

**ACE UNDERWRITING AGENCIES LIMITED
SYNDICATE 2488**

REPORT AND ANNUAL ACCOUNTS

31 DECEMBER 2008

CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2008**PERFORMANCE IN 2008**

Syndicate 2488 is widely recognised as one of the pre-eminent specialty insurers in the London market, with a capacity for 2008 of £330 million. The increasingly challenging market conditions and relentless competition in the insurance markets noted last year continued into 2008. These conditions, combined with the third largest hurricane loss in history and the unprecedented turmoil in the global financial markets seen throughout 2008, led to a loss for the financial year of £62.2 million.

MARKET ENVIRONMENT

To say this was a difficult year for the global financial markets is an obvious understatement. The structure and order of the financial services industry – banking, investment banking, broking and insurance – are changing before our eyes. In the insurance industry this year we have witnessed a significant and rapid destruction of capital. We began 2008 with an overcapitalised industry feeding a soft market. Since then, natural catastrophes and financial market losses have destroyed a great deal of this excess capital. Insurance company margins are under greater pressure as underwriting experience deteriorates due to catastrophes, soft market pricing and declining, indeed negative, returns on investment portfolios.

The crisis in the world's financial markets has already affected the viability of some insurance companies. The reduced availability and soaring cost of capital is also having an impact in other industries. Out of this turmoil, some Lloyd's syndicates will emerge much stronger, having seized the opportunities that will inevitably present themselves. Syndicate 2488 is one of those entities.

ACHIEVEMENTS DURING THE YEAR*Expansion of the risk management framework*

As a key step in further embedding risk and capital management into the business, Syndicate 2488 expanded its risk management function during the year. This dedicated function will improve risk measurement and monitoring across all areas of risk to which the business is exposed. The team's focus is to enhance the risk management techniques rooted in the business and governance framework of the syndicate. This should ensure that Syndicate 2488 is well positioned to meet both the demand and direction of both the Financial Services Authority ("FSA") and Solvency II.

FUTURE PROSPECTS

The syndicate's ultimate goals are to produce an underwriting profit, protect our capital and provide the security our clients have come to expect. We focus on maintaining underwriting discipline and robust risk selection whilst preserving our leadership position and remaining alert to new opportunities. The ability of the syndicate to tailor its product offerings, particularly in the current market climate, ensures that we remain one of the key insurance providers in Lloyd's.

Service levels are one of the key differentiators in the insurance market and we recognise the importance of providing an efficient and responsive service to our brokers and customers. At the heart of our customer service ethos is Treating Customers Fairly ("TCF"), a core principle of our regulatory framework and one which fits well with the syndicate's culture of integrity. TCF is core to our daily interaction with customers and brokers and we strive to ensure that Syndicate 2488's service levels are amongst the best in the market.

All of the syndicate's business is conducted via registered brokers. We recognise the added value brokers bring to our underwriting transactions and their help in arranging insurance solutions which provide tangible benefits to clients. I would like to take this opportunity to thank our partners and the wider broking community for their continued support. We are continually looking for ways to enhance our service to clients and brokers, using both traditional and technology driven methods, such as the Electronic Claims File and Accounting & Settlement repositories, and will continue to work closely with Lloyd's to achieve these mutual aims.

At ACE, we recognise the value of the alternative distribution platform that Lloyd's provides. Although the capacity of Syndicate 2488 has reduced from £330 million in 2008 to £285 million in 2009 in line with our view of the anticipated utilisation, it is our intention to continue to operate a syndicate with a sizeable mass for the foreseeable future. Lloyd's provides us with cost effective, easy access to the world's major markets supported by its global brand and licence network and its strong financial strength ratings, and is well placed to capitalise on market opportunities and react swiftly to changing events.

Syndicate 2488 has the right structure, the right products and the right people in the right jobs. It has already laid the foundations to adapt to today's challenging and changing marketplace. We will continue to focus on the solid, core product lines, with growth sought only when the right opportunities arise. And despite the disruption in the financial market place, I am confident that such opportunities will present themselves.

2009 should herald the end of the soft market. Across the industry, underwriting margins are diminishing and investment returns can no longer be relied upon to boost the sub standard underwriting results of some of our competitors. We at ACE will seek to use our proven underwriting skills to increase price and/or tighten terms and conditions where necessary in order to protect our bottom line.

Notwithstanding the above, it is my expectation that 2009 will be another challenging year for the insurance market. The threat of global recession is likely to bring with it an increase in claims frequency, with claims inflation far outstripping interest rates. With our clients facing increasing fiscal pressures and the projected rise in unemployment we may see a diminished demand for insurance products, particularly in the emerging markets. However, with capital becoming even more difficult to access, many companies may become more risk adverse and seek to utilise insurance products to protect their assets.

CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2008 - continued**IN CONCLUSION**

Syndicate 2488 has a strong franchise, a solid balance sheet, a broad product base and good producer relationships. The quality and breadth of our underwriters, claims adjusters and support staff are, I believe, second to none. We continue to focus on talent management, arguably the single most important part of a company's fabric and which determines its growth and success. The loyalty and commitment of the syndicate's employees have again been demonstrated by the acceptable results achieved in a very difficult environment. There is an enthusiasm and optimism throughout the company that endures regardless of market conditions, and I would like to take this opportunity to thank the management teams, underwriters and support staff for their hard work and dedication.

A J Kendrick

Chairman and Chief Executive Officer

12 March 2009

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2008

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.

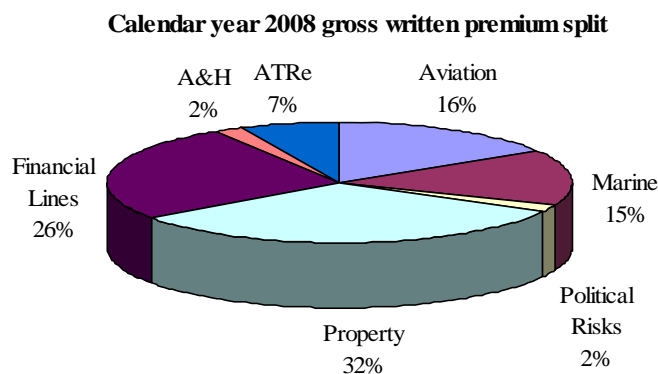
The ACE Group of Companies is one of the few truly global insurance and reinsurance organisations. With more than \$72 billion in assets and over \$19 billion of gross written premiums in 2008, the ACE Group is distinguished by its underwriting expertise, superior claims handling and global franchise. It has a physical presence in more than 50 countries and conducts business in over 140, employing 16,000 people worldwide. As well as being one of the world’s leading providers of commercial property and casualty insurance and reinsurance, ACE also has a major presence in the accident and health business and a young, growing life insurance operation.

Syndicate 2488’s key strategies centre on the underwriting business. It differentiates itself from others in the market by its acknowledged underwriting expertise, diverse products and strong balance sheet. Underwriting discipline will be maintained, with underwriters using their skills to set pricing, terms and conditions that reflect the changing and challenging marketplace and the potential impact of global recession on the financial results. The syndicate strives to offer superior service levels in all aspects of its operations, and will invest in technology to improve its operational efficiency, underwriter support and broker interfaces. In addition, the syndicate is committed to protecting and preserving its assets by operating a conservative investment strategy and placing increased focus on cash flow management. Fulfilling these objectives should ensure that Syndicate 2488 secures its position as a long term insurer for its many 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 organised into product lines encompassing aviation, property, financial lines, marine, political risks, accident & health (“A&H”) and ATRe branded inwards reinsurance business. 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 business split is illustrated in the chart below:



AGM and ATRe underwriting products are offered through both Syndicate 2488 and ACE European Group Limited (“AEGL”). AEGL is a UK domiciled, FSA regulated company which offers a wide range of property and casualty (“P&C”) and A&H 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.

Richard Pryce has been active underwriter of Syndicate 2488 since 2003 when he assumed responsibility from Andrew Kendrick, the current Chairman and Chief Executive Officer of AUAL.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2008 - continued

During 2008, the executive management team was strengthened by the appointment of Matthew Shaw as Chief Underwriting Officer, ACE Global Markets and Chairman, ACE Tempest Re Europe. Matthew was previously the Managing Director of ACE Tempest Re Europe and his considerable cross class underwriting and reinsurance expertise will be invaluable to AGM as it seeks to consolidate its position as a pre-eminent global specialty and E&S insurer.

The syndicate benefits from comprehensive and fully integrated support functions, including claims, finance and actuarial, risk management, legal and compliance, human resources, operations and IT. These support services are shared between all entities managed by the ACE European Group, predominantly AEGL and Syndicate 2488.

BUSINESS ENVIRONMENT

It is anticipated that 2009 will be another challenging year for the insurance industry with underwriters pushing for rate increases and tighter terms and conditions against a backdrop of continuing global financial turmoil.

The London market suffered significant natural catastrophe losses in 2008 emanating primarily from Hurricanes Ike and Gustav. These events have already started to have a positive impact on property pricing, particularly in catastrophe exposed regions. Property pricing on non-US business is anticipated to improve but at a more gradual rate. Pricing is also improving within financial lines, particularly on US financial institutions where reduced competition is resulting in significantly better rates and terms and conditions. There have been positive signs of improvement in marine hull and liability classes although local markets are competitive, restricting the flow of business to London. Despite there being a continued absence of a catastrophe loss in the aviation market, there are signs of resistance to reductions in rates; however, the increasingly fragile marketplace, including financial instability of airlines, may impact this class.

Syndicate 2488's key objectives are to maintain underwriting discipline, interpret economic conditions into underwriting and retain core accounts where possible; evaluate opportunities against the global implications of market turmoil and be prepared to maximise opportunities as the market changes; continue to implement effective expense control by improving operational efficiency; and retain key underwriting and support staff by focusing on talent management.

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 2006 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.

£ million	2008	2007
Gross written premiums	436.6	393.4
Net written premiums	322.1	298.8
Combined ratio *	104.2%	86.5%
(Loss) profit for financial year	(62.2)	96.2

* 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 five years as AEGL was increasingly selected by brokers as an alternative to the syndicate. This business migration has now stabilised, but has led to a reduction in the capacity of the syndicate from £725 million in 2003 to £330 million in 2008. The syndicate's capacity has reduced further to £285 million in 2009, reflecting the continued challenging market conditions anticipated for the year.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2008 - continued**RESULTS AND PERFORMANCE**

Syndicate 2488 produced a loss for the financial year of £62.2 million and a combined ratio of 104.2%. A summary of the reported financial results is shown in the table below.

£ million	2008	2007
Gross written premiums	436.6	393.4
Net written premiums	322.1	298.8
Net earned premiums	344.9	321.9
Incurring losses	247.3	183.6
Operating expenses	111.9	94.9
Underwriting (loss) profit	(14.3)	43.4
Investment return	(47.9)	52.8
(Loss) profit for financial year	(62.2)	96.2
Combined ratio %	104.2%	86.5%

Syndicate 2488's business is principally conducted in US dollars. For accounting purposes, the results of this business are presented in sterling. The significant weakening of sterling against the dollar in the latter part of 2008 has impacted the comparability with prior year results.

On an underlying currency basis, gross written premiums were below those of the prior year, reflecting the more challenging market conditions experienced during 2008.

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 operated by the syndicate during 2008 were shared with other ACE companies, predominantly AEGL.

The most significant losses to the syndicate during 2008 related to Hurricane Ike, the third most destructive hurricane to ever make landfall in the US. Syndicate 2488's loss net of reinsurance recoveries resulting from Ike was approximately £21 million. The syndicate was also exposed to other, less significant catastrophe losses including the Tennessee and Atlanta tornadoes and Hurricane Gustav, totalling £13 million net. In total, catastrophe losses contributed 9.3% to the net loss ratio. In comparison, there were no significant US windstorm or hurricane losses during 2007.

In addition to the catastrophe losses of 2008, the year saw aviation, property and marine accident year loss ratios increasing as a result of claims severity and frequency. In addition, the financial lines class of business suffered losses from the sub-prime crisis and ensuing credit crunch.

The 2008 underwriting result benefited from a release of £10.1 million (2007: £6.2 million) from prior year loss reserves, predominantly within the aviation, property and inwards reinsurance classes.

Operating expenses constitute commissions, the managing agency fee, Lloyd's subscriptions and Central Fund contributions.

The global financial crisis intensified in 2008 and resulted in extreme volatility in investment valuations throughout the year. While government backed securities rose in price as a consequence of higher demand arising from a global flight-to-quality, the values of most other investments fell as a result of concerns around credit exposure and liquidity. Despite aggressive rate cutting by the major central banks in the latter part of the year, fixed income portfolio returns were poor for any assets with perceived credit risk. Notably valuations for equities and below investment grade (high yield) assets fell significantly. Despite the high quality bias of Syndicate 2488's investment portfolio and modest allocation to equities and high yield securities, exposure to non-government investments resulted in an overall negative investment return for 2008. The negative return was primarily attributable to substantial increases in yields and the consequential fall in capital value of non-government fixed income holdings which form the majority of the investment portfolio. These holdings are well diversified by issuer and include corporate, asset backed and mortgage backed securities, the prices of which fell dramatically in the year. A substantial element of the negative investment return is unrealised losses on investments, the bulk of which continue to enjoy strong ratings and offer the prospect of attractive returns.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2008 - continued**FINANCIAL POSITION****Investments**

Syndicate 2488 maintains five active and one indexed investment grade fixed income portfolios, the currencies of which are US dollars, sterling and Canadian dollars. In addition, the syndicate maintains two further actively managed US dollar portfolios for high yield fixed income and equities. The approximate currency split of the syndicate investment portfolios is US dollars 85%, Canadian dollars 8% and sterling 7%.

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 portfolio held within the Lloyd's Dollar Trust Fund ("LDTF") are managed by Wellington Management Company. Oaktree Capital Management replaced Wellington Management Company as manager of the LDTF high yield portfolio in January 2008. Barclays Global Investors manage the sterling and the Lloyd's Canadian Trust Fund ("LCTF") fixed income investment portfolios.

Market volatility in 2008 resulted in a wide divergence of returns between the investment managers operating to similar mandates. This was driven by a combination of their duration stance and the overall exposure to spread sectors and specific issuers. Although the investment grade US dollar portfolios managed by Wellington Management Company avoided the worst performing issuers in the year, significant exposure to spread sectors such as mortgage backed, asset backed and corporate securities resulted in negative returns. Barclays Global Investors generated above benchmark performance as a result of their duration strategy and lower exposure to the worst performing investments. High yield markets witnessed huge spread widening, particularly in the latter part of the year, as concerns grew over prospects for issuers and this resulted in significant negative returns during the year. The syndicate commenced the year with equities comprising roughly 6% of the total portfolio but this allocation fell to less than 5% as valuations fell. However, the portfolio returns comfortably exceeded those of the benchmark as a result of Wellington Management Company's stock selection throughout the year.

Cash flow

During the year, underwriting cash flow (including expenses) was modestly negative reflecting the impact of business migration from Syndicate 2488 to AEGL and the settlement of reserves established in respect of previous years. Operating cash flow was roughly neutral as investment income offset the negative underwriting cash flow. Overall funds decreased in the year inclusive of the impact of financing activities relating to the distribution of the 2005 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. For 2009, the ICA has increased on the 2008 level as a result of the impact of the strengthening of the US dollar relative to sterling.

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 was extended when renewed in November 2007 to expire in 2013 at a level of £300 million. Actual FAL need during 2008 was less than £200 million, reflecting the strong open year solvency position at 31 December 2007.

In 2009, the significant strengthening of the US dollar relative to sterling together with changes to the ICA and open year solvency will serve to increase the FAL requirement. 2009 FAL will therefore be met through full utilisation of the existing letters of credit facility and the funds distribution from the 2006 closing year of account profit.

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.

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 members of the executive management team and two non-executives. The role of a 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 two committees (Audit and Risk) under formal terms of reference, each of which operates a number of sub-committees. AUAL's non-executive directors take an active role in these committees, with the Audit Committee being solely comprised of non-executive directors.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2008 - continued**GOVERNANCE - continued**

In 2007, changes were initiated to the board and sub-committee structures to streamline and align their operation, composition and terms of reference. An additional sub-committee, the Control Environment Sub-Committee was introduced to oversee the effectiveness and efficiency of the control environment and to provide the Risk and Audit Committees with information to assess residual risk exposures. A number of further changes have been made to the board operation to improve efficiency and performance, including combining the AEGL and AUAL board meetings for joint issues, establishing a schedule that ensures board meetings follow on from Risk and Audit meetings, and refining the information presented in board and committee meetings.

The board reviews and approves the annual business plan for the syndicate, which includes assessing the risk appetite for the syndicate and considering the strategy, limits and reinsurance protections for each product line. The board also receives reports from each of the Risk and Audit Committees, 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 of internal controls, 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 involves working in conjunction with the ACE Group audit function to agree and monitor the nature and scope of work 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. This is 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 provide challenge to any aspect of these processes which it considers weak or generally poor practice.

The Risk Committee, another principal committee of the AUAL board, 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. The Risk Committee has established a number of sub-committees dedicated to managing specific areas of risk such as investment, counterparty and reserving risks.

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 has developed a risk based framework for identifying 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 required to support AUAL's business objectives and meet the requirements of both policyholders and regulators 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 relating to its investment activities, exchange rate fluctuations and business operational activities.

Underwriting 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 re-assessed and considered by the Reserve Sub-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 determine 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.

The financial crisis is likely to lead to increased scrutiny of financial institutions by regulators, and a possible implementation of additional regulatory requirements within the insurance markets. AUAL employs a highly skilled and proficient workforce to manage its regulatory and compliance undertakings and aims to operate to a standard of best practice. The syndicate enjoys good relationships with regulators and engages in open dialogue and communication to address and resolve any issues.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2008 - continued**EMPLOYEES**

ACE is dedicated to providing a safe, healthy and ethical environment for its 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 ACE Group 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 ACE Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

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

Consultations with employees have continued throughout the year, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests.

ACE AND THE ENVIRONMENT

Climate change affects everyone throughout the world’s communities, including Syndicate 2488’s customers and employees. The risks it poses are serious issues for the insurance industry as it is its business to provide security from the worst of its effects, including hurricanes, windstorms, flooding and drought.

The ACE Group is committed to lessening the group’s impact on the environment and is a member of the US Environmental Protection Agency’s Climate Leaders program. In addition to the environmental activities at the corporate level, the ACE Group has launched ACE Green, an environmental program for its global employees. As part of this initiative, the UK has formed an ACE Green committee which is charged with reviewing and assessing the environmental initiatives, actions and improvements that can be adopted across all ACE sites in the UK by staff, partners, suppliers and contractors. ACE has also launched the global site www.acegreen.com which highlights its green activity and identifies insurance products to help clients mitigate climate related risks. In October 2008, ACE announced that it will do its part to lessen its impact on the environment by reducing global greenhouse gas emissions by 8% per employee from 2006 to 2012.

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 group sponsored volunteer initiatives. These positive contributions to the fabric of local communities return long-lasting benefits to society, employees and the group.

ACE European Group (“AEG”) employees who are involved with charitable activities and fund raising for a local or national registered charity may apply to the ACE European Group Community Support Programme Committee (“ACS”) for a financial donation to their chosen cause. The ACS programme supports registered charity community initiatives and donations totalling almost £40,000 were made during 2008 to a range of charities including the AHOY Centre in the UK, Chickenshed theatre company, Marie Curie Cancer Care, Thomley Activity Centre, Cancer Research, the Alzheimer’s Society and Crossroads Caring for Carers.

The Lloyd’s Community Reading Partners scheme is a long running project in which AEG employees make a real difference to the lives of children in East London by devoting one lunch break every week to partner with children in a local school and help with their literacy and numeracy skills. Since AEG’s involvement began, the school’s results have risen from below average to scores that are among the best in their borough.

The “Take Our Students to Work” programme is aimed at secondary school students attending inner city London schools. Some of these students 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 were given the opportunity to shadow an insurance underwriter.

AEG also participates in the annual Tower Hamlets schools’ public speaking competition, organised by the Lloyd’s Community Programme and Tower Hamlets EBP. The semi-finals of this competition are held at the ACE offices in April, and the finals at Lloyd’s in May. AEG’s representative joins the semi-finalists in meeting local members of parliament in the House of Commons.

During 2008, AEG employees became involved with “Heart in the City”, an organisation set up to help businesses in the City and its fringes to develop voluntary and socially responsible programmes with young people in the area and make a positive impact on the local community and the environment.

Approved by the Board of Directors

12 March 2009

17/03/09 09:01

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

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 2008.

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 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 loss for the year to 31 December 2008 amounted to £62,235,000 (2007: £96,180,000 profit). Profits will continue to be distributed to (or losses called from) 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 2008 to the date of this report unless otherwise indicated:

Executive directors:

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 Risk Committee of 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: Wellington Management Company, Barclays Global Investors and Oaktree Capital 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 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 2008 - 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 no such facilities are currently 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 syndicate 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.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2008 - continued**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.

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 2008 of which the auditors are unaware, and
- ii) The director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

AUDITORS

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") replace the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and apply to financial years beginning on or after 1 January 2009. The 2008 Regulations require that the auditor of the syndicate annual accounts be appointed by the members of the syndicate, initially for the syndicate annual accounts for the 2009 year end after which provisions for deemed reappointment of auditors will apply. Accordingly, members will be asked to approve, by means of a written resolution, the appointment of PricewaterhouseCoopers LLP as the auditor of the syndicate annual accounts for the 2009 year end.

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.

On behalf of the board of ACE Underwriting Agencies Limited

P M Curtis
Chief Financial Officer

12 March 2009

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 2008 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. 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the syndicate's affairs as at 31 December 2008 and of its loss 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 2009

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 £'000	2007 £'000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
EARNED PREMIUMS, NET OF REINSURANCE:			
Gross premiums written	2	436,644	393,420
Outward reinsurance premiums		(114,512)	(94,642)
Net premiums written		322,132	298,778
Change in the gross provision for unearned premiums		33,607	23,963
Change in the provision for unearned premiums – reinsurers' share		(10,812)	(834)
EARNED PREMIUMS, NET OF REINSURANCE		344,927	321,907
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	6	(47,890)	52,780
CLAIMS INCURRED, NET OF REINSURANCE:			
Claims paid:			
Gross amount	2	(400,392)	(357,969)
Reinsurers' share		134,245	85,892
Net paid claims		(266,147)	(272,077)
Change in the provision for claims outstanding:			
Gross amount	2	46,750	119,812
Reinsurers' share		(27,960)	(31,292)
Change in the net provision for claims outstanding		18,790	88,520
CLAIMS INCURRED, NET OF REINSURANCE		(247,357)	(183,557)
Net operating expenses	4	(111,915)	(94,950)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		(62,235)	96,180

All of the above results derive from continuing operations.

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008 – continued**

	Note	2008 £'000	2007 £'000
NON-TECHNICAL ACCOUNT			
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		(62,235)	96,180
Investment income	6	85,468	59,224
Unrealised gains on investments	6	32,254	20,355
Investment expenses and charges	6	(28,544)	(10,792)
Unrealised losses on investments	6	(137,068)	(16,007)
Allocated investment return transferred to the general business technical account	6	47,890	(52,780)
		<hr/>	<hr/>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(62,235)	96,180
		<hr/>	<hr/>

All of the above results derive from continuing operations.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2008**

		2008 £'000	2007 £'000
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(62,235)	96,180
Currency translation differences	9	21,687	1,326
		<hr/>	<hr/>
TOTAL RECOGNISED (LOSSES)/GAINS FOR THE FINANCIAL YEAR		(40,548)	97,506
		<hr/>	<hr/>

BALANCE SHEET AT 31 DECEMBER 2008

	Note	2008 £'000	2007 £'000
ASSETS			
INVESTMENTS			
Other financial investments	7	1,131,886	965,174
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums		40,396	38,400
Claims outstanding		528,428	433,660
		568,824	472,060
DEBTORS – amounts falling due within one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		103,905	104,544
Debtors arising out of reinsurance operations		78,912	92,588
Other debtors	8	907	581
		183,724	197,713
DEBTORS – amounts falling due after one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		142	9
Debtors arising out of reinsurance operations		-	1
Other debtors	8	1,493	1,282
		1,635	1,292
OTHER ASSETS			
Cash at bank and in hand		48,593	44,117
PREPAYMENTS AND ACCRUED INCOME			
Deferred acquisition costs		35,807	32,929
Other prepayments and accrued income		11,495	10,678
		47,302	43,607
TOTAL ASSETS		1,981,964	1,723,963

BALANCE SHEET AT 31 DECEMBER 2008

	Note	2008 £'000	2007 £'000
LIABILITIES			
CAPITAL AND RESERVES			
Members' balances	9	(11,561)	74,612
TECHNICAL PROVISIONS			
Provision for unearned premiums		195,057	177,799
Claims outstanding		1,594,638	1,318,668
		1,789,695	1,496,467
DEPOSITS RECEIVED FROM REINSURERS			
		5,499	16,793
CREDITORS – amounts falling due within one year			
Creditors arising out of direct insurance operations		18,651	10,793
Creditors arising out of reinsurance operations		163,692	124,077
Other creditors	10	15,287	429
		197,630	135,299
ACCRUALS AND DEFERRED INCOME			
		701	792
TOTAL LIABILITIES		1,981,964	1,723,963

The syndicate annual accounts on pages 13 to 27 were approved by the board of ACE Underwriting Agencies Limited on 12 March 2009 and were signed on its behalf by:

P M Curtis
Chief Financial Officer

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 £'000	2007 £'000
RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES			
Operating (loss)/profit on ordinary activities		(62,235)	96,180
Currency translation differences on members' balances	9	21,687	1,326
Unrealised investment losses/(gains)		104,814	(4,348)
Foreign exchange movement on cash and investments		(277,203)	(5,810)
Increase/(decrease) in net technical provisions		196,464	(113,138)
(Decrease)/increase in deposits received from reinsurers		(11,294)	16,793
Decrease in debtors and prepayments		9,951	47,665
Increase in creditors and accruals		62,240	3,723
		<hr/>	<hr/>
NET CASH INFLOW FROM OPERATING ACTIVITIES		44,424	42,391
Transfers to members in respect of underwriting participations		(45,625)	(17,007)
		<hr/>	<hr/>
NET CASH (OUTFLOW)/INFLOW	11	(1,201)	25,384
		<hr/>	<hr/>
CASH FLOWS WERE (UTILISED)/INVESTED AS FOLLOWS:			
Decrease in cash holdings	11	(8,304)	(4,529)
Net portfolio investment	12	7,103	35,688
Loans due within one year	11	-	(5,775)
		<hr/>	<hr/>
NET (UTILISATION)/INVESTMENT OF CASH FLOWS	11	(1,201)	25,384
		<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 14.

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 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 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 bid 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. For quoted investments where there is an active market, this is their quoted bid price at the balance sheet date. For quoted investments where there is no active market, the bid value is determined by reference to prices for similar assets in active markets.

Overseas deposits are stated at cost or market value, as notified by 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, in accordance with the branch accounting provisions of Statement of Standard Accounting Policy 20 “Foreign Currency Translation”. 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 the 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 waived its right to the receipt of profit commission for the 2005 and 2006 years of account. The managing agent’s current intention is to consider a waiver of profit commission for the 2007 and 2008 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
Year to 31 December 2008					
Direct insurance					
Fire and other damage to property	123,406	134,940	(102,501)	(41,685)	(3,976)
Marine, aviation and transport	50,011	52,175	(33,399)	(13,649)	(2,412)
Accident and health	5,392	5,593	(3,698)	(1,978)	377
Third party liability	140,630	149,509	(132,037)	(33,586)	(1,009)
Miscellaneous	10,950	14,127	(4,215)	(5,100)	(1,850)
Reinsurance acceptances	106,255	113,907	(77,792)	(23,483)	(2,603)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	436,644	470,251	(353,642)	(119,481)	(11,473)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Year to 31 December 2007					
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/>
TOTAL	393,420	417,383	(238,157)	(101,951)	(33,875)
	<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 2008 (2007: surplus) as detailed below:

	2008 £'000	2007 £'000
Direct insurance		
Fire and other damage to property	2,732	8,981
Marine, aviation and transport	1,635	4,358
Accident and health	515	(1,419)
Third party liability	(3,480)	(7,099)
Miscellaneous	1,814	(1,989)
Reinsurance acceptances	6,880	3,343
	<hr/>	<hr/>
	10,096	6,175
	<hr/>	<hr/>

4. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2008 £'000	2007 £'000
Acquisition costs	82,245	76,199
Change in deferred acquisition costs	5,648	3,074
Administrative expenses	26,532	28,080
Reinsurance commissions	(7,566)	(7,001)
Loss/(profit) on exchange	5,056	(5,402)
	<hr/>	<hr/>
	111,915	94,950
	<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 – Lloyd's Central Fund contributions and Lloyd's subscriptions.

The managing agent's fee for 2008, before the transfer to acquisition costs, is £29.04 million (2007: £27.60 million) and can be estimated as constituting the following:

salary and other employment costs – 41% (48%), accommodation costs – 8% (8%), Lloyd's charges – 17% (16%), computer costs – 18% (13%), professional fees – 8% (6%), auditors' remuneration – 1% (1%), travel and entertaining – 2% (2%) and administrative costs including irrecoverable VAT on all costs – 5% (6%)

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

	2008 £'000	2007 £'000
Audit fees:		
Fees payable for the audit of the annual accounts	144	130
Non audit fees:		
Other services pursuant to legislation	212	214
	<hr/>	<hr/>
	356	344
	<hr/>	<hr/>

“Other services pursuant to legislation” includes reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act 2002.

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 of the managing agent 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.

	2008 £'000	2007 £'000
Aggregate emoluments and benefits	1,878	1,764
Company pension contributions to money purchase pension schemes	70	67
	<hr/>	<hr/>
	1,948	1,831
	<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 £585,287 (2007: £533,181) in respect of emoluments and benefits and the highest paid director was paid a total of £630,555 (2007: £568,245) in respect of emoluments and benefits. The amount of accrued pension and accrued lump sum in relation to the highest paid director at the end of the year was £37,449 (2007: £37,449) and £156,322 (2007: £156,322) respectively.

The aggregate emoluments above do not include share based remuneration. All executive directors of the managing agent are entitled to shares in ACE Limited under long-term incentive plans. During the year, one director 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

	2008 £'000	2007 £'000
Investment income		
Investment income	62,244	51,098
Gains on the realisation of investments	23,224	8,126
	<hr/>	<hr/>
	85,468	59,224
	<hr/>	<hr/>
Investment expenses and charges		
Investment management expenses	(1,599)	(1,250)
Losses on the realisation of investments	(26,945)	(9,542)
	<hr/>	<hr/>
	(28,544)	(10,792)
	<hr/>	<hr/>
Net unrealised gains less losses on investments		
Unrealised gains on investments	32,254	20,355
Unrealised losses on investments	(137,068)	(16,007)
	<hr/>	<hr/>
	(104,814)	4,348
	<hr/>	<hr/>
TOTAL INVESTMENT RETURN	<hr/> (47,890)	<hr/> 52,780

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

7. OTHER FINANCIAL INVESTMENTS

	2008 £'000	2007 £'000
Market value:		
Shares and other variable-yield securities and units in unit trusts	47,575	49,645
Debt securities and other fixed interest securities	982,479	827,231
Overseas deposits	101,832	88,298
	<hr/>	<hr/>
	1,131,886	965,174
	<hr/>	<hr/>
Cost:		
Shares and other variable-yield securities and units in unit trusts	58,672	40,756
Debt securities and other fixed interest securities	1,066,822	827,806
Overseas deposits	101,832	88,298
	<hr/>	<hr/>
	1,227,326	956,860
	<hr/>	<hr/>

All securities are listed investments.

The overseas deposits are held under Lloyd's premium trust deed arrangements where applicable and are administered by Lloyd's. The syndicate is required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets. All such overseas deposits are calculated in accordance with the relevant territorial authority's requirements, usually by reference to outstanding liabilities derived from business written in those territories. Approximately 98% of the value of the deposits is invested in debt securities and other fixed interest securities, with the balance being held in deposits with credit institutions and cash.

NOTES TO THE FINANCIAL STATEMENTS

8. OTHER DEBTORS

	2008 £'000	2007 £'000
Amounts falling due within one year:		
Amounts due from members	907	400
Receivable for sales of securities	-	181
	<u>907</u>	<u>581</u>
Amounts falling due after one year:		
Amounts due from members	1,493	1,282
	<u>1,493</u>	<u>1,282</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

	2008 £'000	2007 £'000
Members' balances brought forward at 1 January	74,612	(5,887)
Currency translation differences	21,687	1,326
(Loss)/profit for the financial year	(62,235)	96,180
Profit distribution	(45,625)	(17,007)
	<u>(11,561)</u>	<u>74,612</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 14.

10. OTHER CREDITORS

	2008 £'000	2007 £'000
Amounts falling due within one year:		
Payable for purchases of securities	15,027	-
Other creditors	260	429
	<u>15,287</u>	<u>429</u>

NOTES TO THE FINANCIAL STATEMENTS

11. MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

			2008 £'000	2007 £'000
Net cash outflow for the year			(8,304)	(4,529)
Cash flow – portfolio investments (note 12)			7,103	35,688
Cash flow – loans due within one year			-	(5,775)
			<hr/>	<hr/>
Movement arising from cash flows			(1,201)	25,384
Changes in market value and exchange rates			172,389	10,158
			<hr/>	<hr/>
Total movement in portfolio investments net of financing			171,188	35,542
Balance brought forward at 1 January			1,009,291	973,749
			<hr/>	<hr/>
Balance carried forward at 31 December			1,180,479	1,009,291
			<hr/>	<hr/>
			Changes to market value and currencies	At 31 December 2008
	At 1 January 2008	Cash flow	£'000	£'000
	£'000	£'000	£'000	£'000
Cash at bank and in hand	44,117	(8,304)	12,780	48,593
	<hr/>	<hr/>	<hr/>	<hr/>
Shares and other variable yield securities and units in unit trusts	49,645	4,165	(6,235)	47,575
Debt securities and other fixed interest securities	827,231	7,249	147,999	982,479
Overseas deposits	88,298	(4,311)	17,845	101,832
	<hr/>	<hr/>	<hr/>	<hr/>
Total portfolio investments	965,174	7,103	159,609	1,131,886
	<hr/>	<hr/>	<hr/>	<hr/>
	1,009,291	(1,201)	172,389	1,180,479
	<hr/>	<hr/>	<hr/>	<hr/>

12. NET CASH OUTFLOW ON PORTFOLIO INVESTMENTS

		2008 £'000	2007 £'000
Purchase of shares and other variable yield securities and units in unit trusts		(53,749)	(24,261)
Purchase of debt securities and other fixed interest securities		(769,272)	(708,049)
Sale of shares and other variable yield securities and units in unit trusts		49,584	22,150
Sale of debt securities and other fixed interest securities		762,023	657,565
Decrease in overseas deposits		4,311	16,907
		<hr/>	<hr/>
Net cash outflow on portfolio investments		(7,103)	(35,688)
		<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS**13. TRANSACTIONS WITH RELATED PARTIES**

The ultimate holding company of the syndicate's managing agent, ACE Underwriting Agencies Limited ("AUAL"), is ACE Limited, a company which was registered in the Cayman Islands until 18 July 2008 when it re-domesticated its place of incorporation to Zurich, Switzerland. ACE Limited's headquarters are in Zurich, Switzerland and it is quoted on the New York Stock Exchange. Copies of the ultimate holding company's consolidated accounts can be obtained from Investor Relations at ACE's executive offices at 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.

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 2008, 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 2008 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 2008, £34.9 million relates to reinsurance contracts placed with group companies; of this amount, £28.9 million relates to reinsurance contracts placed with ACE Tempest Reinsurance Ltd. As at 31 December 2008, the reinsurers' share of the provision for claims outstanding includes £123.7 million recoverable from group companies; of this amount £111.7 million is recoverable from ACE Tempest Reinsurance Ltd. Creditors arising out of reinsurance operations as at 31 December 2008 includes £70.7 million due to group companies, of which £64.9 million is payable to 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 £29.04 million (2007: £27.60 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.

14. 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 13, the syndicate's members have met their FAL requirements by letters of credit; at 31 December 2008 these totalled £175.41 million (2007: £205.85 million).