



**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 2006

ACE Underwriting Agencies Limited  
Syndicate 2488

# Syndicate 2488

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## Chairman's Report

31 December 2006

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### Performance in 2006

Syndicate 2488 is widely recognised as one of the pre-eminent specialty insurers in the London market. The relatively benign claims environment of 2006 contributed towards a profit for the year of £82.1 million, a significant improvement over the loss of 2005, a year in which the syndicate's profitability was impacted by substantial losses in the second half of the year arising from the severe hurricane activity in the United States. The solid 2006 underwriting performance resulted in a combined ratio of 89.9% and contributed £35.6 million (2005: £(105.7) million) to the financial year profit. Investment returns amounted to £46.5 million (2005: £31.5 million), reflecting the more stable investment yield environment in the US and excellent equity returns.

### Significant achievements of 2006

Syndicate 2488 embraces the continuing changes in the regulatory environment, particularly the shift in emphasis from the Financial Services Authority's ("FSA") rules-based regulation to principle-based regulation, as demonstrated by the publication in July 2006 of the FSA's "Treating Customers Fairly" document. Contract certainty was also a key issue for Syndicate 2488's underwriters and remains an ongoing priority for 2007.

### Management & organisational changes

Richard Pryce, active underwriter of Syndicate 2488, also manages ACE Global Markets ("AGM") branded business written through ACE European Group Limited ("AEGL"). AEGL is the ACE Group's UK domiciled, FSA regulated company and offers a wide range of insurance and reinsurance products to both retail and wholesale markets. In January 2007, Richard assumed responsibility for the newly created ACE UK segment, which combines the management of AGM branded business and the

ACE Europe branded UK & Ireland property and casualty business written through AEGL. This new arrangement will enable both underwriting units to work more closely together, to better leverage the synergies of both brands, to achieve greater operating efficiencies and, most importantly, to further enhance ACE's service capabilities for both clients and brokers in the London market.

### Future prospects

Syndicate 2488's core business approach focuses on maintaining underwriting discipline whilst preserving its leadership position. Pricing, terms and conditions are constantly monitored by underwriting and actuarial teams and, as the soft market environment continues into 2007, underwriters are prepared to walk away from business that falls below target rating levels in order to preserve profitability.

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

### In conclusion

As part of the ACE Group, Syndicate 2488 has a strong franchise, solid balance sheet, a broad product base and good producer relationships. Above all, it has talented people and a strong underwriting culture – vital ingredients in today's market. There is an enthusiasm and optimism that endures regardless of market conditions, and I would like to take this opportunity to thank the management teams and staff for their hard work and dedication.

**A J Kendrick**

Chairman and Chief Executive Officer

14 March 2007

## Business Review

31 December 2006

The board of ACE Underwriting Agencies Limited (“AUAL”) has prepared this review in accordance with Section 234ZZB of the Companies Act 1985. As well as meeting this statutory requirement, the board has extended the review to deal with other aspects of the syndicate’s business which were addressed in its Management Review last year. The board believes that this additional material 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, allowing the Group to access specialist Lloyd’s London market business.

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

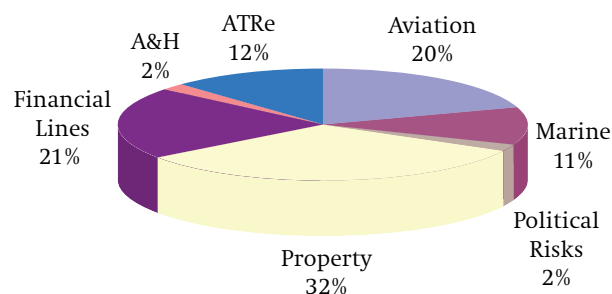
The syndicate differentiates itself from others in the market by its experience and expertise in the product range it elects to operate in, and the quality of its underwriting and claims service. In a market with a surplus of capacity, it is essential that the underwriting teams maintain their underwriting discipline yet ensure Syndicate 2488’s submissions 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 organised into product lines

encompassing aviation, property, financial lines, marine, political risks, accident & health (“A&H”) and ATRe branded inwards reinsurance business. The business split is illustrated in the chart below.

Calendar year 2006 gross written premium split



AGM and ATRe underwriting products are offered through both Syndicate 2488 and ACE European Group Limited (“AEGL”). Factors influencing the decision to place business with the syndicate or AEGL include licensing eligibilities and capitalisation requirements, but predominantly reflect client and broker preference.

AGM provides risk solutions to clients in over 150 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.

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 ensure that the risk/reward ratio remains acceptable.

## Business Review

31 December 2006

### Business environment

With the continued growth of the insurance industry capital base on the back of record results, Syndicate 2488 operates in a market with a surplus of new and revitalised capacity. This, together with the recent benign claims environment, has increased pressure on pricing as market conditions continue to soften, particularly in non-catastrophe exposed property and casualty lines.

Syndicate 2488 is a lead insurer with a significant market presence in all product lines underwritten. Its position, combined with longstanding client relationships and a multi-line global platform, means there is no necessity for underwriters to resort to excessive price competition as a mechanism to win or retain business. Underwriters pride themselves on their ability to manage the business throughout the insurance cycle and achieve a profit in all product lines, regardless of market conditions.

### 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 2004 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	2006	2005
Gross written premiums	434.9	510.6
Net written premiums	328.2	399.4
Combined ratio *	89.9%	123.8%
Profit (loss) for financial year	82.1	(74.2)

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

The AUAL board also monitors the required level of Funds at Lloyd's in the context of the Lloyd's capital regime. Further details in this regard are included within the financial position section of this business review.

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 three years as AEGL has increasingly been selected by clients and brokers as an alternative to the syndicate. This has led to a reduction in the capacity of the syndicate from £900 million in 2002 to £350 million at January 2006. As a result of a capacity review in early 2006, management made a formal application to Lloyd's for a mid year pre-emption to increase Syndicate 2488's capacity to £370 million. This additional capacity was required to allow underwriters to take advantage of expected rate increases following the 2005 hurricane losses, resulting in higher than originally anticipated premium income. Approval for this pre-emption was granted in September 2006.

Syndicate 2488's capacity has further increased to £400 million for 2007. Whilst it is recognised that competition will continue to erode margins in some lines of business, there are still good opportunities to expand areas of the syndicate's business, principally

## Business Review

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by better marketing of existing products and utilising the global licences to enter new territories. However, business with unacceptable margins will continue to be declined in order to fulfil management's primary objective – to underwrite to a profit.

### Results and performance

Syndicate 2488 produced a solid underwriting performance in 2006, illustrated by the combined ratio which expresses the total of net claims incurred and net operating expenses as a percentage of net earned premiums, of 89.9%. This contributed to a profit for the financial year of £82.1 million.

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

£ million	2006	2005
Gross written premiums	434.9	510.6
Net written premiums	328.2	399.4
Net earned premiums	351.7	444.8
Incurred losses	204.5	444.0
Operating expenses	111.6	106.5
Underwriting profit (loss)	35.6	(105.7)
Investment return	46.5	31.5
Profit (loss) for financial year	82.1	(74.2)
Combined ratio %	89.9%	123.8%

Gross written premiums in 2006 fell by 15% in comparison to those of 2005. This decline reflects the more challenging rating environment during the year together with the syndicate's selective approach to underwriting in a competitive market, and clients' and brokers' increasing acceptance of AEGL as an alternative policy provider.

The syndicate purchases reinsurance to mitigate the impact of major events and an undue frequency of smaller losses. The programmes are primarily product line specific and the reinsurance purchasing process benefits from the strong relationships built up with key reinsurers over the years. The syndicate seeks to limit its loss exposures by purchasing reinsurance up to its maximum line sizes and accumulations, and natural catastrophe cover is purchased up to modelled 1 in 250 year events. The principal reinsurance programmes in operation during 2006 were shared with other ACE companies, predominantly AEGL.

The 2006 results benefited from lower than average large loss events due to the absence of significant natural catastrophes during the year, particularly in comparison to the high level of hurricane activity experienced in 2005. The 2006 loss ratio of 58.2% (2005: 99.8%) was consequently favourably impacted by this benign loss environment. Prior year reserves required some £12.5 million of reserve strengthening in 2006, representing 3.6% of 2006 net earned premiums.

Expenses were impacted by the increase in Lloyd's central guarantee fund contributions and member's subscriptions from 1% to 1.5%. Syndicate 2488's underwriters have continued their drive to manage commission levels, notwithstanding market circumstances. In consequence, the portfolio showed reduced commission levels in 2006. Expense monitoring and control continues to be a focus for management.

Total investment returns for 2006 benefited from the more stable yield environment in the US in 2006 compared to 2005, coupled with excellent equity returns.

### Financial position

There is a strong focus on balance sheet management within the syndicate. In particular, the ageing profile of reinsurance debtors has significantly improved due to enhanced levels of cash receipts and commutations achieved in 2006.

The syndicate's US dollar denominated investment portfolios are managed by Wellington Management Company. Barclays Global Investors manage the smaller sterling and Canadian dollar denominated portfolios.

Syndicate 2488 maintains five active investment grade fixed income portfolios, denominated in sterling and US dollars, and two passive grade portfolios. In addition, the syndicate maintains an "upper tier" high yield fixed income portfolio and an equity portfolio, both of which hold US dollar denominated investments. The approximate currency split of the syndicate's investment portfolios is US dollars 82%, sterling 9% and Canadian dollars 9%.

The year proved challenging for global fixed income investors. However, in the US and Canada yields rose modestly compared to European economies and this resulted in reasonable returns for the year. High yield

## Business Review

31 December 2006

enjoyed another strong year as spreads tightened relative to investment grade holdings. Excellent absolute returns for equities were experienced during 2006 as US stocks continued to rally in common with other major markets.

Syndicate 2488's Funds at Lloyd's ("FAL") are provided by letters of credit guaranteed by ACE Bermuda Insurance Ltd and ACE Tempest Reinsurance Ltd. The letters of credit are provided by a syndication of banks and the facility, renewed in November 2006, has been extended to expire in 2012 at the existing level of £380 million.

Adoption of the 2006 Individual Capital Assessment ("ICA") and improvements in the solvency position of the syndicate are expected to lead to a significant reduction in the FAL requirement during 2007; this is likely to result in a reduction in the overall size of the letters of credit facility.

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. In view of these robust ratings, together with the "A+" ratings from both A.M. Best and Standard & Poor's held by the ACE Group, it has not been considered necessary to obtain an individual rating for the syndicate.

### Principal risks & uncertainties and risk management

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to AUAL board approval and ongoing review by management, risk committee and internal audit. 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. A principle committee of the AUAL board, the audit committee, is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively.

The syndicate has developed a framework for identifying the risks to which each business sector, and

the syndicate as a whole, is exposed and their resultant impact on economic capital. This process is risk based and uses ICA principles to manage capital requirements to ensure the capital adequacy required to support the growth of the business and meet the requirements of policyholders, regulators and rating agencies is in place.

The principal risks from the syndicate's insurance and reinsurance business arise from inaccurate pricing; fluctuations in the timing, frequency and severity of claims compared to expectations; inappropriate reinsurance protection; and inadequate reserving. Syndicate 2488's underwriting and reinsurance strategies are approved by the AUAL board and communicated clearly throughout the business through policy statements and guidelines.

The board of directors of AUAL 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). Corporate governance is focused upon the proper oversight of the management of the business, senior management responsibility and the implementation of systems and controls.

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.

Syndicate 2488 operates in a highly regulated environment and is well placed in terms of the development of its risk management framework. The risk committee ensures that business risks and controls are recorded and monitored. Risks such as those identified below

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are assessed and evaluated to meet internal and external capital modelling requirements:

- Insurance risk: e.g. underwriting process risk, pricing risk and reserving risk
- Credit risk: e.g. reinsurer debtor risk and reinsurer downgrade risk
- Market risk: e.g. interest rate risk and equity investment risk
- Operational risk: business infrastructure risk e.g. systems, compliance, business continuity.

The managing agency board reviews and approves 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 loss outcome of the underwriting activity is continually re-assessed and considered by the reserve committee. With such a large and diverse book, it is vital that the syndicate's aggregate exposures are continually monitored and adjustments made to the underwriting profile as appropriate. The syndicate operates a dedicated catastrophe management function, and risks are modelled to assist in determining pricing for individual policies, providing a key control to the underwriting process. The board also reviews the ICA, quarterly financial information and significant management decisions.

### Outlook

Although in general the insurance cycle is continuing on its downwards path, pricing in most business classes remains adequate. It is anticipated that competition will remain a feature of the London and international markets during 2007, and underwriters may have to forego revenue growth in some classes to ensure a reasonable underwriting profit. At this stage, management do not anticipate the writing of any new risk classes or increasing line sizes in the immediate future.

Underwriters believe that policy terms and conditions, coupled with good risk selections are as, if not more, important than just price. Syndicate 2488's robust control environment ensures that all risks are continually scrutinised by underwriters' peers and managers, and takes advantage of the strong actuarial function that, at least quarterly, evaluates the return in all risk classes.

Syndicate 2488 will continue to campaign for transparency of broker remuneration whilst strengthening relationships with the broking community. The restructuring taking place within the major international brokers will present both opportunities and challenges. However, as a recognised insurer of choice by both clients and brokers, it is anticipated that business submission flows will remain robust.

In summary, Syndicate 2488 is well placed to capitalise on the insurance environment this year by focusing on the continuing proper selection, pricing and ongoing management of the risks the syndicate accepts.

**Approved by the Board of Directors**

14 March 2007

## Managing Agent's Report

31 December 2006

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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 2006.

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

### Principal activity, business review and future developments

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

### Results

The profit for the year to 31 December 2006 was £82.1 million (2005: loss of £74.3 million). 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 2006 to the date of this report unless otherwise indicated:

#### *Executive directors:*

R L Cigelnik (Resigned 31 January 2007)

P M Curtis

A J Kendrick

R P Murray

R V Pryce (Active Underwriter)

#### *Non-executive directors:*

W J Loschert

G D Williams

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

### Directors' participations

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

### Financial risk management

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

#### *The Investment function*

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

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

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

#### *Asset allocation policy*

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

## Managing Agent's Report

31 December 2006

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### *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 can be utilised to meet certain funding needs; this is also referred to in note 13 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 company remains liable for the payment to the policyholder. The managing agency operates a reinsurance security committee. The creditworthiness of reinsurers is considered on a quarterly basis by reviewing their financial strength. In addition, the recent payment history of reinsurers is used to update the reinsurance purchasing strategy.

### **Statement as to disclosure of information to auditors**

Each of the persons who is a director of the managing agent at the date of this report confirms that:

1. 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 2006 of which the auditors are unaware; and
2. The director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

## Managing Agent's Report

31 December 2005

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### **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, 14 March 2007

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100 Leadenhall Street  
London  
EC3A 3BP

## Statement of Managing Agent's Responsibilities

31 December 2006

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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

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We have audited the syndicate annual accounts of Syndicate 2488 for the year ended 31 December 2006 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 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 financial statements 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 the 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 the Chairman's Report, Business Review and the Managing Agent's Report and consider the

implications for our report if we become aware of any apparent misstatements within it.

### 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 2006 and of its profit and cash flows for the year then ended;
- the syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and
- the information given in the Managing Agent's Report is consistent with the syndicate annual accounts.

**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

London

14 March 2007

## Profit and Loss Account

for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Technical account – General Business</b>			
<b>Earned premiums, net of reinsurance:</b>			
Gross premiums written	2	434,932	510,641
Outward reinsurance premiums		(106,775)	(111,208)
Net premiums written		328,157	399,433
Change in the gross provision for unearned premiums		20,156	56,110
Change in the provision for unearned premiums – reinsurers' share		3,363	(10,789)
<b>Earned premiums, net of reinsurance</b>		<b>351,676</b>	<b>444,754</b>
<b>Allocated investment return transferred from the non-technical account</b>	6	<b>46,521</b>	<b>31,486</b>
<b>Claims incurred net of reinsurance:</b>			
<b>Claims paid:</b>			
Gross amount	2	(393,465)	(456,628)
Reinsurers' share		141,731	123,456
<b>Net paid claims</b>		<b>(251,734)</b>	<b>(333,172)</b>
<b>Change in the provision for claims outstanding:</b>			
Gross amount	2	165,258	(141,116)
Reinsurers' share		(118,046)	30,332
<b>Change in the net provision for claims outstanding</b>		<b>47,212</b>	<b>(110,784)</b>
<b>Claims incurred, net of reinsurance</b>		<b>(204,522)</b>	<b>(443,956)</b>
Net operating expenses	4	(111,622)	(106,537)
<b>Balance on the technical account for general business</b>		<b>82,053</b>	<b>(74,253)</b>

All the above results derive from continuing operations.

## Profit and Loss Account

for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Non-technical account</b>			
Balance on the general business technical account		82,053	(74,253)
Investment income	6	53,224	52,049
Unrealised gains on investments	6	19,756	15,047
Investment expenses and charges	6	(14,125)	(12,511)
Unrealised losses on investments	6	(12,334)	(23,099)
Allocated investment return transferred to the technical account	6	(46,521)	(31,486)
<b>Profit (loss) for the financial year</b>		<b>82,053</b>	<b>(74,253)</b>

All of the above results derive from continuing operations.

## Statement of Total Recognised Gains and Losses

for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Profit (loss) for the financial year		82,053	(74,253)
Currency translation differences	9	6,083	5,743
<b>Total recognised gains (losses) for the financial year</b>		<b>88,136</b>	<b>(68,510)</b>

**Balance Sheet**

at 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Assets</b>			
<b>Investments</b>			
Financial investments	7	926,724	1,045,898
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		39,687	41,021
Provision for claims outstanding		468,685	648,348
		508,372	689,369
<b>Debtors – amounts falling due within one year</b>			
Debtors arising out of direct insurance operations:			
amounts owed by intermediaries		114,736	160,971
Debtors arising out of reinsurance operations		129,360	141,494
Other debtors	8	660	1,215
		244,756	303,680
<b>Debtors – amounts falling due after one year</b>			
Debtors arising out of direct insurance operations:			
amounts owed by intermediaries		19	6
Debtors arising out of reinsurance operations		-	126
Other debtors	8	423	-
		442	132
<b>Other assets</b>			
Cash at bank and in hand		47,025	33,758
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		36,080	42,213
Other prepayments and accrued income		8,999	10,467
		45,079	52,680
<b>Total assets</b>		<b>1,772,398</b>	<b>2,125,517</b>

**Balance Sheet**

at 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Members' balances	9	(5,887)	(47,440)
<b>Technical provisions</b>			
Provision for unearned premiums		202,343	247,196
Provision for claims outstanding		1,443,574	1,771,585
		<u>1,645,917</u>	<u>2,018,781</u>
<b>Creditors – amounts falling due within one year</b>			
Creditors arising out of direct insurance operations		13,532	18,035
Creditors arising out of reinsurance operations		116,139	135,604
Other creditors	10	2,341	82
		<u>132,012</u>	<u>153,721</u>
<b>Creditors – amounts falling due after one year</b>			
Creditors arising out of reinsurance operations		–	48
		<u>356</u>	<u>407</u>
<b>Accruals and deferred income</b>		<u>356</u>	<u>407</u>
<b>Total liabilities</b>		<u><u>1,772,398</u></u>	<u><u>2,125,517</u></u>

The syndicate annual accounts on pages 13 to 27 were approved by the board of ACE Underwriting Agencies Limited on 14 March 2007 and were signed on its behalf by:

**P M Curtis**  
Chief Financial Officer

## Statement of Cash Flows

for the year ended 31 December 2006

		2006	2005 (restated)
	Note	£'000	£'000
<b>Reconciliation of operating profit (loss) to net cash inflow from operating activities</b>			
Operating profit (loss) on ordinary activities		82,053	(74,253)
Unrealised investment (gains) losses		(7,422)	8,052
Foreign exchange movement on cash and investments		111,371	(93,573)
Foreign exchange movement on members' balances		6,083	5,743
(Decrease) increase in net technical provisions		(191,866)	162,663
Decrease in debtors and prepayments		66,215	99,613
Decrease in creditors and accruals		(21,809)	(28,167)
<b>Net cash inflow from operating activities</b>		<b>44,625</b>	<b>80,078</b>
Transfers to members in respect of underwriting participations:	9	(46,583)	(1,160)
Financing:			
Cash calls received	9	-	2,104
	11	(1,958)	81,022
<b>Cash flows were (utilised) invested as follows:</b>			
Increase (decrease) in cash holdings	11	16,912	(17,552)
Net portfolio investment	12	(21,645)	95,574
Loans due within one year	11	2,775	3,000
<b>Net (utilisation) investment of cash flows</b>		<b>(1,958)</b>	<b>81,022</b>

## Notes to the Syndicate Annual Accounts

31 December 2006

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### 1. Accounting policies

#### Basis of preparation

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

The syndicate annual accounts have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, Regulation 3 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the 2004 Regulations"), the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005 and applicable accounting standards in the United Kingdom.

Certain reclassifications have been made to prior year financial information to conform to the current year's presentation.

#### 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.

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.

## Notes to the Syndicate Annual Accounts

31 December 2006

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### 1. Accounting policies – continued

#### **Provision for claims outstanding and related reinsurance recoveries – continued**

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.

#### **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.

## Notes to the Syndicate Annual Accounts

31 December 2006

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### 1. Accounting policies – continued

#### 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 total recognised gains and losses. All other exchange differences are included in the technical account.

#### Profit commission

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

The managing agent continues to waive its right to the receipt of profit commission for the 2004 and 2005 years of account. The managing agent’s current intention is to waive profit commission for the 2006 year of account.

## Notes to the Syndicate Annual Accounts

31 December 2006

### 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	Gross operating expenses	Reinsurance balance
	£'000	£'000	£'000	£'000	£'000
<b>Year to 31 December 2006</b>					
Direct insurance					
Fire and other damage to property	118,482	114,690	(25,931)	(34,855)	(17,902)
Marine, aviation and transport	45,218	47,256	(14,437)	(12,319)	(15,389)
Accident and health	8,412	9,039	(9,442)	(3,494)	(2,558)
Third party liability	149,739	159,382	(89,142)	(36,336)	(39,503)
Miscellaneous	17,009	19,925	(17,532)	(6,716)	21
Reinsurance acceptances	96,072	104,796	(71,723)	(23,878)	1,580
	<u>434,932</u>	<u>455,088</u>	<u>(228,207)</u>	<u>(117,598)</u>	<u>(73,751)</u>
<b>Year to 31 December 2005</b>					
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)
Miscellaneous	24,994	23,163	(31,336)	(5,133)	4,346
Reinsurance acceptances	140,941	151,040	(145,493)	(23,908)	9,493
	<u>510,641</u>	<u>566,751</u>	<u>(597,744)</u>	<u>(113,263)</u>	<u>38,517</u>

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.

### 3. Movement in prior year's provision for claims outstanding

The prior year's net provision for claims outstanding generated a deficit for 2006 (2005: deficit) as detailed below:

	2006	2005
	£'000	£'000
Direct insurance		
Fire and other damage to property	16,636	13,900
Marine, aviation and transport	(5,099)	(4,468)
Accident and health	(5,623)	(24,955)
Third party liability	(16,138)	(65,065)
Miscellaneous	(6,313)	(6,401)
Reinsurance acceptances	4,020	9,450
	<u>(12,517)</u>	<u>(77,539)</u>

## Notes to the Syndicate Annual Accounts

31 December 2006

### 4. Net operating expenses – technical account

	2006	2005
	£'000	£'000
Acquisition costs	82,143	96,255
Change in deferred acquisition costs	2,251	7,593
Administrative expenses – other	27,382	24,800
Administrative expenses – profit commission	–	(10,859)
Reinsurance commissions	(5,976)	(6,726)
Loss (profit) on exchange	5,822	(4,526)
	<u>111,622</u>	<u>106,537</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 managing agent’s fee for 2006 of £27.38 million (2005: £26.0 million) can be estimated as constituting the following: salary and other employment costs – 43% (44%), accommodation costs – 11% (12%), Lloyd’s charges – 12% (10%), computer costs – 18% (10%), professional fees – 4% (9%), auditors’ remuneration – 1% (1%), travel and entertaining – 2% (2%) and administrative costs including irrecoverable VAT on all costs – 9% (12%).

“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.

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

	2006	2005
	£'000	£'000
<b>Audit fees:</b>		
Fees payable for the audit of the annual accounts	173	165
<b>Non-audit fees:</b>		
Other services pursuant to legislation	265	255
	<u>438</u>	<u>420</u>

## Notes to the Syndicate Annual Accounts

31 December 2006

### 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.

	2006	2005
	£'000	£'000
Aggregate emoluments and benefits	1,911	1,840
Company pension contributions to money purchase pension schemes	65	63
	<u>1,976</u>	<u>1,903</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 £392,140 (2005: £383,975) in respect of emoluments and benefits and the highest paid director was paid a total of £487,390 (2005: £441,165) in respect of emoluments and benefits.

The aggregate emoluments above do not include share based remuneration. All executive directors are entitled to shares in ACE Limited under long-term incentive plans. During the year, four directors, including the highest paid director, exercised options over the shares of ACE Limited.

Until 31 March 2002, retirement benefits accrued under the ACE London Pension Scheme to 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).

### 6. Investment return

	2006	2005
	£'000	£'000
<b>Investment income</b>		
Income from investments	46,574	46,207
Gains on the realisation of investments	6,650	5,842
	<u>53,224</u>	<u>52,049</u>
<b>Investment expenses and charges</b>		
Investment management expenses	(1,261)	(1,347)
Losses on the realisation of investments	(12,864)	(11,164)
	<u>(14,125)</u>	<u>(12,511)</u>
<b>Net unrealised gains less losses on investments</b>		
Unrealised gains on investments	19,756	15,047
Unrealised losses on investments	(12,334)	(23,099)
	<u>7,422</u>	<u>(8,052)</u>
<b>Total investment return</b>	<u>46,521</u>	<u>31,486</u>

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

## Notes to the Syndicate Annual Accounts

31 December 2006

### 7. Financial investments

	Market Value 2006	Cost 2006	Market Value 2005	Cost 2005
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	47,419	39,095	44,307	39,485
Debt securities and other fixed interest securities	769,378	772,645	891,861	906,758
Overseas deposits	104,152	104,152	106,730	106,730
Loan to Lloyd's New Central Fund	5,775	5,775	3,000	3,000
	<u>926,724</u>	<u>921,667</u>	<u>1,045,898</u>	<u>1,055,973</u>

All debt securities and other fixed interest securities are listed investments.

### 8. Other debtors

	2006	2005
	£'000	£'000
Amounts falling due within one year:		
Amounts due from members	121	133
Receivable for sales of securities	-	291
Other debtors	539	791
	<u>660</u>	<u>1,215</u>
Amounts falling due after one year:		
Amounts due from members	<u>423</u>	<u>-</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

	2006	2005
	£'000	£'000
Members' balances brought forward at 1 January	(47,440)	20,126
Currency translation differences	6,083	5,743
Profit (loss) for the financial year	82,053	(74,253)
(Profit distribution) Cash calls	(46,583)	2,104
Transfers to members' personal reserve funds	-	(1,160)
Members' balances carried forward at 31 December	<u>(5,887)</u>	<u>(47,440)</u>

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

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

## Notes to the Syndicate Annual Accounts

31 December 2006

### 10. Other creditors

	2006	2005
	£'000	£'000
Payable for purchases of securities	1,607	–
Other creditors	734	82
	<u>2,341</u>	<u>82</u>

### 11. Movement in opening and closing portfolio investments net of financing

	2006	2005
	£'000	£'000
Net cash inflow (outflow) for the year	16,912	(17,552)
Cash flow – portfolio investments (note 12)	(21,645)	95,574
Cash flow – loans due within one year	2,775	3,000
Movement arising from cash flows	(1,958)	81,022
Changes in market value and exchange rates	(103,949)	85,521
Total movement in portfolio investments net of financing	(105,907)	166,543
Balance brought forward at 1 January	1,079,656	913,113
Balance carried forward at 31 December	<u>973,749</u>	<u>1,079,656</u>

	At 1 January 2006	Cash flow	Changes to market value and currencies	At 31 December 2006
	£'000	£'000	£'000	£'000
Cash at bank and in hand	33,758	16,912	(3,645)	47,025
Shares and other variable yield securities and units in unit trusts	44,307	4,393	(1,281)	47,419
Debt securities and other fixed income securities	891,861	(34,219)	(88,264)	769,378
Overseas deposits	106,730	8,181	(10,759)	104,152
Total portfolio investments	<u>1,042,898</u>	<u>(21,645)</u>	<u>(100,304)</u>	<u>920,949</u>
Loans due within one year	3,000	2,775	–	5,775
	<u>1,079,656</u>	<u>(1,958)</u>	<u>(103,949)</u>	<u>973,749</u>

## Notes to the Syndicate Annual Accounts

31 December 2006

### 12. Net cash outflow on portfolio investments

	2006	2005
	£'000	£'000
Purchase of shares and other variable yield securities and units in unit trusts	(25,759)	(20,243)
Purchase of debt securities and other fixed income securities	(1,502,026)	(765,313)
Sale of shares and other variable yield securities and units in unit trusts	21,366	18,245
Sale of debt securities and other fixed income securities	1,536,245	681,618
Decrease in overseas deposits	(8,181)	(9,881)
Net cash inflow (outflow) on portfolio investments	<u>21,645</u>	<u>(95,574)</u>

### 13. 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 Trust Fund, Citibank NA. These letters of credit have been made available from the ACE Limited facility with Wachovia Bank National Association. At 31 December 2006 the letters of credit issued under this facility totalled £66.35 million (2005: £127.20 million).

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

### 14. Transactions with related parties

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

The syndicate may have reinsured, or have been reinsured by, insurance companies in which ACE Limited has interests and of which it and certain of its subsidiaries are controllers. During calendar year 2006, 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 2006 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 2006, £20.98 million relates to reinsurance contracts placed with group companies; of this amount, £17.11 million relates to reinsurance contracts placed with ACE Tempest Reinsurance Ltd. As at 31 December 2006, the reinsurers' share of the provision for claims outstanding includes £46.12 million recoverable from group companies; of this amount £42.99 million is recoverable from ACE Tempest Reinsurance Ltd.

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

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

Managing agency fees of £27.38 million (2005: £26.0 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.

## Notes to the Syndicate Annual Accounts

31 December 2006

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### **15. Funds at Lloyd's**

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Financial Services Authority requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and assessment of the reserving risk in respect of business that has been underwritten. As referred to in note 14, the syndicate's members have met their FAL requirements by letters of credit; at 31 December 2006 these totalled £356.43 million (2005: £283.56 million).





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