31 December 2007 amounted to £96,180,000 (2006: £82,053,000). Profits will continue to be distributed (or losses called) to members by reference to the results of the individual underwriting years of account.

**DIRECTORS**

The following have been directors of the managing agent from 1 January 2007 to the date of this report unless otherwise indicated:

**Executive directors:**

R L Cigelnik (Resigned 31 January 2007)  
P M Curtis  
A J Kendrick  
R P Murray  
R V Pryce (Active Underwriter)

**Non-executive directors:**

W J Loschert  
G D Williams

The managing agent has the benefit of a group insurance company management activities policy effected by ACE Limited (AUAL's ultimate holding company). No charge was made to AUAL during the year for this policy.

**DIRECTORS' PARTICIPATIONS**

None of the directors participates on the syndicate on a bespoke basis. Certain directors participate indirectly on the syndicate by virtue of their interests in the stock of ACE Limited.

**FINANCIAL RISK MANAGEMENT**

The principal financial risks facing the syndicate are primarily those associated with the syndicate's investments and are described in detail below.

**The investment function**

The managing agency operates an investment committee which functions under terms of reference determined by the board. The committee is charged with establishing and effecting an appropriate investment policy for the syndicate. In addition, the committee has the responsibility for recommending the appointment and removal of investment managers, for reviewing the managers' performance and for reporting on all other material aspects of the investment function.

The investment committee comprises senior ACE management and is chaired by the Chief Executive Officer of ACE Asset Management, the Group's investment specialists who provide advisory services to ACE group companies. The committee also includes the Chief Executive Officer, the Chief Financial Officer and Treasurer of the managing agency.

The investment management function is out-sourced to specialist external managers, principally Wellington Management Company and Barclays Global Investors.

**Asset allocation policy**

The investment committee has established a broad asset allocation policy which defines the limits for different asset types. The asset allocation cites two major asset classes: investment grade fixed income securities and alternative assets. Alternative assets can include equities, high yield and emerging market instruments although, of these, the syndicate currently only maintains equities and high yield instruments. The policy stipulates a range of between 75% and 95% for investment grade fixed income securities and a range of between 5% and 25% for alternative asset classes.

**MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 - continued****FINANCIAL RISK MANAGEMENT - continued****Investment guidelines**

Investment management agreements have been established with the external investment managers. The agreements include specific guidelines for each individual portfolio in order to limit risks arising from duration, equity price, currency, liquidity, credit and counterparty exposures. The managers provide quarterly affirmation of compliance with the guidelines.

**Duration and interest rate risk**

The investment guidelines include restrictions relating to the maximum weighted average duration of the portfolio. The restriction is stated by reference to the permissible duration variance compared to the customised benchmark index by which the external investment managers' performance is assessed. The benchmarks have been established to provide comparable duration to the insurance liabilities.

**Equity price risk**

The syndicate's exposure to equity price risk is moderated through the asset allocation policy, which limits this category of asset, and the investment guidelines. The investment guidelines restrict individual equity holdings relative to the size of the portfolio and the benchmark constituents.

**Currency risk**

The syndicate maintains three separate currency funds: sterling, United States dollars and Canadian dollars. The syndicate seeks to ensure an approximate currency match of assets and liabilities, subject to regulatory funding requirements.

**Liquidity risk**

Liquidity risk is the potential that the syndicate is unable to meet its obligations as they fall due. To counter this risk the syndicate aims to maintain funds in the form of cash or cash equivalents to meet known cash flows. In addition, the asset allocation policy and the investment guidelines are structured in order to ensure that funds are predominantly held in investment grade fixed income securities, the proceeds of which are readily realisable. The syndicate also benefits from letter of credit facilities which are available to meet certain funding needs although, at year end, no such facilities were utilised by the syndicate.

**Credit risk and counterparty limits**

The investment guidelines seek to limit the credit risk of each of the portfolios through specifying eligible/ineligible investments, setting maximum counterparty exposures, and setting minimum weighted credit and individual issuer credit quality.

The syndicate is also exposed to credit risk through the use of reinsurance to manage insurance risk. Reinsurance does not discharge the syndicate's liability as primary insurer. If a reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. The managing agency operates a reinsurance security committee. The creditworthiness of reinsurers is considered on a quarterly basis by reviewing their financial strength. In addition, the recent payment history of reinsurers is used to update the reinsurance purchasing strategy.

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the persons who is a director of the managing agent 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 syndicate's financial statements for the year 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 syndicate's auditors are aware of that information.

**MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 - continued****AUDITORS**

The directors have confirmed the appointment of PricewaterhouseCoopers LLP as recognised accountants to the syndicate. PricewaterhouseCoopers LLP have expressed their willingness to accept the appointment.

On 10th December 2001, Lloyd's granted consent to PricewaterhouseCoopers LLP continuing to act as syndicate auditors for Syndicate 2488 (for the 2002 and previous years of account) and as corporate auditors for AUAL and other ACE group companies (for the 2002 financial year). This consent was, in effect, an extension of the consent granted previously in relation to the 2001 and prior years of account and has been further extended without time limit.

By Order of the Board

Secretary, 12 March 2008

ACE Building  
100 Leadenhall Street  
London  
EC3A 3BP

**STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES**

The managing agent is required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 to prepare syndicate annual accounts for Syndicate 2488 at 31 December each year which give a true and fair view of the state of affairs of the syndicate and of its profit or loss for that year.

In preparing those syndicate annual accounts the managing agent is required to:

- i) select suitable accounting policies which are applied consistently with the exception of changes arising on the adoption of new accounting standards in the year;
- ii) make judgements and estimates that are reasonable and prudent;
- iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- iv) prepare the syndicate annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The directors of the managing agent confirm that they have complied with the above requirements in preparing the syndicate annual accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. The managing agent is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

The directors of the managing agent are responsible for the maintenance and integrity of the ACE European Group 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 Syndicate 2488

We have audited the syndicate annual accounts of Syndicate 2488 for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, and the related notes. These accounts have been prepared in accordance with the accounting policies set out therein.

**Respective responsibilities of managing agent and auditors**

The managing agent's responsibilities for preparing the syndicate annual accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of managing agent's responsibilities.

Our responsibility is to audit the syndicate annual accounts 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 syndicate's members as a body 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 in to 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 syndicate annual accounts give a true and fair view and are properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you whether, in our opinion, information given in the managing agent's report is consistent with the syndicate annual accounts. We also report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of the syndicate, if the syndicate annual accounts are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding remuneration of the directors of the managing agent and the active underwriter and other transactions is not disclosed.

We read other information attached to the syndicate annual accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the syndicate annual accounts. This other information comprises the Chairman's Report, Business Review and Managing Agent's Report. 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 syndicate annual accounts. It also includes an assessment of the significant estimates and judgements made by the managing agent in the preparation of the syndicate annual accounts, and of whether the accounting policies are appropriate to the syndicate'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 syndicate annual accounts 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 syndicate annual accounts.

**Opinion**

In our opinion:

- the syndicate annual accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the syndicate's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended;
- the syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and
- the information given in the Managing Agent's Report is consistent with the syndicate annual accounts.

**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
London  
12 March 2008

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	2007 £'000	2006 £'000
<b>TECHNICAL ACCOUNT – GENERAL BUSINESS</b>			
<b>EARNED PREMIUMS, NET OF REINSURANCE:</b>			
Gross premiums written	2	393,420	434,932
Outward reinsurance premiums		(94,642)	(106,775)
Net premiums written		298,778	328,157
Change in the gross provision for unearned premiums		23,963	20,156
Change in the provision for unearned premiums – reinsurers' share		(834)	3,363
<b>EARNED PREMIUMS, NET OF REINSURANCE</b>		321,907	351,676
<b>ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT</b>	6	52,780	46,521
<b>CLAIMS INCURRED, NET OF REINSURANCE:</b>			
Claims paid:			
Gross amount	2	(357,969)	(393,465)
Reinsurers' share		85,892	141,731
Net paid claims		(272,077)	(251,734)
Change in the provision for claims outstanding:			
Gross amount	2	119,812	165,258
Reinsurers' share		(31,292)	(118,046)
Change in the net provision for claims outstanding		88,520	47,212
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>		(183,557)	(204,522)
Net operating expenses	4	(94,950)	(111,622)
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		96,180	82,053

All of the above results derive from continuing operations.

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2007 – continued**

	Note	2007 £'000	2006 £'000
<b>NON-TECHNICAL ACCOUNT</b>			
<b>BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT</b>		96,180	82,053
Investment income	6	59,224	53,224
Unrealised gains on investments	6	20,355	19,756
Investment expenses and charges	6	(10,792)	(14,125)
Unrealised losses on investments	6	(16,007)	(12,334)
Allocated investment return transferred to the general business technical account	6	(52,780)	(46,521)
		<hr/>	<hr/>
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>96,180</b>	<b>82,053</b>
		<hr/>	<hr/>

All of the above results derive from continuing operations.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2007**

		2007 £'000	2006 £'000
<b>PROFIT FOR THE FINANCIAL YEAR</b>		96,180	82,053
Currency translation differences	9	1,326	6,083
		<hr/>	<hr/>
<b>TOTAL RECOGNISED GAINS FOR THE FINANCIAL YEAR</b>		<b>97,506</b>	<b>88,136</b>
		<hr/>	<hr/>

**BALANCE SHEET AT 31 DECEMBER 2007**

	Note	2007 £'000	2006 £'000
<b>ASSETS</b>			
<b>INVESTMENTS</b>			
Financial investments	7	965,174	926,724
<b>REINSURERS' SHARE OF TECHNICAL PROVISIONS</b>			
Provision for unearned premiums		38,400	39,687
Provision for claims outstanding		433,660	468,685
		<u>472,060</u>	<u>508,372</u>
<b>DEBTORS – amounts falling due within one year</b>			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		104,544	114,736
Debtors arising out of reinsurance operations		92,588	129,360
Other debtors	8	581	660
		<u>197,713</u>	<u>244,756</u>
<b>DEBTORS – amounts falling due after one year</b>			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		9	19
Debtors arising out of reinsurance operations		1	-
Other debtors	8	1,282	423
		<u>1,292</u>	<u>442</u>
<b>OTHER ASSETS</b>			
Cash at bank and in hand		44,117	47,025
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Deferred acquisition costs		32,929	36,080
Other prepayments and accrued income		10,678	8,999
		<u>43,607</u>	<u>45,079</u>
<b>TOTAL ASSETS</b>		<u>1,723,963</u>	<u>1,772,398</u>

**BALANCE SHEET AT 31 DECEMBER 2007**

	Note	2007 £'000	2006 £'000
<b>LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Members' balances	9	74,612	(5,887)
<b>TECHNICAL PROVISIONS</b>			
Provision for unearned premiums		177,799	202,343
Provision for claims outstanding		1,318,668	1,443,574
		<u>1,496,467</u>	<u>1,645,917</u>
<b>DEPOSITS RECEIVED FROM REINSURERS</b>		16,793	-
		<u>16,793</u>	<u>-</u>
<b>CREDITORS – amounts falling due within one year</b>			
Creditors arising out of direct insurance operations		10,793	13,532
Creditors arising out of reinsurance operations		124,077	116,139
Other creditors	10	429	2,341
		<u>135,299</u>	<u>132,012</u>
<b>ACCRUALS AND DEFERRED INCOME</b>		792	356
		<u>792</u>	<u>356</u>
<b>TOTAL LIABILITIES</b>		<u>1,723,963</u>	<u>1,772,398</u>

The syndicate annual accounts on pages 13 to 27 were approved by the board of ACE Underwriting Agencies Limited on 12 March 2008 and were signed on its behalf by:

**P M Curtis**  
Chief Financial Officer

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 £'000	2006 £'000
<b>RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>			
Operating profit on ordinary activities		96,180	82,053
Unrealised investment (gains)/losses		(4,348)	(7,422)
Foreign exchange movement on cash and investments		(5,810)	111,371
Decrease in net technical provisions		(113,138)	(191,866)
Increase in deposits received from reinsurers		16,793	-
Decrease in debtors and prepayments		47,665	66,215
Increase/(decrease) in creditors and accruals		3,723	(21,809)
		<hr/>	<hr/>
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>		41,065	38,542
Transfers to members in respect of underwriting participations	9	(17,007)	(46,583)
Foreign exchange movement on members' balances		1,326	6,083
		<hr/>	<hr/>
<b>NET CASH INFLOW/(OUTFLOW)</b>	11	25,384	(1,958)
		<hr/>	<hr/>
<b>CASH FLOWS WERE INVESTED/(UTILISED) AS FOLLOWS:</b>			
(Decrease)/increase in cash holdings	11	(4,529)	16,912
Net portfolio investment	12	35,688	(21,645)
Loans due within one year	11	(5,775)	2,775
		<hr/>	<hr/>
<b>NET INVESTMENT/(UTILISATION) OF CASH FLOWS</b>	11	25,384	(1,958)
		<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS****1. ACCOUNTING POLICIES****Basis of preparation**

The unique capital base of Lloyd's means that these annual accounts do not include the capital supporting the operations of the syndicate. Capital is provided to Lloyd's by the syndicate's members in the form of Funds at Lloyd's ("FAL"), and held in trust. Given that Syndicate 2488 is a fully aligned syndicate, with 100% of the underwriting capacity provided by ACE corporate capital vehicles, these accounts disclose the total FAL supporting the operations of the syndicate in note 15.

The syndicate annual accounts have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, Regulation 3 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the 2004 Regulations"), 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 applicable accounting standards in the United Kingdom.

**Premiums written**

Premiums written, which are stated gross of brokerage but exclusive of premium taxes, relate to business inception during the year, together with adjustments made in the year to premiums written in prior accounting periods. Estimates are made of pipeline premiums, representing amounts due but not yet received or notified to the company by intermediaries.

**Unearned premiums**

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established risk profiles or time apportionment as appropriate.

**Acquisition costs**

Acquisition costs comprise brokerage, commissions and other related costs, and are deferred over the period in which the related premiums are earned.

**Claims incurred**

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect expenses and adjustments to claims outstanding from previous years. Where applicable, deductions are made for reinsurance, salvage and other recoveries.

**Provision for claims outstanding and related reinsurance recoveries**

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of the provision for claims outstanding is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards the provision for claims outstanding are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provision for gross claims outstanding and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

**NOTES TO THE FINANCIAL STATEMENTS****1. ACCOUNTING POLICIES – continued****Provision for claims outstanding and related reinsurance recoveries - continued**

When calculating the provision for claims outstanding, the reported business segments are subject to specific issues, as set out below:

***Fire and other damage to property; marine, aviation and transport; accident and health***

These business segments are predominantly “short tail”; that is there is not a significant delay between the occurrence of the claim and the claim being reported to the syndicate. The costs of claims notified to the syndicate at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

***Third party liability (including marine and aviation liability)***

Liability claims are longer tail than the classes of business described above and so a larger element of the provision for claims outstanding relates to IBNR. Claims estimates for the syndicate’s liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date.

***Reinsurance acceptances***

This business segment includes both short tail and longer tail business, and is subject to the issues laid out in the preceding two sections.

**Unexpired risks provision**

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

**Investment return**

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. FRS3 “Reporting Financial Performance” and the ABI SORP require that, for insurance entities, both realised investment gains and losses be included as part of investment return in the profit and loss account. Dividends receivable are accounted for by reference to the date on which the price of the investment is quoted ex-dividend. Interest and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at mid-market value are calculated as the difference between net sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have previously been revalued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

**Investments**

Investments in marketable securities are stated at bid value on the balance sheet date. Overseas deposits are stated at cost or on the basis of notification from Lloyd’s.

**NOTES TO THE FINANCIAL STATEMENTS****1. ACCOUNTING POLICIES – continued****Taxation**

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading "other debtors".

No provision has been made for any other overseas tax payable by members on underwriting results.

**Foreign currencies**

Transactions in US dollars and Canadian dollars are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions denominated in other foreign currencies are included at the rate 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 or if appropriate at the forward contract rate.

Exchange differences arising from the revaluation of net assets brought forward from the previous balance sheet date are included in the statement of total recognised gains and losses. All other exchange differences are included in the technical account.

**Profit commission**

Profit commission is chargeable by the managing agent at a rate of 15% of year of account profit subject to the operation of a deficit clause. This does not become payable until after the appropriate year of account closes, normally at 36 months.

The managing agent continues to waive its right to the receipt of profit commission for 2005 year of account. The managing agent's current intention is to waive profit commission for the 2006 and 2007 years of account.

## NOTES TO THE FINANCIAL STATEMENTS

## 2. SEGMENTAL ANALYSIS

Segmental information in the format required by the Companies Act 1985 is as follows:

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
<b>Year to 31 December 2007</b>					
Direct insurance					
Fire and other damage to property	117,305	117,203	(25,937)	(31,143)	(25,550)
Marine, aviation and transport	40,311	41,680	(15,102)	(9,985)	(4,803)
Accident and health	8,335	8,346	(5,522)	(2,110)	60
Third party liability	118,568	128,424	(84,360)	(25,059)	(27,611)
Miscellaneous	13,618	15,556	(13,089)	(4,088)	1,646
Reinsurance acceptances	95,283	106,174	(94,147)	(29,566)	22,383
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL</b>	393,420	417,383	(238,157)	(101,951)	(33,875)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Year to 31 December 2006</b>					
Direct insurance					
Fire and other damage to property	118,482	114,690	(25,931)	(34,855)	(17,902)
Marine, aviation and transport	45,218	47,256	(14,437)	(12,319)	(15,389)
Accident and health	8,412	9,039	(9,442)	(3,494)	(2,558)
Third party liability	149,739	159,382	(89,142)	(36,336)	(39,503)
Miscellaneous	17,009	19,925	(17,532)	(6,716)	21
Reinsurance acceptances	96,072	104,796	(71,723)	(23,878)	1,580
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL</b>	434,932	455,088	(228,207)	(117,598)	(73,751)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The reinsurance balance represents the credit/(charge) to the technical account from the aggregate of all items relating to outwards reinsurance.

All business is completed in the United Kingdom.

## NOTES TO THE FINANCIAL STATEMENTS

## 3. MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

The prior year's net provision for claims outstanding generated a surplus for 2007 (2006: deficit) as detailed below:

	2007 £'000	2006 £'000
Direct insurance		
Fire and other damage to property	8,981	16,636
Marine, aviation and transport	4,358	(5,099)
Accident and health	(1,419)	(5,623)
Third party liability	(7,099)	(16,138)
Miscellaneous	(1,989)	(6,313)
Reinsurance acceptances	3,343	4,020
	<hr/>	<hr/>
	6,175	(12,517)
	<hr/>	<hr/>

## 4. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2007 £'000	2006 £'000
Acquisition costs	76,199	82,143
Change in deferred acquisition costs	3,074	2,251
Administrative expenses	28,080	27,382
Reinsurance commissions	(7,001)	(5,976)
(Profit)/loss on exchange	(5,402)	5,822
	<hr/>	<hr/>
	94,950	111,622
	<hr/>	<hr/>

“Administrative expenses” includes the managing agent's fee (which covers most expenses generally classified as syndicate expenses) – net of an element of the fee deemed to be indirect acquisition costs and included within acquisition costs – the Lloyd's Central Fund contribution and Lloyd's subscriptions, all of which are calculated as a percentage of syndicate capacity.

The managing agent's fee for 2007, before the transfer to acquisition costs, is £27.60 million (2006: £27.38 million) and can be estimated as constituting the following:

salary and other employment costs – 48% (43%), accommodation costs – 8% (11%), Lloyd's charges – 16% (12%), computer costs – 13% (18%), professional fees – 6% (4%), auditors' remuneration – 1% (1%), travel and entertaining – 2% (2%) and administrative costs including irrecoverable VAT on all costs – 6% (9%).

The managing agent's fee covers fees payable to the syndicate auditors for the following services:

	2007 £'000	2006 £'000
<b>Audit fees:</b>		
Fees payable for the audit of the annual accounts	130	173
<b>Non audit fees:</b>		
Other services pursuant to legislation	154	265
	<hr/>	<hr/>
	284	438
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS

## 5. DIRECTORS AND EMPLOYEES

**Staff costs**

The managing agency has no employees. Staff that support the syndicate and managing agency are employed by ACE INA Services U.K. Limited ("AIS"), a fellow ACE group undertaking, and their costs are covered by the managing agency fee as described in note 4.

**Directors' emoluments**

All directors received emoluments from AIS in respect of their services to the syndicate and ACE group companies. The cost of these emoluments is covered by the managing agent's fee and incorporated within the management charges from AIS to the managing agent. 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 paid by AIS in respect of the directors of the managing agent.

	2007 £'000	2006 £'000
Aggregate emoluments and benefits	1,764	1,911
Company pension contributions to money purchase pension schemes	67	65
	<hr/>	<hr/>
	1,831	1,976
	<hr/>	<hr/>

Included in the above amounts paid by AIS in respect of the directors of the managing agent, the active underwriter was paid a total of £533,181 (2006: £392,140) in respect of emoluments and benefits and the highest paid director was paid a total of £568,245 (2006: £487,390) 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 year, four directors exercised options over the shares of ACE Limited.

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

## NOTES TO THE FINANCIAL STATEMENTS

## 6. INVESTMENT RETURN

	2007 £'000	2006 £'000
<b>Investment income</b>		
Investment income	51,098	46,574
Gains on the realisation of investments	8,126	6,650
	<hr/> 59,224	<hr/> 53,224
<b>Investment expenses and charges</b>		
Investment management expenses	(1,250)	(1,261)
Losses on the realisation of investments	(9,542)	(12,864)
	<hr/> (10,792)	<hr/> (14,125)
<b>Net unrealised gains less losses on investments</b>		
Unrealised gains on investments	20,355	19,756
Unrealised losses on investments	(16,007)	(12,334)
	<hr/> 4,348	<hr/> 7,422
<b>TOTAL INVESTMENT RETURN</b>	<hr/> <b>52,780</b>	<hr/> <b>46,521</b>

The total investment return has been transferred to the technical account.

## 7. FINANCIAL INVESTMENTS

	2007 £'000	2006 £'000
<b>Market value:</b>		
Shares and other variable-yield securities and units in unit trusts	49,645	47,419
Debt securities and other fixed interest securities	827,231	769,378
Overseas deposits	88,298	104,152
Loan to Lloyd's New Central Fund	-	5,775
	<hr/> 965,174	<hr/> 926,724
<b>Cost:</b>		
Shares and other variable-yield securities and units in unit trusts	40,756	39,095
Debt securities and other fixed interest securities	827,806	772,645
Overseas deposits	88,298	104,152
Loan to Lloyd's New Central Fund	-	5,775
	<hr/> 956,860	<hr/> 921,667

All securities are listed investments.

## NOTES TO THE FINANCIAL STATEMENTS

## 8. OTHER DEBTORS

	2007 £'000	2006 £'000
<b>Amounts falling due within one year:</b>		
Amounts due from members	400	121
Receivable for sales of securities	181	-
Other debtors	-	539
	<u>581</u>	<u>660</u>
<b>Amounts falling due after one year:</b>		
Amounts due from members	1,282	423
	<u>1,282</u>	<u>423</u>

Amounts due from members relate to unpaid cash calls due from members who no longer participate on the syndicate and payments on account of United States and Canadian Federal Income Taxes.

## 9. MEMBERS' BALANCES

	2007 £'000	2006 £'000
Members' balances brought forward at 1 January	(5,887)	(47,440)
Currency translation differences	1,326	6,083
Profit for the financial year	96,180	82,053
Profit distribution	(17,007)	(46,583)
	<u>74,612</u>	<u>(5,887)</u>

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

Members' balances are supported by Funds at Lloyd's, as disclosed in note 15.

## 10. OTHER CREDITORS

	2007 £'000	2006 £'000
<b>Amounts falling due within one year:</b>		
Payable for purchases of securities	-	1,607
Other creditors	429	734
	<u>429</u>	<u>2,341</u>

## NOTES TO THE FINANCIAL STATEMENTS

## 11. MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	2007 £'000	2006 £'000		
Net cash (outflow)/inflow for the year	(4,529)	16,912		
Cash flow – portfolio investments (note 12)	35,688	(21,645)		
Cash flow – loans due within one year	(5,775)	2,775		
	<hr/>	<hr/>		
Movement arising from cash flows	25,384	(1,958)		
Changes in market value and exchange rates	10,158	(103,949)		
	<hr/>	<hr/>		
Total movement in portfolio investments net of financing	35,542	(105,907)		
Balance brought forward at 1 January	973,749	1,079,656		
	<hr/>	<hr/>		
Balance carried forward at 31 December	1,009,291	973,749		
	<hr/>	<hr/>		
	At 1 January 2007 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2007 £'000
Cash at bank and in hand	47,025	(4,529)	1,621	44,117
	<hr/>	<hr/>	<hr/>	<hr/>
Shares and other variable yield securities and units in unit trusts	47,419	2,111	115	49,645
Debt securities and other fixed interest securities	769,378	50,484	7,369	827,231
Overseas deposits	104,152	(16,907)	1,053	88,298
	<hr/>	<hr/>	<hr/>	<hr/>
Total portfolio investments	920,949	35,688	8,537	965,174
	<hr/>	<hr/>	<hr/>	<hr/>
Loans due within one year	5,775	(5,775)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	973,749	25,384	10,158	1,009,291
	<hr/>	<hr/>	<hr/>	<hr/>

## 12. NET CASH (OUTFLOW)/INFLOW ON PORTFOLIO INVESTMENTS

	2007 £'000	2006 £'000
Purchase of shares and other variable yield securities and units in unit trusts	(24,261)	(25,759)
Purchase of debt securities and other fixed interest securities	(708,049)	(1,502,026)
Sale of shares and other variable yield securities and units in unit trusts	22,150	21,366
Sale of debt securities and other fixed interest securities	657,565	1,536,245
Decrease/(increase) in overseas deposits	16,907	(8,181)
	<hr/>	<hr/>
Net cash (outflow)/inflow on portfolio investments	(35,688)	21,645
	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS****13. LETTER OF CREDIT FACILITIES**

In order to meet the quarterly funding requirements for US regulated business, the syndicate is able to lodge letters of credit with the trustees of the Surplus Lines Trust Fund, Citibank NA. These letters of credit are made available from the ACE Limited facility with Wachovia Bank National Association. At 31 December 2007 the letters of credit issued under this facility totalled £Nil (2006: £66.35 million).

The facility expires on 1 July 2010 and, at this time, there is no expectation that the facility will not be renewed.

**14. TRANSACTIONS WITH RELATED PARTIES**

ACE Limited, a public company registered under Cayman Island Companies Law, with its principal office in Bermuda and quoted on the New York Stock exchange, is the ultimate holding company of the syndicate's managing agent, ACE Underwriting Agencies Limited ("AUAL").

The syndicate may have reinsured, or have been reinsured by, insurance companies in which ACE Limited has interests and of which it and certain of its subsidiaries are controllers. During calendar year 2007, a number of inwards reinsurances of group companies were in fact effected. All were effected at arm's-length and the amount of premium involved was not material. In addition, a number of outwards reinsurance contracts were effected with group companies. The main excess of loss reinsurance programmes in operation during 2007 were shared with other ACE companies, including ACE European Group Limited. Included within outwards reinsurance premium in the technical account for the year ended 31 December 2007, £32.29 million relates to reinsurance contracts placed with group companies; of this amount, £28.13 million relates to reinsurance contracts placed with ACE Tempest Reinsurance Ltd. As at 31 December 2007, the reinsurers' share of the provision for claims outstanding includes £62.84 million recoverable from group companies; of this amount £60.49 million is recoverable from ACE Tempest Reinsurance Ltd.

The syndicate's capacity is provided entirely by ACE Capital Limited, ACE Capital IV Limited and ACE Capital V Limited, each of which trades as a corporate member of Lloyd's, participating only on Syndicate 2488. These companies are wholly owned subsidiaries within the ACE group.

Substantially all the Funds at Lloyd's requirements of each of the corporate members referred to above are met by letters of credit guaranteed by ACE Bermuda Insurance Ltd and ACE Tempest Reinsurance Ltd in favour of Lloyd's on behalf of the respective corporate members.

Managing agency fees of £27.60 million (2006: £27.38 million) were paid by the syndicate to AUAL. Staff providing services to AUAL and the syndicate are employed by ACE INA Services U.K. Limited ("AIS"), another ACE Limited company. AIS settles expenses on behalf of, and provides services to, the syndicate and AUAL.

**15. FUNDS AT LLOYD'S**

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's ("FAL"). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities and can therefore be considered as the capital supporting the operations of the syndicate.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Financial Services Authority requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and assessment of the reserving risk in respect of business that has been underwritten. As referred to in note 14, the syndicate's members have met their FAL requirements by letters of credit; at 31 December 2007 these totalled £205.85 million (2006: £356.43 million).