



ace european group

A decorative graphic consisting of three overlapping rectangular blocks: a blue block on top, a green block on the left, and a dark grey block on the right. The text is positioned within the dark grey block.

Report and Annual Accounts
31 December 2005

ACE Underwriting Agencies Limited
Syndicate 2488

Syndicate 2488

Contents

Chairman's Report	2
Management Review	4
Managing Agent's Report	8
Statement of Managing Agent's Responsibilities	10
Independent Auditors' Report	11
Profit and Loss Account	12
Statement of Total Recognised Gains and Losses	13
Balance Sheet	14
Statement of Cash Flows	16
Notes to the Syndicate Annual Accounts	17

Chairman's Report

31 December 2005

Introduction

Since 2003, ACE Global Markets and ACE Tempest Re (Europe) branded business has been written by Syndicate 2488 at Lloyd's, as managed by ACE Underwriting Agencies Limited and ACE European Group Limited ("AEGL"). These two entities are collectively known as ACE European Group.

ACE Global Markets ("AGM") is widely recognised as one of the pre-eminent specialty insurers in the London market. Much of AGM's strength is predicated upon the unique parallel distribution platform that Syndicate 2488 and AEGL provide. AGM's portfolio is managed by an experienced team of underwriters and claim specialists. With the exception of energy business, which has been written solely by AEGL from 2004, all product lines are represented in both the syndicate and the company. Factors influencing the broker's decision to place business with the syndicate or the company include licensing eligibilities and capitalisation requirements, but predominantly reflect client and broker preference.

ACE European Group's Lloyd's premium has reduced over the last three years as AEGL has increasingly been selected by brokers as an alternative to the syndicate. This has led to a steady reduction in the capacity of Syndicate 2488, from a high of £900 million in 2002 to a planned £350 million in 2006. Management intends to monitor the adequacy of the planned 2006 capacity level with a view to a possible pre-emption reflecting anticipated change in market conditions as a result of the 2005 hurricane activity. It is ACE European Group's intention that the Lloyd's syndicate will continue to underwrite a meaningful, diverse and well balanced book of business.

Performance in 2005

2005 was a year of major challenges with natural catastrophes dominating the headlines around the world. Market conditions were difficult, albeit with some upturn experienced in those business lines involving US catastrophe exposures during the latter part of 2005. Competition from both new and more established market players also continued to increase.

The syndicate made an overall loss for the financial year of £74.3 million, primarily due to claims relating to

natural catastrophes, most notably Hurricanes Katrina, Rita and Wilma. The latter events drove a loss, net of reinsurance recoveries, of £114 million. The combined ratio, which expresses the total of net claims incurred and net operating expenses as a percentage of earned premium, was 123.6% (2004: 97.3%); excluding the hurricane losses, it reduces to 97.2%. The results were also negatively impacted by prior year deterioration to reserves brought forward, in particular for financial lines.

Financial strength

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 A.M. Best and "A (Strong)" by Fitch. As a result of these robust ratings, together with the "A+" ratings from both A.M. Best and Standard & Poor's held by ACE Limited, it is not considered necessary to pursue individual ratings for the syndicate.

Future prospects

The insurance industry is highly competitive with many companies offering similar coverages. Product rates, terms and conditions have historically changed depending on the timing of the insurance cycle. Following the challenging market conditions experienced during 2005, it is anticipated that gradual improvements will be seen in those business classes impacted by the hurricane activity. The syndicate's core business approach focuses on maintaining underwriting discipline whilst preserving its leadership position, remaining alert to new opportunities and ensuring that service levels are amongst the best in the market. As a result, Syndicate 2488 will remain well positioned to capitalise on the insurance environment for 2006, even if anticipated improvements in the product rating environment are not fully realised.

2006 should also see further progress on the much needed London market reforms that are so essential to improving efficiency and reducing operating costs for all London market insurers and brokers. Syndicate 2488 has a strong influence on the Lloyd's market and on the direction and pace of its continuing reform, through the active involvement of senior executives on various Lloyd's committees and my role as Chairman of

Chairman's Report

31 December 2005

the Lloyd's Market Association, to which I was appointed in January 2006. As part of this process, Syndicate 2488 has continued its programme to improve its operational effectiveness, particularly with regard to underwriting and processing, and to further the campaign for transparency of broker remuneration whilst strengthening relationships with the broking community. Syndicate 2488 is also committed to achieving the contract certainty targets as set out by the UK regulator, the Financial Services Authority ("FSA").

In conclusion

In a year of major challenges where catastrophes dominated the headlines around the world, our underwriters managed to navigate a softening market, maintain underwriting discipline and preserve Syndicate 2488's strong position in the London market. We successfully met the ongoing challenges of FSA regulation, a significant step in maintaining the confidence of brokers, clients and ACE Limited shareholders. All of this would not have been possible without the hard work, dedication and innovation of the syndicate's employees. It is their integrity and commitment to serving the best interests of our clients that makes Syndicate 2488 the market leader it is today.

A J Kendrick

Chairman and Chief Executive Officer

15 March 2006

Management Review

31 December 2005

Business objectives and strategy

Syndicate 2488, managed by ACE Underwriting Agencies Limited, is a key entity within the ACE Group of Companies and allows the Group to access specialist Lloyd's London market business. The syndicate differentiates itself from others in the market by its experience and expertise in the product range in which it elects to operate, and the quality of its underwriting and claims service.

In a market with a surplus of capacity, it is essential that 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 continue to be 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

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, encompassing aviation, property, financial lines, marine, political risks, accident & health and ATRe branded reinsurance business.

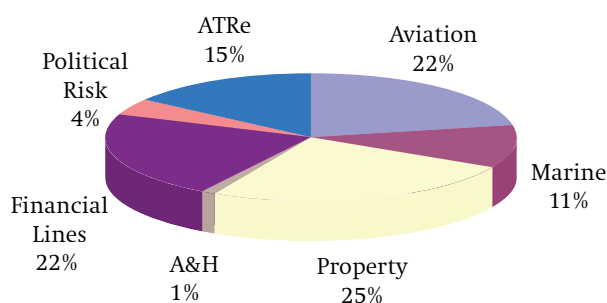
The underwriting and claims teams benefit from a centralised support structure incorporating the finance and actuarial, legal and compliance, operations, systems and administrative functions of ACE European Group.

Presentation of financial statements

As a result of the Modernisation of Accounts Directive 2003/51/EC, Lloyd's syndicate accounts are no longer prepared on a cumulative three-year accounting basis but on an annual accounting basis. The basis of preparation of Syndicate 2488's annual accounts is in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. These accounts recognise a calendar year profit and loss, driven by earned premium and incurred losses arising on that 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 corporate vehicles, with effect from 2003. The ACE corporate vehicles have agreed to waive their right to syndicate underwriting accounts in respect of Syndicate 2488's closed 2003 year of account and as such, no information on this basis has been provided within this report or accounts.

Calendar year 2005 gross written premium split



Management Review

31 December 2005

Financial results

History shows that as the appetite to accept risk increases in local markets, London insurers are left with the option of either aggressive price competition or replacing with business of a lower quality. Syndicate 2488 will continue to reduce its involvement in those areas where there is the greatest pressure on margins rather than become embroiled in excessive rate cutting. During 2005, rates and terms and conditions remained at acceptable levels. Notwithstanding the underlying strength of the business underwritten by the syndicate, the 2005 result was a loss of £74m as laid out below.

£ million	2005	2004
Gross written premiums	511	595
Net written premiums	399	455
Net earned premium	445	528
Incurred losses	444	346
Operating expenses	106	168
Underwriting (loss) profit	(105)	14
Investment income	31	28
Profit for financial year	(74)	42
Combined ratio %	123.6%	97.3%

Gross written premiums in 2005 fell by 16% in comparison to those of 2004. This decline primarily reflects the deterioration in market conditions and the syndicate's selective approach to underwriting in a competitive environment. In addition, the renewal of business into AEGL continued to be a factor in premium decline. Whilst Syndicate 2488 has a strong core of quality business in each of its product lines, caution in underwriting discipline must continue to be exercised at all times and it is anticipated that some product lines will reduce gross written premiums further in 2006.

The syndicate purchases reinsurance to mitigate the impact of major events and an undue frequency of smaller losses. The main excess of loss reinsurance programmes in operation during 2005 were shared with other ACE companies, including AEGL. The syndicate also purchases risks attaching reinsurance and has actively and successfully sought to increase the proportion of the inwards business matched by ceded reinsurance in this way. All 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 reinsurance programme responded well to the losses experienced during the year, substantially mitigating the financial impact of the hurricane events.

The loss ratio of 99.8% reflects the impact of the US hurricane activity during the latter half of 2005, primarily Hurricanes Katrina, Rita and Wilma. These losses, net of reinsurance recoveries, amounted to £114m. The loss ratio also includes prior year deterioration to reserves brought forward, predominantly in financial lines but also in the accident and health, political risks and marine product lines.

Syndicate 2488's underwriters have maintained a focus on commission levels, which has resulted in the continued reduction in acquisition costs across the portfolio. The programme of improvements to increase the operational effectiveness of Syndicate 2488 has continued throughout 2005, leading to reduced administrative expenses in comparison to 2004. Expenses continue to be carefully monitored and controlled.

Financial position

Syndicate 2488's Funds at Lloyd's ("FAL") is provided by letters of credit guaranteed by ACE Bermuda Insurance Ltd and ACE Tempest Reinsurance Ltd. In June 2005, Lloyd's introduced a new capital regime based on the Total Funding Requirement ("TFR") and the Individual Capital Assessment ("ICA"). The TFR replaces the previous arrangements for the provision of FAL and its adequacy is tested on a biannual basis in November and June. The TFR calculation is based upon the Economic Capital Assessment or "ECA" (formerly Risk Based Capital) and relies on Lloyd's market data applied to syndicate specific premiums by line of business.

The FSA published Policy Statement 04/16 on 1 July 2004. Whilst the scope of PS04/16 is limited to insurance companies, the FSA in Consultation Paper 04/7 indicated its intention to extend the regime to Lloyd's. The key aims of the policy are to help ensure that capital requirements are appropriately matched to

Management Review

31 December 2005

the underlying risks; to help improve the understanding of the relationship between risk and capital; and to encourage effective risk management by companies. As part of the new regime, Lloyd's managing agents are required to calculate an ICA in respect of their managed syndicates. The results of the ICA for Syndicate 2488 were submitted to Lloyd's in June 2005. Lloyd's has taken the ICA into account in determining the appropriate level of capital for 2006 both for individual members and the Society as a whole. In addition, the FSA capital test, the Enhanced Capital Requirement ("ECR") has also been calculated to provide a benchmark for comparison with the capital requirements as determined by the TFR/ICA process.

The current FAL requirement for 2006 following the November coming into line process is comparable to that of 2005. The existing £284 million syndicated FAL facility has been renegotiated; the new facility includes an option for a further £100 million capacity which has been secured in order to cater for a potential increase in FAL during 2006. This increase is anticipated to arise from the impact of the solvency deficits deriving from the 2005 hurricane losses into the FAL requirement. In addition, market conditions may lead to business opportunities in 2006 which could give rise to a need for a mid year increase in capacity which would in turn serve to increase the FAL requirement.

Treasury management

Approximately 80% of the investable assets of Syndicate 2488 are held in US dollars, with other currency balances maintained in sterling and Canadian dollars, representing approximately 11% and 9% respectively. These currency positions are driven by the currency mix of the business. Funds held within the Lloyd's American Trust Fund ("LATF"), the Credit for Reinsurance Trust Fund ("CRTF"), the Lloyd's Dollar Trust Fund ("LDTF") and the Lloyd's Canadian Trust Fund ("LCTF") are managed by Wellington Management Company. Barclays Global Investors manage the sterling fixed income investment portfolio.

Investment grade fixed income LDTF, CRTF and LCTF portfolios are managed to individual intermediate customised benchmarks, whilst the LATF portfolio is measured against a short duration benchmark recognising the run-off of the portfolio.

Despite the continuing renewal of business previously written by Syndicate 2488 into AEGL, positive operating cash flow served to increase funds available for investment by some £95m during 2005. These funds were invested in investment grade fixed income portfolios. Overall returns achieved by the external investment managers were satisfactory, relative to both the benchmarks and at the absolute level.

Corporate governance and risk management

The syndicate is managed by ACE Underwriting Agencies Limited. The Board of directors 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 quarterly meetings focus upon financial information, strategic decisions and the proper oversight of the management of the business, systems and controls, and senior management responsibility.

Compliance with regulation, legal and ethical standards is a high priority for the syndicate. A dedicated compliance team, as well as a dedicated internal audit team, ensure that the syndicate understands and complies with all applicable requirements. Annual affirmation of the ACE Group Code of Conduct is required of all employees and directors. As a material entity of ACE Limited, a US listed company, the control environment in which the US GAAP financial statements of the business of the syndicate 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 this legislation.

The syndicate continues to develop its risk management framework. The risk committee develops and oversees the implementation of a practical framework for identifying and mitigating risk within the syndicate. The syndicate created a risk register to record and monitor business risks and controls to support the capital modelling requirements of the ICA.

Management Review

31 December 2005

The agency board reviews and approves the ICA as well as the annual business plan for the syndicate, which includes strategy, limits, and reinsurance protections for each product line. 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 outcome of the underwriting activity is continually re-assessed. 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, and risks are modelled to assist in determining pricing for individual policies, providing a key control to the underwriting process.

Outlook for 2006

2005 was a year that the insurance industry will remember for its unprecedented number of Atlantic storms and record natural catastrophe losses. To date, 2006 has seen a stabilisation of market conditions and significant improvements in terms and conditions for those business classes impacted by the hurricanes. Specialist underwriting is at the core of Syndicate 2488's business and the high level of expertise enables the accurate determination of risk and negotiation of appropriate pricing and terms and conditions. The syndicate will continue to capitalise on its strengths as the year progresses and look to achieve a robust and profitable result in 2006.

Approved by the Board of Directors

15 March 2006

Managing Agent's Report

31 December 2005

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 2005.

This report and accounts are 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

The principal activity of the business of the syndicate is the transaction of general insurance and reinsurance business.

Review of business and future developments

A detailed review of the business is contained within the Management Review that precedes this Managing Agent's Report.

Change in reporting basis

The technical account results are determined on the annual basis of accounting. This represents a fundamental change in reporting basis required by the 2004 Regulations. Previously, results were not determined before the normal date of closure of each year of account at the end of the third year.

Further details regarding the effect of this change are given in notes 1 and 7 to the accounts.

Results

The loss for the year to 31 December 2005 was £74,253,000 (2004 restated: profit of £42,488,000). 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 2005 to the date of this report unless otherwise indicated:

Executive directors:

R L Cigelnik

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 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 company. 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 Financial Officer and Treasurer of the agency.

The investment management function is sub-contracted to specialist external managers, principally Barclays Global Investors and Western Asset Management.

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. 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

31 December 2005

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. 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 of 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 enjoys the benefit of letter of credit facilities which can be utilised to meet certain funding needs; this is also referred to in note 14 to the syndicate annual accounts.

Credit risk and counterparty limits

The investment guidelines seek to limit the credit risk of each of the portfolios through:

- Minimum weighted credit quality
- Minimum individual issuer credit quality
- Maximum counterparty exposures
- Specification of eligible/ineligible investments

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 syndicate remains liable for the payment to the policyholder. The 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.

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, 15 March 2006

ACE Building
100 Leadenhall Street
London
EC3A 3BP

Statement of Managing Agent's Responsibilities

31 December 2005

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 for the year ended 31 December 2005 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the statement of cash flows and the related notes, and which have been prepared in accordance with the accounting policies set out in the statement of accounting policies.

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 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 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 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 if, in our opinion, the managing agent's report is not consistent with the audited syndicate annual accounts, if the managing agent has not kept proper accounting records and if we have not received all the information and explanations we require for our audit.

We read the other information attached to the syndicate annual accounts and consider whether it is consistent with the audited syndicate annual accounts. The other information comprises the chairman's report, the management review, the managing agent's report and the statement of managing agent's responsibilities. We consider the implications for our report if we become aware of any apparent

misstatements or material inconsistencies with the syndicate annual accounts. 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 of the state of the syndicate's affairs at 31 December 2005 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
15 March 2006

Profit and Loss Account

for the year ended 31 December 2005

	Note	2005 £'000	2004 (restated) £'000
Technical account – General Business			
Earned premiums, net of reinsurance:			
Gross premiums written	2	510,641	594,920
Outward reinsurance premiums		(111,208)	(139,599)
Net premiums written		399,433	455,321
Change in the gross provision for unearned premiums		56,110	82,999
Change in the provision for unearned premiums – reinsurers' share		(10,789)	(10,327)
Earned premiums, net of reinsurance		444,754	527,993
Allocated investment return transferred from the non-technical account	6	31,486	28,691
Claims incurred net of reinsurance:			
Claims paid:			
Gross amount	2	(456,628)	(488,332)
Reinsurers' share		123,456	378,158
Net paid claims		(333,172)	(110,174)
Change in the provision for claims outstanding:			
Gross amount	2	(141,116)	(30,847)
Reinsurers' share		30,332	(205,247)
Change in the net provision for claims outstanding		(110,784)	(236,094)
Claims incurred, net of reinsurance		(443,956)	(346,268)
Net operating expenses	4	(106,537)	(167,928)
Balance on the technical account for general business		(74,253)	42,488

All the above results derive from continuing operations.

Profit and Loss Account

for the year ended 31 December 2005

	Note	2005 £'000	2004 (restated) £'000
Non-technical account			
Balance on the general business technical account		(74,253)	42,488
Investment income	6	52,049	34,394
Unrealised gains on investments	6	15,047	1,745
Investment expenses and charges	6	(12,511)	(5,231)
Unrealised losses on investments	6	(23,099)	(2,217)
Allocated investment return transferred to the technical account	6	(31,486)	(28,691)
(Loss) profit for the financial year		(74,253)	42,488

All of the above results derive from continuing operations.

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2005

	Note	2005 £'000	2004 (restated) £'000
(Loss) profit for the financial year		(74,253)	42,488
Currency translation differences		5,743	(4,951)
Total recognised (losses) gains for the financial year		(68,510)	37,537
Prior year adjustment arising from change in reporting basis	7	(1,008,852)	
Total losses recognised since last annual report		(1,077,362)	

Balance Sheet

at 31 December 2005

	Note	2005 £'000	2004 (restated) £'000
Assets			
Investments			
Financial investments	8	1,045,898	866,015
Reinsurers' share of technical provisions			
Provision for unearned premiums		41,021	46,777
Provision for claims outstanding		648,348	569,047
		<u>689,369</u>	<u>615,824</u>
Debtors – amounts falling due within one year			
Debtors arising out of direct insurance operations:			
amounts owed by intermediaries		160,971	204,414
Debtors arising out of reinsurance operations		141,494	170,172
Other debtors	9	1,215	621
		<u>303,680</u>	<u>375,207</u>
Debtors – amounts falling after one year			
Debtors arising out of direct insurance operations:			
amounts owed by intermediaries		6	32
Debtors arising out of reinsurance operations		126	53
Other debtors	9	-	21
		<u>132</u>	<u>106</u>
Other assets			
Cash at bank and in hand		33,758	47,098
Prepayments and accrued income			
Deferred acquisition costs		42,213	46,061
Other prepayments and accrued income		10,467	34,731
		<u>52,680</u>	<u>80,792</u>
Total assets		<u><u>2,125,517</u></u>	<u><u>1,985,042</u></u>

Balance Sheet

at 31 December 2005

	Note	2005 £'000	2004 (restated) £'000
Liabilities			
Capital and reserves			
Members' balances	10	(47,440)	20,126
Technical provisions			
Provision for unearned premiums		247,196	277,189
Provision for claims outstanding		1,771,585	1,505,384
		2,018,781	1,782,573
Creditors – amounts falling due within one year			
Creditors arising out of direct insurance operations		18,035	12,929
Creditors arising out of reinsurance operations		135,604	150,282
Other creditors	11	82	7,709
		153,721	170,920
Creditors – amounts falling due after one year			
Creditors arising out of direct insurance operations		-	16
Creditors arising out of reinsurance operations		48	49
		48	65
Accruals and deferred income		407	11,358
Total liabilities		2,125,517	1,985,042

The syndicate annual accounts on pages 12 to 28 were approved by the board of ACE Underwriting Agencies Limited on 15 March 2006 and were signed on its behalf by:

P M Curtis
Chief Financial Officer

Statement of Cash Flows

for the year ended 31 December 2005

	Note	2005 £'000	2004 (restated) £'000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating (loss) profit on ordinary activities		(74,253)	42,488
Realised and unrealised investment losses (gains)		13,374	(893)
Foreign exchange movement on cash and investments		(98,895)	42,165
Foreign exchange movement on members' balances		5,743	(4,951)
Increase in net technical provisions		162,663	119,028
Decrease in debtors and prepayments		99,613	69,214
(Decrease) increase in creditors and accruals		(28,167)	16,754
Net cash inflow from operating activities		80,078	283,805
Transfers to members in respect of underwriting participations:		(1,160)	(17,849)
Financing:			
Cash calls received		2,104	28,931
	12	<u>81,022</u>	<u>294,887</u>
Cash flows were invested as follows:			
Decrease in cash holdings	12	(17,552)	(8,753)
Net portfolio investment	13	95,574	303,640
Loans due within one year		3,000	-
Net investment of cash flows		81,022	294,887

Notes to the Syndicate Annual Accounts

31 December 2005

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. That 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 16.

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 and applicable accounting standards in the United Kingdom.

Change in reporting basis

The technical account results are determined on the annual basis of accounting (see note 7). This represents a fundamental change in reporting basis required by the introduction of the 2004 Regulations rather than a series of changes in accounting policies.

The prior year figures have been restated and the impact of the change in reporting basis is given in note 7.

Premiums written

Premiums written, which are stated gross of brokerage but exclusive of premium taxes, relate to business incepted 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 syndicate 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 expenses, 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.

Notes to the Syndicate Annual Accounts

31 December 2005

1. Accounting policies – continued

Provision for claims outstanding and related reinsurance recoveries – continued

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 is 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 syndicate annual accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

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 long tail business, and is subject to the issues laid out in the preceding two sections above.

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.

Notes to the Syndicate Annual Accounts

31 December 2005

1. Accounting policies – continued

Investments

Investments in marketable securities are stated at their mid-market value at the balance sheet date. Overseas deposits are stated at cost or on the basis of notification from Lloyd's.

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. FRS 3 "Reporting Financial Performance" and the ABI SORP require that, for insurance entities, both realised and unrealised 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.

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 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 has currently waived its right to the receipt of profit commission for the 2003, 2004 and 2005 years of account.

Notes to the Syndicate Annual Accounts

31 December 2005

2. Segmental analysis

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

	Gross premiums written	Gross premiums earned	Gross claims incurred	Net operating expenses	Reinsurance balance
	£'000	£'000	£'000	£'000	£'000
Year to 31 December 2005					
Direct insurance					
Fire and other damage to property	121,917	136,811	(150,749)	(34,774)	30,642
Marine, aviation and transport	51,983	60,965	(53,456)	(11,852)	586
Accident and health	6,719	8,263	(29,633)	(3,834)	(1,513)
Third party liability	164,087	186,509	(187,077)	(33,762)	(5,037)
Other	24,994	23,163	(31,336)	(5,133)	4,346
Reinsurance acceptances	140,941	151,040	(145,493)	(17,182)	2,767
	<u>510,641</u>	<u>566,751</u>	<u>(597,744)</u>	<u>(106,537)</u>	<u>31,791</u>
Year to 31 December 2004 (restated)					
Direct insurance					
Fire and other damage to property	161,063	173,442	(115,579)	(50,899)	(20,693)
Marine, aviation and transport	65,872	73,051	(62,102)	(19,222)	14,027
Accident and health	12,790	19,202	(16,425)	(7,551)	(657)
Third party liability	174,900	240,252	(203,643)	(56,026)	53,109
Other	18,146	23,231	(22,588)	(6,045)	(5,362)
Reinsurance acceptances	162,149	148,741	(98,842)	(28,185)	(17,439)
	<u>594,920</u>	<u>677,919</u>	<u>(519,179)</u>	<u>(167,928)</u>	<u>22,985</u>

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

All business is completed in the United Kingdom.

3. Net movement in prior year's provision for claims outstanding

The prior year's net provision for claims outstanding generated a deficit for 2005 (2004: deficit) as detailed below:

	2005	2004 (restated)
	£'000	£'000
Direct insurance		
Fire and other damage to property	13,900	(8,560)
Marine, aviation and transport	(4,468)	3,431
Accident and health	(24,955)	(6,173)
Third party liability	(65,065)	(12,100)
Other	(6,401)	(9,003)
Reinsurance acceptances	9,450	(4,877)
	<u>(77,539)</u>	<u>(37,282)</u>

Notes to the Syndicate Annual Accounts

31 December 2005

4. Net operating expenses – technical account

	2005	2004 (restated)
	£'000	£'000
Acquisition costs	96,255	108,470
Change in deferred acquisition costs	7,593	16,866
Administrative expenses – other	24,800	39,741
Administrative expenses – profit commission	(10,859)	10,859
Reinsurance commissions	(6,726)	(6,560)
Profit on exchange	(4,526)	(1,448)
	<u>106,537</u>	<u>167,928</u>

“Administrative expenses – other” includes the managing agent’s fee (which covers most expenses generally classified as syndicate expenses), the Lloyd’s Central Fund contribution and Lloyd’s subscriptions, all of which are calculated as a percentage of syndicate capacity. The decrease in expenses is consistent with the fall in syndicate capacity from £550m in 2004 to £400m in 2005; in addition, the Lloyd’s Central fund contribution reduced from 1.25% of capacity in 2004 to 0.5% of capacity in 2005.

The managing agent’s fee for 2005 of £26.0 million (2004 restated: £35.75 million) can be estimated as constituting the following: salary and other employment costs – 44% (41%), accommodation costs – 12% (16%), Lloyd’s charges – 10% (15%), computer costs – 10% (5%), professional fees – 9% (10%), auditors’ remuneration – 1% (2%), travel and entertaining – 2% (2%) and administrative costs including irrecoverable VAT on all costs – 12% (9%).

“Administrative expenses – profit commission” reflects the waiver referred to in the accounting policy on profit commission, resulting in an accrual made in 2004 being reversed in 2005.

Notes to the Syndicate Annual Accounts

31 December 2005

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.

	2005	2004 (restated)
	£'000	£'000
Aggregate emoluments and benefits	1,840	1,568
Company pension contributions to money purchase pension schemes	63	46
	<u>1,903</u>	<u>1,614</u>

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 £383,975 (2004: £375,068) in respect of emoluments and benefits and the highest paid director was paid a total of £441,165 (2004: £620,593) 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, six 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 Syndicate Annual Accounts

31 December 2005

6. Investment return

	2005	2004 (restated)
	£'000	£'000
Investment income		
Interest from other investments	46,207	28,968
Gains on the realisation of investments	5,842	5,426
	<u>52,049</u>	<u>34,394</u>
Investment expenses and charges		
Investment management expenses	(1,347)	(1,170)
Losses on the realisation of investments	(11,164)	(4,061)
	<u>(12,511)</u>	<u>(5,231)</u>
Net unrealised gains less losses on investments		
Unrealised profits on investments	15,047	1,745
Unrealised losses on investments	(23,099)	(2,217)
	<u>(8,052)</u>	<u>(472)</u>
Total investment return	<u><u>31,486</u></u>	<u><u>28,691</u></u>

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

Notes to the Syndicate Annual Accounts

31 December 2005

7. Change in reporting basis

As set out in note 1, the technical account results are determined on the annual basis of accounting. Prior to 1 January 2005, the syndicate accounts were prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 18 of 1994). Syndicate results were previously reported on a three year basis whereby each underwriting year of account is normally kept open for three years and the result ascertained at the end of the third year when the year of account is closed by reinsurance, normally to the syndicate's following year of account. Under the three year basis, premiums were recognised on a cash basis, net of brokerage, and no technical provisions were made on open years.

The change to the annual basis of accounting represents a fundamental change in the reporting basis rather than a series of changes of accounting policies. Comparative amounts for 2004 have been restated. The net effect of the change is reflected in a prior year adjustment to members' balances shown in note 10. A reconciliation of members' balances at 31 December 2004 to those published under the previous reporting basis is as follows:

	£'000
Members' balances under previous reporting basis, as published	1,028,978
Annual accounting adjustments arising from:	
Premiums	(61,936)
Claims outstanding	(295,616)
Reinsurance to close	(639,745)
Net operating expenses	(7,159)
Other	(4,396)
	<u>(1,008,852)</u>
Members' balances restated under new reporting basis	<u><u>20,126</u></u>

Premiums:

Premiums on open years are on an earned basis, rather than on a cash basis, and are stated gross of brokerage and commissions.

Claims outstanding:

Provisions are made for claims outstanding on open years; on the previous reporting basis, no such provisions were made.

Reinsurance to close (RITC):

On the previous reporting basis, the RITC receivable by the reinsuring year of account was included within members' balances. On the annual accounting basis, the components of the RITC are included within the relevant balance sheet headings (primarily provisions for claims outstanding).

Net operating expenses:

Expenses are accounted for on an accruals basis and are deferred to the extent that they relate to unearned premiums.

Other:

Members' balances under the previous reporting basis were determined at rates of exchange prescribed by Lloyd's; in restating these balances, rates of exchange have been selected by the managing agent. This adjustment represents the impact of the different rates of exchange. For the purposes of these accounts, the 31 December 2004 rates of exchange used were: US dollars 1.92425 (Lloyd's rate: 1.92); Canadian dollars 2.364231 (Lloyd's rate: 2.30).

Notes to the Syndicate Annual Accounts

31 December 2005

8. Financial investments

	2005	2004 (restated)
	£'000	£'000
Shares and other variable yield securities and units in unit trusts	44,307	36,492
Debt securities and other fixed interest securities	891,861	741,720
Overseas deposits	106,730	87,803
Loan to Lloyd's New Central Fund	3,000	-
	<u>1,045,898</u>	<u>866,015</u>

The purchase cost of the investments was £1,055,973,000 (2004: £862,862,000). All debt securities and other fixed interest securities are listed investments.

9. Other debtors

	2005	2004 (restated)
	£'000	£'000
Amounts falling due within one year:		
Amounts due from members	133	241
Receivable for sales of securities	291	-
Other debtors	791	380
	<u>1,215</u>	<u>621</u>
Amounts falling due after one year:		
Other debtors	-	21
	<u>-</u>	<u>21</u>

Amounts due from members relate to unpaid cash calls due from members who no longer participate on the syndicate.

10. Members' balances

	2005	2004 (restated)
	£'000	£'000
Members' balances brought forward at 1 January as previously reported	1,028,978	772,094
Prior year adjustment (see note 7)	(1,008,852)	(794,589)
Currency translation differences	5,743	(4,951)
Members' balances restated at 1 January	25,869	(27,446)
(Loss) profit for the financial year	(74,253)	42,488
Cash calls	2,104	22,933
Transfers to members' personal reserve funds	(1,160)	(17,849)
Members' balances carried forward at 31 December	<u>(47,440)</u>	<u>20,126</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 16.

Notes to the Syndicate Annual Accounts

31 December 2005

11. Other creditors

	2005	2004 (restated)
	£'000	£'000
Payable for purchases of securities	–	7,709
Other creditors	82	–
	<u>82</u>	<u>7,709</u>

12. Movement in opening and closing portfolio investments net of financing

	2005	2004 (restated)
	£'000	£'000
Net cash outflow for the year	(17,552)	(8,753)
Cash flow – portfolio investments	95,574	303,640
Cash flow – loans due within one year	3,000	–
Movement arising from cash flows	81,022	294,887
Changes in market value and exchange rates	85,521	(41,272)
Total movement in portfolio investments net of financing	166,543	253,615
Balance brought forward at 1 January	913,113	659,498
Balance carried forward at 31 December	<u>1,079,656</u>	<u>913,113</u>

	At 1 January 2005	Cash flow	Changes to market value and currencies	At 31 December 2005
	£'000	£'000	£'000	£'000
Cash at bank and in hand	47,098	(17,552)	4,212	33,758
Shares and other variable yield securities and units in unit trusts	36,492	1,998	5,817	44,307
Debt securities and other fixed income securities	741,720	83,695	66,446	891,861
Overseas deposits	87,803	9,881	9,046	106,730
Total portfolio investments	<u>866,015</u>	<u>95,574</u>	<u>81,309</u>	<u>1,042,898</u>
Loans due within one year	–	3,000	–	3,000
	<u>913,113</u>	<u>81,022</u>	<u>85,521</u>	<u>1,079,656</u>

Notes to the Syndicate Annual Accounts

31 December 2005

13. Net cash outflow on portfolio investments

	2005	2004 (restated)
	£'000	£'000
Purchase of shares and other variable yield securities and units in unit trusts	(20,243)	(39,001)
Purchase of debt securities and other fixed income securities	(765,313)	(867,151)
Sale of shares and other variable yield securities and units in unit trusts	18,245	1,179
Sale of debt securities and other fixed income securities	681,618	580,844
Sale of participation in investment pools	-	13,875
(Decrease) increase in overseas deposits	(9,881)	6,614
Net cash outflow on portfolio investments	(95,574)	(303,640)

14. Letter of credit facilities

In order to meet the quarterly funding requirements for US regulated business, the syndicate has lodged letters of credit with the trustees of the Surplus Lines and Credit for Reinsurance Trust Funds, Citibank NA. These letters of credit have been made available from the ACE Limited facility with Wachovia Bank National Association. At 31 December 2005 the letters of credit issued under this facility totalled £127,196,070 (2004: £103,936,600).

The facility expires on 22 September 2007 and, at this time, there is no expectation that the facility will not be renewed.

15. 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 2005, 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 2005 were shared with other ACE companies, including ACE European Group Limited. Included within outwards reinsurance premium in the technical account for the year ended 31st December 2005, £12,072,000 relates to reinsurance contracts placed with group companies; of this amount, £10,712,000 relates to reinsurance contracts placed with ACE Tempest Reinsurance Ltd. As at 31st December 2005, the reinsurers' share of the provision for claims outstanding includes £39,626,000 recoverable from group companies; of this amount £38,264,000 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 Limited group. During 2005 each of these companies purchased an excess of loss reinsurance contract for their own account, placed with another ACE Limited group company.

Notes to the Syndicate Annual Accounts

31 December 2005

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 £26m 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.

16. 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 FSA 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 15, the syndicate's members have met their FAL requirements by letters of credit; at 31 December 2005 these totalled £283,560,000 (2004: £367,284,000).



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